

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code). <p style="text-align: center;">▶ Complete all entries in accordance with the instructions to the Form 5500.</p>	OMB Nos. 1210-0110 1210-0089 <div style="text-align: center; font-size: 1.2em; font-weight: bold;">2013</div> <div style="text-align: center; font-weight: bold;">This Form is Open to Public Inspection</div>
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Part I	Annual Report Identification Information
For calendar plan year 2013 or fiscal plan year beginning <u>01/01/2013</u> and ending <u>12/31/2013</u>	
A This return/report is for:	<input type="checkbox"/> a multiemployer plan; <input type="checkbox"/> a multiple-employer plan; or <input checked="" type="checkbox"/> a single-employer plan; <input type="checkbox"/> a DFE (specify) ____
B This return/report is:	<input type="checkbox"/> the first return/report; <input type="checkbox"/> the final return/report; <input type="checkbox"/> an amended return/report; <input type="checkbox"/> a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	<input type="checkbox"/>
D Check box if filing under:	<input type="checkbox"/> Form 5558; <input type="checkbox"/> automatic extension; <input type="checkbox"/> the DFVC program; <input type="checkbox"/> special extension (enter description)

Part II	Basic Plan Information—enter all requested information	
1a Name of plan <u>SKAGIT STATE BANK EMPLOYEES RETIREMENT PLAN</u>	1b Three-digit plan number (PN) ▶	<u>002</u>
2a Plan sponsor's name and address; include room or suite number (employer, if for a single-employer plan) <u>SKAGIT BANCORP, INC.</u> <u>P.O. BOX 285</u> <u>BURLINGTON, WA 98233</u>		1c Effective date of plan <u>09/01/1986</u> 2b Employer Identification Number (EIN) <u>91-0681718</u> 2c Sponsor's telephone number <u>360-755-0411</u> 2d Business code (see instructions) <u>522110</u>

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	<u>07/22/2014</u>	<u>CARLA TUCKER</u>
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE			
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address; include room or suite number. (optional)			Preparer's telephone number (optional)

For Paperwork Reduction Act Notice and OMB Control Numbers, see the instructions for Form 5500.

Form 5500 (2013)
v. 130118

3a Plan administrator's name and address <input type="checkbox"/> Same as Plan Sponsor Name <input type="checkbox"/> Same as Plan Sponsor Address SKAGIT BANCORP, INC. P.O. BOX 285 BURLINGTON, WA 98233		3b Administrator's EIN 91-0681718
		3c Administrator's telephone number 360-755-0411
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name		4b EIN 4c PN
5 Total number of participants at the beginning of the plan year		5 213
6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants		6a 176
b Retired or separated participants receiving benefits		6b 0
c Other retired or separated participants entitled to future benefits		6c 48
d Subtotal. Add lines 6a , 6b , and 6c		6d 224
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits		6e 0
f Total. Add lines 6d and 6e		6f 224
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item)		6g 214
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested		6h 6
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)		7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2T 3D		
b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:		
9a Plan funding arrangement (check all that apply)		9b Plan benefit arrangement (check all that apply)
(1) <input type="checkbox"/> Insurance	(1) <input type="checkbox"/> Insurance	
(2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts	(2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts	
(3) <input checked="" type="checkbox"/> Trust	(3) <input checked="" type="checkbox"/> Trust	
(4) <input type="checkbox"/> General assets of the sponsor	(4) <input type="checkbox"/> General assets of the sponsor	
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)		
a Pension Schedules		b General Schedules
(1) <input checked="" type="checkbox"/> R (Retirement Plan Information)	(1) <input checked="" type="checkbox"/> H (Financial Information)	
(2) <input type="checkbox"/> MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary	(2) <input type="checkbox"/> I (Financial Information – Small Plan)	
(3) <input type="checkbox"/> SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary	(3) <input type="checkbox"/> 0 A (Insurance Information)	
	(4) <input checked="" type="checkbox"/> C (Service Provider Information)	
	(5) <input type="checkbox"/> D (DFE/Participating Plan Information)	
	(6) <input type="checkbox"/> G (Financial Transaction Schedules)	

SCHEDULE C (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Service Provider Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ► File as an attachment to Form 5500.	OMB No. 1210-0110
		2013
		This Form is Open to Public Inspection.

For calendar plan year 2013 or fiscal plan year beginning 01/01/2013 and ending 12/31/2013

A Name of plan <u>SKAGIT STATE BANK EMPLOYEES RETIREMENT PLAN</u>	B Three-digit plan number (PN) <u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>SKAGIT BANCORP, INC.</u>	D Employer Identification Number (EIN) <u>91-0681718</u>

Part I Service Provider Information (see instructions)

You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions)..... ☒ Yes ☐ No

b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation	
<u>WILMINGTON TRUST</u>	<u>2800 NORTH CENTRAL AVENUE, STE 900</u> <u>PHOENIX, AZ 85004</u>
<u>51-0099033</u>	

(b) Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation	
<u>NORTHWEST PLAN SERVICES, INC.</u>	<u>5446 CALIFORNIA AVENUE SW, STE 200</u> <u>SEATTLE, WA 98136</u>
<u>91-2090931</u>	

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation

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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

NORTHWEST PLAN SERVICES, INC

5446 CALIFORNIA AVENUE SW
SUITE 200
SEATTLE, WA 98136

91-2090931

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
13 15 16 37 38 50 63 65 70	NONE	28711	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	0	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

WILMINGTON TRUST

2800 NORTH CENTRAL AVENUE
SUITE 900
PHOENIX, AZ 85004

65-1214236

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
19 50 62	NONE	7123	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	0	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III **Termination Information on Accountants and Enrolled Actuaries (see instructions)**
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	<small>OMB No. 1210-0110</small> 2013 This Form is Open to Public Inspection
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For calendar plan year 2013 or fiscal plan year beginning <u>01/01/2013</u> and ending <u>12/31/2013</u>		
A Name of plan <u>SKAGIT STATE BANK EMPLOYEES RETIREMENT PLAN</u>	B Three-digit plan number (PN) ►	<u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>SKAGIT BANCORP, INC.</u>	D Employer Identification Number (EIN) <u>91-0681718</u>	

Part I	Asset and Liability Statement		
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.			
	Assets	(a) Beginning of Year	(b) End of Year
a	Total noninterest-bearing cash	1a	
b	Receivables (less allowance for doubtful accounts):		
	(1) Employer contributions.....	1b(1)	359314
	(2) Participant contributions.....	1b(2)	
	(3) Other.....	1b(3)	
c	General investments:		
	(1) Interest-bearing cash (include money market accounts & certificates of deposit).....	1c(1)	1042564
	(2) U.S. Government securities	1c(2)	
	(3) Corporate debt instruments (other than employer securities):		
	(A) Preferred	1c(3)(A)	
	(B) All other.....	1c(3)(B)	
	(4) Corporate stocks (other than employer securities):		
	(A) Preferred	1c(4)(A)	
	(B) Common.....	1c(4)(B)	
	(5) Partnership/joint venture interests	1c(5)	
	(6) Real estate (other than employer real property).....	1c(6)	
	(7) Loans (other than to participants)	1c(7)	
	(8) Participant loans.....	1c(8)	309131
	(9) Value of interest in common/collective trusts	1c(9)	
	(10) Value of interest in pooled separate accounts	1c(10)	
	(11) Value of interest in master trust investment accounts	1c(11)	
	(12) Value of interest in 103-12 investment entities.....	1c(12)	
	(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	9423671
	(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)	12190520
	(15) Other.....	1c(15)	

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)	773430	743232
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	11908110	14249260

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h	1515	2480
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	1515	2480

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	11906595	14246780
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income**a Contributions:**

		(a) Amount	(b) Total
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	389363	
(B) Participants	2a(1)(B)	456746	
(C) Others (including rollovers)	2a(1)(C)	4513	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		850622

b Earnings on investments:**(1) Interest:**

(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	142	
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	12889	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		13031

(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)	25519	
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	388544	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		414063

(3) Rents	2b(3)		
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(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		0

(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)	11250	
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		11250

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds)	2b(10)		1482775
c Other income	2c		
d Total income. Add all income amounts in column (b) and enter total	2d		2771741

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	395722	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		395722
f Corrective distributions (see instructions)	2f		
g Certain deemed distributions of participant loans (see instructions)	2g		
h Interest expense	2h		
i Administrative expenses: (1) Professional fees	2i(1)	35834	
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)		
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		35834
j Total expenses. Add all expense amounts in column (b) and enter total	2j		431556

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		2340185
l Transfers of assets:			
(1) To this plan	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☒ Unqualified (2) ☐ Qualified (3) ☐ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)?

☐ Yes ☒ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: WILLIAMS & NULLE PLLC

(2) EIN: 91-0593897

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.)

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.)

	Yes	No	Amount
4a		X	
4b		X	

		Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)	4c		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.)	4d		X	
e Was this plan covered by a fidelity bond?	4e	X		5000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?	4f		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?	4g		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?	4h		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.)	4i	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.)	4j		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?	4k		X	
l Has the plan failed to provide any benefit when due under the plan?	4l		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.)	4m		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.	4n			

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?
 If "Yes," enter the amount of any plan assets that reverted to the employer this year. ☐ Yes ☒ No Amount:

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)	5b(2) EIN(s)	5b(3) PN(s)

5c If the plan is a defined benefit plan, is it covered under the PBGC insurance program (see ERISA section 4021)? ☐ Yes ☐ No ☐ Not determined

Part V Trust Information (optional)

6a Name of trust	6b Trust's EIN

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2013 This Form is Open to Public Inspection.
---	--	--

For calendar plan year 2013 or fiscal plan year beginning 01/01/2013 and ending 12/31/2013

A Name of plan <u>SKAGIT STATE BANK EMPLOYEES RETIREMENT PLAN</u>	B Three-digit plan number (PN) ▶ <u>002</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>SKAGIT BANCORP, INC.</u>	D Employer Identification Number (EIN) <u>91-0681718</u>

Part I	Distributions
---------------	----------------------

All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>65-1214236</u> <u>91-1345021</u>		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
----------------	--

4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	<input type="checkbox"/> N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount)	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A

Part III	Amendments
-----------------	-------------------

9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.....	<input type="checkbox"/> Increase	<input type="checkbox"/> Decrease	<input type="checkbox"/> Both	<input type="checkbox"/> No
--	-----------------------------------	-----------------------------------	-------------------------------	-----------------------------

Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
----------------	---

10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
11 a Does the ESOP hold any preferred stock?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.)	<input type="checkbox"/> Yes	<input type="checkbox"/> No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

- 19** If the total number of participants is 1,000 or more, complete lines (a) through (c)

a Enter the percentage of plan assets held as:
 Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

b Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

c What duration measure was used to calculate line 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____

SKAGIT STATE BANK
EMPLOYEES' RETIREMENT PLAN

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 AND 2012

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

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DECEMBER 31, 2013 AND 2012

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Warren W. Walz
J. Mark Roetcisoender
Michael C. Cunningham
Kimberlee M. Ray
Steven L. Tobiasson
Mark I. Reed



W. Ernest Williams (1959)

Donald W. Nulle (2011)

INDEPENDENT AUDITOR'S REPORT

To the Plan Trustees of the
Skagit State Bank Employees' Retirement Plan:

Report on the Financial Statements

We have audited the accompanying financial statements of the Skagit State Bank Employees' Retirement Plan (the Plan), which comprise the statements of net assets available for benefits as of December 31, 2013 and 2012, the related statements of changes in net assets available for benefits for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. 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 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Skagit State Bank Employees' Retirement Plan as of December 31, 2013 and 2012, and the changes in its net assets available for benefits for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplemental Schedule H, Line 4i - Schedule of Assets (Held at End of Year), referred to as "supplementary information," as of December 31, 2013, is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williams & Nulle, PLLC

July 14, 2014

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
INVESTMENTS, at fair value:		
Shares of registered investment companies (mutual funds)	\$ 12,807,941	\$ 10,466,235
Shares of Skagit Bancorp, Inc. common stock	<u>743,232</u>	<u>773,430</u>
Total investments, at fair value	<u>13,551,173</u>	<u>11,239,665</u>
RECEIVABLES:		
Employer contributions receivable	389,363	359,314
Notes receivable from participants	<u>308,724</u>	<u>309,131</u>
Total receivables	<u>698,087</u>	<u>668,445</u>
TOTAL ASSETS	14,249,260	11,908,110
LIABILITY - Accrued administrative expenses	<u>2,480</u>	<u>1,515</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 14,246,780</u>	<u>\$ 11,906,595</u>

See accompanying notes to the financial statements.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ADDITIONS TO NET ASSETS ATTRIBUTED TO:		
Investment income:		
Net realized and unrealized appreciation in fair value of investments	\$ 1,494,025	\$ 761,451
Interest and dividends	<u>414,205</u>	<u>352,111</u>
Total investment income	1,908,230	1,113,562
Less investment expenses	<u>(7,123)</u>	<u>(6,252)</u>
Net investment income	<u>1,901,107</u>	<u>1,107,310</u>
 Interest income on notes receivable from participants	 <u>12,889</u>	 <u>12,532</u>
 Contributions:		
Participants	461,259	415,948
Employer	<u>389,363</u>	<u>359,314</u>
Total contributions	<u>850,622</u>	<u>775,262</u>
 Total additions	 <u>2,764,618</u>	 <u>1,895,104</u>
 DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO:		
Benefits paid to participants and beneficiaries	395,722	595,116
Administrative expenses	<u>28,711</u>	<u>23,513</u>
Total deductions	<u>424,433</u>	<u>618,629</u>
 NET INCREASE	 2,340,185	 1,276,475
 NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	<u>11,906,595</u>	<u>10,630,120</u>
End of year	<u>\$ 14,246,780</u>	<u>\$ 11,906,595</u>

See accompanying notes to the financial statements.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1. PLAN DESCRIPTION

The following description of the Skagit State Bank Employees' Retirement Plan (the Plan) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

General - The Plan is a defined contribution plan, adopted August 13, 1986, and restated January 1, 2002, and again on November 1, 2009, to provide retirement benefits to the employees of Skagit Bancorp, Inc. (the Bank). All employees age nineteen or older who have completed three months of service are eligible to participate in the employee salary deferral portion of the Plan, except for summer help, temporary part-time help and employees represented by a collective bargaining agreement. Eligible employees may enter the employee salary deferral portion of the Plan on the first day of any month that coincides with, or follows, the date on which they satisfy the eligibility requirements.

All employees, except summer help, temporary part-time help and employees represented by a collective bargaining agreement, age nineteen or older who have completed six months of service are eligible to join the employer matching and profit-sharing portions of the Plan. Eligible participants enter the employer matching and profit-sharing portions of the Plan on the first entry date (January 1, April 1, July 1, or October 1) which coincides with, or follows, the date on which they satisfy the eligibility requirements. For employer matching and profit-sharing contributions, an eligible participant must be employed on December 31 and have completed 1,000 hours of service during the plan year to receive such employer contributions. However, participants who terminate prior to December 31 because of retirement, disability, or death are eligible for all employer contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions - Participants may elect to contribute a portion of their eligible compensation into the Plan on a tax-deferred basis. The participant's contribution may not exceed limits established by the Internal Revenue Service. Contributions withheld from participants are deposited by the Bank into the Plan as soon as practicable. Effective July 1, 2012, the Plan was amended to allow Roth 401(k) deferrals.

The Bank matches 100% of each participant's elected contributions up to 4% of their annual, total eligible compensation. At the discretion of the Bank's board of directors, additional annual profit-sharing contributions may be made to the Plan and are allocated to eligible participants based upon annual participant eligible earnings. For the years ended December 31, 2013 and 2012, the additional annual profit-sharing contribution was 2% of participants' total annual, eligible compensation.

Participant accounts - Separate accounts are maintained for each participant's contributions and allocated share of plan income, expenses, employer contributions and forfeitures. Plan income and expenses are allocated based upon eligible participants' account balances. Employer contributions are allocated to eligible participants based upon annual participant eligible earnings. Profit-sharing forfeitures of terminated employees' nonvested accounts are used first to pay plan administrative expenses and then to reduce employer matching contributions.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1. PLAN DESCRIPTION (Continued)

Forfeited accounts - Nonvested portions of a participant's forfeited account arising from employer matching and profit-sharing contributions are used first to pay plan administrative expenses and then to reduce employer matching contributions. In 2013 and 2012, \$3,602 and \$11,223, respectively, of unallocated, forfeited, nonvested, nonparticipant-directed amounts were used to pay plan administrative expenses, and then were used to reduce employer matching contributions in 2013 and 2012 by \$447 and \$2,530, respectively. There was no balance of unallocated forfeited, nonvested, nonparticipant-directed amounts at December 31, 2013 and 2012.

Vesting - Participants are immediately 100% vested in their salary deferral contributions plus actual earnings thereon. Vesting in the remainder of their accounts is based upon years of service. An employee must complete 1,000 hours during a vesting computation period in order to receive credit for one year of service. Employer matching and profit-sharing contributions vest as follows: 1 year - 0%; 2 years - 20%; 3 years - 40%; 4 years - 60%; 5 years - 80%; 6 years - 100%. Full vesting is also attained regardless of years of service if the participant (a) reaches normal retirement age or early retirement age, if allowed, (b) is terminated due to disability or death, or (c) if the Plan is fully or partially terminated.

Investment options - The plan trustees establish the investment options. A participant may direct contributions to any of the available investment options other than Skagit Bancorp, Inc. common stock, which is no longer an investment option. Participants may change their investment options at any time. The Plan offered eighteen and seventeen investment options at December 31, 2013 and 2012, respectively.

Payment of benefits - Upon termination of service due to retirement, disability, or death, a participant or beneficiary(ies) may elect to receive their vested account balance in a lump-sum payment or ratable monthly, quarterly, or annual installment payments over a fixed period not to exceed the life expectancy of the participant and/or the participant's beneficiary(ies). For termination of service due to other reasons, a participant shall receive their vested account balance in a lump-sum payment.

Administration - The Plan is administered by the plan trustees appointed by the board of directors of the Bank as provided under the terms of the Plan. Mike Janicki and Dan Peth are the plan trustees.

Administrative and investment expenses - Certain administrative functions and duties are performed by employees of the plan sponsor (the Bank) at no cost to the Plan. Plan administrative expenses are partially paid by the Plan and the plan sponsor. Such costs include accounting, auditing, legal and other plan administrative expenses. Plan administrative and investment expenses paid by the Plan in 2013 and 2012 totaled \$35,834 and \$29,765, respectively. Plan administrative expenses paid by the plan sponsor totaled \$41,381 and \$45,055 in 2013 and 2012, respectively. These administrative expenses will not be reimbursed by the Plan.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1. PLAN DESCRIPTION (Continued)

Participant loans (notes receivable from participants) are made at the discretion of the plan trustees. Loan transactions are treated as a transfer to (from) the participant's investment fund (from) to the participant's loan fund. Participants may borrow from their investment fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms range from 1 - 30 years and are available for any reasonable purpose. Participants may only have two outstanding loans at one time. The loans are secured by the participant's account and bear interest at various rates ranging from 4.25% to 5.25%. Principal and interest are paid ratably through semi-monthly payroll deductions, with payments ranging from \$12 to \$463. A loan is in default if any scheduled payment remains unpaid beyond the last day of the calendar quarter following the calendar quarter in which the participant missed the scheduled payment.

Plan termination - Although it has not expressed any intent to do so, the Bank has the right to discontinue its contributions at any time and terminate the Plan, subject to the provisions of ERISA, by giving written notice to the plan trustees. In the event of plan termination, participants will become 100% vested in all their accounts. Any unallocated assets of the Plan shall be allocated to participant accounts and distributed in such a manner as the Bank may determine.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting method - The financial statements of the Plan have been prepared on the accrual-basis method of accounting.

Investment valuation and income recognition - The Plan's investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest and dividend income is recorded on the accrual-basis method of accounting, with dividends recorded on the ex-dividend date. Net realized and unrealized appreciation in fair value of investments includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Notes receivable from participants - Loans to participants are reported at their unpaid principal balances plus any accrued, but unpaid interest. Delinquent participant loans, if any, are reclassified as distributions (benefit payments) based on the terms of the plan agreement.

Benefit payments - The Plan recognizes benefit payments in the period they are actually paid.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan trustees to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements and accompanying notes. Accordingly, actual results may differ from those estimates.

Reclassification - Certain reclassifications were made to the 2012 financial statements to conform to the 2013 presentation.

NOTE 3. FAIR VALUE MEASUREMENTS

The Plan's investments are reported at fair value in the accompanying statements of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs are calculated using quoted prices for similar assets in markets that are not active, and Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs were only used when Level 1 inputs were not available. No Level 3 inputs were used by the Plan.

Level 1 Fair Value Measurements - The fair value of registered investment companies (mutual funds) is based on net asset values of the shares held by the Plan at year-end, as quoted in active markets for identical assets.

Level 2 Fair Value Measurements - The fair value of the Bank's common stock is the estimated market price based upon recent purchases and sales of such stock with unrelated third parties.

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 3. FAIR VALUE MEASUREMENTS (Continued)

The following tables set forth, by level within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2013 and 2012:

		Fair Value Measurements at Reporting Date Using:	
		Unadjusted Quoted Prices In Active Markets For Identical Assets (Level 1)	Quoted Prices For Similar Assets In Markets That Are Not Active (Level 2)
	<u>Fair Value</u>		
<u>December 31, 2013:</u>			
Shares of registered investment companies (mutual funds):			
Bond funds	\$ 3,104,532	\$ 3,104,532	\$ -
Value funds	2,691,347	2,691,347	
Growth funds	2,298,061	2,298,061	
Blend funds	2,187,220	2,187,220	
International stock funds	1,141,997	1,141,997	
Money market fund	617,421	617,421	
Real estate fund	485,382	485,382	
Commodities fund	<u>281,981</u>	<u>281,981</u>	
Total registered investment companies (mutual funds)	12,807,941	12,807,941	
Shares of Skagit Bancorp, Inc. common stock (party-in-interest)	<u>743,232</u>		<u>743,232</u>
Total	<u>\$ 13,551,173</u>	<u>\$ 12,807,941</u>	<u>\$ 743,232</u>
<u>December 31, 2012:</u>			
Shares of registered investment companies (mutual funds):			
Bond funds	\$ 2,548,596	\$ 2,548,596	\$ -
Growth funds	2,072,899	2,072,899	
Value funds	2,050,304	2,050,304	
Money market fund	1,042,564	1,042,564	
Blend funds	957,082	957,082	
International stock funds	910,483	910,483	
Real estate fund	498,058	498,058	
Commodities fund	<u>386,249</u>	<u>386,249</u>	
Total registered investment companies (mutual funds)	10,466,235	10,466,235	
Shares of Skagit Bancorp, Inc. common stock (party-in-interest)	<u>773,430</u>		<u>773,430</u>
Total	<u>\$ 11,239,665</u>	<u>\$ 10,466,235</u>	<u>\$ 773,430</u>

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS

The following table represents the fair values of investments at December 31, 2013 and 2012. All investments, including those that represent five percent or more of the Plan's net assets, are separately identified.

Number of shares - December 31, 2013	Description	Fair Value - December 31, 2013	Fair Value - December 31, 2012
Investments, at fair value as determined by unadjusted quoted prices in active markets for identical assets (Level 1 inputs):			
Registered investment companies (mutual funds):			
66,472	Vanguard Value Index Signal Fund	\$ 2,059,963 **	\$ 1,637,586 **
143,380	PIMCO Total Return Institutional Fund	1,532,737 **	1,223,265 **
9,531	Vanguard 500 Index Signal Fund	1,341,258 **	911,548 **
91,320	Mainstay Large Cap Growth I Fund	950,639 **	812,248 **
18,574	Neuberger Berman Genesis Investment Fund	775,104 **	942,508 **
62,516	Vanguard Short Term Bond Index Signal Fund	655,790	
15,134	Vanguard Mid Cap Index Signal Fund	650,472	
17,831	DFA US Small Cap Value I Fund	631,384	412,718
8,740	Harbor International Institutional Fund	620,617	484,933
617,421	Vanguard Prime Money Market Fund	617,421	1,042,564 **
13,316	Vanguard Small Cap Growth Index Adm Fund	572,318	
10,645	American Funds Euro Pacific Growth R5 Fund	521,380	425,550
14,967	Virtus Real Estate Securities A Fund	485,382	498,058
31,850	Loomis Sayles Bond Institutional	482,840	387,326
17,007	Vanguard Inflation Protection Securities Adm Fund	433,165	
51,363	PIMCO Commodity Real Return Strategy Institutional	281,981	386,249
9,449	Parametric Emerging Markets Institutional Fund	140,603	
1,156	Vanguard Small Cap Index Signal Fund	54,887	
	Vanguard Short Term Bond Index Investment Fund		524,761
	Vanguard Inflation Protected Securities Investment Fund		413,244
	Vanguard Small Cap Growth Index Investment Fund		318,143
	Vanguard Mid Cap Index Investment Fund		30,212
	Vanguard Small Cap Index Investment Fund		15,322
	Total registered investment companies (mutual funds)	<u>12,807,941</u>	<u>10,466,235</u>
Investments, at estimated market price (Level 2 inputs):			
5,056	Skagit Bancorp, Inc. common stock (party-in-interest)	<u>743,232 **</u>	<u>773,430 **</u>
Total investments, at fair value		<u>\$ 13,551,173</u>	<u>\$ 11,239,665</u>

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

NOTE 4. INVESTMENTS (Continued)

The Plan's investments (including realized and unrealized gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$1,494,025 and \$761,451 during 2013 and 2012, respectively, as follows:

	<u>2013</u>	<u>2012</u>
Investments, at fair value as determined by unadjusted quoted prices in active markets for identical assets - Registered investment companies (mutual funds)	\$ 1,482,775	\$ 766,605
Investments, at estimated market price - Skagit Bancorp, Inc. common stock (party-in-interest)	<u>11,250 *</u>	<u>(5,154) *</u>
Net realized and unrealized appreciation in fair value of investments	<u>\$ 1,494,025</u>	<u>\$ 761,451</u>

* Nonparticipant directed

** Represents five percent or more of Plan's net assets

NOTE 5. FEDERAL INCOME TAX STATUS

The Internal Revenue Service has determined and informed the plan sponsor by a letter dated November 8, 2002, that the Plan and the related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving this determination letter, the plan administrator and the Plan's tax counsel believe that the Plan is designed, and is currently being operated, in compliance with the applicable requirements of the IRC and, therefore, believe that the Plan is qualified and the related trust is tax-exempt.

NOTE 6. RISKS AND UNCERTAINTIES

The Plan invests in various registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock. Registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock, it is at least reasonably possible that changes in the fair values of registered investment companies (mutual funds) and Skagit Bancorp, Inc. common stock will occur in the near-term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

NOTE 7. SUBSEQUENT EVENTS

In accordance with FASB ASC Topic 855, the Plan evaluated subsequent events through July 14, 2014, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SKAGIT STATE BANK
EMPLOYEES' RETIREMENT PLAN

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

EIN 91-0681718 - PLAN #002

SUPPLEMENTAL SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2013

(a)	(b)	(c)	(d)	(e)
	Identity of Issuer/Borrower	Description of Investment	Cost	Current Value
	Vanguard Value Index Signal Fund	Registered Investment Company/Mutual Fund	\$ -	\$ 2,059,963
	PIMCO Total Return Institutional Fund	Registered Investment Company/Mutual Fund		1,532,737
	Vanguard 500 Index Signal Fund	Registered Investment Company/Mutual Fund		1,341,258
	Mainstay Large Cap Growth I Fund	Registered Investment Company/Mutual Fund		950,639
	Neuberger Berman Genesis Investment Fund	Registered Investment Company/Mutual Fund		775,104
*	Skagit Bancorp, Inc.	Common Stock	278,080	743,232
	Vanguard Short Term Bond Index Signal Fund	Registered Investment Company/Mutual Fund		655,790
	Vanguard Mid Cap Index Signal Fund	Registered Investment Company/Mutual Fund		650,472
	DFA US Small Cap Value I Fund	Registered Investment Company/Mutual Fund		631,384
	Harbor International Institutional Fund	Registered Investment Company/Mutual Fund		620,617
	Vanguard Prime Money Market Fund	Registered Investment Company/Mutual Fund		617,421
	Vanguard Small Cap Growth Index Adm Fund	Registered Investment Company/Mutual Fund		572,318
	American Funds Euro Pacific Growth R5 Fund	Registered Investment Company/Mutual Fund		521,380
	Virtus Real Estate Securities A Fund	Registered Investment Company/Mutual Fund		485,382
	Loomis Sayles Bond Institutional	Registered Investment Company/Mutual Fund		482,840
	Vanguard Inflation Protected Securities Adm Fund	Registered Investment Company/Mutual Fund		433,165
	PIMCO Commodity Real Return Strategy Instl	Registered Investment Company/Mutual Fund		281,981
	Parametric Emerging Markets Institutional Fund	Registered Investment Company/Mutual Fund		140,603
	Vanguard Small Cap Index Signal Fund	Registered Investment Company/Mutual Fund		54,887
*	Participant loans	Participant loans - Semi-monthly payments of \$12 - \$463, including interest at 4.25% - 5.25%; maturing January 2014 - June 2033	-0-	308,724
		Total		<u>\$13,859,897</u>

* Indicates parties-in-interest

SKAGIT STATE BANK EMPLOYEES' RETIREMENT PLAN

EIN 91-0681718 - PLAN #002

SUPPLEMENTAL SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2013

(a)	(b)	(c)	(d)	(e)
	Identity of Issuer/Borrower	Description of Investment	Cost	Current Value
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	DFA US Small Cap Value I Fund	Registered Investment Company/Mutual Fund		631,384
	Harbor International Institutional Fund	Registered Investment Company/Mutual Fund		620,617
	Vanguard Prime Money Market Fund	Registered Investment Company/Mutual Fund		617,421
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	American Funds Euro Pacific Growth R5 Fund	Registered Investment Company/Mutual Fund		521,380
	Virtus Real Estate Securities A Fund	Registered Investment Company/Mutual Fund		485,382
	Loomis Sayles Bond Institutional	Registered Investment Company/Mutual Fund		482,840
	Vanguard Inflation Protected Securities Adm Fund	Registered Investment Company/Mutual Fund		433,165
	PIMCO Commodity Real Return Strategy Instl	Registered Investment Company/Mutual Fund		281,981
	Parametric Emerging Markets Institutional Fund	Registered Investment Company/Mutual Fund		140,603
	Vanguard Small Cap Index Signal Fund	Registered Investment Company/Mutual Fund		54,887
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		Total		<u>\$13,859,897</u>

* Indicates parties-in-interest