



2012



Oregon
Pacific Bancorp Annual Report



James P. Clark

President & Chief Executive Officer
Oregon Pacific Bancorp



Robert R. King

Chairman of the Board
Oregon Pacific Bancorp

Dear Stockholders, Employees and Friends:

During 2010, the global economy continued to struggle with the effects of the recession that technically ended in 2009. Many industries, companies and individuals have struggled to ride out the storm. While economic conditions did not worsen, by the same turn they did not materially improve. The recovery for this recession will be a protracted effort.

However, Oregon Pacific Bancorp and its wholly owned subsidiary, Oregon Pacific Bank, feel confident that the economic future may be more promising. Oregon's unemployment rate has declined slightly with the hope that underemployed individuals can return to full-time employment. Oregon Pacific Bank continues to position itself for opportunity by deepening client relationships, offering depositors competitive interest rates on deposit accounts and expanding services that will benefit our clients and communities. We are ready to lead the resurgence of our communities.

Against a backdrop of economic turmoil, Oregon Pacific Bank was and is well positioned to operate in this uncertain, but improving environment. Oregon Pacific Bancorp and Oregon Pacific Bank continue to meet the quantitative guidelines to be deemed "Well Capitalized" by regulatory definition. However, the Bank remains subject to the terms of a Written Agreement announced August 2, 2010 and as a result is considered "Adequately Capitalized". As a reminder, in 2009 the Bank was approved for \$4 million in TARP money from the U.S. Treasury but did not accept it, and has not used any of the other emergency funding programs offered by the government. The Bank continues to benefit from increased dollars on deposit from our client base at a time when some banks are using government programs to meet their liquidity needs. Oregon Pacific Bancorp has begun a stock offering that was discussed in the 2009 Annual Financial Report. When completed, the proceeds from the sale of stock will augment capital to mitigate problem assets, while enhancing liquidity and providing sufficient capital for planned growth.

When possible, Oregon Pacific Bank has chosen to work with many of our clients who may have needed a bit more flexibility to weather their financial challenges. To preserve shareholder value and adhere to safe and

sound banking practices some foreclosures have unfortunately occurred. A community bank will make every possible effort to work with its clients as people, whereas larger institutions may focus more on the numbers.

In 2010, we diligently focused on expense management to offset the additional costs of regulatory oversight and problem loan management. To build revenues and improve efficiencies, we also sought opportunities to deepen client relationships and improve client services. The ability to have your monthly statement sent to you electronically is an excellent example of improving efficiencies and decreasing costs. Additionally, your information is more secure, while making the statement accessible on the first possible day. Even when facing difficult times, Oregon Pacific Bank and Bancorp continue to invest in our employees, in technology and in our business for the benefit of our clients and our shareholders.

Our overriding mission is to build relationships with our clients by being accessible and offering solutions to their financial and investment needs. The long-term value and sustainability of this approach came into sharp focus in recent years as we worked to understand our clients' unique circumstances, and to help them navigate the challenging economic environment.

2010 proved to be a year that showed gradual, though definite improvements over 2009. On behalf of the Board of Directors, we would like to thank the Oregon Pacific Bank leadership team and our many employees for a year of extraordinary effort. We would also like to thank our stockholders, clients and local communities for many years of continued support and loyalty. The year 2010 exemplifies the dedication and commitment of the Oregon Pacific Bank team.

Respectfully submitted:

James P. Clark

President & Chief Executive Officer
Oregon Pacific Bancorp

Robert R. King

Chairman of the Board
Oregon Pacific Bancorp

CONTENTS

	PAGE
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	1
CONSOLIDATED FINANCIAL STATEMENTS	
Balance sheets	2
Statements of operations and comprehensive income (loss)	3 – 4
Statements of changes in stockholders' equity	5
Statements of cash flows	6 – 7
Notes to financial statements	8 – 35

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains a number of forward-looking statements about our anticipated business, operations, financial performance and cash flows. Statements in this report that relate to future plans, events and circumstances are provided to describe management's intentions and expectations based on currently available information, and readers should not construe these statements as assurances or guarantees. As with any predictions, these statements are inherently difficult to make with any degree of assurance, and actual results may differ materially and adversely from management's expectations described herein. Likewise, management's plans described in this report may not come to pass because unforeseen events may force management to deviate from its expressed intentions. Forward-looking statements often can be identified by the use of predictive or prospective terms such as "expect", "anticipate", "believe", "plan", "intend", and words of similar construction or meaning. Some of the events or circumstances that may cause our actual results to deviate from management's expectations include the impact of competition and local and regional economic factors upon our customer base, our deposits and our loan portfolio; economic and regulatory limits on our ability to grow our assets and manage our business; customer acceptance of our products; interest rate fluctuations that may adversely impact our revenues and expenses; and the impact of impairment charges upon our intangible and other assets. Other factors that may adversely impact our performance are discussed in this report as well as other disclosures we make from time to time in our filings with other federal agencies. Readers also should note that forward-looking statements expressed in this report are made as of the date of this report, and management cannot undertake to update those statements to reflect future events or circumstances.

REPORT OF INDEPENDENT REGISTERED PUBLIC AUDITING FIRM

To the Board of Directors and Stockholders
Oregon Pacific Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheets of Oregon Pacific Bancorp and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of Oregon Pacific Bancorp's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide 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 Oregon Pacific Bancorp and Subsidiary as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 21, 2011

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 2,332,991	\$ 3,011,135
Interest-bearing deposits in banks	19,370,658	13,273,577
Available-for-sale securities, at fair value	11,723,986	9,742,903
Restricted equity securities	1,023,650	1,023,650
Loans held-for-sale	116,888	-
Loans, net of allowance for loan losses and deferred loan fees	115,893,526	122,319,922
Premises and equipment, net of accumulated depreciation and amortization	6,887,503	7,232,453
Other real estate owned	1,998,907	2,911,281
FDIC assessment, prepaid	445,144	754,555
Deferred tax asset	2,480,453	1,917,298
Intangible assets, net	29,211	121,863
Accrued interest receivable and other assets	1,584,941	2,336,236
	\$ 163,887,858	\$ 164,644,873
LIABILITIES		
Deposits:		
Demand deposits	\$ 31,201,277	\$ 31,391,849
Interest-bearing demand deposits	39,342,610	36,494,833
Savings deposits	16,782,382	16,041,966
Time certificate accounts:		
\$100,000 or more	21,129,557	20,377,102
Under \$100,000	24,495,053	24,771,877
	45,624,610	45,148,979
Total deposits	132,950,879	129,077,627
Repurchase agreements and other debt	3,170,703	2,766,656
Federal Home Loan Bank borrowings	8,737,806	13,792,806
Floating rate Junior Subordinated Deferrable Interest Debentures (Trust Preferred Securities)	4,124,000	4,124,000
Deferred compensation liability	2,127,023	2,393,943
Accrued interest payable and other liabilities	1,127,490	983,931
	152,237,901	153,138,963
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized; 2,191,202 and 2,189,973 issued and outstanding at December 31, 2010 and 2009, respectively	4,910,140	4,905,523
Undivided profits	6,653,946	6,544,970
Accumulated other comprehensive income, net of tax	85,871	55,417
	11,649,957	11,505,910
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 163,887,858	\$ 164,644,873

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2010	2009	2008
INTEREST INCOME			
Interest and fees on loans	\$ 8,166,029	\$ 8,838,364	\$ 10,006,047
Interest on investment securities:			
U.S. Treasury and agencies	186,292	157,163	125,476
Mortgage-backed securities	36,099	46,587	62,000
State and political subdivisions	122,211	165,800	198,052
Corporate and other investments	16,089	16,088	28,402
Interest on deposits in banks	70,156	47,974	114,845
Total interest income	<u>8,596,876</u>	<u>9,271,976</u>	<u>10,534,822</u>
INTEREST EXPENSE			
Interest-bearing demand deposits	140,930	203,841	721,434
Savings deposits	62,806	61,372	79,616
Time certificate accounts	924,379	1,132,281	1,433,741
Other borrowings	556,186	710,214	834,772
	<u>1,684,301</u>	<u>2,107,708</u>	<u>3,069,563</u>
Net interest income before provision for loan losses	6,912,575	7,164,268	7,465,259
PROVISION FOR LOAN LOSSES	<u>1,045,000</u>	<u>4,410,508</u>	<u>325,791</u>
Net interest income after provision for loan losses	<u>5,867,575</u>	<u>2,753,760</u>	<u>7,139,468</u>
NONINTEREST INCOME			
Service charges and fees	710,139	710,819	700,900
Trust fee income	667,343	568,168	656,745
Mortgage loan sales and servicing fees	168,733	217,826	276,982
Investment sales commissions	224,702	213,607	453,155
Other income	275,175	284,933	317,977
Total noninterest income	<u>2,046,092</u>	<u>1,995,353</u>	<u>2,405,759</u>
NONINTEREST EXPENSE			
Salaries and benefits	3,935,690	4,202,703	4,686,162
Write-downs or loss on sale of OREO	940,829	202,904	-
Outside services	815,901	752,591	750,435
Occupancy	757,648	800,861	840,876
FDIC/FICO premiums	378,056	242,914	66,070
Securities and trust department expenses	315,570	300,182	335,609
Loan and collection expense	141,932	355,727	247,414
Supplies	133,111	145,221	185,507
Postage and freight	114,290	115,370	118,760
Advertising	60,912	122,055	105,076
Deferred compensation (benefit) expense	(197,602)	-	160,127
Other expenses	488,961	550,304	640,137
Total noninterest expense	<u>7,885,298</u>	<u>7,790,832</u>	<u>8,136,173</u>

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2010	2009	2008
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	\$ 28,369	\$ (3,041,719)	\$ 1,409,054
PROVISION (BENEFIT) FOR INCOME TAXES	(80,607)	(1,316,008)	439,893
NET INCOME (LOSS)	108,976	(1,725,711)	969,161
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on available-for-sale securities, net of tax of \$20,302, (\$3,483), and \$10,091	30,454	(5,225)	15,136
Total other comprehensive income (loss)	30,454	(5,225)	15,136
COMPREHENSIVE INCOME (LOSS)	\$ 139,430	\$ (1,730,936)	\$ 984,297
BASIC EARNINGS (LOSS) PER SHARE	\$ 0.05	\$ (0.79)	\$ 0.44
DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.05	\$ (0.79)	\$ 0.44

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Undivided Profits</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>			
BALANCE, December 31, 2007	<u>2,211,865</u>	<u>\$ 5,323,827</u>	<u>\$ 8,002,555</u>	<u>\$ 45,506</u>	<u>\$ 13,371,888</u>
Adoption of fair value option--Board deferred compensation plan	-	-	2,848	-	2,848
Sale of nonregistered stock	277	2,674	-	-	2,674
Shares acquired in stock repurchase plan	(2,200)	(18,700)	-	-	(18,700)
Stock-based compensation	-	2,482	-	-	2,482
Cash dividends paid of \$0.26 per share	-	-	(414,908)	-	(414,908)
Dividends reinvested in stock	17,399	157,945	(157,945)	-	-
Cash paid for reverse stock-split fractional shares	(46,288)	(601,744)	-	-	(601,744)
Net income and other comprehensive income	-	-	969,161	15,136	984,297
BALANCE, December 31, 2008	<u>2,181,053</u>	<u>\$ 4,866,484</u>	<u>\$ 8,401,711</u>	<u>\$ 60,642</u>	<u>\$ 13,328,837</u>
Sale of nonregistered stock	449	2,000	-	-	2,000
Stock-based compensation	-	1,027	-	-	1,027
Cash dividends paid of \$0.06 per share	-	-	(95,018)	-	(95,018)
Dividends reinvested in stock	8,471	36,012	(36,012)	-	-
Net loss and other comprehensive loss	-	-	(1,725,711)	(5,225)	(1,730,936)
BALANCE, December 31, 2009	<u>2,189,973</u>	<u>\$ 4,905,523</u>	<u>\$ 6,544,970</u>	<u>\$ 55,417</u>	<u>\$ 11,505,910</u>
Sale of nonregistered stock	1,229	4,107	-	-	4,107
Stock-based compensation	-	510	-	-	510
Net income and other comprehensive income	-	-	108,976	30,454	139,430
BALANCE, December 31, 2010	<u>2,191,202</u>	<u>\$ 4,910,140</u>	<u>\$ 6,653,946</u>	<u>\$ 85,871</u>	<u>\$ 11,649,957</u>

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	\$ 108,976	\$ (1,725,711)	\$ 969,161
Adjustments to reconcile net (loss) income to net cash from operating activities:			
Depreciation and amortization	575,584	637,958	818,803
Provision for loan losses	1,045,000	4,410,508	325,791
Deferred income taxes	(563,155)	(827,425)	(215,962)
Write-down of other real estate owned	940,829	214,180	-
Stock-based compensation	510	1,027	2,482
Decrease in fair value of Board deferred compensation plan	27,718	368	21,498
Proceeds from sales of mortgage loans held-for-sale	1,264,095	-	6,186,607
Production of mortgage loans held-for-sale	(1,380,983)	-	(5,482,998)
Loss (gain) on dispositions of premises, equipment, and other real estate owned	(58,393)	15,895	(99,694)
Net (increase) in tax deferred assets	(563,155)	(827,425)	(215,962)
Net (increase) decrease in accrued interest receivable and other assets	1,603,558	(635,397)	296,000
Change in liability for unfunded loan commitments	(205,357)	90,831	124,009
Net (decrease) increase in accrued interest payable and other liabilities	54,279	(154,997)	(102,401)
Net cash from operating activities	<u>2,849,506</u>	<u>1,199,812</u>	<u>2,627,334</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturities and calls of available-for-sale securities	10,401,903	2,435,089	4,098,015
Purchases of available-for-sale securities	(12,365,305)	(3,533,448)	(4,000,955)
Purchases of restricted equity securities	-	(50)	(50)
Net (increase) decrease in interest-bearing deposits in banks	(6,097,081)	(10,926,906)	2,858,444
Net increase in loans	4,894,157	(501,426)	(9,110,976)
Purchases of premises and equipment	(104,906)	(76,232)	(200,313)
Proceeds from sales of premises, equipment	12,200	-	-
Proceeds from sale of other real estate owned	504,977	326,446	949,332
Purchase of intangible assets	-	-	(3,239)
Net cash used in investing activities	<u>(2,754,055)</u>	<u>(12,276,527)</u>	<u>(5,409,742)</u>

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in demand and savings deposit accounts	\$ 3,397,621	\$ 7,283,360	\$ (7,999,280)
Net increase in time deposits	475,631	4,050,985	4,750,148
Proceeds from borrowing and other debt	35,000	4,850,000	6,000,000
Repayments of borrowing	(5,090,000)	(5,905,000)	(1,655,000)
Repayment of debt from purchase of brokerage firm	-	(107,333)	(107,333)
Advances from other borrowings - repurchase agreements	404,047	83,807	2,682,849
Adoption of fair value standards, mark to market	-	-	2,848
Cash dividends paid	-	(95,018)	(414,908)
Cash paid for shares acquired in stock repurchase plan or reverse stock split	-	-	(620,444)
Proceeds from issuance of nonregistered common stock	4,107	2,000	2,674
Net cash from (used in) financing activities	(773,594)	10,162,801	2,641,554
NET DECREASE IN CASH AND CASH EQUIVALENTS	(678,143)	(913,914)	(140,854)
CASH AND CASH EQUIVALENTS, beginning of year	3,011,135	3,925,049	4,065,903
CASH AND CASH EQUIVALENTS, end of year	\$ 2,332,992	\$ 3,011,135	\$ 3,925,049
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	\$ 1,528,676	\$ 2,223,093	\$ 3,130,470
Cash (received) paid for income taxes	\$ (551,611)	\$ 540,224	\$ 451,626
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Cash dividends reinvested in stock	\$ -	\$ 36,012	\$ 157,945
Change in fair value of available-for-sale securities, net of tax	\$ 30,454	\$ (5,225)	\$ 15,136
Transfer of loans to other real estate owned	\$ 402,113	\$ 1,826,742	\$ 2,471,344
Cash dividend declared and payable after year-end	\$ -	\$ -	\$ 65,432

See accompanying notes.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Oregon Pacific Bancorp (“Bancorp” or together the “Company”) was incorporated on January 1, 2003, and became the holding company of Oregon Pacific Banking Co. dba Oregon Pacific Bank (the “Bank”) effective January 1, 2003. The Bank is a state-chartered institution authorized to provide banking services by the State of Oregon from its headquarters in Florence, Oregon. Full-service banking products are offered to the Bank’s customers who live primarily in Lane, Douglas, and Coos counties and on the central Oregon coast. In December 2003, Bancorp formed Oregon Pacific Statutory Trust I (the Trust), a wholly-owned Connecticut statutory business trust, for purposes of issuing guaranteed undivided beneficial interests in Junior Subordinated Deferrable Interest Debentures (Trust Preferred Securities). The Bank and Bancorp are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

On January 3, 2008 the Company announced the intent to deregister the Company’s common stock under the Securities and Exchange Act of 1934 by reducing the total number of common stockholders below the 300 person threshold set by the Act. This was accomplished, following a vote of stockholders, by a reverse stock split that was effective March 18, 2008 for stockholders of record on January 4, 2008 by a one-for-500 split. Shares of stockholders with less than one share following the split were cashed out at a pre-split rate of \$13.00 per share. The number of fractional shares resulting from the reverse stock split was 46,288, and a \$601,744 payable was recorded as of March 31, 2008 for immediate subsequent payment. On the following day, there was a forward split of 500-for-one.

All significant intercompany accounts and transactions between Bancorp and its subsidiary have been eliminated in the preparation of the consolidated financial statements.

Management’s estimates and assumptions – In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets, and revenues and expenses for the reporting period. Estimates and assumptions made by management primarily involve the valuation of the allowance for loan losses, other real estate owned, deferred tax assets, intangible assets, and mortgage servicing assets. Actual results could differ significantly from those estimates.

Cash and cash equivalents – Cash and cash equivalents normally include cash on hand, and amounts due from banks. Cash and due from banks include amounts the Bank is required to maintain to meet certain average reserve and compensating balance requirements of the Federal Reserve Bank. As of December 31, 2010 and 2009, the Bank had no reserve requirements to be maintained at the Federal Reserve Bank and total clearing balance requirements at both December 31, 2010 and 2009 were \$100,000.

Interest-bearing deposits in banks – Interest-bearing deposits in banks include time certificates from other banks and federal funds sold.

Investment securities – The Bank is required, under generally accepted accounting principles, to specifically identify its investment securities as “trading,” “available-for-sale,” or “held-to-maturity.” Accordingly, management has determined that all investment securities held at December 31, 2010 and 2009, are available-for-sale.

Available-for-sale securities consist of bonds, notes, debentures, and certain equity securities. Securities classified as available-for-sale may be sold in response to such factors as (1) changes in market interest rates and related changes in the security’s prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of equity until realized.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the interest method over the period to maturity or call date.

Prior to the second quarter of 2009, the Company would have recognized an other-than-temporary impairment (“OTTI”) or permanent impairment based on the nature of the decline and whether the Company had the ability and intent to hold the investments until a market price recovery. If the Company determined a security to be other-than-temporarily or permanently impaired, the full amount of impairment would be recognized through earnings in its entirety.

New guidance related to the recognition and presentation of OTTI of debt securities became effective in the second quarter of 2009. Rather than asserting whether the Company has the ability and intent to hold an investment until a market price recovery, the Company must consider whether it intends to sell a security or if it is likely that it would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity.

For debt securities, if the Company intends to sell the security or it is likely that it will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that it will be required to sell the security but the Company does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (“OCI”). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held-to-maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses, the security is reevaluated according to procedures described above.

During the years ended December 31, 2010, 2009 and 2008, the Company recognized no other-than-temporary impairment on any of its investment securities.

Restricted equity securities – Restricted equity securities were \$1,023,650 at December 31, 2010 and 2009. Federal Home Loan Bank of Seattle (FHLB) stock amounted to \$755,500 of the total restricted securities as of December 31, 2010 and 2009. As a member of the FHLB system, the Bank is required to maintain a minimum investment in capital stock of the FHLB based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. At December 31, 2010, the Bank’s minimum investment requirement was approximately \$349,600. This security is reported at par value, which represents the Bank’s cost. The Bank annually evaluates its investment in FHLB of Seattle stock for impairment.

FHLB stock is generally viewed as a long-term investment. Accordingly, when evaluating FHLB stock for impairment, its value is determined based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The determination of whether the decline affects the ultimate recoverability is influenced by criteria such as the following:

- a. The significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation as persisted;
- b. Commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB;
- c. The impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB;
- d. The liquidity position of the FHLB.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The FHLB recently announced that it would report a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the “FHFA”), its primary regulator. As a result, the FHLB has stopped paying a dividend and stated it would suspend the repurchase and redemption of outstanding common stock until its retained earnings deficiency was reclaimed. The FHLB has since communicated to the Bank that it believes the calculation of risk-based capital under the current rules of the FHFA significantly overstates the market and credit risk of the FHLB's private-label mortgage-backed securities in the current market environment and that they have enough capital to cover the risk reflected in the FHLB's balance sheet. As a result, the Company has not recognized impairment on its investment in FHLB.

Mortgage loans – The Company originates conventional residential mortgage loans, mostly for sale in the secondary market. The Bank previously sold mortgage loans primarily on a servicing-retained basis to the Federal Home Loan Mortgage Corporation. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated servicing revenues. Impairment of the mortgage servicing asset is based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market interest rates and prepayment rates. Loan servicing income is recorded when earned. Beginning in mid-2008, the Company discontinued selling loans on a servicing-retained basis and are currently sold with servicing-released to mortgage brokers.

The Making Home Affordable (MHA) government sponsored program focuses on reducing the number of foreclosures and making it easier for customers to refinance loans. In 2010, the Bank participated in the MHA programs Home Affordable Modification Program (HAMP) which provides guidelines on first-lien loan modifications, and the Home Affordable Refinancing Program (HARP) which provides guidelines for loan refinancing.

Loan servicing – The Bank previously sold mortgage loans primarily on a servicing-retained basis. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated servicing revenues. Impairment of the mortgage servicing asset is based on the fair value of those rights. Fair values are estimated using discounted cash flows based on current market interest rates and prepayment rates. Loan servicing income is recorded when earned.

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

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

Loans are reported as restructured when the Bank grants a concession(s) to a borrower experiencing financial difficulties that it would not otherwise consider. As a result of these concessions, restructured loans are impaired as the Bank will not collect all amounts due, both principal and interest, in accordance with the terms of original loan agreement. Impairment reserves on non-collateral dependent restructured loans are measured by comparing the present value of expected future cash flows on the restructured loans, discounted at the interest rate of the original loan agreement, to the loan's carrying value. These impairment reserves reduce the carrying value of the loan and are charged against the allowance for loan losses.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes that the collectibility of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay.

In determination of the allowance for loan losses, the Bank also evaluates loans for impairment, where principal and interest is not expected to be collected in accordance with the contractual terms of the loan agreement. The Bank analyzes loans for impairment on a loan-by-loan basis, using either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, if the loan is collateral dependent.

Loans that experience insignificant payment delays or payment shortfalls are generally not considered in the impairment assessment. Various regulatory agencies, as a regular part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations.

Reserve for unfunded commitments – The reserve for unfunded commitments is established to absorb inherent losses associated with our commitment to lend funds associated with available credit on lines and letters of credit. The adequacy of the reserves is determined using a consistent, systematic methodology separate from the process of estimating the Allowance for Loan and Lease Loss. This process includes determining the quality of the current loan portfolio; the trend in the loan portfolio's risk ratings; economic conditions; loan concentrations; past dues and non-performing asset trends. The evaluation of this data is used to estimate appropriate levels of reserves for unfunded commitments.

Premises and equipment – Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets, which range from two to 30 years. Leasehold improvements are amortized over the lesser of the terms of the lease or their useful lives. Capital improvements or equipment greater than \$1,000 are capitalized while maintenance and repairs are charged to expense.

Other real estate owned – Real estate acquired by the Bank in satisfaction of debt is carried at the lower of cost or estimated net realizable value. When property is acquired, any excess of the loan balance over its estimated net realizable value is charged to the allowance for loan losses. Subsequent write-downs to net realizable value, in any, or any disposition gains or losses are included in noninterest income or expense.

Intangible assets – Intangible assets with definite useful lives are amortized to their estimated residual values over their respective estimated useful lives, and also reviewed for impairment. Intangible assets are comprised of customer lists and a non-compete agreement acquired in the acquisition of the assets of Coast Investment Advisors, Inc., the local Florence branch of LPL Financial Services, Inc. Amortization of customer lists is included in other non-interest expense in the consolidated statements of operations. The amortization of the non-compete agreement began at the end of a three-year employment contract. The customer lists continued to amortize through December 31, 2010 and the non-compete agreement will continue through December 31, 2013.

Trust and wealth management services – The Bank operates a full service trust department whereby the department functions as a trustee for irrevocable trusts, agent for living trusts and estate settlement, or custodian for self-directed IRAs. Also through an arrangement with a registered securities broker-dealer, an investment and brokerage service department offers a wide range of financial products and consulting services. Mutual funds, traditional and Roth IRAs, corporate retirement accounts, tax deferred investments, and other retirement vehicles are available. Off-balance sheet assets under management were \$60.7 million and \$67.7 million for Trust and brokerage products, respectively.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bank evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Bank adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on January 1, 2009, which had no financial statement impact to the Bank. The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in income tax expense. The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the year ended December 31, 2010.

Comprehensive income (loss) – Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on securities available-for-sale, which are also recognized as a separate component of stockholders' equity.

Off-balance sheet financial instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit, standby letters of credit, and the notional amount of interest-only strips retained. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Fair value of financial instruments – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. In general, fair values determined by Level 1 inputs utilize quoted prices for identical assets or liabilities traded in active markets that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Available-for-sale securities – For available-for-sale investment securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Impaired loans – A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals and management's judgment.

Other real estate owned – Other real estate owned represents impaired real estate that has been adjusted to fair value, because the Bank has taken control of the real estate in partial or full satisfaction of loans. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within the statement of operations as a component of noninterest expense.

Mortgage servicing asset – The fair value of mortgage servicing asset is estimated using a discounted cash flow model.

Board deferred compensation – The fair value is based on the most recent sales price of the Company's stock.

The following methods and assumptions were used by the Bank in estimating fair values of assets and liabilities not carried at fair value in the consolidated financial statements on a recurring or non-recurring basis:

Cash and cash equivalents and interest-bearing deposits in banks – The carrying amounts of cash and short-term instruments approximate their fair value.

Restricted equity securities – Because of the restrictions of transferability of these investments, it is impractical to estimate the fair values of Federal Home Loan Bank stock at the balance sheet date. As a result, the fair value has been determined to approximate cost.

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

Deposit liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Federal Home Loan Bank borrowings and other debt – The fair values of the Bank's borrowings from the Federal Home Loan Bank are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar borrowing arrangements.

Floating rate Junior Subordinated Deferrable Interest Debentures – The fair value of junior subordinated debentures is estimated using a discounted cash flow model.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Accrued interest – The carrying amounts of accrued interest receivable and payable approximate their fair values.

Off-balance sheet instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit and standby letters of credit. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Advertising – Advertising costs are charged to expense during the year in which they are incurred.

Stock-based compensation – The Company maintains a stock incentive plan. This plan, which is described more fully in Note 15, was presented to and approved by the Company's shareholders in 2003. In accordance with FASB ASC 718, *Stock Compensation*, the Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based forms of compensation issued to employees over the employees' requisite service period (generally the vesting period).

The fair value of each option grant is estimated as of the grant date using the Black-Scholes option-pricing model using assumptions noted in Note 15. Expected volatility is based on the historical volatility of the price of the Company's common stock. The Company uses historical data to estimate option exercise and stock option forfeiture rates within the valuation model. The expected term of options granted is determined based on historical experience with similar options, giving consideration to the contractual terms and vesting schedules, and represents the period of time that options granted are expected to be outstanding. The expected dividend yield is based on dividend trends and the market value of the Company's common stock at the time of grant. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant corresponding to the estimated expected term of the options granted.

Events subsequent to year-end – Subsequent events are events or transactions that occur after the date of the balance sheet but before consolidated financial statements are issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements.

The Company has evaluated subsequent events through March 21, 2011, which is the date the consolidated financial statements were available to be issued. Based on the evaluation there is nothing to report.

Reclassifications – Certain reclassifications have been made to the 2009 and 2008 financial statements to conform to current year presentations.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair value of available-for-sale securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses More than 12 Months	Estimated Fair Value
December 31, 2010:					
U.S. Treasury and agencies	\$ 8,131,836	\$ 43,943	\$ (7,255)	\$ -	\$ 8,168,524
State and political subdivisions	2,758,571	73,490	(348)	(8,809)	2,822,904
Mortgage-backed securities	690,461	42,097	-	-	732,558
	<u>\$ 11,580,868</u>	<u>\$ 159,530</u>	<u>\$ (7,603)</u>	<u>\$ (8,809)</u>	<u>\$ 11,723,986</u>
December 31, 2009:					
U.S. Treasury and agencies	\$ 5,038,407	\$ 178	\$ (54,407)	\$ -	\$ 4,984,178
State and political subdivisions	3,614,243	113,277	-	(12,102)	\$ 3,715,418
Mortgage-backed securities	997,892	45,415	-	-	1,043,307
	<u>\$ 9,650,542</u>	<u>\$ 158,870</u>	<u>\$ (54,407)</u>	<u>\$ (12,102)</u>	<u>\$ 9,742,903</u>

The U.S. Treasury and agencies investment securities shown above currently have fair values less than amortized costs and, therefore, contain unrealized losses at December 31, 2010. The Bank has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry-specific event. There are four investment securities with a total amortized cost of \$2,900,000 with unrealized losses. The Bank anticipates full recovery of amortized costs with respect to these securities, at maturity or sooner in the event of a more favorable market interest rate environment.

The unrealized losses on obligations of political subdivisions were also caused by changes in market interest rates or the widening of market spreads subsequent to the initial purchase of these securities. Management monitors published credit ratings of these securities and no adverse ratings changes have occurred since the date of purchase of obligations of political subdivisions which are in an unrealized loss position at year-end. At December 31, 2010, two investment securities with a total amortized cost of \$805,882 and a fair value of \$797,073 experienced unrealized losses for the period longer than 12 months.

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2010, 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.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – INVESTMENT SECURITIES – (continued)

	Available-for-Sale Securities	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 425,000	\$ 434,856
Due after one year through three years	885,000	911,401
Due after three years through five years	5,446,671	4,484,182
Due after five years through ten years	4,370,763	5,443,264
Thereafter	453,434	450,283
	\$ 11,580,868	\$ 11,723,986

At December 31, 2010 and 2009, investment securities with an amortized cost of \$13,455,868 and \$9,152,650 and market values of \$13,650,094 and \$8,699,712, respectively, were pledged to secure deposits of public funds and for other purposes as required or permitted by law.

The Bank, as a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) systems, is required to maintain investments in restricted equity securities of the FHLB and FRB. FHLB and FRB stocks are not actively traded but are redeemable at their current book value of \$1,023,650 at December 31, 2010 and 2009.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the loan portfolio is summarized as follows:

	2010	2009
Commercial Real Estate	\$ 83,745,752	\$ 84,387,463
Commercial	8,241,155	8,984,960
Construction	5,449,542	5,925,586
Residential Real Estate	16,061,947	19,268,289
Consumer	6,515,422	7,168,564
	120,013,818	125,734,862
Less allowance for loan losses	(3,763,668)	(3,019,149)
Less deferred loan fees	(356,624)	(395,791)
	\$ 115,893,526	\$ 122,319,922

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – (continued)

The following is an analysis of the changes in the allowance for credit losses for the year ended December 31, 2010:

	Commercial Real Estate	Commercial	Construction	Residential Real Estate	Consumer	Total
Allowance for loan loss						
Beginning balance	\$ 1,815,622	\$ 557,814	\$ 160,532	\$ 261,966	\$ 223,215	\$ 3,019,149
Charge-offs	(136,763)	(77,041)	(162,109)	(95,618)	(31,861)	(503,392)
Recoveries	78,129	96,400	1,489	1,183	25,710	202,911
Provision	833,804	67,607	5,826	67,256	70,507	1,045,000
Ending balance	<u>\$ 2,590,792</u>	<u>\$ 644,780</u>	<u>\$ 5,738</u>	<u>\$ 234,787</u>	<u>\$ 287,571</u>	<u>\$ 3,763,668</u>
Ending balance individually evaluated for impairment	<u>\$ 1,117,968</u>	<u>\$ 219,502</u>	<u>\$ -</u>	<u>\$ 184,441</u>	<u>\$ -</u>	<u>\$ 1,521,911</u>
Ending balance collectively evaluated for impairment	<u>\$ 1,472,824</u>	<u>\$ 425,278</u>	<u>\$ 5,738</u>	<u>\$ 50,346</u>	<u>\$ 287,571</u>	<u>\$ 2,241,757</u>
Loans						
Ending balance	<u>\$ 83,745,752</u>	<u>\$ 8,241,155</u>	<u>\$ 5,805,000</u>	<u>\$ 16,404,342</u>	<u>\$ 5,817,569</u>	<u>\$ 120,013,818</u>
Ending balance individually evaluated for impairment	<u>\$ 8,263,628</u>	<u>\$ 487,154</u>	<u>\$ 2,033,332</u>	<u>\$ 1,136,690</u>	<u>\$ -</u>	<u>\$ 11,920,804</u>
Ending balance collectively evaluated for impairment	<u>\$ 75,482,124</u>	<u>\$ 7,754,001</u>	<u>\$ 3,771,668</u>	<u>\$ 15,267,652</u>	<u>\$ 5,817,569</u>	<u>\$ 108,093,014</u>

Loans serviced for the Federal Home Loan Mortgage Corporation are not included in the accompanying consolidated balance sheets. The unpaid principal balances of serviced loans at December 31, 2010 and 2009 were \$54,989,597 and \$64,991,109, respectively.

A substantial portion of the Bank's loans are collateralized by real estate in the geographic areas it serves and, accordingly, the ultimate collectibility of a substantial portion of the Bank's loan portfolio is susceptible to changes in the local market conditions.

In the normal course of business, the Bank participates portions of loans to third parties in order to extend the Bank's lending capability or to mitigate risk. At December 31, 2010 and 2009, the portion of these loans participated to third parties (which are not included in the consolidated financial statements) totaled \$7,966,562 and \$8,199,142, respectively.

As of December 31, 2010, loans totaling \$51.8 million were pledged to secure borrowings at FHLB and FRB discount window.

Non-accrual loans totaled \$5,599,595 at December 31, 2010, \$775,100 at December 31, 2009, and \$219,967 at December 31, 2008. Had these non-accrual loans performed according to their original terms, additional interest income of approximately \$117,336, \$32,910 and \$7,610 would have been recognized in 2010, 2009, and 2008, respectively.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – (continued)

Impairment loans totaled \$11,920,804 and \$10,107,218 in the years ended December 31, 2010 and 2009, respectively. Loans are classified as Impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due, in accordance with the terms of the original loan agreement, without unreasonable delay.

In some instances the Bank has modified or restructured loans to amend the interest rate, modify the payment terms, and/or extend the maturity. Through December 30, 2010, any such amendments have generally been consistent with the terms of newly booked loans reflecting current standards for amortization and interest rate and do not represent concessions to such borrowers. In those instances where concessions have been granted meeting the criteria for a troubled debt restructuring (“TDR”), the related loans have been recorded as TDR’s. Loans recognized as TDR’s totaled \$4,632,609 and \$2,740,539 at December 31, 2010 and 2009, respectively.

The following table summarizes non-accrual and past-due loan information for the year ended December 31, 2010:

	30 - 59 Days Past Due	60 -89 Days Past Due	Greater Than 90 Days and Accruing	Total Past Due	Nonaccrual	Current	Total Loans
Commercial Real Estate	\$ 1,583,976	\$ 513,858	\$ -	\$ 2,097,834	\$ 3,746,968	\$ 77,900,951	\$ 83,745,753
Commercial	158,375	-	-	158,375	643	8,082,137	8,241,155
Construction	-	-	-	-	1,469,189	3,980,353	5,449,542
Residential Real Estate	-	103,919	-	103,919	155,854	15,802,173	16,061,946
Consumer	137,026	436	-	137,462	226,941	6,151,019	6,515,422
Total	\$ 1,879,377	\$ 618,213	\$ -	\$ 2,497,590	\$ 5,599,595	\$ 111,916,633	\$ 120,013,818

Impaired loans are loans for which management has determined it is probable that all principal and interest will not be collected according to contractual terms. The following table summarizes impaired loan information for the year ended December 31, 2010:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded			
Commercial Real Estate	\$ 8,263,628	\$ 8,263,628	\$ 1,117,967
Commercial	\$ 487,154	\$ 487,154	\$ 219,502
Construction	\$ 2,033,332	\$ 2,033,332	\$ -
Residential Real Estate	\$ 1,136,690	\$ 1,136,690	\$ 184,442
Total	\$ 11,920,804	\$ 11,920,804	\$ 1,521,911

The Bank’s risk rating methodology assigns risk ratings ranging from 1 to 8, where a higher rating represents higher risk. The Bank further segregates its lending portfolios into many categories, grouping loans of homogeneous risk together. The 8 point risk rating scale categories can be generally described by the following:

Pass (Rating 1 - 3) – These loans range from minimal to acceptable credit risk. Included in Pass is the Bank’s expense account loans that have a zero rating as there is measurable risk associated with these types of loans.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – (continued)

Watch (Rating 4) – These loan has a lower than average, but still acceptable, credit risk.

Special Mention (Rating 5) – A Special Mention loan has potential weaknesses that deserves management’s close attention. If left uncorrected, these potential weaknesses will result in deterioration in the capacity to repay debt. A key distinction between Special Mention and Substandard is that in a Special Mention loan, there are identified weaknesses that pose potential risk(s) to the repayment sources, versus well defined weaknesses that pose risk(s) to the repayment sources.

Substandard (Rating 6) – A Substandard loan with well defined weaknesses that jeopardize the ability to repay in full. These loans are inadequately protected by either the sound net worth and payment capacity of the borrower or the value of pledged collateral. These are loans with a distinct possibility of loss. Loans headed for foreclosure and/or legal action due to deterioration are rated 6 or worse.

Doubtful (Rating 7) – Doubtful loans are with an extremely high probability of loss. These loans have all the same critical weaknesses that are found in a substandard loan; however, the weaknesses are elevated to the point that based upon current information, collection or liquidation in full is improbable. While some loss on doubtful loans is expected, pending events may strengthen a credit making the amount and timing of any loss undeterminable. In these situations taking the loss is inappropriate until it is clear that the pending event has failed to strengthen the credit and improve the capacity to repay debt.

Loss (Rating 8) – Loss loans are considered to be currently uncollectible or of such little value that it is no longer a viable Bank asset. Losses should be taken in the accounting period in which the credit is determined to be uncollectible. Taking a loss does not mean that a credit has absolutely no recovery or salvage value but, rather, it is not practical or desirable to defer writing off the credit, even though partial recovery may occur in the future.

Impaired - Impaired loans will always be risk rated as Substandard or Doubtful and generally includes all loans classified as non-accrual, collateral dependent and troubled debt restructurings.

The following table summarizes our internal risk rating by loan class as of December 31, 2010:

	Pass	Watch	Special Mention	Substandard	Doubtful	Loss	Impaired	Total Loans
Commercial Real Estate	\$ 50,412,120	\$ 20,139,218	\$ 4,260,279	\$ 670,507	\$ -	\$ -	\$ 8,263,628	\$ 83,745,752
Commercial	4,821,535	2,905,271	18,029	9,166	-	-	487,154	8,241,155
Construction	3,416,210	-	-	-	-	-	2,033,332	5,449,542
Residential Real Estate	12,920,326	1,530,831	142,333	331,767	-	-	1,136,690	16,061,947
Consumer	4,967,558	629,575	15,300	902,989	-	-	-	6,515,422
Total	<u>\$ 76,537,749</u>	<u>\$ 25,204,895</u>	<u>\$ 4,435,941</u>	<u>\$ 1,914,429</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,920,804</u>	<u>\$ 120,013,818</u>

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOAN SERVICING

The balance of the Bank's recorded investment in mortgage servicing assets (MSA) is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 496,608	\$ 622,525	\$ 702,304
Gain on sale	12,277	-	44,138
Amortization	<u>(95,094)</u>	<u>(125,917)</u>	<u>(123,917)</u>
Balance, end of year	<u>\$ 413,791</u>	<u>\$ 496,608</u>	<u>\$ 622,525</u>

Amortization expense for the years ended December 31, 2010, 2009, and 2008, was \$95,094, \$125,917, and \$123,917, respectively.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 1,502,333	\$ 1,502,333
Building and improvements	6,928,536	6,923,608
Construction in progress	-	7,501
Furniture and equipment	3,247,743	3,251,321
Leasehold improvements	<u>67,143</u>	<u>52,986</u>
Total premises and equipment	11,745,755	11,737,749
Less accumulated depreciation and amortization	<u>(4,858,252)</u>	<u>(4,505,296)</u>
Premises and equipment, net of accumulated depreciation and amortization	<u>\$ 6,887,503</u>	<u>\$ 7,232,453</u>

Depreciation expense for the years ended December 31, 2010, 2009, and 2008, was \$449,856, \$512,947, and \$587,257, respectively.

NOTE 6 – INTANGIBLE ASSETS

The following table summarizes the changes in the Bank's intangible assets for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 121,863	\$ 214,515	\$ 294,400
Additions	-	-	3,239
Amortization	<u>(92,652)</u>	<u>(92,652)</u>	<u>(83,124)</u>
Balance, end of year	<u>\$ 29,211</u>	<u>\$ 121,863</u>	<u>\$ 214,515</u>

The addition of intangible assets in 2008 is related to copyrights for the Company and the Bank's new logo. Beginning assets relate to the acquisition of the local LPL Financial, Inc. brokerage in Florence, Oregon.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – TIME CERTIFICATES

Time certificates of deposit of \$100,000 and over aggregated \$21,129,557 and \$20,377,102 at December 31, 2010 and 2009, respectively.

At December 31, 2010, the scheduled maturities for all time deposits are as follows:

Year ending December 31,	2011	\$	26,773,954
	2012		6,268,130
	2013		4,361,619
	2014		4,426,370
	2015		3,794,537
			<hr/>
		\$	45,624,610
			<hr/>

NOTE 8 – SHORT-TERM BORROWINGS AND FEDERAL HOME LOAN BANK BORROWINGS

The Bank has securities sold under agreements to repurchase (REPO's) of \$3,170,703 at December 31, 2010. REPO's represent an agreement between the Bank and a customer to collateralize funds deposited by the customer in an interest-bearing repurchase sweep account. The Bank secures the REPO accounts with securities. The total amount of pledged securities for REPO's as of December 31, 2010 is \$4,615,000. In consideration of the funds deposited, the Bank transfers the security to the customer. The Bank agrees to repurchase the security on the next business day for the amount of the deposit plus simple interest on that amount calculated for one day at the rate established for REPO accounts as set by the Bank for the day. The funds provided by REPO's are considered borrowings, not deposits, and are not covered by Federal Deposit Insurance Corporation insurance.

The Bank has open credit lines of \$3 million with U.S. Bank and \$2 million with Pacific Coast Bankers' Bank, and at December 31, 2010 had no amounts outstanding on those lines. The Bank has available lines of credit with the Federal Reserve Bank discount window totaling \$2.5 million subject to certain collateral requirements, mainly the amount of certain pledged loans at December 31, 2010.

The Bank is a member of and has entered into credit arrangements with the Federal Home Loan Bank (FHLB). The Bank participates in the Cash Management Advance program and also has fixed and adjustable rate promissory notes with the FHLB. Borrowings under the credit arrangements are collateralized by mortgage loans or other instruments which may be pledged. Borrowings available to the Bank under all FHLB credit arrangements are limited to the lesser of 20% of the Bank's total assets or collateral availability.

The Cash Management Advance program advances are due on demand, or if no demand is made, in one year. No borrowings were outstanding under the Cash Management Advance program at December 31, 2010 and 2009.

FHLB promissory notes outstanding at December 31, 2010 and 2009 were \$8,737,806 and \$13,792,806, respectively. These notes may be prepaid in whole or in part, with payment of a prepayment fee.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 8 – SHORT-TERM BORROWINGS AND FEDERAL HOME LOAN BANK
BORROWINGS – (continued)**

The following summarizes the Bank's outstanding obligation and repayment terms to the FHLB as of December 31, 2010:

Years ending December 31,		Range of Interest Rates	Amount
2011		5.04%	\$ 600,000
2012		4.45 - 4.74%	3,000,000
2013		3.27 - 3.57%	1,137,806
2014		-	-
2015		2.76%	4,000,000
Thereafter		-	-
			<u>\$ 8,737,806</u>

FHLB advances are collateralized as provided for in the advance, pledge and security agreements with the FHLB, by certain qualifying loans in the amount of \$4.2 million and \$18.0 million at December 31, 2010 and 2009, respectively. At December 31, 2010, the Company had additional borrowing capacity available of \$18.7 million at the FHLB.

NOTE 9 – TRUST PREFERRED SECURITIES

Oregon Pacific Statutory Trust I is a wholly-owned Connecticut statutory business trust subsidiary which issued \$4,000,000 of guaranteed undivided beneficial interests in Bancorp's floating rate Junior Subordinated Deferrable Interest Debentures ("Trust Preferred Securities"). These debentures qualify as Tier 1 capital under regulatory guidelines. All common securities of the Trust are owned by Bancorp. The proceeds from the issuance of the common securities and the Trust Preferred Securities were used by the Trust to purchase \$4,124,000 of subordinated deferrable interest debentures of Bancorp. The debentures, which represent the sole asset of the Trust, possess the same terms as the Trust Preferred Securities and accrue interest at a rate of the three-month London Interbank Offered Rate ("LIBOR") plus 2.85% per annum which changes quarterly. The rate varied between 3.10% and 3.34% throughout 2010, 3.10% and 4.72% in 2009, and 4.72% and 7.84% in 2008. The accrued interest on the debentures is paid to the Trust by Bancorp, and the Trust in turn distributes the interest income as dividends on the Trust Preferred Securities. As per the regulatory enforcement action disclosed in Note 19, Bancorp and Bank shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director. As of December 31, 2010, \$31,996 of interest payments to the Trust and dividend payments by the Trust were paid. The accrued interest to be paid to the Trust and the dividend owing by the Trust as of December 31, 2010 is \$106,111.

In conjunction with the issuance of the Trust Preferred Securities, Bancorp entered into contractual arrangements which, taken collectively, fully and unconditionally guarantee payment of (1) accrued and unpaid distributions required to be paid on the Trust Preferred Securities, (2) the redemption price with respect to any Trust Preferred Securities called for redemption by the Trust, and (3) payments due upon a voluntary or involuntary dissolution, winding up, or liquidation of the Trust. The Trust Preferred Securities are mandatorily redeemable upon maturity of the debentures on December 17, 2033, or upon earlier redemption as provided in the indenture. Bancorp has the right to redeem the debentures purchased by the Trust in whole or in part, on or after December 17, 2008. As specified in the indenture, if the debentures are redeemed prior to maturity, the redemption price will be the principal amount and any accrued but unpaid interest. For the years ended December 31, 2010, 2009, and 2008, Bancorp's interest expense related to the Trust Preferred Securities amounted to \$131,813, \$154,485, and \$246,861, respectively.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current expense (benefit):			
Federal	\$ 427,058	\$ (499,187)	\$ 529,812
State	55,490	10,604	126,043
	<u>482,548</u>	<u>(488,583)</u>	<u>655,855</u>
Deferred benefit:			
Federal	(527,799)	(624,062)	(179,036)
State	(35,356)	(203,363)	(36,926)
	<u>(563,155)</u>	<u>(827,425)</u>	<u>(215,962)</u>
(Benefit) provision for income taxes	<u>\$ (80,607)</u>	<u>\$ (1,316,008)</u>	<u>\$ 439,893</u>

Deferred income taxes represent the tax effect of differences in timing between financial income and taxable income, principally related to the provision for loan losses, deferred compensation, mortgage servicing rights, and recognition of depreciation expense.

The provision for income taxes differs from the federal statutory rate of 34% due principally to the effect of tax exemptions for interest received on municipal investments.

The net deferred tax assets in the accompanying consolidated balance sheets include the following components:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses and unfunded loan commitments	\$ 1,194,909	\$ 953,388
Deferred compensation	820,929	924,062
Other real estate owned basis	633,147	202,173
Vacation accrual	19,300	19,300
Accumulated depreciation	60,915	13,718
Other	45,613	130,984
	<u>2,774,813</u>	<u>2,243,625</u>
Deferred tax liabilities:		
Mortgage servicing rights	(159,723)	(191,690)
Federal Home Loan Bank stock dividends	(134,637)	(134,637)
	<u>(294,360)</u>	<u>(326,327)</u>
Net deferred tax assets	<u>\$ 2,480,453</u>	<u>\$ 1,917,298</u>

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – INCOME TAXES – (continued)

The Company has determined that it is not required to establish a valuation allowance for the net deferred tax assets as management believes it is more likely than not that the net deferred tax assets of \$2.5 million and \$1.9 million at December 31, 2010 and 2009, respectively, will be realized principally through carry-back to taxable income in prior years and future reversals of existing taxable temporary differences. Management further believes that future taxable income will be sufficient to realize the benefits of temporary deductible differences that cannot be realized through carry-back to prior years or through the reversal of future temporary taxable differences.

The Company has a state net operating loss carry forward of \$1.1 million at December 31, 2010. The state net operating losses may be carried forward fifteen years in Oregon. Management believes, based upon the Company's historical performance that the deferred tax assets relating to state net operating losses will be realized in the normal course of operations and, accordingly, management has not reduced these deferred tax assets by a valuation allowance.

Reconciliation between the statutory federal income tax rate and the effective tax rate is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Federal income taxes at			
statutory rate	\$ 9,645	\$ (1,032,834)	\$ 479,078
State income tax expense, net			
of federal income tax benefit	1,236	(185,491)	61,378
Effect of nontaxable interest			
income	(100,862)	(117,923)	(88,625)
Other	9,374	20,240	(11,938)
	<u>\$ (80,607)</u>	<u>\$ (1,316,008)</u>	<u>\$ 439,893</u>
Effective tax rate	<u>-284%</u>	<u>43%</u>	<u>31%</u>

NOTE 11 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve elements of credit and interest rate risk similar to the amounts recognized in the accompanying consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of the Bank's involvement in particular classes of financial instruments.

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. While most commercial letters of credit are not utilized, a significant portion of such utilization is on an immediate payment basis.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK – (continued)

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash, accounts receivable, premises and equipment, and income-producing commercial properties.

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

A summary of the notional amounts of the Bank's financial instruments with off-balance sheet risk at December 31, 2010, were as follows:

Commitments to extend credit	\$ 3,268,250
Commercial and standby letters of credit	<u>20,000</u>
	<u><u>\$ 3,288,250</u></u>

At December 31, 2010, the Bank maintained a liability for unfunded loan commitments in the amount of \$9,483.

Additionally, the Bank previously sold real estate loans to the Federal Home Loan Mortgage Corporation (see Note 3). The Federal Home Loan Mortgage Corporation has the right to reject a loan that it has previously purchased and require the seller to repurchase the loan in the event of fraud or material misstatement of fact in the loan application. There have been no required loan repurchases for years ended December 31, 2010, 2009, and 2008.

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area. Nearly all such customers are depositors of the Bank. Investments in state and municipal securities involve government entities throughout the United States. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 2010. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of the Bank's legal lending limit, which is generally 15% of aggregate common stock and the allowance for loan losses.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table presents information about the Bank's assets measured at fair value on a recurring and non-recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Fair Value Measurements at Report Date Using				Total Losses Included in Earnings
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2010					
Recurring items:					
Available-for-sale investment securities					
U.S. Treasury and agencies	\$ 8,168,524	\$ -	\$ 8,168,524	\$ -	\$ -
State and political subdivisions	2,822,904	-	2,822,904	-	-
Mortgage-backed securities	732,558	-	732,558	-	-
Total available-for-sale investments	<u>\$ 11,723,986</u>	<u>\$ -</u>	<u>\$ 11,723,986</u>	<u>\$ -</u>	<u>\$ -</u>
Board deferred compensation plan	\$ 38,253	\$ -	\$ 38,253	\$ -	\$ -
Non-recurring items:					
Impaired loans	\$ 11,920,804	\$ -	\$ -	\$ 11,920,804	\$ (502,892)
Specific reserve	(1,521,911)	-	-	(1,521,911)	(1,521,911)
Other real estate owned	1,998,907	-	-	1,998,907	(940,829)
Mortgage servicing asset	<u>413,791</u>	<u>-</u>	<u>-</u>	<u>413,791</u>	<u>(95,094)</u>
Total assets and liabilities measured at fair value	<u>\$ 24,573,830</u>	<u>\$ -</u>	<u>\$ 11,762,239</u>	<u>\$ 12,811,591</u>	<u>\$ (3,060,726)</u>
December 31, 2009					
Recurring items:					
Available-for-sale investment securities					
U.S. Treasury and agencies	\$ 4,984,178	\$ -	\$ 4,984,178	\$ -	\$ -
State and political subdivisions	3,715,418	-	3,715,418	-	-
Mortgage-backed securities	1,043,307	-	1,043,307	-	-
Total available-for-sale investments	<u>\$ 9,742,903</u>	<u>\$ -</u>	<u>\$ 9,742,903</u>	<u>\$ -</u>	<u>\$ -</u>
Board deferred compensation plan	\$ 41,228	\$ -	\$ 41,228	\$ -	\$ -
Non-recurring items:					
Impaired loans	\$ 10,107,218	\$ -	\$ -	\$ 10,107,218	\$ (2,300,907)
Specific reserve	(643,518)	-	-	(643,518)	(643,518)
Other real estate owned	2,911,281	-	-	2,911,281	(214,180)
Mortgage servicing asset	<u>496,608</u>	<u>-</u>	<u>-</u>	<u>496,608</u>	<u>(125,917)</u>
Total assets and liabilities measured at fair value	<u>\$ 22,655,720</u>	<u>\$ -</u>	<u>\$ 9,784,131</u>	<u>\$ 12,871,589</u>	<u>\$ (3,284,522)</u>

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

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES – (continued)

The loans in the table above represent impaired, collateral dependent loans that have been adjusted to fair value with a specific valuation allowance. When management determines that the value of the underlying collateral is less than the recorded investment in the loan, the Company recognizes this impairment and adjusts the carrying value of the loan to fair value by charging-off the amount of the impairment to the allowance for loan losses, or recording a specific reserve in the allowance for loan losses.

The following tables disclose the estimated fair value and the related carrying value of the Bank's financial assets and liabilities, in accordance with the provisions of FASB ASC 820:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 2,332,991	\$ 2,332,991	\$ 3,011,135	\$ 3,011,135
Interest-bearing deposits in banks	\$ 19,370,658	\$ 19,370,658	\$ 13,273,577	\$ 13,273,577
Available-for-sale securities	\$ 11,723,986	\$ 11,723,986	\$ 9,742,903	\$ 9,742,903
Restricted equity securities	\$ 1,023,650	\$ 1,023,650	\$ 1,023,650	\$ 1,023,650
Loans held-for-sale	\$ 116,888	\$ 116,888	\$ -	\$ -
Loans	\$ 120,013,818	\$ 115,950,717	\$ 125,734,862	\$ 122,482,712
Accrued interest from loans	\$ 620,951	\$ 620,951	\$ 634,154	\$ 634,154
Financial liabilities:				
Demand deposits, interest- bearing demand deposits, and savings deposits	\$ 87,326,269	\$ 87,326,269	\$ 83,928,648	\$ 83,928,648
Time certificate accounts	\$ 45,624,610	\$ 43,046,423	\$ 45,148,979	\$ 44,856,588
Federal Home Loan Bank borrowings	\$ 8,737,806	\$ 8,562,622	\$ 13,792,806	\$ 13,198,087
Repurchase agreements and other debt	\$ 3,170,703	\$ 3,170,703	\$ 2,766,656	\$ 2,766,656
Floating rate Junior Subordinated Deferrable Interest Debentures (Trust Preferred Securities)	\$ 4,124,000	\$ 1,885,839	\$ 4,124,000	\$ 1,658,163

While estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to have disposed of such items at December 31, 2010 and 2009, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2010 and 2009 should not necessarily be considered to apply at subsequent dates.

The Bank normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as premises and equipment. Also, nonfinancial instruments typically not recognized in the consolidated financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments – The Bank leases certain branch premises and equipment. Future minimum lease payments for all noncancellable operating leases are as follows:

Years ending December 31,	2011	\$	80,983
	2012		427,233
	2013		47,983
	2014		42,247
	2015		27,984
	Thereafter		-
		\$	<u>626,430</u>

Total rental expense was \$63,800, \$63,610, and \$73,067 in 2010, 2009, and 2008, respectively.

Legal contingencies – In the ordinary course of business, the Bank is a party to various debtor-creditor legal actions, none of which individually or in the aggregate, are presently material to the Bank’s business, operations, or financial condition. These include cases filed as a plaintiff in collection and foreclosure cases, and the enforcement of creditors’ rights in bankruptcy proceedings.

Bancorp is not currently involved in any material litigation or legal proceeding, and is not aware of any potential material litigation or proceeding threatened against it.

NOTE 15 – STOCK-BASED COMPENSATION

Bancorp has a stock incentive plan which was approved by its stockholders during 2003. The plan provides that 214,035 shares of Bancorp’s common stock will be reserved for the granting of incentive stock options and non-statutory stock options to key employees, with 160,968 shares still available for grants at December 31, 2010. The purchase price of optioned shares is not to be less than the fair market value at the time the options are granted. In addition, the plan allows for the Board to grant stock appreciation rights or bonus rights, award bonus grants of stock, and award other types of stock-based incentives as may be allowable by law. Options granted in December 2008 vest in five equal annual installments on the anniversary of the grant beginning December 16, 2010. Each installment has a two-year exercise period following a two-year vesting period. Vesting is immediate if there is a change of control, at retirement at age 60 or later, or upon death if 50 percent had been exercisable.

As of December 31, 2010, the Company had 21,414 nonvested options outstanding and there was \$1,802 of total unrecognized compensation cost related to these nonvested options. This cost is expected to be recognized on a straight-line basis, over the vesting periods, through December 31, 2013. A summary of option activity under the plan as of December 31, 2010, and changes during the year then ended is presented below:

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – STOCK-BASED COMPENSATION – (continued)

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	32,735	\$ 5.18		
Granted	-			
Forfeited or expired	(3,882)	\$ 11.85		
Outstanding at December 31, 2010	<u>28,853</u>	<u>\$ 4.28</u>	<u>3.82</u>	<u>\$ -</u>
Exercisable at December 31, 2010	<u>7,439</u>	<u>\$ 4.37</u>	<u>1.58</u>	<u>\$ -</u>
Outstanding at January 1, 2009	38,535	\$ 5.31		
Granted	-			
Forfeited or expired	(5,800)	\$ 6.03		
Outstanding at December 31, 2009	<u>32,735</u>	<u>\$ 5.18</u>	<u>3.85</u>	<u>\$ -</u>
Exercisable at December 31, 2009	<u>5,439</u>	<u>\$ 10.00</u>	<u>0.37</u>	<u>\$ -</u>
Outstanding at January 1, 2008	17,329	\$ 9.95		
Granted	29,647	\$ 4.25		
Forfeited or expired	(8,441)	\$ 11.14		
Outstanding at December 31, 2008	<u>38,535</u>	<u>\$ 5.31</u>	<u>3.82</u>	<u>\$ -</u>
Exercisable at December 31, 2008	<u>8,888</u>	<u>\$ 8.83</u>	<u>1.10</u>	<u>\$ -</u>

The weighted-average grant-date fair value of options granted during 2008 was \$0.14. No options were granted in 2010 or 2009. There were no options exercised during the years ended December 31, 2010, 2009 or 2008.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for December 31:

	<u>2008</u>
Dividend Yield	1.54%
Expected life (years)	3 ~ 5.5
Expected volatility	26.20%
Risk-free rate	2.15%

NOTE 16 – PROFIT SHARING, DEFERRED COMPENSATION, AND INCENTIVE PLANS

Effective January 1, 1998, the Bank adopted a Simple Retirement Plan which covers substantially all employees once minimum length of employment criteria has been met. Contributions to the plan totaled \$54,368, \$60,613, and \$97,122 during 2010, 2009, and 2008, respectively.

The Bank has also established a nonqualified deferred compensation and an incentive plan for a group of key management employees. The Bank may, but is not required to, award incentive compensation, which is credited to Incentive Contribution Accounts maintained for each of these participants. Until retirement, each participant's Incentive Contribution Account is subject to increase or decrease each year, based on the Bank's performance.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – PROFIT SHARING, DEFERRED COMPENSATION, AND INCENTIVE PLANS – (continued)

Participants are also allowed to elect to defer a portion of their compensation. For the years ended December 31, 2010, 2009, and 2008, the Bank recorded expenses (benefits) of (\$197,602), \$0, and \$160,127, respectively, to fund the program.

The Board Non-employee Deferred Compensation Plan of 2006 allows directors to defer all, or a portion of their compensation including bonuses, if any. Whole shares of common stock are credited to the director's account as could be purchased with the amounts deferred, the price equal to a weighted average of the most recent aggregate sales of no less than 1% of outstanding stock. Distributions, paid in stock, begin on the date specified by the participant but not later than at age 72. The Bank elected the fair value option related to this plan and has recorded (income) expenses of (\$27,718), (\$368), and (\$21,498) for the years ended December 31, 2010, 2009, and 2008, respectively.

NOTE 17 – EARNINGS (LOSS) PER COMMON AND COMMON EQUIVALENT SHARES

Basic earnings (loss) per share excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options under the Bank's stock option plans. The following table illustrates the computations of basic and diluted earnings per common share for the years ended December 31:

	<u>(Loss) Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per Share Amount</u>
<u>2010</u>			
Basic loss per common share:			
Income available to common stockholders	\$ 108,976	2,190,664	<u>\$ 0.05</u>
Effect of dilutive securities:			
Outstanding common stock options	<u>-</u>	<u>-</u>	
Loss available to common stockholders plus assumed conversions	<u>\$ 108,976</u>	<u>2,190,664</u>	<u>\$ 0.05</u>
<u>2009</u>			
Basic earnings per common share:			
Income available to common stockholders	\$ (1,725,711)	2,186,386	<u>\$ (0.79)</u>
Effect of dilutive securities:			
Outstanding common stock options	<u>-</u>	<u>-</u>	
Income available to common stockholders plus assumed conversions	<u>\$ (1,725,711)</u>	<u>2,186,386</u>	<u>\$ (0.79)</u>
<u>2008</u>			
Basic earnings per common share:			
Income available to common stockholders	\$ 969,161	2,183,624	<u>\$ 0.44</u>
Effect of dilutive securities:			
Outstanding common stock options	<u>-</u>	<u>926</u>	
Income available to common stockholders plus assumed conversions	<u>\$ 969,161</u>	<u>2,184,550</u>	<u>\$ 0.44</u>

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – EARNINGS (LOSS) PER COMMON AND COMMON EQUIVALENT SHARES – (continued)

Options to purchase an additional 28,853 shares, 32,733 shares, and 7,331 shares of common stock were outstanding during the years ended December 31, 2010, 2009, and 2008, respectively, but were not included in the computation of diluted earnings (loss) per share because their effect would be anti-dilutive.

NOTE 18 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loan included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features. Transactions with directors, executive officers, principal stockholders, and companies with which they are associated as of December 31, 2010 and 2009, and for the years then ended were as follows:

	2010	2009
Loans outstanding, beginning of year	\$ 2,938,330	\$ 4,245,494
Additions	120,000	466,403
Repayments	(977,968)	(1,773,567)
Loans outstanding, end of year	\$ 2,080,362	\$ 2,938,330

NOTE 19 – REGULATORY MATTERS

Bancorp and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on Bancorp’s and the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of Bancorp’s and the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. 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 Bancorp and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2010, that Bancorp and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010, Bancorp and the Bank are categorized as adequately capitalized under the regulatory framework for prompt corrective action, although meet the quantitative guidelines set forth above to be deemed well-capitalized. To be categorized as adequately or well-capitalized, Bancorp and the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios as set forth in the following table.

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 – REGULATORY MATTERS – (continued)

The results of a regulatory examination completed in February 2010 has led to a regulatory enforcement action (“Agreement”) with the Federal Reserve Board and the Oregon Division of Finance and Corporate Securities, the Bank’s and Bancorp’s principal regulators, primarily as a result of the operating loss for 2009 and the increased level of non-performing assets. The Agreement imposed certain operating restrictions on the Bank. Among the corrective actions required would be for the Bank to reduce problem assets, maintain an appropriate allowance for loan losses, maintain appropriate capital levels, and restrict dividend payments. In addition, the Agreement provides timelines and thresholds from July 23, 2010, the date of issuance to achieve the aforementioned corrective actions. Bancorp and Bank has demonstrated progress, taken prudent actions and maintained a good-faith commitment to reaching the requirements of the Agreement. We continue to work toward achieving all requirements contained in the regulatory agreements in as expeditious a manner as possible.

Bancorp’s and the Bank’s capital ratios are substantially equivalent. Actual capital amounts for the Bank are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010: (in thousands)						
Total capital to risk-weighted assets	\$ 15,226	12.2%	\$ 9,961	≥8.0%	\$ 12,452	≥10.0%
Tier 1 capital to risk-weighted assets	\$ 13,642	11.0%	\$ 4,981	≥4.0%	\$ 7,471	≥6.0%
Tier 1 capital to average assets	\$ 13,642	8.2%	\$ 6,639	≥4.0%	\$ 8,299	≥5.0%
As of December 31, 2009: (in thousands)						
Total capital to risk-weighted assets	\$ 16,718	12.2%	\$ 10,994	>8.0%	\$ 13,742	>10.0%
Tier 1 capital to risk-weighted assets	\$ 14,981	10.9%	\$ 5,497	≥4.0%	\$ 8,245	≥6.0%
Tier 1 capital to average assets	\$ 14,981	9.2%	\$ 6,556	≥4.0%	\$ 8,195	≥5.0%

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for Oregon Pacific Bancorp (parent company only) is presented as follows:

CONDENSED BALANCE SHEETS

	December 31,	
	2010	2009
ASSETS		
Cash and cash equivalents	\$ 47,873	\$ 8,008
Investment in subsidiaries	15,832,853	15,627,235
Other assets	103,902	-
TOTAL ASSETS	<u>\$ 15,984,628</u>	<u>\$ 15,635,243</u>
LIABILITIES		
Junior subordinated debentures	\$ 4,124,000	\$ 4,124,000
Other liabilities	210,671	5,333
Total liabilities	4,334,671	4,129,333
STOCKHOLDERS' EQUITY	11,649,957	11,505,910
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 15,984,628</u>	<u>\$ 15,635,243</u>

CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2010	2009	2008
INCOME	\$ -	\$ -	\$ -
EXPENSES			
Interest	131,813	154,485	246,861
Other	16,441	17,173	70,704
Total expenses	148,254	171,658	317,565
Net loss before credit for income taxes, dividends from Bank and equity in undistributed net earnings of subsidiary	(148,254)	(171,658)	(317,565)
INCOME TAX BENEFIT	(50,580)	(65,841)	(121,805)
Net loss before dividends from the Bank and equity in undistributed net earnings of subsidiary	(97,674)	(105,817)	(195,760)
Dividends from the Bank	31,996	204,180	1,227,904
(Deficit) equity in undistributed net earnings (loss) of subsidiary	174,654	(1,824,074)	(62,983)
NET INCOME (LOSS)	<u>\$ 108,976</u>	<u>\$ (1,725,711)</u>	<u>\$ 969,161</u>

OREGON PACIFIC BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – PARENT COMPANY FINANCIAL INFORMATION – (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ 108,976	\$ (1,725,711)	\$ 969,161
Adjustments to reconcile net income (loss) to net cash			
Equity (deficit) in undistributed earnings of subsidiaries	(174,654)	1,824,074	62,983
Changes in other assets and liabilities	101,436	(2,780)	(6,377)
Net cash from operating activities	<u>35,758</u>	<u>95,583</u>	<u>1,025,767</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid	-	(95,018)	(414,908)
Repurchase of common stock	-	-	(18,700)
Proceeds from stock options exercised	-	-	-
Proceeds from unregistered stock sale	4,107	2,000	2,674
Proceeds from issuance (payment for redemption) of common stock	-	-	(601,744)
Net cash used in financing activities	<u>4,107</u>	<u>(93,018)</u>	<u>(1,032,678)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,865	2,565	(6,911)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,008</u>	<u>5,443</u>	<u>12,354</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 47,873</u>	<u>\$ 8,008</u>	<u>\$ 5,443</u>

OREGON PACIFIC BANCORP AND SUBSIDIARY
FINANCIAL HIGHLIGHTS (UNAUDITED)

AS OF AND FOR THE YEARS ENDED DECEMBER 31,

	2010	2009	2008	2007	2006
INCOME STATEMENT DATA					
Interest income	\$ 8,596,876	\$ 9,271,976	\$ 10,534,822	\$ 11,904,992	\$ 11,735,462
Interest expense	1,684,301	2,107,708	3,069,563	3,669,794	3,278,853
Net interest income	6,912,575	7,164,268	7,465,259	8,235,198	8,456,609
Loan loss provision	1,045,000	4,410,508	325,791	120,000	26,000
Net interest income after provision for loan losses	5,867,575	2,753,760	7,139,468	8,115,198	8,430,609
Noninterest income	2,046,092	1,909,095	2,405,759	2,722,285	2,738,291
Noninterest expense	7,885,298	7,704,574	8,136,173	8,161,712	8,088,035
Income (loss) before provision for income taxes	28,369	(3,041,719)	1,409,054	2,675,771	3,080,865
Provision (benefit) for income taxes	(80,607)	(1,316,008)	439,893	830,614	1,094,828
Net income (loss)	\$ 108,976	\$ (1,725,711)	\$ 969,161	\$ 1,845,157	\$ 1,986,037
DIVIDENDS					
Cash dividends declared and paid	\$ -	\$ 131,030	\$ 572,853	\$ 638,589	\$ 566,115
Ratio of dividends to net income (loss)	0.00%	-7.59%	59.11%	34.61%	28.50%
Cash dividends per share	\$ -	\$ 0.06	\$ 0.26	\$ 0.29	\$ 0.26
PER SHARE DATA					
Basic earnings (loss) per common share	\$ 0.05	\$ (0.79)	\$ 0.44	\$ 0.84	\$ 0.91
Diluted earnings (loss) per common share	\$ 0.05	\$ (0.79)	\$ 0.44	\$ 0.84	\$ 0.91
Book value average per common share	\$ 5.32	\$ 5.26	\$ 6.11	\$ 6.05	\$ 5.44
Weighted average shares outstanding:					
Basic	2,190,664	2,186,386	2,183,624	2,203,790	2,178,967
Diluted	2,190,664	2,186,386	2,184,550	2,207,486	2,187,870
BALANCE SHEET DATA					
Investment securities	\$ 11,723,986	\$ 9,742,903	\$ 9,709,213	\$ 9,805,501	\$ 11,320,448
Loans, net (1)	\$ 115,893,526	\$ 122,319,922	\$ 128,055,745	\$ 121,746,444	\$ 121,066,553
Total assets	\$ 163,887,858	\$ 164,644,873	\$ 156,275,779	\$ 152,604,340	\$ 151,305,294
Total deposits	\$ 132,950,879	\$ 129,077,627	\$ 117,743,282	\$ 120,992,414	\$ 121,610,770
Stockholders' equity	\$ 11,649,957	\$ 11,505,910	\$ 13,328,837	\$ 13,371,888	\$ 11,900,833
SELECTED RATIOS					
Return on average assets	0.07%	-1.08%	0.62%	1.20%	1.27%
Return on average equity	0.69%	-10.09%	7.35%	14.58%	18.03%
Net loans to deposits	87.17%	94.76%	108.76%	100.62%	100.38%
Net interest margin (2)	4.62%	5.05%	5.33%	5.95%	5.91%
Efficiency ratio (3)	88.02%	85.06%	82.42%	74.49%	72.25%
ASSET QUALITY RATIOS					
Reserve for loans losses to:					
Ending total loans	3.13%	2.40%	1.19%	1.58%	1.51%
Nonperforming assets (4)	49.53%	81.82%	83.76%	115.11%	865.58%
Non-performing assets to ending total assets	4.64%	2.24%	1.19%	1.12%	0.14%
Net loan charge-offs to average loans	0.25%	2.29%	0.57%	0.01%	0.02%
CAPITAL RATIOS (BANK)					
Average stockholders' equity to average assets	9.41%	10.69%	11.02%	10.90%	9.67%
Tier I capital ratio (5)	11.0%	10.9%	12.7%	12.9%	11.9%
Total risk-based capital ratio (6)	12.2%	12.2%	14.0%	14.1%	13.2%
Leverage ratio (7)	8.2%	9.2%	10.9%	11.1%	10.1%

(1) Excludes loans held-for-sale.

(2) Used tax effective yield for non-taxable securities interest earned.

(3) Efficiency ratio is noninterest expense divided by the sum of net interest income plus noninterest income.

(4) Nonperforming assets consists of nonaccrual loans, loans contractually past due 90 days or more, and other real estate owned.

(5) Tier I capital divided by risk-weighted assets.

(6) Total capital divided by risk-weighted assets.

(7) Tier I capital divided by average total assets.

Board of Directors

Robert King	Chairman of the Board Owner, R&R King Logging
Marteen Wick	Vice Chair of the Board Owner, Kitchen Klutter
Tricia Benetti	Owner, Benetti's Restaurant
A.J. Brauer, MD	Physician, retired
Lydia Brackney	Educator, retired
James Clark	President and CEO, Oregon Pacific Bank
Thomas Grove	Retired President/CEO, Oregon Pacific Bank
Jon Thompson	Owner, KCST Radio Station
Richard Yecny	CEO, PeaceHealth Siuslaw Region

Bank Executive Officers

James Clark	President and CEO
Joanne Forsberg	EVP, Chief Financial Officer
Ron Green	EVP, Chief Credit Officer

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Oregon
Pacific Bancorp



Member FDIC

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Pictured on cover (from top to bottom):
Heceta Lighthouse near Florence
Whitehorse Falls near Roseburg
Sunset Bay State Park near Coos Bay