Baker Boyer Bancorp and Subsidiary

Consolidated Financial Report
December 31, 2007

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Baker Boyer Bancorp
Walla Walla, Washington

We have audited the accompanying consolidated balance sheet of Baker Boyer Bancorp and Subsidiary as of December 31, 2007, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on those financial statements based on our audit. The consolidated balance sheet of Baker Boyer Bancorp and Subsidiary as of December 31, 2006, and the related statements of income, stockholders' equity, and cash flows for the year ended December 31, 2006, were audited by other auditors whose report dated February 20, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Baker Boyer Bancorp and Subsidiary as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
February 22, 2008

Consolidated Financial Statements

Baker Boyer Bancorp and Subsidiary

Consolidated Balance Sheets

Dollars in Thousands

December 31,	2007	2006
Assets		
Cash and amounts due from banks	$ 20,167	$ 12,854
Interest-bearing deposits at other financial institutions	2,030	2,520
Federal funds sold	4,995	11,905
Total Cash and Cash Equivalents	**27,192**	**27,279**
Securities available for sale, at fair value	31,525	42,295
Securities held to maturity at cost (market value $16,984 and $20,535)	16,783	20,417
Other investments, at cost	1,880	1,880
Loans held for sale	315	--
Loans	300,009	272,769
Total Loans	300,324	272,769
Allowance for credit losses	(3,814)	(3,591)
Net Loans	**296,510**	**269,178**
Premises and equipment, net	14,302	10,616
Foreclosed real estate	0	120
Accrued interest receivable	2,609	2,762
Other assets	1,462	1,650
Total Assets	**$392,263**	**$ 376,197**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest-bearing	$ 75,070	$ 77,306
Savings and interest-bearing demand	150,858	151,489
Time	118,225	105,781
Total Deposits	**344,153**	**334,576**
Accrued interest payable	613	591
Federal funds purchased and security repurchase agreements	8,855	6,660
Other borrowed funds	3,000	0
Other liabilities	841	570
Total Liabilities	**357,462**	**342,397**
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common stock (no par value, stated value $3.125 per share); authorized 4,000,000 shares; issued and outstanding: 2007 -1,296,980 shares; 2006 - 1,297,376 shares	4,053	4,054
Additional paid-in capital	609	677
Retained earnings	30,010	29,112
Accumulated other comprehensive income (loss)	129	(43)
Total Shareholders' Equity	**34,801**	**33,800**
Total Liabilities and Shareholders' Equity	**$392,263**	**$376,197**

Consolidated Statements of Income

Dollars in Thousands, except per share amounts

December 31,	2007	2006
Interest and Dividend Income		
Loans	$21,370	$18,998
Federal funds sold	201	244
Investment securities:		
Taxable	950	1,488
Tax-exempt	1,243	1,404
Other investment income and dividends	36	28
Interest-bearing deposits at other financial institutions	56	42
Total Interest and Dividend Income	**23,856**	**22,204**
Interest Expense		
Deposits	8,361	6,784
Federal funds purchased & security repurchase agreements & borrowed funds	319	196
Total Interest Expense	**8,680**	**6,980**
Net Interest Income	**15,176**	**15,224**
Provision for Credit Losses	318	590
Net interest income after provision for credit losses	**14,858**	**14,634**
Non-Interest Income		
Trust and investment management fees	5,052	4,410
Service charges on deposit accounts	1,084	1,097
Other service charges and fees	840	743
Non-deposit retail brokerage fees	453	354
Net loss on sale of securities available for sale	(30)	- -
Net gain on sale of foreclosed real estate	7	277
Other operating income	219	224
Total Non-Interest Income	**7,625**	**7,105**
Non-Interest Expense		
Salaries and employee benefits	10,727	10,406
Occupancy	869	851
Furniture and equipment	707	711
Professional services	590	572
Office supplies and printed forms	254	241
Information systems and data processing	980	685
Other	2,440	2,477
Total Non-Interest Expense	**16,567**	**15,943**
Income Before Income Taxes	**5,916**	**5,796**
Income Taxes	1,541	1,422
Net Income	**$ 4,375**	**$ 4,374**
Basic Earnings Per Share	$3.40	$3.39
Weighted Average Number of Shares Outstanding	1,285,348	1,289,428

Consolidated Statements of Shareholders' Equity

Dollars in Thousands, except per share amounts

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Common Stock	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2005	1,299,569	$4,061	$1,100	($231)	$28,115	($247)	$32,798
Comprehensive income:							
Net income	- -	- -	- -	- -	$ 4,374	- -	$ 4,374
Other comprehensive income, net of tax:							
Change in fair value of securities available for sale	- -	- -	- -	- -	- -	204	204
Comprehensive income							**4,578**
Unearned Common Stock			(231)	231			- -
Cash dividends paid ($2.60 per share)	- -	- -	- -	- -	(3,377)	- -	(3,377)
Stock issued to directors as fees for directors' services	703	2	35	- -	- -	- -	37
Restricted stock issued to officers under stock incentive plan	3,583	11	(11)	- -	- -	- -	- -
Stock issued to officers under stock incentive plan	1,197	3	59	- -	- -	- -	62
Restricted stock compensation	- -	- -	90	- -	- -	- -	90
Restricted stock forfeited	(328)	- -	2	- -			2
Repurchases of common stock	(7,348)	(23)	(367)	- -	- -	- -	(390)
Balance at December 31, 2006	1,297,376	$4,054	$677	--	$29,112	($43)	$33,800
Comprehensive income:							
Net income	- -	- -	- -	- -	$ 4,375	- -	$4,375
Other comprehensive income, net of tax:							
Change in fair value of securities available for sale	- -	- -	- -	- -	- -	172	172
Comprehensive income							**4,547**
Cash dividends paid ($2.68 per share)	- -	- -	- -	- -	(3,477)	- -	(3,477)
Stock issued to directors as fees for directors' services	820	3	47	- -	- -	- -	50
Restricted stock issued to officers under stock incentive plan	2,918	9	(9)	--	- -	- -	- -
Stock issued to officers under stock incentive plan	- -	- -	- -	- -	- -	- -	- -
Restricted stock compensation	- -	- -	126	- -	- -	- -	126
Repurchases of common stock	(4,134)	(13)	(232)	- -	- -	- -	(245)
Balance at December 31, 2007	**1,296,980**	**$4,053**	**$609**	**- -**	**$30,010**	**$129**	**$34,801**

Statements of Cash Flows

Dollars in Thousands

December 31,	2007	2006
Cash Flows from Operating Activities		
Net income	$ 4,375	$ 4,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	318	590
Depreciation and amortization	835	754
Loss on disposal of assets	25	- -
Restricted stock compensation	126	92
Stock incentive plan compensation expense	50	37
Net investment amortization	231	403
Deferred income taxes	(185)	(163)
Net loss on sale of investment securities	30	0
Loss (Gain) on sale of foreclosed real estate	7	(277)
Stock dividends received	(0)	(5)
Origination of loans held for sale	(2,307)	(2,772)
Proceeds from sale of loans held for sale	1,996	2,779
Gain on sales of loans	(4)	(7)
(Increase) decrease in interest receivable	153	(64)
Increase (decrease) in interest payable	22	124
Loan origination fees (costs) deferred net of amortization	357	156
Other - net	682	(1,005)
Net cash provided by operating activities	**6,711**	**5,016**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Maturities, prepayments and calls	10,902	20,285
Purchases	(0)	(190)
Activity in securities held to maturity:		
Maturities, prepayments and calls	3,502	7,405
Increase in loans made to customers, net of principal collections	(27,749)	(20,022)
Purchases of premises and equipment	(4,673)	(1,680)
Proceeds from sale of premises and equipment	(0)	(14)
Proceeds from sale of foreclosed real estate	170	1,086
Net cash provided (used) by investing activities	**(17,848)**	**6,870**

(continued)

Consolidated Statements of Cash Flows *(continued)*

Dollars in Thousands

	2007	2006
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	$ 9,577	($ 3,986)
Net increase in federal funds purchased and security repurchase agreements	2,195	117
Long-term debt proceeds	3,000	0
Cash dividends paid	(3,477)	(3,377)
Repurchases of common stock	(245)	(390)
Net cash used in financing activities	**11,050**	**(7,636)**
Net increase (decrease) in cash and cash equivalents	**(87)**	**4,250**
Cash and Cash Equivalents		
Beginning of year	27,279	23,029
End of year	**$27,192**	**$27,279**
Supplemental Disclosures of Cash Flow Information		
Interest paid	$8,658	$6,856
Income taxes paid	1,311	1,635
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Fair value adjustment of securities available for sale, net of tax	$172	$204
Transfer of loans to foreclosed real estate	(179)	(226)
Financed sale of foreclosed real estate	122	106
Stock issued to directors	50	37
Shares issued to restricted stock plan	172	187
Stock issued to officers under stock incentive plan	0	62

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Baker Boyer Bancorp (the Company) and its wholly owned subsidiary, Baker Boyer National Bank (the Bank), provide banking services to the greater Walla Walla Valley area of southeastern Washington and northeastern Oregon. Services are marketed primarily to individuals, small businesses and the agricultural industry. The Company and its subsidiary are subject to competition from other financial institutions, as well as non-financial intermediaries. Primary sources of revenue are loans, investment securities and wealth management services. The Company and its subsidiary are also subject to the regulations of certain federal and state agencies, and undergo periodic examinations by those regulatory agencies.

Principles of Consolidation

The consolidated financial statements include the amounts of the parent company and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

Management believes that the allowance for loan losses is adequate. While management uses currently available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks, interest-bearing deposits at other financial institutions, and federal funds sold. Interest-bearing deposits at other financial institutions mature within one year and are carried at cost. Federal funds sold generally mature in one day.

Securities Available for Sale

Securities available for sale consist of debt securities that the Bank intends to hold for an indefinite period, but not necessarily to maturity, and certain equity securities. Such securities may be sold to implement the Bank's asset/liability management strategies and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled "accumulated other comprehensive income (loss)." Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Securities Held to Maturity

Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income over the period to maturity.

Declines in the fair value of individual securities held to maturity and available for sale below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Management evaluates individual securities for other than temporary impairment on a quarterly basis based on the securities' current credit quality, interest rates, term to maturity and management's intent and ability to hold the securities until the net book value is recovered. Any other than temporary declines in fair value are recognized on the consolidated statements of income as loss on sale of investments.

Other Investments

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in FHLB capital stock in an amount equal to the greater of $500 or .75 percent of its outstanding home loans and pass-through securities plus 3.5 percent of advances outstanding from FHLB. The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value. The Bank also holds Pacific Coast Bankers Bank capital stock in order to obtain favorable fed funds sold rates as well as Federal Reserve Bank stock as stipulated in the requirements of the Federal Reserve Act.

Loans and Allowance for Credit Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income.

Because some loans may not be repaid in full, an allowance for credit losses is recorded. An allowance for credit losses is a valuation allowance for probable incurred credit losses. The allowance for credit losses is increased by a provision for credit losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The Company's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and specific allowances.

The formula portion of the general credit loss allowance is established by applying a loss percentage factor to the different loan types. The allowances are provided based on management's continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company's control, which may result in losses or recoveries differing from those provided.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Loans and Allowance for Credit Losses *(continued)*

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Impaired loans consist of loans receivable that are not expected to be repaid in accordance with their contractual terms and are measured using the fair value of the collateral. Smaller balance loans are excluded from this analysis.

Interest income on loans is accrued over the term of the loans based upon the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank’s control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized through a charge to income.

Premises and Equipment

Premises and equipment are recorded at cost. Depreciation is computed on the straight-line method over the following estimated useful lives: building and improvements - up to forty years; software, furniture and equipment - three to seven years; and automobiles - five years. Amortization of leasehold improvements is calculated on the straight-line method over the shorter of the estimated useful lives of the assets or corresponding contractual lease term, which does not generally include renewal options. These assets are reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting charge to expense. The cost of maintenance and repairs is charged to expense as incurred. Gains and losses on dispositions are reflected in earnings.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the lower of cost or fair value of the properties less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenues and expenses from the operations of properties are charged to operations.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Trust Assets

Assets held by the Company in a fiduciary or agency capacity for trust department customers are not included in the consolidated financial statements because such items are not assets of the Company or its subsidiary. Assets totaling $658,185,000 and $612,576,000 were held in trust as of December 31, 2007 and 2006, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs were $253,000 and $260,000 for the years ending December 31, 2007 and 2006, respectively.

Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. 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. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Cash Equivalents and Cash Flows

The Company considers all amounts included in the balance sheet caption "Cash and amounts due from banks, interest-bearing deposits at other financial institutions, and federal funds sold" to be cash equivalents. Cash flows from loans, federal funds purchased and security repurchase agreements, federal funds sold, and deposits are reported net.

The Company maintains balances in depository institution accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Fair Values of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of estimated fair values for financial instruments. Such estimates are subjective in nature, and significant judgment is required regarding the risk characteristics of various financial instruments at a discrete point in time. Therefore, such estimates could vary significantly if assumptions regarding uncertain factors were to change. Major assumptions, methods and fair value estimates for the Company's significant financial instruments are set forth below:

Cash and Cash Equivalents
The recorded amount is a reasonable estimate of fair value.

Securities Available for Sale and Held to Maturity
Fair value for securities is based on quoted market prices.

Other Investments
The carrying value of stock holdings approximates fair value.

Loans
For variable rate loans that reprice frequently and have no significant change in credit risk, fair value is based on carrying value. Fair value for fixed rate loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair value for impaired loans is estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits
The fair value of deposits with no stated maturity date is included at the amount payable on demand. The fair value of fixed maturity certificates of deposit is estimated by discounting future cash flows using the rates currently offered by the Bank for deposits of similar remaining maturities.

Federal Funds Purchased, other Borrowed Funds, and Security Repurchase Agreements
Carrying amounts of federal funds purchased and other short-term borrowings maturing within 90 days approximate their fair value. Fair value of other short-term borrowings is estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the companies long term borrowings are estimated using discounted cash flow analysis based on the company's current incremental borrowing rates for similar instruments.

Accrued Interest
Carrying amounts of accrued interest approximate their fair values.

Off-Balance-Sheet Instruments
The fair value of commitments to extend credit and standby letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the customers. Since the majority of the Bank's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Bank has determined they do not have a distinguishable fair value.

(continued)

Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies *(continued)*

Stock-Based Compensation

Effective January 1, 2006 the Company adopted the fair value recognition provision of SFAS No. 123-R (SFAS 123-R), *Share-Based Payment.* Prior to this time the Company accounted for its stock-based compensation awards under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation.* Therefore there were no significant changes to the accounting treatment from those previously applied. Compensation expense, based on the fair market value of the stock at the date of the award, is recognized in the consolidated statements of income for stock awards under the stock incentive plan.

The Company records compensation expense in the accompanying consolidated statement of income related to restricted stock awards by recognizing the grant date fair value of such awards over the vesting period. Unearned shares are reflected in additional paid in capital on the consolidated statement of shareholders' equity. At December 31, 2007, unrecognized compensation expense related to nonvested restricted stock awards was $357,000 and is expected to be recognized as follows:

	Stock-Based Compensation Expense
2008	$ 126
2009	126
2010	70
2011	35
Total	**$357**

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding.

Recent Accounting Pronouncements

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. This interpretation applies to all tax positions accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the application of SFAS No. 109 by defining the criteria that an individual tax position must meet in order for the position to be recognized within the financial statements and provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition for tax positions. This interpretation is effective for fiscal years beginning after December 15, 2007, with earlier adoption permitted. The Company adopted the provisions of FASB Interpretation No. 48 on January 1, 2007. The adoption did not have a material impact to the Company. See additional discussion in Footnote 10 of the consolidated financial statements.

(continued)

Note 1 - Summary of Significant Accounting Policies *(continued)*

Recent Accounting Pronouncements *(continued)*

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements.* This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Company does not expect that the adoption of this Statement will have a material impact on its financial position, results of operation and cash flows.

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of SFAS No. 115, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring assets and liabilities differently without having to apply complex provisions of hedge accounting. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes. The statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007, with early adoption permitted provided the entity also elect the provisions of SFAS No. 157. The Company does not expect the adoption of this statement will have a material impact on its financial position, results of operation and cash flows.

Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans

In December 2007, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* – An Amendment of SFAS Statements no. 87, 88, 106, and 132R. This statement requires an employer to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in its financial statements. This new standard applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations, and requires an employer to:

- Recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status;
- Measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and
- Recognize changes in funded status of a defined benefit postretirement plan in the year in which the changes occur; these changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization.

The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of the fiscal year ending after June 15, 2007, for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company does not expect the adoption of this statement will have a material impact on its financial position, results of operation and cash flows.

Note 2 - Restricted Assets

Federal Reserve Board regulations require that the Bank maintain reserves in the form of cash and deposit balances with the Federal Reserve Bank, based on a percentage of deposits. The amounts of such balances for the years ended December 31, 2007 and 2006 were approximately $885,000 and $849,000, respectively.

Note 3 - Debt and Equity Securities

Debt and equity securities have been classified according to management's intent. The amortized cost of securities and their approximate fair values were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Securities Available for Sale				
December 31, 2007				
U.S. Government and agency securities	$19,994	$ 58	$ 44	$20,008
State and political securities	11,327	59	52	11,334
Equity securities	9	174	0	183
Total	**$31,330**	**$291**	**$ 96**	**$31,525**
December 31, 2006				
U.S. Government and agency securities	$29,005	$ 9	$ 485	$28,530
State and political securities	12,817	76	127	12,766
Equity securities	539	492	31	999
Total	**$42,361**	**$577**	**$ 643**	**$42,295**
Securities Held to Maturity				
December 31, 2007				
State and political securities	**$16,783**	**$203**	**$2**	**$16,984**
December 31, 2006				
State and political securities	**$20,417**	**$176**	**$57**	**$20,535**

(continued)

Note 3 - Debt and Equity Securities *(continued)*

The fair values of temporarily impaired securities, the amount of unrealized losses, and the length of time these unrealized losses existed as of December 31 are as follows (dollars in thousands):

	Less Than 12 Months		**More Than 12 Months**		**Total**	
	Fair Values	**Unrealized Losses**	**Fair Values**	**Unrealized Losses**	**Fair Values**	**Unrealized Losses**
Securities Available for Sale						
December 31, 2007						
U.S. Government and agency	$ - -	$ - -	$14,950	$ 44	$14,950	$ 44
State and political securities	851	3	5,669	49	6,520	52
Equity securities	- -	- -	- -	- -	- -	- -
Total	**$ 851**	**$ 3**	**$20,619**	**$ 93**	**$21,470**	**$ 96**
December 31, 2006						
U.S. Government and agency	$ - -	$ - -	$28,020	$ 485	$28,020	$ 485
State and political securities	281	1	5,732	126	6,013	127
Equity securities	- -	- -	499	31	499	31
Total	**$ 281**	**$ 1**	**$34,251**	**$ 642**	**$34,532**	**$ 643**
Securities Held to Maturity						
December 31, 2007						
State and political securities	$- -	$- -	$1,000	$2	$1,000	$2
December 31, 2006						
State and political securities	$618	$- -	$6,842	$57	$7,460	$57

As of December 31, 2007 there were 34 securities in an unrealized loss position. Management has concluded, as of December 31, 2007, that these investments are not other-than-temporarily impaired. This assessment was based on the following factors: i) the length of time and the extent to which the market value has been less than cost; ii) the financial condition and near-term prospects of the issuer; iii) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; and iv) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

(continued)

Note 3 - Debt and Equity Securities *(concluded)*

The contractual maturities of debt securities held to maturity and available for sale at December 31, 2007, are as follows (dollars in thousands):

	Held to Maturity Amortized Cost	Held to Maturity Fair Value	Available for Sale Amortized Cost	Available for Sale Fair Value
Due in one year or less	$ 505	$ 507	$ 9,741	$ 9,723
Due from one year to five years	7,340	7,448	14,581	14,634
Due from five to ten years	6,638	6,701	5,840	5,816
Due after ten years	2,300	2,328	1,159	1,169
Total	**$16,783**	**$16,984**	**$31,321**	**$31,342**

There were no gross realized gains on sales of securities in 2007 or 2006. A gross realized loss on a called security in 2006 was $30,000. There were no gross realized losses in 2006. There were no securities sold in 2006 and 2007.

Securities, carried at approximately $35,345,000 at December 31, 2007 and $33,530,000 at December 31, 2006, were pledged to secure repurchase agreements, public and trust deposits, and for other purposes required or permitted by law.

Note 4 - Loans

Loans at December 31 consist of the following (dollars in thousands):

	2007	2006
Commercial, agricultural and industrial	$ 76,626	$ 70,959
Real estate - one to four family residential	112,372	90,533
Real estate - all others	96,839	96,392
Installment and student	15,528	15,569
	301,365	**273,453**
Less net deferred loan origination fees	1,041	684
Total loans	**$300,324**	**$272,769**

(continued)

Note 4 - Loans *(concluded)*

Changes in the allowance for credit losses for the years ended December 31 are as follows (dollars in thousands):

	2007	2006
Balance at beginning of year	$3,591	$3,134
Provision for credit losses	318	590
Charge-offs	(220)	(291)
Recoveries	125	158
Net charge-offs	**(95)**	**(133)**
Balance at end of year	**$3,814**	**$3,591**

Following is a summary of information pertaining to impaired loans (dollars in thousands):

	2007	2006
December 31		
Impaired loans without a valuation allowance	$1,050	$725
Impaired loans with a valuation allowance	0	1
Total impaired loans	**$1,050**	**$726**
Valuation allowance related to impaired loans	**$0**	**$1**
Years Ended December 31		
Average investment in impaired loans	$1,478	$526
Interest income recognized on a cash basis on impaired loans	0	39
Total nonaccrual loans	1,050	726

At December 31, 2007, there were no commitments to lend additional funds to borrowers whose loans have been modified. Loans 90 days and over past due still accruing interest were $209,242 and $119,000 at December 31, 2007 and 2006, respectively.

Certain related parties of the Bank, principally Bank directors and their associates, were loan customers of the Bank in the ordinary course of business during 2007 and 2006. Total loans outstanding at December 31, 2007 and 2006, to key officers and directors were $7,757,612 and $6,810,228, respectively. During 2007 loan advances totaled $6,548,690 and loan repayments totaled $5,601,306 on these loans. During 2006 loan advances totaled $7,589,000, and loan repayments totaled $7,770,000.

Note 5 - Servicing

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $12,194,000 and $11,791,000 at December 31, 2007 and 2006, respectively. The balance of capitalized servicing rights included in other assets at December 31, 2007 and 2006 was $2,000 and $4,000, respectively. The amount of mortgage servicing rights amortized at December 31, 2007 and 2006 was $3,000 and $4,000, respectively.

Note 6 - Premises and Equipment

The components of premises and equipment at December 31 are as follows (dollars in thousands):

	2007	2006
Land	$1,798	$ 1,271
Buildings	11,935	11,084
Construction in Progress	3,715	1,041
Furniture and equipment	6,013	5,832
	23,461	**19,228**
Less accumulated depreciation and amortization	9,159	8,612
Total premises and equipment	**$14,302**	**$10,616**

The total depreciation expense for years ending December 31, 2007 and 2006 was $690,000 and $630,000, respectively.

The Bank leases premises and equipment under various operating leases expiring through 2009. Rental expense of leased premises and equipment totaled $133,200 and $115,700 in 2007 and 2006, respectively, which are included in occupancy and furniture and equipment expense.

Minimum net rental commitments under noncancellable leases having an original or remaining term of more than one year for future years ending December 31 are as follows (dollars in thousands):

2008	$128
2009	88
Total	**$ 216**

Certain leases contain renewal options from two to five years and escalation clauses based on increases in property taxes and other costs.

Note 7 - Deposits

The aggregate amount of certificates of deposit with balances of $100,000 or more was approximately $39,137,000 and $32,871,000 at December 31, 2007 and 2006, respectively.

Scheduled maturities of certificates of deposit for future years ending December 31 are as follows (dollars in thousands):

2008	$ 96,035
2009	10,029
2010	5,068
2011	2,756
2012	4,233
Thereafter	104
Total	**$118,225**

Certain related parties of the bank, principally Bank directors and their associates, have deposit accounts with the Bank. Total related parties bank deposits outstanding were $1,496,000 and $954,000 for years ending December 31, 2007 and 2006, respectively.

Note 8 - Federal Funds Purchased and Security Repurchase Agreements

Federal funds purchased and security repurchase agreements generally mature within one to four days from the transaction date. Information concerning these borrowings is summarized as follows for the years ended December 31 (dollars in thousands):

	2007	2006
Average balance during the year	$9,115	$6,791
Average interest rate during the year	2.86%	2.12%
Maximum month-end balance during the year	$11,039	$14,998
Balance outstanding at year-end	$8,855	$6,660
Average interest rate at year-end	2.59%	2.36%

Note 9 - Employee Benefits

401(k) Profit Sharing Plan

The Company has a profit-sharing 401(k) plan, with cash or deferred arrangements permitted by Internal Revenue Code subsection 401(k). Eligibility requirements are six months of service and attainment of age 21, with plan entry the following January 1 or July 1. The Company's profit-sharing contribution is 6 percent of eligible compensation. The Company's safe-harbor matching contribution is 100 percent of the first 6 percent of a participant's eligible compensation per payroll period deferred as 401(k) contributions. Under the 401(k) savings aspect of the plan, employees may contribute up to the dollar limitation for deferrals, plus the catch-up dollar limitation. The safe harbor matching contribution does not have an hour of service or employment on the last day of the plan year accrual requirement. The profit sharing contribution has a greater than 500 hours of service accrual requirement if not employed on the last day of the plan year; no hour of service accrual requirement if employed on the last day of the plan year, died, disabled, or attained the plan's normal retirement age. Total employer contribution expenses were $856,000 and $776,000 for 2007 and 2006, respectively.
(continued)

Note 9 - Employee Benefits *(concluded)*

Outside Directors' Nonqualified Deferred Compensation Plan

The Company has an outside directors' nonqualified deferred compensation plan. Under the terms of the plan, an outside director (a non-employee director) may participate in the plan. The participant may elect to defer a portion of his or her directors' fees as designated at the beginning of each plan year. The Company does not make nonelective contributions to the plan. Payments begin after termination of service for any reason. Payments may begin prior to termination of service for an unforeseeable emergency. There are currently four participants in the plan. Total deferrals plus earnings were $364,559 and $339,755 at December 31, 2007 and 2006, respectively. The expense to the Company for this plan is $2,704 and $1,558 for the 2007 and 2006 plan years, respectively.

Stock Incentive Plan

In February 1979, and as amended in March 1997, the Company adopted a non-qualified stock incentive plan for the benefit of key employees. The objective of the plan is to retain personnel of experience and ability in key positions by providing them with a proprietary interest in the Company. The plan is also expected to enhance the ability of the Company to attract and retain key employees. The Company's plan is administered by its board of directors' Executive Compensation Committee. Members of this committee consist only of non-officer, outside directors.

The plan allows for the issuance to participants of up to 240,800 shares of the Company's common stock.

For the year ended December 31, 2007, the Company awarded 2,918 shares of restricted stock with a fair market value of $59.00 per share under the plan. The restricted stock is awarded to the employees at the end of a five year vesting period. During the vesting period the employees do have voting rights and dividend rights. Compensation expense in the amount of the fair value of the common stock at the date of the grant to the plan participants will be recognized straight line over the five-year vesting period. Compensation expense related to the plan was $126,000 and $90,000 for the years ended December 31, 2007 and 2006, respectively. The tax benefit recognized on this compensation was $43,000 and $31,000 for the years ending December 31, 2007 and 2006, respectively.

As of December 31, 2007, shares remaining in reserve for issuance under the plan were 75,431. Subsequent to December 31, 2007, additional shares of restricted stock were approved to be awarded prior to March 15, 2008.

The following summarizes activity under the restricted stock plan for the year December 31, 2007:

	Shares	Aggregate Intrinsic Value	Weighted Average Grant Date Fair Value
Restricted stock grants unearned at December 31, 2005	**5,935**	**$ 307,000**	**$ 48.60**
Granted	3,583	- -	52.30
Forfeited	(328)	- -	50.38
Restricted stock grants unearned at December 31, 2006	**9,190**	**$542,000**	**$50.24**
Granted	2,918	- -	59.00
Restricted stock grants unearned at December 31, 2007	**12,108**	**$751,000**	**$ 52.15**

Note 10 - Income Taxes

Income taxes are comprised of the following for the years ended December 31 (dollars in thousands):

	2007	2006
Current	$1,720	$1,585
Deferred taxes	(179)	(163)
Total income taxes	**$1,541**	**$1,422**

The following is reconciliation between the statutory and the effective federal income tax rate for the years ended December 31 (dollars in thousands):

	2007		2006	
	Amount	**Percent of Pretax Income**	**Amount**	**Percent of Pretax Income**
Income tax at statutory rates	$2,011	34.0%	$1,971	34.0%
Increase (decrease) resulting from:				
Tax-exempt income	(445)	(7.6)	(503)	(8.7)
Other	15	(0.2)	(46)	(0.8)
Total income taxes expense	**$1,541**	**26.2%**	**$1,422**	**24.5%**

Tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are as follows (dollars in thousands):

	2007	2006
Deferred Tax Assets		
Allowance for credit losses	$ 593	$ 483
Deferred compensation	89	90
Other	56	16
Unrealized loss on securities available for sale	0	22
Stock-based compensation on restricted stock	95	50
Total deferred tax assets	**833**	**661**
Deferred Tax Liabilities		
Accumulated depreciation and amortization	509	495
Deferred income	500	495
Difference between financial versus tax basis of bonds purchased	15	15
Unrealized gain on securities available for sale	67	0
Prepaid expenses	88	92
Total deferred tax liabilities	**1,179**	**1,097**
Net deferred tax liabilities	**$ 346**	**$ 436**

Deferred tax liabilities are recorded in other liabilities on the consolidated balance sheet.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The company had no unrecognized tax benefits which would require an adjustment to the January 1, 2007 beginning balance of retained earnings. The Company had no unrecognized tax benefits at January 1, 2007 and at December 31, 2007.

(continued)

Note 10 - Income Taxes *(continued)*

The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense. During the years ended December 31, 2007 and 2006 the Company recognized no interest and penalties. The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states. With few exceptions, the Company is no longer subject to U.S. federal or state/local income tax examinations by tax authorities for years before 2004.

Note 11 - Commitments and Contingencies

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the consolidated balance sheets.

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 uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of the Bank's commitments at December 31 is as follows (dollars in thousands):

	2007	2006
Commitments to extend credit	$72,646	$55,732
Standby letters of credit	$458	$939

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. 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 Bank's experience has been that approximately 46 percent of loan commitments is drawn upon by customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit 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 public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above, and is required in instances where the Bank deems necessary.

The Bank has agreements with commercial banks for lines of credit totaling $34,000,000, none of which was used at December 31, 2007, and a credit line with the Federal Home Loan Bank of Seattle totaling 20 percent of assets dependent upon additional capital stock purchases, of which $3,000,000 was used at December 31, 2007. These borrowings included a fixed advance of 4.04% maturing in December 2010 and two putable advances of 4.74% that mature in July and August 2012.

Because of the nature of its activities, the Company is subject to various pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

The Company has entered into employment contracts with its president and other key officers which provide for deferred compensation at retirement and for contingent payments subject to future events.

Note 12 - Significant Concentrations of Credit Risk

Most of the Bank's business activity is with customers located in Washington and northeastern Oregon. Investments in state and municipal securities involve governmental entities primarily within the state of Washington. Loans are generally limited, by federal banking regulations, to 15 percent of the Bank's shareholders' equity, excluding accumulated other comprehensive income (loss).

Note 13 - Regulatory Matters

The Company and the Bank are 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 and Company's financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital classification is 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 Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

As of December 31, 2007, the most recent notification from the Bank's regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and the Bank's actual capital amounts and ratios are also presented in the following table. Management believes, as of December 31, 2007, that the Company and the Bank meet all capital requirements to which they are subject (dollars in thousands):

	Actual Amount	Ratio	Capital Adequacy Purposes Amount	Ratio	To be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
December 31, 2007						
Tier 1 capital (to average assets):						
Company	$34,672	9.2%	$15,373	4.0%	N/A	N/A
Bank	34,185	8.9%	15,373	4.0	$19,216	5.0%
Tier 1 capital (to risk-weighted assets):						
Company	$34,672	10.6%	$13,073	4.0	N/A	N/A
Bank	34,185	10.5	13,073	4.0	19,610	6.0
Total capital (to risk-weighted assets):						
Company	$38,566	11.8%	$26,147	8.0	N/A	N/A
Bank	38,079	11.7	26,147	8.0	32,683	10.0

(continued)

Note 13 - Regulatory Matters *(concluded)*

	Actual Amount	Ratio	Capital Adequacy Purposes Amount	Ratio	To be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
December 31, 2006						
Tier 1 capital (to average assets):						
Company	$33,843	9.1%	$14,887	4.0%	N/A	N/A
Bank	33,454	9.0	14,887	4.0	$18,609	5.0%
Tier 1 capital (to risk-weighted assets):						
Company	$33,843	10.2%	$13,239	4.0	N/A	N/A
Bank	33,454	10.1	13,239	4.0	19,859	6.0
Total capital (to risk-weighted assets):						
Company	$37,641	11.4%	$26,479	8.0	N/A	N/A
Bank	37,252	11.3	26,479	8.0	33,099	10.0

Note 14 - Condensed Financial Information - Parent Company Only

Condensed Balance Sheets
Dollars in Thousands

December 31,	2007	2006
Assets		
Cash	$ 150	$ 84
Investment in Bank	34,313	33,411
Other assets	721	305
Total Assets	**$35,184**	**$33,800**
Liabilities	$ 383	$ - -
Shareholders' Equity	34,801	33,800
Total Liabilities and Shareholders' Equity	**$35,184**	**$33,800**

(continued)

Note 14 - Condensed Financial Information - Parent Company Only *(concluded)*

Condensed Statements of Income
Dollars in Thousands

December 31,	2007	2006
Dividend Income from the Bank	$3,709	$3,698
Expenses	97	95
Income before income taxes and equity in undistributed income of the Bank	**3,612**	**3,603**
Income Tax Benefit	33	32
Income before undistributed income of the Bank	**3,645**	**3,635**
Equity in Undistributed Income of the Bank	730	739
Net Income	**$4,375**	**$4,374**

Condensed Statements of Cash Flows
Dollars in Thousands

December 31,	2007	2006
Cash Flows from Operating Activities		
Net income	$4,375	$4,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of the Bank	(730)	(739)
Net earned restricted stock	126	92
Other - net	(33)	(33)
Net cash provided by operating activities	**3,738**	**3,694**
Cash Flows from Financing Activities		
Cash dividends paid	(3,477)	(3,377)
Stock issued to directors	50	37
Stock issued to officers	0	62
Repurchase of common stock	(245)	(390)
Net cash used in financing activities	**(3,672)**	**(3,668)**
Increase (decrease) in cash	**66**	**26**
Cash		
Beginning of year	84	58
End of year	**$ 150**	**$ 84**

Note 15 - Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments at December 31 was as follows (dollars in thousands):

	2007		2006	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Financial Assets				
Cash and cash equivalents	$ 27,192	$ 27,192	$ 27,279	$ 27,279
Securities available for sale	31,525	31,525	42,295	42,295
Securities held to maturity	16,783	16,984	20,417	20,535
Other Investments	1,880	1,880	1,880	1,880
Loans receivable, net	296,510	296,358	269,178	270,948
Accrued interest receivable	2,609	2,609	2,762	2,762
Financial Liabilities				
Deposits	$344,153	$ 343,344	$334,576	$335,392
Federal funds purchased and security repurchase agreements	8,855	8,855	6,660	6,660
Other borrowed funds	3,000	2,984	- -	- -
Accrued interest payable	613	613	591	591

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change, and that change may either be favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits, and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

Note 16 - Comprehensive Income

Net gains of $172,000, net of tax, and reclassification adjustments of $20,000 for losses were included in comprehensive income in 2007; unrealized gains of $204,000, net of taxes, during 2006 were included in comprehensive income, respectively, as follows (dollars in thousands):

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Year Ended December 31, 2007			
Unrealized holding gains arising during the year	$291	$99	$192
Losses realized in net income	(30)	10	(20)
Net unrealized gains	$261	$89	$172
Year Ended December 31, 2006			
Unrealized holding gains arising during the year	$309	$105	$204