Cashmere Valley Bank

2013 Annual Report

Due to the electronic nature of this document, our external auditors, BDO USA LLP, advise that this information is provided for convenience and informational purposes only. While reasonable efforts have been made to ensure the integrity of such information, this electronic document should not be relied on. A copy of the consolidated financial statements will be provided on request.

"The little Bank with the big circle of friends."

Performance Results	2013	2012	2011	2010	2009
Return on average equity	11.52%	11.45%	11.66%	10.40%	8.89%
Return on average assets	1.14%	1.12%	1.08%	0.92%	0.74%
Equity to assets	9.81%	9.85%	9.43%	8.95%	8.58%
Earnings per share - Basic*	$3.52	$3.30	$3.04	$2.42	$1.90
Dividends per share*	$0.76	$0.76	$0.76	$0.76	$0.76
Book value per share*	$31.13	$30.17	$27.49	$24.33	$21.89
Market value per share*	$29.50	$27.40	$23.25	$17.55	$25.00
Net overhead to average assets	1.00%	0.99%	0.73%	1.10%	1.15%
Average earning assets to average total assets	96.66%	96.60%	96.48%	93.30%	94.83%
Allowance for credit losses to total loans at December 31	1.58%	1.81%	2.08%	2.35%	2.53%
Yield and Cost of Funds					
Yield on investments	1.93%	1.87%	2.46%	2.54%	4.28%
Yield on loans	4.98%	5.76%	6.43%	7.05%	7.08%
Cost of funds	0.67%	0.89%	1.33%	1.68%	2.08%
Net interest margin	3.03%	3.06%	3.32%	3.35%	3.83%
Selected Items *(in thousands)*					
Total cash and cash equivalents	$64,645	$83,262	$48,805	$51,433	$68,530
Total investments	$472,377	$490,863	$507,935	$432,541	$398,294
Total loans	$711,805	$631,543	$585,450	$578,176	$521,646
Total assets	$1,283,278	$1,238,687	$1,176,287	$1,095,058	$1,026,102
Total deposits	$1,137,897	$1,096,885	$1,042,330	$975,855	$923,604
Total equity	$125,917	$121,969	$110,959	$97,961	$88,059

To the Shareholders and Friends of the Bank

Cashmere Valley Bank experienced another successful year in 2013. Yes, we are back to being Cashmere Valley Bank after successfully closing the holding company (Cashmere Valley Financial Corporation R.I.P.). In the current regulatory environment, we could no longer justify the expense related to having another level of regulatory oversight and reporting. Other than getting the word out on the new ticker symbol (CSHX), the transaction flowed very smoothly.

We ended the year with $1.283 billion in assets, which ranked us 528th in size of FDIC insured institutions, according to the December 2013 data. As we have said before, *the little Bank with the big circle of friends* isn't so *little* any more. Of course, we continue to point out, size doesn't make you a big bank. Attitude does. We are a ten branch bank located in Eastern Washington State that continues to focus on providing quality financial services at a good value to our friends and neighbors.

We are particularly proud of the loan growth our lenders generated during the year. Loans increased by $80 million to $712 million during the year, or a 13% increase. Experiencing a level of loan growth that will take our loan to asset ratio from the current level of 55% to 65% is the primary goal of the organization. To brag a bit; our indicators that measure credit quality have never been better, which supports our ability to grow good loans.

Keeping up with the current technology continues to be critical to the long term success of a bank. You can bank on your mobile phone, touch-tone phone, home computer, ATM, and most recently on your iPad. Even with all of these options, our lobbies continue to be very busy with customers who want the traditional face-to-face service. As a side note, I flash back to the ads at the beginning of my career touting the installation of a drive-up window as the newest technology. What's next?

The biggest challenge facing all financial institution is the ongoing battle to keep up with regulatory compliance. Those of us who never engaged in any of the activities that caused the financial crisis are left to pay the price. I must say that if the banks in the country had performed at one half the level of Cashmere Valley Bank, there would have been no crisis. Many of the very good things we were able to do for our customers have been regulated out of existence, all in the name of consumer protection. Regardless of the senseless regulation, we expect to creatively work to meet our customers' expectations.

As I mentioned earlier, loan growth is critical to that success, so we would appreciate it if you would either borrow money or refer good prospects to us. As always, if you have any questions or concerns regarding Cashmere Valley Bank in particular, or the banking industry, in general, I can always be reached at my direct number, (509) 782-5419.

We look forward to a successful 2014.

Sincerely,

Kenneth J. Martin

Kenneth J. Martin
President and CEO

Board of Directors
Cashmere Valley Bank
Cashmere, Washington

We have audited the accompanying consolidated financial statements of Cashmere Valley Bank, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cashmere Valley Bank as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Spokane, Washington
March 26, 2014

Consolidated Balance Sheets

December 31, 2013 and 2012 *(Dollars in Thousands, Except Share Amounts)*

	2013	2012
Assets		
Cash and Cash Equivalents:		
Cash and due from banks	$18,389	$19,095
Interest-bearing deposits at other financial institutions	40,464	58,447
Federal funds sold	5,792	5,720
Total Cash and Cash Equivalents	64,645	83,262
Securities available for sale	467,574	486,321
Securities held to maturity (fair value of $1,537 and $1,237)	1,592	1,220
Federal Home Loan Bank (FHLB) stock, at cost	2,973	3,084
Pacific Coast Banker's Bancshares (PCBB) stock, at cost	238	238
Loans held for sale	159	315
Loans and leases	711,805	631,543
Allowance for credit losses	(11,233)	(11,462)
Net loans and leases	700,572	620,081
Premises and equipment, net	11,602	12,174
Accrued interest receivable	4,638	4,628
Foreclosed real estate	99	749
Bank owned life insurance	12,673	12,182
Goodwill	6,820	6,820
Intangibles	32	54
Mortgage servicing rights	1,986	2,166
Other assets	7,675	5,393
Total assets	**$1,283,278**	**$1,238,687**
Liabilities		
Deposits:		
Demand	$139,284	$121,419
Savings and interest-bearing demand	693,156	642,760
Time	305,457	332,706
Total deposits	1,137,897	1,096,885
Accrued interest payable	701	906
Short-term borrowings	9,339	6,700
Long-term borrowings	3,156	3,376
Other liabilities	6,268	8,851
Total liabilities	**1,157,361**	**1,116,718**
Commitments and Contingencies		
Shareholders' Equity		
Common stock (no par value); authorized 10,000,000 shares; Issued and outstanding: 2013 – 4,044,259; 2012 – 4,042,709	--	--
Retained earnings	123,141	111,916
Accumulated other comprehensive income	2,776	10,053
Total shareholders' equity	**125,917**	**121,969**
Total liabilities and shareholders' equity	**$1,283,278**	**$1,238,687**

See notes to consolidated financial statements.

Years Ended December 31, 2013 and 2012 *(Dollars in Thousands, Except Per Share Amounts)*

	2013	2012
Interest Income:		
Loans and leases	$31,557	$32,166
Federal Funds sold and deposits at other financial institutions	98	64
Securities available for sale:		
Taxable	4,074	4,306
Tax-exempt	3,815	3,779
Securities held to maturity - tax-exempt	64	71
Total interest income	39,608	40,386
Interest Expense:		
Deposits	7,316	9,262
Short-term borrowings	27	24
Long-term borrowings	196	212
Total interest expense	7,539	9,498
Net interest income	**32,069**	**30,888**
Provision for Credit Losses	1,545	2,400
Net interest income after provision for credit losses	**30,524**	**28,488**
Non-Interest Income:		
Service charges on deposit accounts	939	987
Net gain on mortgage loans sold	2,240	2,632
Servicing fees on loans sold	605	449
Net gain on sales of securities available for sale	45	236
Brokerage commissions	402	298
Insurance commissions and fees	1,514	1,430
Interchange income	2,638	2,475
Other	1,760	1,741
Total non-interest income	10,143	10,248
Non-Interest Expense:		
Salaries and employee benefits	11,649	10,960
Occupancy	1,482	1,381
Furniture and equipment	2,249	2,024
Audits and examinations	562	542
State and local business and occupation taxes	537	500
FDIC insurance	659	710
Interchange expenses	979	850
Collection and legal costs	336	339
Net loss (gain) on foreclosed real estate	(391)	18
Check losses and charge-offs	183	354
Other	4,437	4,419
Total non-interest expense	22,682	22,097
Income before income taxes	**17,985**	**16,639**
Income Taxes	3,757	3,295
Net Income	**$14,228**	**$13,344**
Change in the fair value of securities available for sale, net of tax	(7,277)	600
Comprehensive Income	**$6,951**	**$13,944**
Earnings per share – Basic	$3.52	$3.30
Earnings per share – Diluted	$3.51	$3.30

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2013 and 2012 *(Dollars in Thousands, Except Share Information)*

	Shares of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	4,036,659	$101,506	$9,453	$110,959
Net income	--	13,344	--	13,344
Other comprehensive income, net of tax:				
Change in fair value of securities available for sale	--	--	600	600
Cash dividends paid ($0.76 per share)	--	(3,069)	--	(3,069)
Stock based compensation expense	--	24	--	24
Options exercised	6,050	111	--	111
Balance, December 31, 2012	**4,042,709**	**$111,916**	**$10,053**	**$121,969**
Net income	--	14,228	--	14,228
Other comprehensive income, net of tax:				
Change in fair value of securities available for sale	--	--	(7,277)	(7,277)
Cash dividends paid ($0.76 per share)	--	(3,073)	--	(3,073)
Stock based compensation expense	--	39	--	39
Options exercised	1,550	31	--	31
Balance, December 31, 2013	**4,044,259**	**$123,141**	**$2,776**	**$125,917**

See notes to consolidated financial statements.

Years Ended December 31, 2013 and 2012 *(Dollars in Thousands)*

	2013	**2012**
Cash Flows from Operating Activities		
Net income	$14,228	$13,344
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,910	1,627
Provision for credit losses	1,545	2,400
Investment amortization – net	11,967	14,669
Deferred income tax	441	776
Increase (decrease) in Federal income tax payable	133	(293)
Stock based compensation expense	39	24
Increase in deferred compensation	410	191
Originations of loans held for sale	75,900	99,815
Proceeds from sales of loans held for sale	(73,668)	(96,189)
Net gain on sale of securities, loans, property and equipment	(2,188)	(3,087)
(Gain) loss on sale and impairment of foreclosed real estate	(391)	18
Increase in surrender value of Bank Owned Life Insurance	(491)	(495)
Change in:		
FDIC premium prepayment	2,299	641
Accrued interest receivable	(10)	399
Accrued interest payable	(205)	(340)
Other - net	167	223
Net cash provided by operating activities	**32,086**	**33,723**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Sales	20,968	18,360
Maturities, prepayments, and calls	133,017	162,307
Purchases	(158,807)	(183,030)
Activity in securities held to maturity:		
Maturities, prepayments, and calls	695	286
Purchases	(1,066)	--
Loans and leases originated in excess of principal collected	(84,315)	(53,836)
Investment in Low Income Housing Fund	(3,802)	--
Additions to premises and equipment	(1,007)	(1,553)
Proceeds from sale of other real estate owned	3,225	5,105
Net cash used in investing activities	**(91,092)**	**(52,361)**
Cash Flows from Financing Activities		
Net increase in deposits	$41,012	$54,555
Net increase in short-term borrowings	2,639	1,809
Repayments of long-term borrowings	(220)	(311)
Cash dividends paid	(3,073)	(3,069)
Exercise of stock options	31	111
Net cash provided by financing activities	**40,389**	**53,095**
Net change in cash and due from banks	**(18,617)**	**34,457**
Cash and Due from Banks		
Beginning of year	83,262	48,805
End of year	**$64,645**	**$83,262**

See notes to consolidated financial statements

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation

Cashmere Valley Bank (the Company) was established in 1932. Cashmere Valley Financial Corporation (the Holding Company) was formed on December 20, 2004. At the annual shareholders meeting on March 29, 2005, the shareholders of the Company approved a reorganization in which Cashmere Valley Bank became a wholly-owned subsidiary of Cashmere Valley Financial Corporation. The primary purposes for the holding company formation and reorganization were to provide flexibility for the Company, satisfy changing and expanding needs for financial services, and provide additional alternatives for operating or acquiring related businesses.

At the annual shareholder meeting on April 23, 2013, the shareholders of Cashmere Valley Financial Corporation approved the liquidation of the Holding Company. The liquidation, which was effective on June 28, 2013, eliminated the Holding Company, leaving the Cashmere Valley Bank as an independent entity. As of the effective date of the liquidation, the shares of the Cashmere Valley Financial Corporation were converted into the right to receive an equal number of shares of Cashmere Valley Bank. The primary reasons for the liquidation were that the purposes for which the Holding Company had been originally formed have been fully served and the anticipated future benefits from a holding company structure are outweighed by the regulatory and other expenses of maintaining such a structure.

The consolidated financial statements of the Company include the accounts of the Company and the Bank's wholly owned subsidiary, Mitchell, Reed and Schmitten, Inc. (MRS), an insurance agency. All significant intercompany transactions and balances have been eliminated.

Nature of Operations

The Company is a Washington State chartered bank established in 1932 and operates ten branches in North Central Washington. The Company's lending and other banking activities are carried out in and around Chelan, Douglas, Kittitas, and Yakima counties and to a lesser degree, other areas of Western Washington. The Company provides loan and deposit services to customers, who are predominately small and middle-market businesses and middle income individuals. MRS is based in Wenatchee, Washington and brokers personal and commercial lines of insurance, including property and casualty insurance, to a customer base similar to the Bank's.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the banking industry. GAAP defines a public company as one whose securities trade in a public market, including in over-the-counter markets. As the Company's stock trades in certain over-the-counter markets, certain disclosures meet public company requirements. The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the consolidated balance sheet, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate primarily to the determination of the allowance for credit losses and valuations of securities, goodwill, and servicing assets. Certain prior year amounts have been reclassified to conform to 2013 presentation, with no change to shareholder's equity or net income reported.

Certain prior year amounts have been reclassified to conform to the 2013 presentation, with no change to shareholders' equity or net income previously reported.

Cash Equivalents and Cash Flows

The Company considers federal funds sold, cash and amounts due from banks, and interest-bearing deposits at other financial institutions to be Cash and Cash Equivalents, and are reported as such on the consolidated balance sheets and statement of cash flows. Cash flows from loans, deposits, and short-term borrowings are reported net. Additional cash flow information was as follows (dollars in thousands):

	2013	2012
Cash paid for interest	$7,744	$9,838
Cash paid for income taxes	3,180	2,873
Significant non-cash transactions:		
Foreclosed real estate acquired in settlement of loans	$(1,056)	$(3,220)
Commitment to invest in Low Income Housing Fund	$1,198	--
Fair value adjustment of securities available for sale, net of tax	(7,277)	600

Stock Based Compensation

The Company has a stock option plan which is described more fully in Note 13. In 2007 the Company adopted a stock appreciation rights plan (SAR), which is referred to as the "Phantom Stock Plan" and is described more fully in Note 13. The Company is required to measure the intrinsic value of the SAR each reporting period until the award is settled and compensation expense must be recognized each reporting period for changes in the SAR's intrinsic value and vesting. The Company recognized stock-based compensation expense totaling $39,000 and $24,000 in 2013 and 2012.

Securities Available for Sale

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

The Company evaluates the portfolio for impairment each quarter. In estimating other-than-temporary losses, the Company considers the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (5) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. If a loss is deemed to be other-than-temporary, the Company then calculates a credit loss charge against earnings by subtracting the estimated present value of estimated future cash flows on the security from its amortized cost. The other-than-temporary impairment less the credit loss charge against earnings is a component of other comprehensive income.

Securities Held to Maturity

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

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of the FHLB based on the greater of:

- The Membership Stock Purchase Requirement (shall be equal to the greater of five hundred dollars ($500), or one-half of one percent (0.5%) of the Member's Home Mortgage Loans, as of the most recent calendar year-end) or

- The sum of the Member Mortgage Purchase Program (MPP) Stock Purchase Requirement (shall be equal to five percent (5.0%) of the outstanding principal balance of loans sold by the Member to the Bank pursuant to the Bank's MPP) and

- The Member Advance Stock Purchase Requirement (shall be equal to four percent (4.0%) of the outstanding principal balance of Advances extended from the Bank to a Member).

The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by the FHLB at the $100 per share par value.

The Company views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; (2) impact of legislative and regulatory changes on the FHLB; and (3) the liquidity position of the FHLB. Management has determined there is no impairment on its FHLB stock as of December 31, 2013.

Loans and Leases

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

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Interest income from direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

Generally, the accrual of interest on loans and leases is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, or when they are past due 90 days as to either principal or interest, unless they are well secured and in the process of collection. Past due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income. If management determines that the ultimate collectability of principal is in doubt, cash receipts on nonaccrual loans are applied to reduce the principal balance on a cash-basis method until the loans qualify for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Trouble Debt Restructured Loans

Trouble debt restructured loans ("TDR") are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty and; 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. Modified terms are dependent upon the financial position and needs of the individual borrower, as the Company does not employ modification programs for temporary or trial periods. The most common types of modifications include interest rate adjustments, covenant modifications, forbearance and/or other concessions.

Generally, TDRs are classified as impaired loans and are TDRs for the remaining life of the loan. Impaired and TDR classification may be removed if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar credit at the time of restructuring.

Impaired Loans

In accordance with FASB ASC 310 *Receivables*, a loan or lease is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) due according to the contractual terms of the loan agreement. Smaller balance homogenous loans, such as residential mortgage loans and consumer loans, are collectively evaluated for potential loss. When a loan or lease has been identified as being impaired, the amount of the impairment is measured by using discounted cash flows, except when, as a practical expedient, the current fair value of the collateral, reduced by costs to sell, is used. When the measurement of the impaired loan or lease is less than the recorded investment in the loan or lease (including accrued interest), impairment is recognized by creating or adjusting an allocation of the allowance for credit losses.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level sufficient to provide for probable credit losses based on evaluating known and inherent risks in the loan and lease portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan and lease portfolio. These factors include changes in the size and composition of the loan and lease portfolio, delinquency levels, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general, and unallocated components. For such loans that are classified as impaired, a specific allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover the risk of loss due to general economic uncertainties that could affect the loan portfolio and management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriateness of the allowance for credit losses is estimated based upon these factors and trends identified by management at the time consolidated financial statements are prepared.

When available information confirms that specific loans or portions thereof are uncollectible, identified amounts are charged against the allowance for credit losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

A provision for credit losses is charged against income and added to the allowance for credit losses based on regular assessments of the loan and lease portfolio. The allowance for credit losses is allocated to certain loan and lease categories based on the relative risk characteristics, asset classifications and actual loss experience of the loan and lease portfolio. While management has allocated the allowance for credit losses to various loan and lease portfolio segments, the allowance is general in nature and is available for the loan and lease portfolio in its entirety.

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range from 35 to 40 years for buildings and 3 to 15 years for furniture, fixtures, and equipment. These assets are reviewed for impairment under FASB ASC 360 Property, Plant, and Equipment when events indicate that the carrying amount may not be recoverable. Gains or losses on dispositions are reflected in earnings.

Foreclosed Real Estate

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

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of loans. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, balance outstanding, loan type, age and remaining term, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Mortgage Banking Activities

Mortgage loans originated and intended for sale in the secondary market are reported as loans held for sale and are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

Transfers of Financial Assets

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

Income Taxes

Deferred tax assets and liabilities result from differences between the consolidated financial statement carrying amounts and the tax basis of assets and liabilities, and are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. The deferred tax provision represents the difference between the net deferred tax asset/liability at the beginning and end of the year. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The determination of the realization of the deferred tax assets is highly subjective and dependent upon judgment concerning management's evaluation of both positive and negative evidence. The calculation of the Company's tax provision for federal income taxes is complex and requires the use of estimates and significant judgments in arriving at the amount of tax benefits to be recognized in the financial statements for a given tax position. It is possible that the tax benefits realized upon the ultimate resolution of a tax position may result in tax benefits that are significantly different from those estimated. The Company had no unrecognized tax benefits which would require an adjustment to the January 1, 2012 beginning balance of retained earnings and had no unrecognized tax benefits at December 31, 2013 or 2012.

Bank-owned Life Insurance (BOLI)

Bank-owned life insurance policies are recorded at their cash surrender value or the amount that can be realized upon surrender of the policy. Income from BOLI is recognized when it is earned.

Goodwill

Goodwill represents costs in excess of net assets acquired and is evaluated at least annually for impairment, in accordance with FASB ASC 350 *Intangibles - Goodwill and Other*. The Company tested goodwill for impairment as of June 2013 and 2012 noting no impairment of recorded goodwill. No events have occurred since June 2013 that would require re-evaluation.

Intangible Assets

Intangible assets include non-competition and licensing agreements, and customer contracts and lists. The non-competition and licensing agreements are being amortized by the straight-line method over five years, while the customer contracts and lists are being amortized by the straight-line method over three to four years. Amortization expense recognized on these intangibles was $21,759 and $18,259 in 2013 and 2012. Unamortized intangible assets totaled $32,132 and $53,890 at December 31, 2013 and 2012, respectively. In 2013 and 2012, no circumstances existed that would indicate these assets were potentially impaired. If such circumstances had existed, the assets would have been tested for impairment in accordance with FASB ASC 350, *Intangibles – Goodwill and Other*.

Estimated amortization for future years ending December 31 is as follows (dollars in thousands):

2014	16
2015	6
2016	6
Thereafter	4
	$32

Insurance Revenue

Insurance income consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance commission income is recognized as of the effective date of the insurance policy, net of adjustments, including policy cancellations. Such adjustments are recorded when the amount can be reasonably estimated, which is generally in the period in which they occur. Contingent performance-based commissions from insurance companies are recognized when received and no contingencies remain.

Derivative Financial Instruments

The Company enters into interest rate swaps to convert fixed-rate long-term loans to floating rate loans. Management individually evaluates and converts fixed-rate loans to floating-rate loans depending on the size, maturity, and planned amortization of each loan. The interest-rate swap instruments are recognized as derivatives on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of fair value of a recognized asset or liability ("fair value" hedge). Changes in the fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as fair value hedges to specific assets and liabilities on the balance sheet and statement of cash flows. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when; (1) it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried on the balance sheet at its fair value with changes in its fair value recognized in current period earnings, and the hedged asset or liability will no longer be adjusted for changes in fair value.

For the years ended December 31, 2013 and 2012, the fair value of the hedged investments of $943,000 and $1,597,000 respectively, are recorded in securities available for sale and the related swap liability is recorded in other liabilities at $965,000 and $1,640,000, respectively. In 2011, the Company pledged a $2 million certificate of deposit due from the counterparty of the hedging instruments as collateral for the swap liability. The notional amounts of the interest rate swaps were $8,175,000 and $8,780,000 at December 31, 2013 and 2012, respectively. The Company recognized a net gain of $20,000 and $2,000, respectively for 2013 and 2012 (reported as other expense in the statement of income), which represented the ineffective portion of all fair value hedges. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

Fair Value

The Company measures or monitors many of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Examples of these include derivative instruments and available for sale securities. Additionally, fair value is used on a non-recurring basis to evaluate assets or liabilities for impairment or for disclosure purposes. Examples of these non-recurring uses of fair value include certain loans held for sale accounted for on a lower of cost or market basis, impaired loans, mortgage servicing rights, goodwill and long-lived assets.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value estimates are based on quoted market prices, if available. If quoted market prices are not available, fair value estimates are based on quoted market prices of similar assets or liabilities or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk and other assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. Fair value amounts also do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

In support of these representations, FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

> Level 1 inputs are observable inputs, based upon the quoted prices for identical instruments in active markets that are accessible as of the measurement date, and are to be used whenever available.
>
> Level 2 inputs are other types of observable inputs, such as quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are inactive; or other inputs that are observable or can be derived from or supported by observable market data. Level 2 inputs are to be used whenever Level 1 inputs are not available.
>
> Level 3 inputs are significantly unobservable and are supported by little or no market activity. These Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation. Level 3 inputs are to only be used when Level 1 and Level 2 inputs are unavailable.

When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact, and considers assumptions that market participants would use when pricing the asset or liability. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets or liabilities are not traded in active markets, the Company looks to market observable data for similar assets and liabilities.

Recent Accounting Pronouncements

Accounting Standards Update No. 2011-11 "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). ASU 2011-11 was issued in December 2011 and was intended to enhance current disclosure requirement on offsetting financial assets and liabilities. The requirements of ASU 2011-11 enable users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards ("IFRS"), which are subject to different offsetting models. The requirements affect all entities that have financial instruments that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Accounting Standards Update No. 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*" ("ASU 2013-01") was issued in January 2013 to address implementation issues about the scope of ASU 2011-11. Both ASU 2011-11 and ASU 2013-01 were effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures were effective retrospectively for all comparative periods presented. The adoption of ASU 2011-11 and ASU 2013-01 did not have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2011-11"). ASU 2013-02 was issued in February 2013 and does not amend any existing requirements for reporting net income or other comprehensive income in the financial statements. ASU No. 2013-02 requires an entity to disaggregate the total change of each component of other comprehensive income (e.g., unrealized gains or losses on available-for-sale investment securities) and separately present reclassification adjustments and current period other comprehensive income. The provisions of ASU No. 2013-02 also require that entities present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source (e.g., unrealized gains or losses on available-for-sale investment securities). The Company adopted the provisions of ASU No. 2013-02 effective January 1, 2012. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2014-01 "Accounting for Investments in Qualified Affordable Housing Projects" ("ASU 2014-01"). ASU 2014-01 provides an election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. ASU 2014-01 is effective for fiscal years beginning after December 15, 2014, and is not expected to have a material impact on the Company's consolidated financial statements.

Accounting Standards Update No. 2014-04 "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure" ("ASU 2014-04"). ASU 2014-04 clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property serving as collateral for a consumer mortgage loan such that the loan receivable should no longer be recognized, and instead, the real estate property should be recognized. ASU 2014-04 is effective for annual periods beginning after December 15, 2014, and is not expected to have a material impact on the Company's consolidated financial statements.

Note 2 - Restricted Assets

Federal Reserve Board regulations require that the Company maintain certain minimum reserve balances on hand or on deposit with the Federal Reserve Bank, based on a percentage of deposits. The required minimum reserve balances at December 31, 2013 and 2012 were $1,144,000 and $1,047,000, respectively. Due to sufficient balances maintained on premises, no balances were required to be on deposit with the Federal Reserve Bank for the years ended December 31, 2013 and 2012.

Note 3 - Securities

Securities have been classified according to management's intent. The amortized cost of securities and their approximate fair value are as follows (dollars in thousands):

Securities Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2013				
Money market funds	$21	$--	$--	$21
State and municipal securities	131,539	6,462	(1,514)	136,487
U.S. Government agencies	4,294	86	(4)	4,376
Collateralized mortgage obligations	236,635	4,354	(4,034)	236,955
Mortgaged-backed securities	89,919	1,458	(1,642)	89,735
Total	$462,408	$12,360	$(7,194)	$467,574
December 31, 2012				
Money market funds	$21	$--	$--	$21
State and municipal securities	116,411	11,317	(25)	127,703
U.S. Government agencies	1,097	99	--	1,196
Collateralized mortgage obligations	290,678	6,004	(855)	295,827
Mortgaged-backed securities	61,192	1,027	(645)	61,574
Total	$469,399	$18,447	$(1,525)	$486,321
Securities Held to Maturity				
December 31, 2013				
State and municipal securities	$534	$7	$--	$541
Mortgaged-backed securities	1,058	--	(62)	996
Total	$1,592	$7	$(62)	$1,537
December 31, 2012				
State and municipal securities	$1,220	$17	$--	$1,237

On a regular basis, the Company evaluates these securities for other-than-temporary impairment ("OTTI").

The following table presents the OTTI losses for the years ended December 31, 2013 and 2012 (dollars in thousands):

	2013		2012	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Total other-than-temporary impairment	$--	$--	$20	$--
Portion of other-than-temporary impairment recognized in other comprehensive income (1)	--	--	--	--
Net impairment losses recognized in earnings (2)	**$--**	**$--**	**$20**	**$--**

(1) Represents OTTI losses related to all other factors.
(2) Represents OTTI losses related to credit losses.

During 2013 and 2012 OTTI was recorded in earnings of $0 and $20,000 respectively. The evaluation for other-than-temporary impairment was based on the following factors: (1) the length of time and the extent to which the market value has been less than cost; (2) the financial condition and near-term prospect of the issuer; (3) the intent and ability of the Company to retain its investment in a security for a period of time sufficient to allow for any anticipated recovery in market value; (4) whether it is more likely than not that the Company will be required to sell the securities before recovery; and (5) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads.

The following shows the unrealized gross losses and fair value of securities in the available for sale portfolio at December 31, 2013 and 2012, by length of time that individual securities in each category have been in a continuous loss position (dollars in thousands):

	Less Than 12 Months		More Than 12 Months		Total	
	Unrealized Gross Loss	Fair Value	Unrealized Gross Loss	Fair Value	Unrealized Gross Loss	Fair Value
December 31, 2013						
U.S. Government agency securities , including mortgage backed securities	$(1,577)	$53,177	$(69)	$6,053	$(1,646)	$59,230
State and municipal securities	(1,514)	31,387	--	--	(1,514)	31,387
Collateralized mortgage obligations	(2,341)	92,251	(1,693)	31,597	(4,034)	123,848
Total	**$(5,432)**	**$176,815**	**$(1,762)**	**$37,650**	**$(7,194)**	**$214,465**
December 31, 2012						
U.S. Government agency securities , including mortgage backed securities	$(644)	$39,950	$(1)	$47	$(645)	$39,997
State and municipal securities	(25)	2,347	--	--	(25)	2,347
Collateralized mortgage obligations	(699)	69,161	(156)	13,887	(855)	83,048
Total	**$(1,368)**	**$111,458**	**$(157)**	**$13,934**	**$(1,525)**	**$125,392**

The contractual maturities of securities held to maturity and available for sale at December 31, 2013, are shown below (dollars in thousands):

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$190	$193	$781	$800
Due from one year to five years	295	298	17,344	18,750
Due from five years to ten years	--	--	165,390	166,484
Due after ten years	49	49	188,974	191,805
Mortgage backed securities	1,058	997	89,919	89,735
Total	**$1,592**	**$1,537**	**$462,408**	**$467,574**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations, with or without call or prepayment penalties.

Securities carried at approximately $132.7 million and $160.7 million at December 31, 2013 and 2012, respectively, were pledged to secure public deposits, repurchase agreements, demand notes issued to U.S. Treasury, and other purposes required or permitted by law.

Sales of securities available for sale were as follows (dollars in thousands):

	2013	**2012**
Proceeds from sales	$20,857	$18,304
Gross realized gains included in earnings	346	351
Gross realized losses included in earnings	(301)	(115)

No held to maturity securities were sold in 2012 or 2013.

Note 4 - Loans and Leases

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

	2013	**2012**
Commercial and agricultural	$61,912	$60,865
Real estate:		
Residential 1-4 family	122,803	117,586
Commercial	254,212	204,756
Construction	67,539	61,211
Farmland	7,485	8,283
Municipal	74,087	76,914
Consumer	17,630	20,382
Dealer contracts	96,181	70,198
Leases	1,495	3,110
Credit card	6,717	6,596
Plus deferred loan costs, less deferred loan fees	1,744	1,642
Total loans and leases	$711,805	$631,543

In the ordinary course of business, the Company has transactions with directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with outside parties. Total loans outstanding at December 31, 2013 and 2012 to key officers and directors were

$14,855,000 and $13,784,000, respectively. During 2013 and 2012 loan advances totaled $11,563,000 and $11,176,000, respectively and principal payments totaled $9,867,000 and $10,172,000, respectively.

The following tables detail activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2013 and 2012 (dollars in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

		Real Estate					
2013	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total**
Beginning Balance	$1,344	$1,085	$4,927	$83	$1,766	$2,257	$11,462
Provision for loan losses	41	70	2,315	(9)	500	(1,372)	1,545
Charge-offs	(529)	(71)	(1,832)	--	(470)	--	(2,902)
Recoveries	323	183	486	--	136	--	1,128
Net Charge-offs	(206)	112	(1,346)	--	(334)	--	(1,774)
Ending balance	$1,179	$1,267	$5,896	$74	$1,932	$885	$11,233
Period-end amount allocated to:							
Loans individually evaluated for impairment	$6	$161	$183	$0	$8	$0	$358
Loans collectively evaluated for impairment	1,173	1,106	5,713	74	1,924	885	10,875
Ending balance	$1,179	$1,267	$5,896	$74	$1,932	$885	$11,233

		Real Estate					
2012	**Commercial and Agricultural**	**Residential 1-4 Family**	**Commercial, Construction, and Farmland**	**Municipal**	**Consumer and Other**	**Unallocated**	**Total**
Beginning balance	$1,552	$902	$5,101	$62	$1,858	$2,675	$12,150
Provision for loan losses	(13)	1,521	1,133	21	156	(418)	2,400
Charge-offs	(392)	(1,507)	(2,068)	--	(461)	--	(4,428)
Recoveries	197	169	761	--	213	--	1,340
Net Charge-offs	(195)	(1,338)	(1,307)	--	(248)	--	(3,088)
Ending balance	$1,344	$1,085	$4,927	$83	$1,766	$2,257	$11,462
Period-end amount allocated to:							
Loans individually evaluated for impairment	$217	$91	$179	$--	$--	$--	$487
Loans collectively evaluated for impairment	1,127	994	4,748	83	1,766	2,257	10,975
Ending balance	$1,344	$1,085	$4,927	$83	$1,766	$2,257	$11,462

The Company had a previously recorded $250,000 reserve for possible losses on unfunded commitments as of December 31, 2012. No additional reserve was recorded in 2013.

The Company's recorded investment in loans as of December 31, 2013 and 2012 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows (dollars in thousands):

	Commercial and Agricultural	Real Estate		Municipal	Consumer and Other	Total
		Residential 1-4 Family	Commercial, Construction, and Farmland			
2013						
Loans individually evaluated for impairment	$166	$1,858	$4,635	$--	$239	$6,898
Loans collectively evaluated for impairment	61,746	120,945	324,601	74,087	123,528	704,907
Ending balance	$61,912	$122,803	$329,236	$74,087	$123,767	$711,805
2012						
Loans individually evaluated for impairment	$842	$2,528	$4,865	$--	$243	$8,478
Loans collectively evaluated for impairment	60,023	115,058	269,385	76,914	101,685	623,065
Ending balance	$60,865	$117,586	$274,250	$76,914	$101,928	$631,543

Non Accrual Loans:

	2013	2012
Commercial and Agricultural	$295	$759
Residential 1-4 family real estate	507	1,307
Commercial, construction, and farmland real estate	777	955
Municipal	--	--
Consumer and other	409	277
Total	$1,988	$3,298

A summary of loans by age, segregated by class of loans, as of December 31, 2013 and 2012 was as follows (dollars in thousands):

2013	Loans 30-89 Days Past Due	Loans 90 or more Days Past Due	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans 90 or more Days Past Due
Commercial and Agricultural	$525	$--	$525	$61,387	$61,912	$--
Residential 1-4 family real estate	830	501	1,331	121,472	122,803	--
Commercial, construction, and farmland real estate	2,215	598	2,813	326,423	329,236	--
Municipal	--	--	--	74,087	74,087	--
Consumer and other	1,055	38	1,093	122,674	123,767	6
Total	$4,625	$1,137	$5,762	$706,043	$711,805	$6
2012						
Commercial and Agricultural	$438	$351	$789	$60,076	$60,865	$--
Residential 1-4 family real estate	1,677	711	2,388	115,198	117,586	--
Commercial, construction, and farmland real estate	344	718	1,062	273,188	274,250	--
Municipal	793	--	793	76,121	76,914	--
Consumer and other	1,022	87	1,109	100,819	101,928	16
Total	$4,274	$1,867	$6,141	$625,402	$631,543	$16

The following table provides information with respect to impaired loans as of the years ended December 31, 2013 and 2012(dollars in thousands):

2013	**Unpaid Contractual Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Total Recorded Investment**	**Related Allowance**	**Average Recorded Investment**
Commercial and agricultural	$188	$117	$49	$166	$6	$274
Residential 1-4 family real estate	1,904	645	1,213	1,858	161	2,007
Commercial, construction, and farmland real estate	6,128	673	3,962	4,635	183	5,528
Municipal	--	--	--	--	--	--
Consumer and other	239	1	238	239	8	246
Total	$8,459	$1,436	$5,462	$6,898	$358	$8,055
2012						
Commercial and agricultural	$893	$363	$478	$841	$216	$652
Residential 1-4 family real estate	3,820	1,114	1,415	2,529	91	2,126
Commercial, construction, and farmland real estate	5,174	310	4,555	4,865	179	4,485
Municipal	--	--	--	--	--	--
Consumer and other	243	228	15	243	1	140
Total	$10,130	$2,015	$6,463	$8,478	$487	$7,403

At December 31, 2013, there were no commitments to lend additional funds to borrowers whose loans have been impaired. Loans over 90 days past due still accruing interest totaled $6,000 and $16,000 at December 31, 2013 and 2012, respectively.

Interest income recognized on a cash basis on impaired loans was $421,000 and $575,000 in 2013 and 2012, respectively.

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

Pass – asset is considered of sufficient quality to preclude a Special Mention or an adverse rating. Pass assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

Special Mention – asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Substandard – asset is inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have well-defined weaknesses. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – asset has the weaknesses of those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Credit quality indicators for the Company's loan portfolio as of December 31, 2013 and 2012 grouped according to internally assigned risk ratings and payment activity (dollars in thousands):

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total
2013						
Pass	$60,527	$115,963	$311,756	$74,087	$121,170	$683,503
Watch	797	2,412	5,088	--	2,062	10,359
Substandard	588	4,428	12,392	--	404	17,812
Doubtful	--	--	--	--	131	131
Total	$61,912	$122,803	$329,236	$74,087	$123,767	$711,805
Restructured	$152	$1,108	$4,019	$--	$238	$5,517
Non-accrual	295	507	777	--	409	1,988
Nonperforming	447	1,615	4,796	--	647	7,505
Performing	61,465	121,188	324,440	74,087	123,120	704,300
Total	$61,912	$122,803	$329,236	$74,087	$123,767	$711,805

		Real Estate				
	Commercial and Agricultural	Residential 1-4 Family	Commercial, Construction, and Farmland	Municipal	Consumer and Other	Total
2012						
Pass	$57,645	$108,834	$256,603	$76,914	$98,675	$598,671
Watch	2,264	4,251	5,387	--	2,733	14,635
Substandard	953	4,501	12,260	--	498	18,212
Doubtful	3	--	--	--	22	25
Total	$60,865	$117,586	$274,250	$76,914	$101,928	$631,543
Restructured	$579	$1,286	$4,402	$--	$243	$6,510
Non-accrual	759	1,307	955	--	277	3,298
Nonperforming	1,338	2,593	5,357	--	520	9,808
Performing	59,527	114,993	268,893	76,914	101,408	621,735
Total	$60,865	$117,586	$274,250	$76,914	$101,928	$631,543

The following table presents by class troubled debt restructurings (TDRs) recorded during the years ended December 31, 2013 and 2012 (dollars in thousands, except number of contracts):

2013	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and Agricultural	$--	$--	$--
Residential 1-4 family real estate	--	--	--
Commercial, construction, and farmland real estate	2	262	271
Municipal	--	--	--
Consumer and other	1	21	21
Total*	3	$283	$292

*Amounts exclude specific loan loss reserves

2012	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial and Agricultural	4	$304	$304
Residential 1-4 family real estate	3	512	516
Commercial, construction, and farmland real estate	8	2,225	2,259
Municipal	--	--	--
Consumer and other	3	229	230
Total*	18	$3,270	$3,309

*Amounts exclude specific loan loss reserves

The majority of TDRs are determined to be impaired prior to being restructured. As such, they are individually evaluated for impairment, unless they are considered homogeneous loans in which case they are collectively evaluated for impairment. As of December 31, 2013, Cashmere Valley Bank had $2,000 in specific reserves on TDRs which were restructured during the year ended December 31, 2013. No loans were removed from TDR status during the year ended December 31, 2013. The primary type of concession granted in all TDRs during the year ended December 31, 2013 was maturity extensions. There were no TDRs that were restructured and subsequently defaulted during the years ended December 31, 2013 and 2012.

Note 5 - Premises and Equipment

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

	2013	2012
Land	$3,300	$3,300
Buildings and improvements	13,176	13,142
Furniture	3,978	4,048
Equipment	2,538	2,096
Assets in process	280	316
Total cost	23,272	22,902
Less accumulated depreciation	(11,670)	(10,728)
Total premises and equipment	$11,602	$12,174

Assets in process at December 31, 2013, consisted of amounts related to the purchase of property adjacent to a branch and computer software and furniture and fixtures. Installation of the software and the furniture and fixtures were completed in 2013. Substantially all costs related to the projects have been recorded.

Depreciation expense was $1,120,000 and $964,000 in 2013 and 2012, respectively.

Note 6 – Mortgage Servicing Rights

Mortgage servicing rights (MSR) are evaluated periodically for possible impairment based on the difference between the carrying amount and current fair value of the MSR by risk stratification. If a temporary impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value through a charge to income. A direct write-down is performed when the recoverability of a recorded valuation allowance is determined to be remote. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent reversals.

Mortgage loans serviced for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $396,147,000 and $420,190,000 at December 31, 2013 and 2012, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately $1,740,000 and $1,867,000 at December 31, 2013 and 2012, respectively. The weighted average amortization period of the Company's servicing rights was 6.8 years and 4.3 years in 2013 and 2012.

The following summarizes the activity in mortgage servicing rights for the years ended December 31 (dollars in thousands):

	2013	**2012**
Balance, beginning of year	$2,166	$2,235
Originations	311	447
Amortization	(498)	(509)
Adjustment to valuation allowance	7	(7)
Balance, end of year	$1,986	$2,166

The estimated fair value of the Company's mortgage servicing rights portfolio was $3,874,000 and $2,707,000 at December 31, 2013 and 2012, respectively. Fair value of mortgage servicing rights is based on market prices for comparable mortgage servicing contracts when available. In periods of market inactivity, as has been the case since 2009, fair value is determined using a discounted cash flow analysis, utilizing observable market data with unobservable adjustments. The analysis takes into consideration existing conditions in the secondary servicing markets, such as prices from recently executed servicing transactions and market discount rates. The adjustments made to observable data include adjustments for delinquency and loss rates, as well as prepayment speeds and assumptions.

Note 7 - Deposits

The composition of deposits is as follows (dollars in thousands):

	Deposits		Interest Expense	
	2013	**2012**	**2013**	**2012**
Demand deposits, non-interest-bearing	$139,284	$121,419	$--	$--
NOW accounts	192,546	191,073	200	324
Money market and savings accounts	500,610	451,687	1,432	1,669
Time certificates $100,000 and over	140,986	150,189	2,414	3,056
Other time certificates	164,471	182,517	3,270	4,213
Total	$ 1,137,897	$ 1,096,885	$7,316	$9,262

Certificates of deposit at December 31, 2013, are scheduled to mature as follows (dollars in thousands):

	Under $100,000	**Over $100,000**
0 to 90 days	$21,534	$15,683
91 to 365 days	63,896	46,537
1 year to 3 years	52,239	49,347
Over 3 years	26,802	29,419
Total	$164,471	$140,986

Total deposits at December 31, 2013 and 2012 by key officers and directors were $2,817,000 and $2,560,000, respectively.

Cashier check deposits of $3,400,000 and $3,100,000 are included in total deposits for 2013 and 2012, respectively.

Total demand deposit overdrafts that have been reclassified to loans were $220,000 and $141,000 at December 31, 2013 and 2012, respectively.

The Company is a State of Washington Public Depository. All such public depositaries are required to be members of Washington State's Public Deposit Protection Commission (PDPC). As such, when there is a loss of public funds at a member institution, those funds are in most instances insured to some extent by the federal government. To the degree a public deposit is not insured by the federal government, the PDPC will assess a claim first against the institution responsible for the loss and then against the pool of collateral held by other PDPC member institutions. Each institution is then responsible to pay its portion of the cost in proportion to the share of public funds held by that institution. The Company held $19,921,000 and $16,246,000 of public deposits as of December 31, 2013 and 2012, respectively.

Note 8 - Short-Term Borrowings

Securities sold under agreements to repurchase, line of credit advances from the Federal Home Loan Bank (FHLB) of Seattle and demand notes issued to U.S. Treasury represent short-term borrowings. Securities sold under agreements to repurchase are secured by specific investments with a book value of $19,072,000 at December 31, 2013.

The following is a summary of such short-term borrowings for the years ended December 31 (dollars in thousands):

	2013	2012
Average balance during the year	$8,734	$5,795
Average interest rate during the year	0.29%	0.36%
Maximum month-end balance during the year	$13,054	$7,326
Balance at December 31:		
Securities under agreements to repurchase	$9,339	$6,700
Weighted-average interest rate at year-end	0.29%	0.30%

Note 9 - Long-Term Borrowings

Long-term borrowings at December 31, 2013 and 2012 represent amounts due to the FHLB totaling $3,156,000 and $3,376,000, respectively, and bear interest rates ranging from 5.42% to 6.23%. All funds borrowed from the FHLB are secured by a blanket pledge of 15% of the Company's assets. The schedule of maturities for the long-term FHLB borrowings for future years ending December 31 is as follows (dollars in thousands):

2014	$235
2015	250
2016	267
2017	285
2018	304
Thereafter	1,815
Total	$3,156

Note 10 - Income Taxes

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

	2013	2012
Current	$3,251	$2,466
Deferred expense	441	776
State income taxes	65	53
Total income taxes	$3,757	$3,295

The following is a reconciliation of the statutory income tax rate to the effective income tax rate for the years ended December 31 (dollars in thousands):

	2013		2012	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$6,295	35.0%	$5,823	35.0%
Increase resulting from:				
State income tax	65	0.4%	53	0.3%
Decrease resulting from:				
Tax-exempt income	(2,297)	(12.8%)	(2,278)	(13.7%)
Other	(306)	(1.7%)	(303)	(1.8%)
Total income tax expense	$3,757	20.9%	$3,295	19.8%

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

	2013	2012
Deferred Tax Assets		
Allowance for credit losses	$3,932	$4,011
Deferred compensation	525	416
Other	434	813
Total deferred tax assets	4,891	5,240
Deferred Tax Liabilities		
Accumulated depreciation	1,830	1,665
Deferred income	912	930
Unrealized gain on securities available for sale	1,495	5,414
Mortgage servicing rights	687	743
FHLB dividends	403	403
Total deferred tax liabilities	5,327	9,155
Net deferred tax liabilities	$(436)	$(3,915)

Note 11 - Commitments and Contingencies

Credit

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

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

A summary of the Company's commitments at December 31 is as follows (dollars in thousands):

	2013	2012
Commitments to extend credit:		
Credit card lines	$34,444	$29,071
Commercial real estate, construction and development	21,602	12,898
Other	89,413	99,715
Total commitments to extend credit	$145,459	$141,684
Standby letters of credit	$360	$424

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's experience has been that between approximately 10-25% of loan commitments are drawn upon by customers. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Associated with the unfunded commitment, the Company has established a loss reserve in the amount of $250,000 as of December 31, 2013.

Standby Letters of Credit

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When the Company deems collateral necessary to secure the commitment, the collateral is required and varies as specified above.

Legal

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

Borrowing Facilities

The Company has agreements with commercial banks for lines of credit totaling $44,000,000, none of which was used at December 31, 2013, and a credit line with the Federal Home Loan Bank of Seattle totaling 15% of assets which approximates $192,492,000 of which $3,156,000 was utilized at December 31, 2013. The Company entered into a Blanket Pledge Agreement with the Federal Home Loan Bank to secure this credit line (see Note 8).

Investments

The Company entered into a subscription agreement to purchase four units at $500,000 per unit for an interest in Homestead Equity Fund A-Washington Limited Partnership; an Oregon limited partnership (HEFA-WA) for which funding has been completed. HEFA-WA has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments which are located in Washington State. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323 *Investments – Equity Method and Joint Ventures*, and a pass-through loss of $187,000 and $109,000 was recorded during 2013 and 2012, respectively. At December 31, 2013 and 2012, the Company's partnership equity was $432,000 and $619,000, respectively, and is included in other assets.

The Company entered into a subscription agreement to purchase one unit at $1,000,000 for an interest in Homestead Western Communities Fund (HWC). HWC has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments which are located in the state of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures,"* and a pass-through loss of $64,000 and $76,000 was recorded during 2013 and 2012, respectively. At December 31, 2013 and 2012, the Company's partnership equity was $273,000 and $337,000 respectively.

The Company entered into a subscription agreement to purchase five units at $1,000,000 per unit for an interest in Homestead Equity Fund X (HEF-X). HEF-X has been formed to invest in partnerships or limited liability companies, which will acquire, construct, rehabilitate, operate, and dispose of low-income housing developments primarily located in the state of Oregon, Washington, Idaho, and California. The housing developments will be eligible for the federal low-income housing tax credit and, in some cases, the historic rehabilitation tax credit available under the Internal Revenue Code of 1986, as amended. The Company accounts for the investment under the equity method in accordance with ASC 323, "*Investments – Equity Method and Joint Ventures."* At December 31, 2013, the Company's partnership equity was $5,000,000.

The Company's remaining contractual contribution for Homestead Equity Fund X (HEF-X) of $1,224,000 is expected to be paid as follows (dollars in thousands):

2014	862
2015	148
2016	20
2017	20
Thereafter	174
	$1,224

Employment Agreements

The Company has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events. These agreements are discussed in Note 13.

Note 12 - Significant Concentrations of Credit Risk

Most of the Company's business activity is with customers located in the state of Washington. Investments in state and municipal securities involve government entities primarily within the state. At December 31, 2013, 7.75% of total loans outstanding were for construction related projects. Of those, 4.19% of total loans outstanding were residential developed lot loans to consumers.

Loans are generally limited, by state banking regulations, to 20% of the Company's capital to any one borrower, excluding accumulated other comprehensive income. Standby letters of credit were granted primarily to commercial borrowers. The Company, as a matter of practice, generally does not extend credit to any single borrower or group of related borrowers in excess of $13,900,000. At December 31, 2013, no single borrower or group of related borrowers exceeded $13,900,000.

Note 13 - Employee Compensation Plans

Stock Option Plan

The Company has a stock option plan under which certain key employees have been granted options to purchase shares of common stock. Under the plan, the Company may grant options of its common stock to certain key employees, of which 128,620 were available for grant at December 31, 2013. Options have an exercise price equal to the fair market value of the stock as of the date of grant. All options granted since 1994 are 40% vested on the date of grant, with 20% vesting on each of the three subsequent anniversaries of the grant date and have a maximum contractual term of ten years. The Black-Scholes model requires the use of assumptions noted in the following table. The dividend yield is based on the Company's actual and expected dividends paid to shareholders. The Company uses historical data to estimate the option exercise and forfeitures to estimate the expected life, which represents the period of time the options are expected to be outstanding. Expected stock price volatility is based on the Company's historical stock price, adjusted for dividends. The risk-free interest rate is based on the U.S. Treasury yield curve rate in effect at grant date with average equivalent term.

The fair value of each option grant is estimated on the date of grant based on the Black-Scholes option pricing model and using the following weighted average assumptions:

	2013	2012
Dividend yield	--	3.06%
Expected life	--	7 years
Risk-free interest rate	--	1.33%
Expected volatility	--	23.57%

The weighted average fair value of options granted at grant date during 2012 was $3.87. There were no grants issued in 2013.

The Black-Scholes models used by the Company to calculate option values, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ from the Company's stock option awards. These models require highly subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

A summary of the status of the Company's stock option plan as of December 31, and changes during the years ending on those dates, is presented below:

2013	Shares	Weighted Average Exercise Price	Weighted Average Fair Value At Grant	Intrinsic Value (Dollars in Thousands)
Outstanding at beginning of year	96,186	$26.64	$4.26	$70
Granted	--	--	--	--
Exercised	(1,550)	19.83	2.80	15
Forfeited	(2,600)	23.69	3.70	15
Expired	--	--	--	--
Outstanding at end of year	92,036	$26.83	$4.30	$246
Vested and expected to vest	87,434	$26.83	$4.30	$233
Options exercisable at year-end	84,136	$27.21	$4.71	$193

The following information summarizes information about stock options outstanding and exercisable at December 31, 2013:

Options Outstanding		Options Exercisable				
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$ 15.00 – 17.49	4,200	7.05	$16.00	3,300	7.05	$16.00
$ 17.50 – 26.49	32,726	5.28	$22.62	27,726	4.78	$22.65
$ 26.50 – 31.49	25,410	3.58	$27.48	23,410	3.13	$27.54
$ 31.50 – 33.50	29,700	3.53	$32.45	29,700	3.53	$32.45
	92,036	4.32	$26.83	84,136	3.97	$27.21

The total intrinsic value of the options exercised during 2013 and 2012 was $14,555 and $42,471, respectively. Weighted average remaining contractual life of options vested and expected to vest is 4.32 years. Total proceeds from options exercised in 2013 and 2012 were $30,738 and $112,550, respectively. There were no disqualifying dispositions in 2013 or 2012.

At December 31, 2013, unrecognized compensation expense related to unvested options totaled $25,418 and is expected to be recognized over a weighted average period of thirteen months. During 2013, $0 options vested and during 2012, 9,356 options vested which had a weighted average fair value at grant date of $3.09.

Phantom Stock Program

Until July 24, 2012, the Company had a phantom stock program for certain key employees which provides future cash compensation based on the performance of the Company's stock. Compensation is based on the change in the market value of the stock at the date of grant and the market value of the stock on the fifth anniversary of the grant. Compensation is tied to a notional number of phantom shares awarded to the employee, which was used to calculate the value of the compensation. The compensation amount was only paid to employees who remained employees of the Company through the fifth anniversary of the award. Dividends were paid as cash compensation to the employees when cash dividends were declared to common shareholders. Dividends under the program were based on the notional number of phantom shares granted to the employee and the per share dividend declared to common shareholders. The Company awarded 12,000 phantom shares under the plan in 2007 with an intrinsic value of $25,000 at December 31, 2007. No phantom shares were awarded under the plan in 2012. On July 24, 2012 the phantom stock program expired. As of December 31, 2012 no shares were outstanding.

Profit-Sharing Plans

The Company has a 401(k) employee benefit plan for those employees who meet eligibility requirements set forth in the plan. Eligible employees may contribute up to 100% of their compensation, subject to certain IRS limits. The Company provides a discretionary match of 100% of the first 4% contributed by participants. Additionally, matching contributions may be made by the Company pursuant to a prescribed formula based on the Company's achievement of certain performance goals. The Company contributed $334,000 and $319,000 in 2013 and 2012, respectively.

Incentive compensation is awarded to certain employees based on the financial performance of the Company. In 2013 and 2012 cash bonuses were awarded pursuant to a formula targeted on the Company achieving certain performance goals. Amounts awarded under the plan for 2013 and 2012 were $371,336 and $475,000, respectively.

Deferred Compensation Plan

The Company entered into deferred compensation arrangements with key employees. The agreements provide for employee and Company matching contributions equal to the amount that would have been contributed under the Company's 401(k) plan, had the employees not been otherwise excluded from the plan. At December 31, 2013 and 2012, the Company had a recorded liability in the amount of $1,150,000 and $905,000, respectively. The Company contributed $59,000 and $51,000 in 2013 and 2012, respectively, of which $59,000 and $48,000, respectively, represented plan earnings in accordance with the deferred compensation agreements.

The Company entered into employment contracts with certain key employees, which provide for deferred compensation subject to future events. At December 31, 2013 and 2012, $351,000 and $282,000 had been accrued for these agreements, respectively. Compensation expense of $50,000 was recorded in salaries and employee benefits expense related to these contracts in both 2013 and 2012.

Insurance

The Company provides certain health care, disability, and life insurance benefits for current employees. The cost of health care benefits for employees is recognized as expense when paid. Life insurance benefits for employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The Company recognizes the cost of providing such benefits by expensing the monthly insurance premiums. For 2013 and 2012, the cost of providing health care, disability, and life insurance benefits was $1,136,000 and $1,133,000, respectively.

Note 14 - Regulatory Matters

The Company and the Holding Company (liquidated June 28, 2013) are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Holding Company to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

As of December 31, 2013, the most recent notification from the Company's regulator categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and the Holding Company's actual capital amounts and ratios are also presented in the following table (dollars in thousands). Management believes as of December 31, 2013, that the Company meets all capital requirements to which it is subject.

	Actual		Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013						
Tier 1 capital (to average assets)						
Company	$116,288	9.22%	$50,448	4.00%	$63,060	5.00%
Tier 1 capital (to risk-weighted assets)						
Company	116,288	15.46	30,091	4.00	45,137	6.00
Total capital (to risk-weighted assets)						
Company	125,717	16.71	60,182	8.00	75,228	10.00
December 31, 2012						
Tier 1 capital (to average assets)						
Holding Company	$104,825	8.83%	$47,498	4.00%	N/A	N/A
Company	104,000	8.76	47,498	4.00	$59,373	5.00%
Tier 1 capital (to risk-weighted assets)						
Holding Company	104,825	15.19	27,608	4.00	N/A	N/A
Company	104,000	15.07	27,606	4.00	41,409	6.00
Total capital (to risk-weighted assets)						
Holding Company	113,490	16.44	55,216	8.00	N/A	N/A
Company	112,665	16.32	55,213	8.00	69,016	10.00

Restrictions on Retained Earnings

The Company is restricted from paying dividends in an amount that would decrease regulatory capital below the minimum amounts shown above.

Note 15 - Fair Value

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities on and off the balanced sheet, for which it is practicable to estimate fair value. These fair value estimates are made at December 31, 2013 based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price an asset could be sold at or the price a liability could be settled for. However, given there is no active market or observable market transactions for many of the Company's financial instruments, the Company has made estimates of many of these fair values which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

Fair Value of Financial Instruments

The carrying amounts and estimated fair value of the Company's financial instruments as of December 31, 2013 and December 31, 2012 are as follows (dollars in thousands):

		2013		2012	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash and cash equivalents	1	$64,645	$64,645	$83,262	$83,262
Securities available for sale	2 & 3	467,574	467,574	486,321	486,321
Securities held to maturity	2	1,592	1,537	1,220	1,237
FHLB and PCBB stock	2	3,211	3,211	3,322	3,322
Loans Held for Sale	2	159	172	315	328
Loans and leases, net	3	700,572	713,352	620,081	627,415
Mortgage servicing rights	3	1,986	3,874	2,166	2,707
Accrued interest receivable	2	4,638	4,638	4,628	4,628
Financial Liabilities					
Deposits	3	$1,137,897	$1,057,369	$1,096,885	$1,067,685
Borrowings	3	12,495	13,076	10,076	10,963
Interest Rate Swaps	3	965	965	1,640	1,640
Accrued interest payable	2	701	701	906	906

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

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

Cash and Due from Banks, Fed Funds Sold and Interest Bearing Deposits at Other Financial Institutions

Cash and Due from Banks, Fed Funds Sold, and Interest Bearing Deposits at Other Financial Institutions are valued at their carrying amounts, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

Securities Available for Sale and Held to Maturity

The fair value of securities, other than those categorized as level 3 described below, are based on quoted market prices of similar instruments and dealer quotes or determined utilizing a present-value income model that utilized observable market-based inputs. The fair values were obtained from an independent pricing service and internally validated. Securities totaling $467,365,000 classified as available for sale are reported at fair value utilizing Level 2 inputs, as described in Footnote 1. 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.

The available for sale portfolio also includes two collateralized mortgage obligations totaling $209,000 that are not backed by a government or other agency for which an active market did not exist for those securities at December 31, 2013. These securities which are collateralized by fixed rate mortgages and are structured to provide credit support to senior tranches, are carefully analyzed and monitored by management. Because an active market for these securities did not exist as of December 31, 2013, less reliance could be placed on easily observable market data. The fair values of these two securities were obtained from the same independent pricing service utilized for other available-for-sale securities and internally validated. The securities were valued utilizing a present-value income model that included observable market-based inputs, such as trades, bid price or spread, quotes, benchmark curves and prepay speeds as well as inputs that considered the nature and timing of the cash flows and the relative risk of receiving the anticipated cash flows was employed and risks, including nonperformance risk (that is, default risk and collateral value risk) and liquidity risk (that is, the compensation that a market participant receives for buying an asset that is difficult to sell under current market conditions). As such, significant adjustments to the market-based inputs were required and, thus, the fair values for these two securities were categorized as Level 3.

Federal Home Loan Bank and Pacific Coast Banker's Bancshares Stock

The carrying value of Federal Home Loan Bank and Pacific Coast Banker's Bancshares stock approximates fair value because the shares can only be redeemed by the FHLB and PCBB, respectively, at par value.

Loans Held for Sale

The fair value of loans held for sale is based on observable current market prices. If quoted market prices are not available, fair value is based on quoted market prices of similar instruments.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is estimated using a discounted cash flow model to arrive at the net present value of expected earnings from the servicing of the loans. Model inputs include prepayment speeds, market interest rates, contractual interest rates on the loans being serviced, the amount of other fee income generated, and other factors. The fair value of mortgage servicing rights is impacted by any changes in these inputs.

Loans and Leases

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

Deposit Liabilities

The fair value of deposits with no stated maturity date is included at the amount payable on demand. The fair value of fixed rate certificates of deposit is estimated using a discounted cash flow calculated based on interest rates currently being offered on similar certificates.

Short-Term Borrowings

The carrying amounts of demand notes issued to U.S. Treasury and repurchase agreements approximate their fair value due to the relatively short period to maturity of the instruments.

Long-Term Borrowings

The fair value of the Company's long-term borrowings is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate their fair value due to the short settlement period of the assets and liabilities.

Interest Rate Swap Derivatives

The fair values of interest rate swap derivatives are estimated by an independent third party using a discounted cash flow method based on current incremental rates for similar types of arrangements. For purposes of potential valuation adjustments to its derivative positions, the company evaluates the credit risk of its counterparties as well as that of the company. Accordingly, the company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures, and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by considering the amounts of collateral securing the position. The Company reviews its counterparty exposure on a regular basis, and when necessary, appropriate business actions would be taken to adjust the exposures. The Company also uses this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Off-Balance Sheet Instruments

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about the Company's assets measured at fair value on a recurring basis as of December 31, 2013 and 2012, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (dollars in thousands):

		Fair Measurements Using		
December 31, 2013	**Assets/(Liabilities) Total**	**Level 1**	**Level 2**	**Level 3**
State and municipal securities	$136,487	$--	$136,487	$--
U.S Government agencies	4,376	--	4,376	--
Collateralized mortgage obligations	236,955	--	236,746	209
Mortgage-backed securities	89,735	--	89,735	--
Money market mutual funds	21	--	21	--
Securities Available for Sale	$467,574	$--	$467,365	$209
Interest Rate Swap Derivatives	(965)	--	(965)	--
December 31, 2012				
State and municipal securities	$127,704	$--	$127,704	$--
U.S Government agencies	1,197	--	1,197	--
Collateralized mortgage obligations	295,826	--	295,775	51
Mortgage-backed securities	61,573	--	61,573	--
Money market mutual funds	21	--	21	--
Securities Available for Sale	$486,321	$--	$486,270	$51
Interest Rate Swap Derivatives	(1,640)	--	(1,640)	--

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 are summarized as follows (dollars in thousands):

	2013 Available for Sale Total	**2012 Available for Sale Total**
January 1 Beginning Balance	$51	$57
Transfers in and or out of Level 3	--	--
Unrealized gains or losses included in other comprehensive income	158	(6)
Realized gains or losses included in earnings	--	--
Principal Payments	--	--
December 31 Ending Balance	$209	$51

Qualitative factors in Level 3:

The following table presents additional qualitative information about assets and liabilities measured at fair value on a recurring basis and for which the company has utilized Level 3 inputs to determine fair value, as of December 31, 2013:

	Valuation Technique	Unobservable Input
Collateralized mortgage obligation securities	Discounted cash flows and consensus pricing	Amount and timing of cash flows based upon current discount rates; prepayment, default and loss severity assumptions; assumptions regarding market trends or other relevant factors

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The table below presents a portion of the Company's loans measured at fair value on a nonrecurring basis as of December 31, 2013, because they are impaired collateral-dependent loans and the Company's other real estate owned ("OREO"), aggregated by the level in the fair value hierarchy within which those measurements fall (dollars in thousands):

		Fair Value Measurement Using			
December 31, 2013	**Total**	**Level 1**	**Level 2**	**Level 3**	**Losses During The Year**
Impaired Loans	$537	$--	$--	$537	$(1,502)
Other Real Estate Owned	$99	$--	$--	$99	$--
December 31, 2012					
Impaired Loans	$1,272	$--	$--	$1,272	$(1,587)
Other Real Estate Owned	$749	$--	$--	$749	$(61)

Certain impaired loans are reported at the fair value of the underlying collateral less costs to sell if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data and Level 3 inputs based on customized discounting criteria. During 2013, certain impaired loans were remeasured and reported at fair value through either a specific valuation allowance or charge-off. The specific valuation allowance was included as a part of the allowance for credit losses and was based upon expected future cash flows, including the fair value of the underlying collateral if the loans were determined to be collateral dependent, in accordance with FASB ASC 310 *Receivables*. For additional information on how the Company determines the allowance for credit losses, see Note 1 – *Summary of Significant Accounting Policies*. Impaired loans with a carrying value of $14,000 were reduced by either specific valuation allowance allocations totaling $358,000 or charge-offs totaling $1,502,000. The carrying values include estimated costs to sell. The fair value of collateral for these impaired loans utilizing Level 3 valuation inputs under FASB ASC 820, "*Fair Value Measurements and Disclosures*" do not include estimated costs to sell and was $537,000 at December 31, 2013.

Qualitative factors in Level 3:

The following table presents additional qualitative information about assets and liabilities measured at fair value on a non-recurring basis and for which the company has utilized Level 3 inputs to determine fair value, as of December 31, 2013:

	Valuation Technique	**Unobservable Input**
Loans	Income, market, comparable sales, discounted cash flows	External appraised values; management assumptions regarding market trends or other relevant factors; selling and commission costs ranging from 7% to 11%; amount and timing of cash flows based upon current discount rates
OREO	Income, market and comparable sales	External appraised values; probability weighting of broker price opinions; management assumptions regarding market trends or other relevant factors; selling and commission costs ranging from 7% to 11%

Note 16 - Comprehensive Income

Net unrealized gains and losses include, net of tax, $7,277,000 unrealized losses and $600,000 of unrealized gain arising during 2013 and 2012, respectively (dollars in thousands):

	Before Tax Amount	**Tax Benefit (Expense)**	**Net of Tax Amount**
Year Ended December 31, 2013			
Unrealized holding losses arising during the year	$(11,152)	$3,935	$(7,217)
Reclassification adjustment for gains realized in net income	(45)	(15)	(60)
Net unrealized losses	$(11,197)	$3,920	$(7,277)
Year Ended December 31, 2012			
Unrealized holding gains arising during the year	$1,158	$(240)	$918
Reclassification adjustment for gains realized in net income	(236)	(82)	(318)
Net unrealized gains	$922	$(322)	$600

Note 17 – Shareholders Equity and Earnings per Common Share

Earnings per Common Share

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share (dollars in thousands, except share and per share amounts):

	2013	2012
Distributed earnings allocated to common stock	$3,073	$3,069
Undistributed earnings allocated to common stock	11,155	10,275
Net earnings allocated to common stock	$14,228	$13,344
Weighted-average shares outstanding - Basic	4,043,300	4,038,893
Dilutive effect of securities outstanding	11,551	8,104
Weighted-average shares outstanding - Diluted	4,054,851	4,046,997
Earnings Per Share – Basic	$3.52	$3.30
Earnings Per Share – Diluted	$3.51	$3.30
“Out of the money” stock options	29,700	41,552

Stock Repurchase Plans

From time to time, the Company’s board of directors has authorized stock repurchase plans. In general, stock repurchase plans allow the Company to proactively manage its capital position and return excess capital to shareholders. Shares purchased under such plans also provide the Company with shares of common stock necessary to satisfy obligations related to stock compensation awards. Under the most recent plan, there were not any shares repurchased in 2013 or 2012.

Note 18 – Operating Segments

The Company has five operating segments:

The Retail Banking segment provides traditional banking loan and deposit services to individuals and businesses through ten locations in Chelan, Douglas, Kittitas, and Yakima Counties of North Central Washington.

The Mortgage Banking segment originates, sells, and services residential mortgages.

The Treasury and Community Banking segment offers loan and deposit products to Northwest municipalities. The segment also purchases whole loans and loan participations and manages treasury operations.

The Dealer and Equipment Finance segment provides lease and loan products to commercial businesses. The segment also provides consumer retail financing for automobiles on an indirect basis through various new and used dealerships.

Additionally, in the following tables, the other and eliminations column represents the parent company and corporate administrative expenses, and intercompany eliminations of revenue and expenses.

The segments’ primary source of revenue is from net interest income, which is primarily the difference between interest earning on loans, net of funds transfer pricing (“FTP”), and interest paid on deposits, net of FTP. Accordingly, segment results are reported using net interest income, net of FTP. FTP is an internal measurement framework designed to assess the financial impact of a financial institution's sources and uses of funds. It is the mechanism by which an earnings credit is given for deposits raised, and an earnings charge is made for funded loans. FTP is calculated by applying a transfer rate to pooled, or aggregated, loan and deposit volumes.

Operating segment results are based on internal management reporting process. Unlike financial reporting, which benefits from the comprehensive structure provided by GAAP, an internal management reporting process is highly subjective, as there is no comprehensive, authoritative guidance for management reporting. The Company's management reporting process measures the performance of the operating segments based on its internal operating structure, which is subject to change from time to time, and is not necessarily comparable with similar information for other financial services companies.

The following table presents certain financial information regarding the Company's segments and provides a reconciliation to the Company's consolidated totals as of and for the years ended December 31, 2013 and 2012 (dollars in thousands):

	As of and for the Year Ended December 31, 2013					
	Retail Banking	Mortgage Banking	Treasury and Community Banking	Dealer and Equipment Finance	Other and Eliminations	Total
Net Interest Income	$23,801	$3,271	$415	$4,644	$(62)	$32,069
Provision for Loan Losses	2,015	52	(371)	294	(445)	1,545
Non-interest Income	6,731	3,147	479	426	(640)	10,143
Non-interest Expense	14,311	1,474	719	1,223	4,955	22,682
Income before taxes	$14,206	$4,892	$546	$3,553	$(5,212)	$17,985
Total Assets	$422,035	$63,947	$596,508	$126,574	$74,214	$1,283,278

	As of and for the Year Ended December 31, 2012					
	Retail Banking	Mortgage Banking	Treasury and Community Banking	Dealer and Equipment Finance	Other and Eliminations	Total
Net Interest Income	$21,679	$3,319	$1,227	$4,769	$(106)	$30,888
Provision for Loan Losses	2,158	1,434	(479)	120	(833)	2,400
Non-interest Income	5,222	3,497	977	351	201	10,248
Non-interest Expense	12,040	1,469	499	1,075	7,014	22,097
Income before taxes	$12,703	$3,913	$2,184	$3,925	$(6,086)	$16,639
Total Assets	$384,224	$62,211	$596,153	$94,472	$101,627	$1,238,687

Note 19 – Subsequent Events

The Company performed an evaluation of subsequent events through March 26, 2014, the date these financial statements were available to be issued.

On January 21, 2014, the Company's Board of Directors approved a dividend of $0.39 per share, payable on February 10, 2014, to shareholders of record as of January 31, 2014.

Directors and Officers

Board of Directors
Brian Nelson, Chairman
Lyman Boyd, Vice Chairman
Judy Conner, CPA
Bill Dronen
Ken Martin
John Doyle
Keith Wiggins

Administrative Officers
Kenneth J Martin, President & CEO
Jenny Cravens, CPA, Vice President & CFO
Connie Fritz, Vice President & CRBO
Greg Oakes, Vice President & CLO
Sue Ozburn, Vice President & CIO

Mitchell, Reed & Schmitten Insurance Board of Directors
Ken Martin, Chairman
Lori Reed
Lyman Boyd
Jim Gibbons
Laura Mounter
Brent Schmitten

Accounting
Aaron Strong, CPA, Assistant Controller
Cheryl Ward, Supervisor

Internal Audit
Kortney Todd, CPA, Director
Ed Schatz, CPA, Internal Auditor
Dennis Combs, Audit Liaison

Credit Administration
Steve Vradenburg, AVP & Assistant Credit Administrator
Ann Rankin, Credit Operations Supervisor

Compliance
Art Hansen, Vice President

Retail Operations and Personnel
Annie Horey, AVP & Human Resource Director

Financial Services Group
Amy Moubray, Card Service Plan Manager

Contract Purchasing and Leasing
Chuck Moser, AVP & Loan Officer
Chris Ewer, Equipment Leasing Manager & Loan Officer

Electronic Banking
Sharon Low, AVP & Manager

Municipal Banking
Ron Olsen, Vice President & Manager
James Tinker, AVP & Loan Officer

Statewide Banking
Brad Allen, Vice President

Cashmere Branch
Alex Cruz, Manager
Jana Hambly, Retail Operations Officer

Maple Street Branch
Steve Lee, Vice President & Manager
Christy Tomlinson, AVP & Retail Operations Officer
Bruce Law, AVP & Loan Officer
Mike Kintner, Vice President & Commercial Lender

Leavenworth Branch
Rich Harris, Vice President & Manager
Shawna Alexander, AVP & Retail Operations Officer
Darrin Rylaarsdam, Vice President & Loan Officer
Gary Waunch, Loan Officer

East Wenatchee Branch
Michael Machado, AVP & Manager
Ann Harris, AVP & Retail Operations Officer

Chelan Street Branch
Jenny Pulver, AVP & Manager

Easy Street Branch
Claudia De Robles, AVP & Manager
Elizabeth Mejia, Retail Operations Officer
Stacy Suydam, Loan Officer

Ellensburg Branch
Pam Wilson, Vice President & Manager
Michael Moore, Retail Operations Officer

Cle Elum Branch
Dale Loveland, Vice President & Manager
Caren Reed, Retail Operations Officer

Lake Chelan Branch
Russ Jones, Vice President & Manager
Jan Fryer, Retail Operations Officer

Yakima Branch
Darlene Picatti, Vice President & Market Manager
Taylor Stormo, Vice President & Loan Officer
Deidra Anderson, Retail Operations Officer

Cashmere Valley Mortgage
Josh Stendera, Vice President & Manager
Shirley Reyes, AVP & Mortgage Supervisor

Mitchell Reed & Schmitten Insurance
Brent Schmitten, President & COO

Freedom Financial Advisors
Rick Deich, Executive Manager
Garry Arseneault, Executive Director

Directory

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509-782-2624

Cashmere Office
117 Aplets Way, Cashmere
509-782-1501

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509-662-1644

Leavenworth Office
980 Highway 2, Leavenworth
509-548-5231

East Wenatchee Office
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509-884-0622

Chelan Street Office
124 South Chelan Street, Wenatchee
509-662-6633

Easy Street Office
127 Easy Street, Wenatchee
509-662-5071

Ellensburg Office
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509-925-3000

Cle Elum Office
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509-674-2033

Lake Chelan Office
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509-548-6050

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Cashmere Valley Mortgage
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Electronic Banking
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509-664-5454

Valley Contract Servicing
124 E. Penny Road, Suite 105, Wenatchee
509-664-5452

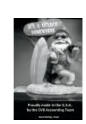
Card Services
124 E. Penny Road, Suite 106, Wenatchee
Credit Cards 509-664-5455
ATM/Debit Cards 509-664-5453

Dealer Financing
124 E. Penny Road, Suite 201, Wenatchee
509-664-3820

Equipment Finance Solutions
124 E. Penny Road, Suite 202, Wenatchee
509-664-3820

Municipal Banking
1400 112^{th} Avenue SE, Suite 100, Bellevue
425-688-3935

Website Address
www.cashmerevalleybank.com



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Cashmere Valley Bank

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