American Pacific Bank

Established 1979

1998 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	1998	1997	1996
Interest Income	$ 4,660	$ 4,339	$ 4,018
Interest Expense	1,858	1,537	1,543
Net Interest Income	2,802	2,802	2,475
Provision for Loan Losses	62	215	200
Other Income	280	204	190
Other Expenses	2,478	2,537	2,194
Income Before Income Taxes	542	254	271
Income Taxes/(Benefit)	74	(81)	86
Net Income	468	335	185
PER SHARE DATA **		**	
Net Income Per Share	0.41	0.30	0.05
Book Value Per Share	3.78	3.60	0.82
BALANCES AT YEAR END			
Total Assets	51,874	43,114	37,891
Loans (Net of Loan Loss and Unearned Income)	37,396	29,826	23,772
Total Deposits	46,994	38,702	33,891
Shareholders' Equity	4,574	4,082	3,702
SELECTED STATISTICS (in percentages)			
Return on Average Assets	1.01%	0.82%	0.49%
Return on Average Equity	11.16%	8.58%	5.00%
Average Equity to Average Assets	9.37%	9.54%	9.77%
Net Interest Margin to Average Assets	6.12%	6.85%	6.07%
Interest Income to Average Earning Assets	10.50%	10.66%	10.90%
Non-Accrual Loans 90+ Days to Average Assets	1.58%	0.09%	0.09%

COMMON STOCK TRADING INFORMATON*

Fiscal Year Ended Dec. 31, 1998	High	Low
Fourth Quarter	$5.50	$3.38
Third Quarter	6.38	4.25
Second Quarter	6.63	4.50
First Quarter	5.00	4.00
Fiscal Year Ended Dec. 31, 1997	**High**	**Low**
Fourth Quarter	$5.63	$2.31
Third Quarter	2.50	2.25
Second Quarter **	2.75	2.00
First Quarter	3.25	2.13

**This information is not part of the audited financial statements*

***The Bank did a reverse stock split of 4 to 1 on May 19, 1997. The stock prices for the First Quarter and the Second Quarter of 1997 were adjusted to reflect this change for comparison purposes. The new stock symbol of the reverse stock split is AMPBB.*

American Pacific Bank

Since 1979

INTRODUCTION

American Pacific Bank was organized and continues to operate under the laws of the State of Oregon. The Bank is a member of the Federal Reserve Bank of San Francisco, and all deposits are insured by the Federal Deposit Insurance Corporation. American Pacific has traded within the NASDAQ system (Symbol AMPBB) since 1989.

American Pacific Bank was formed in 1979 to provide banking services to the rural communities of Aumsville and Mill City, Oregon. Since that time, the Bank continues to evolve from its beginnings as a small community Bank into an institution with the strength to have an impact in the financial community encompassing the Pacific Rim. The scope of the Bank has increased not only to satisfy the needs of the people where it originated, but to also provide real estate, commercial, and personal lending, as well as credit card services throughout Oregon and Southwest Washington. Executive offices, including a full service lending office and a main branch have been established in the financial district of downtown Portland.

Today, the Bank has a reputation of providing friendly, personal, and efficient service to customers living throughout Oregon and Southwest Washington in the areas of consruction lending, commercial loans, permanent mortgages, business financing, consumer loans, and deposit services. The Bank moved its headquarters to the Portland metro area in May of this past year. American Pacific Bank's future will continue to be characterized by continued growth and success.

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Message from Chairman and President

January 27, 1999

Dear Shareholders & Friends,

The past year marked a period of strong growth for American Pacific Bank. While both net earnings and loan production increased, your Bank also experienced an increase in assets and deposits. Management and staff have persisted in working diligently to ensure the success of each department, while continuously looking to make all necessary improvements and advancements. The growth and expansion your Bank experienced in 1998 will lead the way to a successful 1999.

We are pleased to report that your Bank has increased its earnings in 1998 by 40%, growing from $335,642 in 1997 to $468,693 in 1998. Earnings per share also increased from $0.30 to $0.41. The increase in net income was due primarily to the increase in loans. As of December 31, 1998 total loans were $37.4 million as compared to $30.8 million for the previous year, representing a 21% increase. During the year, the Bank sold approximately $3.7 million in permanent residential loans on the secondary market. The sale of loans also enhanced the earnings of the Bank during 1998.

The Bank ended the fiscal year with $51.8 million in total assets, as compared to $43.1 million in 1997, an increase of 20%. Total deposits were at $46.9 million as compared to $38.7 million from the previous year, an increase of 21%. At year-end, total classified (problem) assets represented only 0.18% of total assets. Additionally, the Bank has not suffered any losses from the commercial, construction, and mortgage loan portfolios in the last several years. Your Bank also remains well-capitalized with the leverage ratio at 8.92% and the risk-based capital ratio at 13.47%. The Bank continues to be highly liquid with the liquidity ratio at 26.74%.

As testimony to a successful 1998, your Bank was featured in 1999 Oregon Business Power Book as One of the Top 1,000 Companies. Specifically, the Bank was named one of the top-performing companies in both the "Banks" and "Oregon's Public Companies" categories. Our effective and personalized customer service remains one of our best assets and fulfills the growing demand within the industry. As we work to maintain these high standards of service and continue to grow, we look forward to another successful year for American Pacific Bank.

As always, thank you for your on-going confidence and support.

Fai H. Chan
Chairman, Board of Directors

David T. Chen
President and Chief Executive Officer

"Our high standards of service and personal touch will continue to set us apart from other banking institutions in our market."
Mr. Fai H. Chan

"Our effective and personalized customer service fulfills a growing demand within the industry, as evidenced in the success of the Bank in 1997."
Mr. David T. Chen

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

The Board of Directors and management of American Pacific Bank is comprised of the following persons, all of whom are eminently qualified in their individual areas of responsibility. The multi-cultural nature of this group brings a unique and effective perspective to the Bank's daily operations and its long term strategies. Unlike most financial institutions, the Board Members of American Pacific Bank and members of senior management are active and well known not only in the local communities, but also in the business and political environments of the Far East.

BOARD OF DIRECTORS

Fai H. Chan: *Chairman of the Board*

Raised in Hong Kong, where he was educated at St. Joseph College, Mr. Chan moved to England and graduated from Northwestern Polytechnic with a degree in business management and commerce. He entered the financial community as an investment banker and eventually became the principal in a Hong Kong based securities firm.

Mr. Chan became Chairman of American Pacific Bank in 1987 when it was still called Santiam Valley Bank and on the verge of failure. He assembled a completely new management team and immediately began a restructuring process. That process has evolved to the point where today the Bank's assets have grown from $9 million to well over $40 million; the significant loss position of 1986 has turned into a profit; and, the securities trade within the NASDAQ system.

Mr. Chan is equally at home in the business world of the United States, Canada, Europe, and the Far East. He brings invaluable expertise on an international level to American Pacific Bank.

David T. Chen: *President, Chief Executive Officer and Member of the Board of Directors*

Mr. Chen began his career with the National Bank of Commerce (later called Ranier Bank) in Seattle, Washington in 1966. In 1970, he entered the public sector serving as the Finance Director for various municipalities. The most recent of these was the city of Beaverton, Oregon where he was directly responsible for managing the city's $60 million annual budget. He was appointed by President Reagan's administration to an administrative post within the Farmers Home Administration of the U.S. Department of Agriculture in 1985, and assumed the position of Oregon State Director. Under the administration of President Bush, he was elevated to the position of Associate Administrator in Washington, D.C. In that capacity, he assisted the Administrator in managing the Federal Government's chief agriculture and rural development agency, with more than 12,000 employees, 2,200 field offices nationwide and a loan portfolio exceeding $50 billion, with an annual budget of approximately $10 billion.

Mr. Chen received his Master of Arts in Political Science from the University of Oregon, his Bachelor of Arts in Mathematics from the University of Washington, and a Bachelor of Arts in Public Administration from the Taiwan National Chung Hsing University. In addition to his responsibilities with the Bank, Mr. Chen was appointed by Oregon Governor Kitzhaber to serve as a Commissioner for the International Trade Commission.

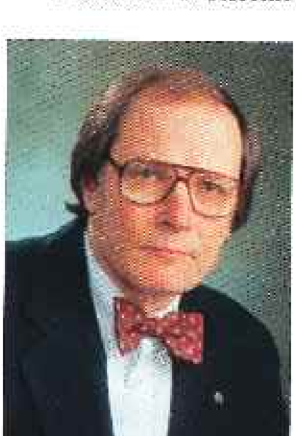
Richard Y. Cheong: *Senior Vice President, Chief Financial Officer and Member of the Board of Directors*

Mr. Cheong began his career with Arthur Andersen & Company in 1985, as a member of the Management Information Consulting Division. In that capacity, he successfully managed complex systems development projects. His responsibilities included preparation and implementation of the projects, in addition to supervision of the staff assigned to the undertaking. Prior to joining the Bank, Mr. Cheong was an investment manager with a Japanese real estate syndication company for two years.

He joined the Bank in 1991 and has since been elevated to his present position. As Senior Vice President and CFO, Mr. Cheong's responsibilities include both supervision of all personnel, operations and accountability for all financial and accounting aspects of the Bank.

Mr. Cheong holds a Masters of Business Administration in Finance from the University of Oregon and a Bachelor of Business Administration in Finance also from the University of Oregon. He is active in the local community as a member of the World Affairs Council and the Oregon Northwest China Council, and serves on the Board of Loaves and Fishes, Inc.

Alexander B. Korelin: *Member of the Board of Directors*



Mr. Korelin has served on the Board of Directors since 1988. He has been involved in the financial community since receiving his MBA in International Trade and Finance from the University of Puget Sound. He has served as a consultant to large publicly traded companies, foreign based stock exchanges, and private businesses since founding his own firm in 1982. Because of Mr. Korelin's experience and education, he continues to provide the senior management of the Bank with valuable input regarding day to day operations and future objectives.

Mr. Korelin plays an active role in community service both in Oregon and Southwest Washington. He is the President of the Rotary Club of Greater Clark County. In the past he has served as President of Portland's Broadway Toastmasters; the Chairman of the Fellowship Committee of the Rotary Club of Portland; the Chairman of the I-3 (Children's Immunization) Task Force in Clark County; and, a member of the Board of Directors of Greater Clark County Rotary Club where he was chairman of Community Service.

Francis H. Hendricks: *Member of the Board of Directors*

Mr. Hendricks is involved in the agricultural community in Aumsville, Oregon where he has lived all of his life. He is a past member of the Aumsville School Board for eight years where, during his tenure, he served on the Budget Committee for six years. He is also a member of the Wilco Farmers Group and the Sublimity Harvest Festival. He is currently a member of the Board of Directors of Santiam Memorial Hospital.

James M. Mei: *Member of the Board of Directors*.

Mr. Mei joined the Board of Directors in December 1996, and is an attorney in Portland, where he specializes in International Business Transactions, Chinese Law and Business Immigration Law. He received his Juris Doctor from Willamette University, Oregon and Bachelor of Arts from Shanghai University, China. Mr. Mei represents and advises many American and Multinational companies conducting business in China and the United States. He also handles business and immigration cases for clients in Asia and Europe.

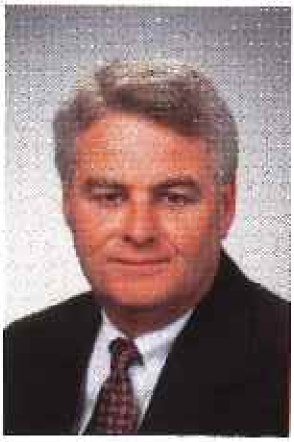
Mr. Mei is an active member of American Bar Association, Oregon and Washington State Bar Associations, American Immigration Lawyers Association, and U. S. District Court for the District of Oregon. In the past, Mr. Mei served on the Board of Directors for the Northwest Regional China Council.

MANAGEMENT

David T. Chen: *President, Chief Executive Officer and Member of the Board of Directors*

Richard Y. Cheong: *Senior Vice President, Chief Financial Officer and Member of the Board of Directors*

David A. Dahlstrom: *Senior Vice President and Chief Credit Officer*



Mr. Dahlstrom has 20 years of experience as a lending officer and executive. He has experience as a commercial lender, workout specialist, credit administrator, manager of a commercial loan area, and managing a centralized loan center for small business including the sales force. Most recently, Mr. Dahlstrom was the Senior Vice President for the Northwest Region Business Banking Group for First Interstate Bank. He developed and implemented the centralized loan center for the 5 state region. The centralized center was responsible for underwriting, collecting and monitoring the portfolio of business loans under $250,000. Mr. Dahlstrom holds a Masters of Business Administration from City University in Seattle, Washington, and a Bachelor of Arts from California State University - Fullerton.

Donovan Wabs: *Senior Vice President, Director of Real Estate Lending*

Mr. Wabs has thirty-five years of banking experience. He began his career in 1963 after attending college at Oregon State in Business Administration. He has a strong background in real estate lending, especially income property. His career started in the Savings and Loan industry (then called Equitable S & L), where he held various positions as Department Head, Branch Manager of four different offices, and Vice President of the Largest production office (Salem) in the company. Most recently, he has served as Senior Loan Officer and then Vice President of American Pacific Bank's loan division, where he has been responsible for all real estate lending activities. Mr. Wabs is a member of Mortgage Brokers Association of America (MBA) and Oregon Bankers Association (OBA), where he sits on the state real estate committee. He has also held several organizational offices such as past President of Mortgage Bankers Association in Yakima, Washington, past Director of Oregon State Beaver Club, and Vice President of Corvallis Home Builders Association. He is also a graduate of the Northwest Banking School from the University of Washington.

YOUR MONEY AT WORK FOR YOU

American Pacific Bank has focused on areas of lending in which the risks can be minimized through experienced, decisive management and conservative underwriting practices.

Our success is not only measured by our earnings, but also by how we positively affect the communities we serve in our market areas. American Pacific Bank is committed to giving back to the communities we serve through community involvement and service.

Real estate finance and credit cards are our two largest lines of business. Consumer and business loans make up the remainder of the Bank's loan portfolio that continues to grow and be profitable.

Real Estate Lending

American Pacific Bank's Real Estate Lending Division operates primarily in the following three areas: Construction Lending for residential and commercial properties; residential and commercial portfolio lending; and, residential loan brokering.

The Bank's residential and commercial portfolio loans ended the last fiscal year with $30.1 million in outstanding balances. This was an increase of $4.5 million over the prior year representing a growth of 17.5%, even after the sale of approximately $3.7 million in permanent residential loans. Much of your Bank's residential portfolio is underwritten for sale on the secondary market providing the flexibility to maintain a high volume of loan availability, while at the same time providing liquidity to fund additional loans.

American Pacific Bank's loans range in size from $100,000 to $1,000,000. Projects greater than $1,000,000 are participated with other lenders. This allows us to be involved in the larger loans while at the same time maintaining a large and strong customer base.

Loan commitments for Construction / Commercial lending for Fiscal 1998 were in excess of $25 million while the Residential Lending Department generated an additional $21 million in residential loans. To diminish the speculative aspect of this business, the majority of the commitments are either portfolio loans, have a permanent loan take-out, or are sold on the secondary market.

During Fiscal 1998, the Residential Mortgage Department experienced significant growth as a result of hiring additional loan officers and additional loan processors. The additional fees resulting from this department has made a positive impact on your Bank's profits.

During Fiscal 1998, the Bank's entire Real Estate Lending Division experienced a significant gain in revenues over Fiscal 1997. Over $3 million in fee and interest income was generated, resulting in a 20% gain or $500,000 over the prior year.

Credit Card Lending

American Pacific Bank continued to be one of the best secured credit card lenders in the nation as rated by the credit card survey institutions such as Bank Rate Monitor and CardTrak. In addition to using a variety of marketing firms to market its credit card portfolio, we have implemented a printform feature on the Bank's website: www.apbank.com to save applicants' time in getting an application form. We had more than 50% of our application requests coming from the Bank's website! During 1998, we purchased two credit card portfolios from a bank in Oregon and an another bank in California. The usage of internet and acquisition of quality credit card portfolios to achieve growth continue to be the Bank's marketing emphasis in the future.

Secured credit cards require the account holder to deposit funds with the Bank in an amount equal to the credit limit of the account. The deposits for all secured credit card accounts provide significant protection against losses as well as an effective and inexpensive funding source to the Bank.

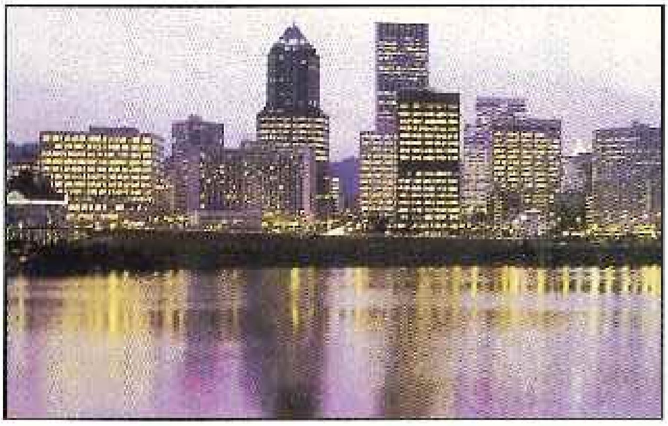
During 1998, our credit card portfolio was at $3.2 million at year end. More than 5,900 card holders nationwide generated almost $9 million in transactions during the year contributing to improved net earnings to the bank. Net losses on the average portfolio were at 3.27% which compares favorably to industry standards.

Other Banking Services

During fiscal 1998, your Bank's Customer Services Department continued to provide services to high networth individuals both from our traditional service area in the State of Oregon and people who live in the Pacific Rim countries.

Services offered to these customers include commercial and instalment loans, various types of mortgages, construction and/or permanent loans, and credit cards. Your Bank also provide Import Letters of Credit services to these individuals through its correspondent bank.

This department is regularly attracting new customers in the following categories: business organizations, business people, and new immigrants from the Pacific Rim area.



AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 1998, 1997, AND 1996

INDEPENDENT AUDITOR'S REPORT

MOSS-ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
American Pacific Bank

We have audited the accompanying balance sheets of American Pacific Bank as of December 31, 1998 and 1997, and the related statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These financial statements are the responsibility of American Pacific Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pacific Bank as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

Moss Adams LLP

Portland, Oregon
February 12, 1999

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

AMERICAN PACIFIC BANK
BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	1998	1997
Cash due from banks	$ 913,767	$ 871,272
Federal funds sold	10,460,000	4,545,000
Total cash and cash equivalents	11,373,767	5,416,272
Investment securities available-for-sale	2,036,632	5,703,667
Federal Reserve Bank stock	136,600	136,550
Loans held-for-sale	1,960,700	947,907
Loans, net of allowance for loan losses and unearned income	35,446,046	29,826,258
Land, buildings, equipment, and leasehold improvements, net	344,935	349,201
Accrued interest and other assets	576,269	734,509
Total assets	$ 51,874,949	$ 43,114,364

LIABILITIES AND STOCKHOLDERS' EQUITY	1998	1997
Deposits:		
Noninterest-bearing demand deposits	$ 2,219,118	$ 2,008,153
NOW and money market accounts	10,428,004	10,237,736
Savings and time deposits	34,346,463	26,455,676
Total deposits	46,993,585	38,701,565
Accrued interest and other liabilities	307,231	330,838
Total liabilities	47,300,816	39,032,403
COMMITMENTS AND CONTINGENCIES (Note 17)		
STOCKHOLDERS' EQUITY		
Class B common stock, no par value; 200,000,000 shares authorized, 1,134,275 shares issued and outstanding in 1998, 1,133,775 shares issued and outstanding in 1997	4,552,611	4,550,423
Surplus	905,000	905,000
Accumulated deficit	(885,856)	(1,354,549)
Accumulated other comprehensive income, net of taxes	2,378	(18,913)
Total stockholders' equity	4,574,133	4,081,961
Total liabilities and stockholders' equity	$ 51,874,949	$ 43,114,364

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	1998	1997	1996
INTEREST INCOME			
Interest and fees on loans	$ 4,010,335	$ 3,719,671	$ 2,951,407
Interest on investment securities			
U.S. Treasury securities	3,285	43,463	120,408
Obligations of U.S. Government agencies	253,097	420,376	612,935
Other domestic taxable securities	9,087	8,192	7,425
Interest on Federal funds sold	382,920	147,445	326,336
Total interest income	4,658,724	4,339,147	4,018,511
INTEREST EXPENSE			
Interest on deposits	1,857,674	1,536,786	1,543,091
Net interest income	2,801,050	2,802,361	2,475,420
PROVISION FOR LOAN LOSSES	61,665	215,357	199,679
Net interest income after provision for loan losses	2,739,385	2,587,004	2,275,741
NONINTEREST INCOME			
Service charges and fees	128,447	167,993	135,655
Real estate brokerage fees, net of commissions	63,604	31,617	37,219
Gain on sale of loans	68,176	-	-
Gain on the sale of available-for-sale securities	1,217	-	9,396
Other noninterest income	3,195	4,652	8,329
Total noninterest income	264,639	204,262	190,599
NONINTEREST EXPENSES			
Salaries and employee benefits	1,244,740	1,187,227	974,855
Occupancy and equipment expenses	291,432	296,127	285,013
Other operating expenses	925,484	1,052,917	934,620
Loss on sale of available-for-sale securities	-	400	-
Total noninterest expenses	2,461,656	2,536,671	2,194,488
INCOME BEFORE PROVISION FOR INCOME TAXES	542,368	254,595	271,852
INCOME TAX PROVISION (BENEFIT)	73,675	(81,247)	86,542
NET INCOME	468,693	335,842	185,310
OTHER COMPREHENSIVE INCOME			
Unrealized gain (loss) on securities, net of tax:			
Unrealized holding gain (loss) arising during period	$ 22,094	$ 43,522	$ (37,393)
Reclassification adjustment for (gain) loss included in net income	(803)	264	(6,201)
Other comprehensive income	21,291	43,786	(43,594)
COMPREHENSIVE INCOME	$ 489,984	$ 379,628	$ 141,716
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .41	$ .30	$ .20
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .39	$ .28	$ .20

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK CLASS A		COMMON STOCK CLASS B				ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT	SURPLUS	ACCUMULATED DEFICIT		
BALANCE, December 31, 1995	3,496,369	$ 4,028,800	-	$ -	$ 905,000	$ (1,875,701)	$ (19,105)	$ 3,038,994
ISSUANCE OF COMMON STOCK:								
Exercise of options	10,000	3,125	-	-	-	-	-	3,125
Stock rights offering	1,028,734	518,498	-	-	-	-	-	518,498
Net income and comprehensive income	-	-	-	-	-	185,310	(43,594)	141,716
BALANCE, December 31, 1996	4,535,103	4,550,423	-	-	905,000	(1,690,391)	(62,699)	3,702,333
1 for 4 reverse stock split	(3,401,328)	-	-	-	-	-	-	-
Conversion of Class A to Class B shares	(1,133,775)	(4,550,423)	1,133,775	4,550,423	-	-	-	-
Net income and comprehensive income	-	-	-	-	-	335,842	43,786	379,628
BALANCE, December 31, 1997	-	-	1,133,775	4,550,423	905,000	(1,354,549)	(18,913)	4,081,961
ISSUANCE OF COMMON STOCK:								
Exercise of options	-	-	500	2,188	-	-	-	2,188
Net income and comprehensive income	-	-	-	-	-	468,693	21,291	489,984
BALANCE, December 31, 1998	-	$ -	1,134,275	$ 4,552,611	$ 905,000	$ (885,856)	$ 2,378	$ 4,574,133

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 468,693	$ 335,842	$ 185,310
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(68,176)	-	-
Depreciation and amortization	43,178	56,495	64,396
Provision for loan losses	61,665	215,357	199,679
Loss (gain) on sale of available-for-sale securities	(1,217)	400	(9,396)
Gain on sale of other real estate owned	-	-	(7,428)
Deferred income taxes	62,032	(81,247)	86,542
Net originations of loans held-for-sale	(944,617)	(966,809)	-
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	85,240	124,916	(192,032)
Increase (decrease) in accrued interest and other liabilities	(23,607)	32,361	(213,897)
Net cash from operating activities	(316,809)	(282,685)	113,174
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(1,116,902)	-	(8,464,196)
Purchases of Federal Reserve Bank stock	(50)	(200)	(15,650)
Proceeds from maturity of available-for-sale securities	4,423,855	3,121,861	4,434,623
Proceeds from sale of available-for-sale securities	400,000	1,497,094	2,885,781
Loans originated, net of principal repayments	(5,074,936)	(6,250,996)	(8,081,470)
Proceeds from sale of credit card portfolio	-	-	4,665,044
Purchase of credit card portfolios	(606,517)	-	(68,052)
Purchase of building improvements, equipment, and furniture	(45,354)	(38,254)	(10,246)
Proceeds from sale of other real estate owned	-	-	133,479
Net cash from investing activities	(2,019,904)	(1,670,495)	(4,520,687)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in noninterest-bearing demand, NOW, money market, and savings deposit accounts	$ 794,749	$ 1,643,337	$ 1,377,196
Net increase (decrease) in time accounts	7,497,271	3,167,716	(7,480,287)
Issuance of common stock	2,188	-	521,623
Net cash from financing activities	8,294,208	4,811,053	(5,581,468)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,957,495	2,857,873	(9,988,981)
CASH AND CASH EQUIVALENTS, beginning of year	5,416,272	2,558,399	12,547,380
CASH AND CASH EQUIVALENTS, end of year	$ 11,373,767	$ 5,416,272	$ 2,558,399
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 1,900,230	$ 1,578,137	$ 1,717,083
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Unrealized gain (loss) on available-for-sale securities, net of taxes	$ 21,291	$ 43,786	$ (43,954)

See accompanying notes.

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – American Pacific Bank is a state-chartered bank authorized to provide banking services by the State of Oregon. The Bank, originally headquartered in Aumsville, Oregon, had one branch located in Mill City, Oregon and a real estate loan production office serving the Portland, Oregon and Vancouver, Washington metropolitan areas. During 1997, the Bank obtained both shareholder and State regulatory approval to move the Bank's headquarters to Mill City, with the intent of eventually moving the headquarters from the Mill City Branch to Portland. The transfer to Portland was accomplished in May 1998, at which time the Mill City Branch was closed. The former customers of the Mill City branch are now served by the Aumsville branch.

As a member of the Federal Reserve System and Federal Deposit Insurance Corporation (FDIC), the Bank is subject to the regulations of these federal agencies as well as the regulations of the Oregon State Department of Insurance and Finance. These regulatory agencies periodically conduct examinations of the Bank. Examinations by both the State of Oregon and the Federal Reserve took place in 1998, 1997, and 1996.

In July 1993, the Bank entered into a Written Agreement (Agreement) with the Regulatory agencies. Such agreement limited the payment of dividends, required maintenance of specified levels of capital and related ratios, committed the Bank to improve the quality of its loan portfolio, and to improve certain other operational matters. As the Bank was in compliance with all the terms of the Agreement and management has improved the Bank's condition in accordance with the purpose of the Agreement, it was terminated effective June 30, 1998.

Management's estimates and assumptions – In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Estimates and assumptions made by management primarily involve the valuation of the allowance for loan losses. Actual results could differ significantly from those estimates.

Investment securities – The Bank is required to specifically identify its investment securities as held-to-maturity, available-for-sale, or trading accounts. Accordingly, management has determined that all investment securities held as of December 31, 1998 and 1997, are available-for-sale and conform to the following accounting policy:

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

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

Loans, net of allowance for loan losses and unearned income – Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and unearned income. Interest on loans is calculated by using the simple-interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's market price or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses and losses on other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 1998, 1997, and 1996. The accompanying financial statements reflect any accounting adjustments required as a result of the regulatory examinations.

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

Loan servicing – The Bank sells mortgage loans primarily on a servicing released basis and recognizes a cash or a present value gain or loss. A cash gain or loss is recognized to the extent that the sales proceeds of the mortgage loans sold exceed or are less than the net book value at the time of sale. Loan servicing income is recorded when earned. Loan servicing costs are charged to expense as incurred.

Land, buildings, equipment, and leasehold improvements – Land, buildings, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

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

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

Income taxes – Deferred tax assets and liabilities are determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Statement of cash flows – For the purpose of presentation in the statement of cash flows, cash and cash equivalents are generally all short-term investments with a maturity of three months or less. Cash and cash equivalents normally include cash on hand, amounts due from banks, and federal funds sold.

Off-balance-sheet financial instruments – The Bank holds no derivative financial statements. However, in the ordinary course of business the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when the credits are funded or related fees are earned.

Fair value of financial instruments – The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalents – The carrying amounts of cash and short-term instruments approximate their fair value.

Available-for-sale securities – Fair values for investment securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Federal Reserve Bank stock – The carrying value of Federal Reserve Bank stock approximates its fair value.

Loans held-for-sale – Fair value represents the anticipated proceeds from sale of the loans.

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

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

Accrued interest and other assets and liabilities – The carrying amounts of accrued interest and other assets and liabilities approximate their fair values.

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

Stock options – The Bank measures compensation cost using the intrinsic value method, which computes compensation cost as the difference between a company's stock price and the option price at the grant date. Accordingly, no compensation cost has been recognized for its stock option plans.

Recently issued accounting standards – In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130 Reporting Comprehensive Income. This statement establishes standards for reporting comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of financial statements. This Statement requires that the Bank recognize the unrealized gain or loss on available-for-sale securities as a component of comprehensive income. This Statement is effective for the year ended December 31, 1998.

Other issued but not yet required FASB statements are not currently applicable to the Bank's operations. Management believes these pronouncements will have no material impact upon the Bank's financial position or results of operation.

Reclassifications – Certain reclassifications have been made to the 1997 and 1996 financial statements to conform with current year presentations.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated market values of investment securities are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
December 31, 1998				
Available-for-sale securities:				
Collateralized mortgage obligations	$ 1,963,029	$ 3,949	$ -	$ 1,966,978
Municipal securities	70,000	-	(346)	69,654
	$ 2,033,029	$ 3,949	$ (346)	$ 2,036,632
December 31, 1997				
Available-for-sale securities:				
U.S. Treasury securities	$ 399,545	$ -	$ (45)	$ 399,500
Collateralized mortgage obligations	2,387,095	-	(21,087)	2,366,008
Debentures	2,945,683	-	(7,524)	2,938,159
	$ 5,732,323	$ -	$ (28,656)	$ 5,703,667

The amortized cost and estimated market value of investment securities as of December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE-FOR-SALE SECURITIES	
	AMORTIZED COST	ESTIMATED MARKET VALUE
Due in one year or less	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	50,000	50,175
Due after ten years	20,000	19,479
Collateralized mortgage obligations	1,963,029	1,966,978
	$ 2,033,029	$ 2,036,632

As of December 31, 1998 and 1997, investment securities with an amortized cost of $750,000 and $800,000 respectively, were pledged to secure deposits of public funds.

The Bank, as a member of the Federal Reserve Bank system, is required to maintain an investment in capital stock of the Federal Reserve Bank. This stock is not actively traded but is redeemable by the Federal Reserve Bank at its current book value.

NOTE 3 – LOANS, NET OF ALLOWANCE FOR LOAN LOSSES AND UNEARNED INCOME

The composition of loan balances is summarized as follows:

	1998	1997
Commercial	$ 17,589,586	$ 13,074,947
Real estate – construction	10,535,312	7,232,273
Real estate – permanent	4,359,254	6,729,807
Credit cards	3,182,467	2,811,284
Installment	292,023	516,757
Overdraft accounts	11,112	7,401
	35,967,754	30,372,469
Allowance for loan losses	(428,542)	(458,624)
Unearned income	(93,166)	(87,587)
	$ 35,446,046	$ 29,826,258

Changes in the allowance for loan losses were as follows:

	1998	1997	1996
BALANCE, beginning of year	$ 458,624	$ 345,839	$ 264,169
Provision for loan losses	61,665	215,357	199,679
Loans charged-off	(102,809)	(110,825)	(122,972)
Recoveries on loans previously charged-off	11,062	8,253	4,963
BALANCE, end of year	$ 428,542	$ 458,624	$ 345,839

Impaired loans having recorded balances of $35,674 on December 31, 1998, and $40,566 on December 31, 1997, have been recognized in conformity with SFAS No. 114, as amended by SFAS No. 118. The total allowance for loan losses related to these loans was $5,351 and $1,067 on December 31, 1998 and 1997, respectively. Interest income on impaired loans of $191 and $14,648 was recognized for cash payments received in 1998 and 1996, respectively. No interest income was recognized for cash payments received in 1997. Had the impaired loans performed according to their original terms, additional interest income of $3,628, $4,313, and $3,051 would have been recognized during 1998, 1997, and 1996, respectively.

The maturity range of the loan portfolio as of December 31, 1998, is as follows:

	DUE IN ONE YEAR OR LESS	DUE AFTER ONE THROUGH FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
Commercial and real estate	$ 14,825,220	$ 9,383,093	$ 8,238,608	$ 32,446,921
Credit card loans	3,182,467	-	-	3,182,467
Installment loans and overdrafts	230,471	72,664	-	303,135
	$ 18,238,158	$ 9,455,757	$ 8,238,608	35,932,523
Nonaccrual loans				35,231
				$ 35,967,754
Fixed-rate loans	$ 11,290,265	$ 1,867,451	$ 8,238,608	$ 21,396,324
Adjustable rate loans	6,947,893	7,588,306	-	14,536,199
	$ 18,238,158	$ 9,455,757	$ 8,238,608	35,932,523
Nonaccrual loans				35,231
				$ 35,967,754

NOTE 4 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	1998	1997
Accrued interest receivable	$ 195,195	$ 238,871
Deferred income taxes	192,225	254,257
Credit card receivables	127,254	152,799
Prepaid expenses	47,491	61,597
Other receivables	14,104	27,045
	$ 576,269	$ 734,509

NOTE 5 – LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Major classifications of land, buildings, equipment, and leasehold improvements are summarized as follows:

	1998	1997
Land	$ 35,465	$ 35,465
Buildings	302,021	299,306
Equipment	570,965	530,740
Leasehold improvements	3,322	12,347
	911,773	877,858
Accumulated depreciation and amortization	(566,838)	(528,657)
	$ 344,935	$ 349,201

NOTE 6 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $5,541,731 as of December 31, 1998 and $4,147,273 as of December 31, 1997.

The scheduled maturities for time certificates of deposit of $100,000 or more and all other time deposits are as follows as of December 31, 1998:

	TIME CERTIFICATES OF $100,000 OR MORE	ALL OTHER TIME DEPOSITS
1999	$ 4,247,994	$ 23,036,551
2000	1,293,737	3,326,990
2001	-	391,880
	$ 5,541,731	$ 26,755,421

NOTE 7 – OTHER OPERATING EXPENSES

Other operating expenses for 1998, 1997, and 1996, were comprised of the following:

	1998	1997	1996
Credit card expense	$ 282,292	$ 358,180	$ 278,505
Data processing expenses	141,641	133,349	159,256
Professional services	89,759	124,367	118,895
Telephone, postage, and wire transfer expenses	156,245	155,545	147,610
Insurance	59,539	62,900	52,502
Stationery, supplies, and printing expenses	44,830	37,527	51,649
Advertising	20,784	26,289	21,353
Automatic teller machine processing fees	8,058	7,610	8,343
Public relations and business development	14,253	10,718	15,888
NSF and other operating losses	7,855	5,651	2,496
Other operating expenses	100,232	150,781	68,322
	$ 925,484	$ 1,052,917	$ 934,620

NOTE 8 – INCOME TAXES

The income tax provision consists of the following:

	1998	1997	1996
Current	$ 11,643	$ -	$ -
Deferred	62,032	(81,247)	86,542
Income tax provision (benefit)	$ 73,675	$ (81,247)	$ 86,542

The 1998, 1997, and 1996 provisions for income taxes differ from amounts computed using statutory rates as follows:

	1998	1997	1996
Federal income taxes at statutory rates	$ 159,356	$ 89,742	$ 103,303
State income taxes, net of federal benefit	20,416	6,968	11,124
Decrease in valuation allowance	(149,689)	(142,000)	(47,862)
Other differences	43,592	(35,957)	19,977
	$ 73,675	$ (81,247)	$ 86,542

Deferred tax asset and liability accounts consisted of the following as of December 31, 1998 and 1997:

	1998	1997
Deferred tax assets:		
Loan loss reserve	$ 65,974	$ 77,405
Net operating loss carryforward	145,906	348,096
	211,880	425,501
Deferred tax liabilities:		
Accumulated depreciation	(19,655)	(21,555)
Valuation allowance	-	(149,689)
Net deferred tax assets	$ 192,225	$ 254,257

As of December 31, 1998, the Bank had net operating loss carryforwards available to offset future income taxes in the approximate amount of $405.800. These carryforwards expire in 2009.

NOTE 9 – BANKCARD AGREEMENTS AND CREDIT CARD TRANSACTIONS

In May 1991, the Bank entered into a Bankcard Program Development Agreement with IJL Corporation (currently known as Renaissance Bankcard Services), with the intent of utilizing Renaissance's expertise in the development of its own secured and guaranteed consumer Visa and Mastercard programs. During 1996, the Bank and Renaissance completed a settlement agreement and mutual release, the effect of which included the sale of $15,456,590 of the Bank's credit card portfolio in 1996. As a condition of the agreement termination, Renaissance received a fee of 10% of the net profit from all retained credit card accounts for a period of 24 months.

These consumer credit card accounts were originally required to be fully secured with time certificates of deposit at the Bank. The majority of these accounts have become partially unsecured with the passage of time due to the customer's creditworthiness. Total outstanding balances under both the fully and graduated secured credit card programs were $1,612,320 and $2,133,642 as of December 31, 1998 and 1997, respectively.

The remaining credit card portfolio consists of secured and unsecured accounts which are serviced and reported by Western States Bancard Association (WSBA). The Bank has assumed all risk management responsibilities including collection and due diligence procedures. WSBA provides all other portfolio service requirements. Unsecured accounts totaled $822,379 and $302,067; secured accounts totaled $747,768 and $375,575 as of December 31, 1998 and 1997, respectively.

For the years ending December 31, 1998, 1997, and 1996, the Bank's net interest margin on credit card accounts was as follows:

	1998	1997	1996
Interest and fee income	$ 863,618	$ 951,206	$ 980,917
Interest expense	308,307	365,177	543,188
Net interest margin	$ 555,311	$ 586,029	$ 437,729

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial loan activity is to customers located near its headquarters and branch office. These geographical areas are primarily involved in metropolitan business and residential development activities. As of December 31, 1998 and 1997, commercial loans were 49% and 43%, respectively, of the Bank's loan portfolio.

The Bank's real estate lending department in Portland, Oregon makes real estate construction loans to builders and their customers in the Portland, Oregon and Vancouver, Washington metropolitan areas. The office also provides real estate mortgage brokerage services to its customers for which it receives fee and commission income. As of December 31, 1998 and 1997, 29% and 24%, respectively, of the Bank's loan portfolio was comprised of real estate construction loans.

The Bank makes credit card loans to qualified individuals throughout the United States. As of December 31, 1998, 9% of the Banks loan portfolio was comprised of outstanding credit card balances.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loan included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features. As of December 31, 1998 and 1997, credit card loans with outstanding balances of $16,755 and $20,641, respectively, were outstanding to related parties. Additionally, $1,000,000 of related party real estate loans were funded during 1998, and subsequently sold prior to year-end.

NOTE 12 – COMMON STOCK TRANSACTIONS

Capital stock – During May 1997, the Bank amended its Articles of Incorporation to provide for the conversion of all Class A common stock to newly issued Class B common stock. One share of Class B stock was issued for four shares of Class A stock. Each share of Class B stock is entitled to the same rights and privileges as the Class A stock, and is entitled to vote.

Stock offerings – In October 1994, the Bank issued an offering memorandum for the sale of 3,500,000 shares of Class A common stock at $.50 per share. The offering was originally to expire on March 31, 1995, but was further extended by the Board of Directors until September 30, 1995. In October 1995, the Bank issued another offering memorandum for the sale of up to 3,414,521 shares of Class A common stock at $.50 for a 35-day period ending November 21, 1995. This offering was also further extended by Board approval. As of December 31, 1996, additional capital of $570,922 was raised as a result of these offerings.

Stock option plans – In April 1992, shareholders of the Bank approved the 1992 Restated Nonqualified Stock Option Plan for Employees (Employee Plan) and the Restated Nondiscretionary Stock Option Plan for Nonemployee Directors (Outside Director Plan).

The Employee Plan provides for the grant of options to employees up to an aggregate of 122,500 shares of the Bank's Class B common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. Under the plan, options may be exercised only while the grantee is an employee or within 12 months following termination of employment. The plan became effective upon stockholder approval and will terminate ten years after the effective date. As of December 31, 1998, options for 100,900 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This plan provides for the grant of options to directors up to an aggregate of 9,750 shares of the Bank's Class B common stock. The plan is administered by a committee of the Board of Directors which specifies the conditions, timing, and exercise price of grants of options. Under the plan, options may be exercised only while the grantee serves as a director or within 12 months following termination as a director. The exercise price for options may not be less than 85% of fair market value of the stock on the date of grant. Similar to the Employee Plan, the Outside Director Plan became effective in April 1992, and will terminate in ten years. As of December 31, 1998, options for 4,250 shares of common stock were outstanding under the Outside Director Plan.

Both Restated Plans for employees and directors have two restrictions in the recipient's exercise rights. First, recipients may not exercise options until after six months from the grant date. Further, the Bank may require recipients not to dispose of exercised shares for up to 12 months from the completion of an underwritten public offering of the Bank's securities.

The following summarizes options available and outstanding under both the Director and Employee Plans as of December 31, 1998, after the effect of the 1997 reverse stock split.

	OUTSIDE DIRECTOR PLAN		EMPLOYEE PLAN		COMBINED PLANS
	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES
Options outstanding as of December 31, 1995	9,250	$ 9.02	94,125	$1.25	103,375
Options granted in 1996	-	$ -	2,500	$1.25	2,500
Options exercised in 1996	-	$ -	(2,500)	$1.25	(2,500)
Options cancelled in 1996	-	$ -	-	$	-
Options outstanding as of December 31, 1996	9,250	$ 9.02	94,125	$1.25	103,375
Options exercisable as of December 31, 1996	9,250	$ 9.02	94,125	$1.25	103,375
Options reserved as of December 31, 1996	500		25,875		26,375
Options outstanding as of December 31, 1996	9,250	$ 9.02	94,125	$1.25	103,375
Options granted in 1997	-	$ -	4,500	$2.28	4,500
Options exercised in 1997		$	-	$ -	-
Options cancelled in 1997	(5,000)	$12.00	(625)	$1.25	(5,625)
Options outstanding as of December 31, 1997	4,250	$ 5.52	98,000	$1.26	102,250
Options exercisable as of December 31, 1997	4,250	$ 5.52	98,000	$1.26	102,250
Options reserved as of December 31, 1997	5,500		22,000		27,500
Options outstanding as of December 31, 1997	4,250	$ 5.52	98,000	$1.26	102,250
Options granted in 1998	500	$ 4.38	5,400	$4.38	5,900
Options exercised in 1998	(500)	$ 4.38	-	$ -	(500)
Options cancelled in 1998		$	(2,500)	$1.25	(2,500)
Options outstanding as of December 31, 1998	4,250	$ 5.52	100,900	$1.46	105,150
Options exercisable as of December 31, 1998	4,250	$ 5.52	100,900	$1.46	105,150
Options reserved as of December 31, 1998	5,000		19,100		24,100

NOTE 13 – EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES

During the year ended December 31, 1997, the Bank effected a 1 for 4 reverse stock split. The earnings per common and common equivalent share calculation has been restated to reflect the reverse stock split for all periods presented.

SFAS No. 128, Earnings Per Share requires a dual presentation of basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options under the Bank's stock option plans. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 1998, 1997, and 1996:

1998	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Basic earnings per share			
Income available to common shareholders	$468,693	1,134,028	$0.41
Effect of dilutive securities:			
Outstanding common stock options	-	60,071	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$468,693	1,194,099	$0.39
1997			
Basic earnings per share			
Income available to common shareholders	$335,842	1,133,775	$0.30
Effect of dilutive securities:			
Outstanding common stock options	-	72,615	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$335,842	1,206,390	$0.28
1996			
Basic earnings per share			
Income available to common shareholders	$185,310	949,390	$0.20
Effect of dilutive securities:			
Outstanding common stock options	-	38,757	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$185,310	987,147	$0.2[illegible]

NOTE 14 – EMPLOYEE BENEFIT PLANS

The Bank maintains a 401(k) Retirement Salary Savings and Profit Sharing Plan. All permanent employees are eligible once they meet the age and service requirements. Employer contributions match 50% of all qualified employee contributions, to a maximum of 3% of annual salary. Employer contributions of $21,043 and $18,543 were made for the years ended December 31, 1998 and 1997, respectively. No employer contributions were made for the year ended December 31, 1996.

NOTE 15 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

Unless noted otherwise, the Bank requires collateral or other security to support financial instruments with credit risk.

	CONTRACT AMOUNT AS OF DECEMBER 31, 1998	1997
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$ 5,077,228	$ 4,088,949
Credit card commitments	4,468,691	2,703,092
Line of credit commitments	367,227	162,213
Letters of credit	61,000	40,000
	$ 9,974,146	$ 6,994,254

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include depository accounts held by the Bank, accounts receivable, inventory, property, equipment, and income producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the estimated fair value and the related carrying values of the Bank's financial instruments as of December 31, 1998 and 1997.

	1998 CARRYING AMOUNT	1998 ESTIMATED FAIR VALUE	1997 CARRYING AMOUNT	1997 ESTIMATED FAIR VALUE
Cash and due from banks	$ 913,767	$ 913,767	$ 871,272	$ 871,272
Federal funds sold	$ 10,460,000	$ 10,460,000	$ 4,545,000	$ 4,545,000
Investment securities available-for-sale	$ 2,036,632	$ 2,036,632	$ 5,703,667	$ 5,703,667
Federal Reserve Bank stock	$ 136,900	$ 136,900	$ 136,550	$ 136,550
Loans held for sale	$ 1,960,700	$ 1,960,700	$ 947,907	$ 947,907
Loans, net of allowance for loan losses and unearned income	$ 35,443,046	$ 35,800,506	$ 29,826,258	$ 30,313,348
Accrued interest and other receivables	$ 336,553	$ 336,553	$ 418,655	$ 418,655
Noninterest-bearing demand deposits	$ 2,219,118	$ 2,219,118	$ 2,008,153	$ 2,008,153
NOW and money market accounts	$ 10,428,004	$ 10,428,004	$ 10,237,736	$ 10,357,733
Savings and time deposits	$ 34,946,459	$ 34,404,459	$ 26,435,676	$ 27,017,690
Accrued interest and other liabilities	$ 307,231	$ 307,231	$ 330,838	$ 330,838

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that, were the Bank to have disposed of such items at December 31, 1998, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 1998, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, nonfinancial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the earnings potential of loan servicing rights, customer goodwill, and similar items.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments – As of December 31, 1998, 1997, and 1996, the Bank leased certain branch facilities and equipment. Rent expense for 1998, 1997, and 1996 was $150,000, $154,644, and $145,302, respectively. The approximate minimum annual commitment for rentals under these operating leases is summarized as follows:

YEARS ENDING DECEMBER 31,	
1999	$ 122,778
2000	120,167
	$ 242,945

Legal contingencies – In the ordinary course of business, the Bank may become involved in various other litigation arising from normal bank activities. In the opinion of management, the ultimate disposition of these actions will not have a material adverse effect on the Bank's financial position or results of operations.

Year 2000 issue – The Year 2000 (Y2K) issue is the result of older computer programs being written using two digits rather than four to define the applicable year. A computer program that has date-sensitive software may recognize a date using 00 as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruption of operations including, among other things, a temporary inability to process transactions, send statements, or engage in similar normal business activities.

Based on an assessment of computer hardware, software, and other equipment operated by the Bank, management presently believes that all equipment and programs will be Y2K compliant by June 30, 1999. A program for addressing the Y2K issue through awareness, assessment, renovation, and testing has been developed and implemented. The costs of implementing and completing the program's phases have not been of a material nature and should continue to be minimal through program completion.

The Bank has initiated formal communications with all significant suppliers to determine the extent to which they are vulnerable to those third parties' failures to remedy their own Y2K impact issues. Third-party responses have indicated satisfactory progress in addressing any needs for equipment or software renovation. The Bank's large customers are also being contacted to build Y2K awareness and encourage early solutions regarding potential business disruption due to processing failures. There can be no guarantee that the systems of other companies on which the Bank's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Bank's systems, would not have a material adverse effect on the Bank. However, the Bank will test for the Y2K preparedness of all internal functions and external functions provided by third parties whenever possible.

NOTE 18 – REGULATORY MATTERS

As of December 31, 1998, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 1998 (in thousands)						
Total capital to risk-weighted assets	$5,000	13.5%	$2,970	≥8.0%	$3,712	≥10.0%
Tier 1 capital to risk-weighted assets	$4,571	12.3%	$1,485	≥4.0%	$2,227	≥6.0%
Tier 1 capital to average assets	$4,571	9.2%	$1,961	≥4.0%	$2,476	≥5.0%
As of December 31, 1997 (in thousands)						
Total capital to risk-weighted assets	$4,338	15.0%	$2,326	≥8.0%	$2,908	≥10.0%
Tier 1 capital to risk-weighted assets	$3,973	13.7%	$1,163	≥4.0%	$1,744	≥6.0%
Tier 1 capital to average assets	$3,973	9.2	$1,724	≥4.0%	$2,155	≥5.0%

-- End of Independent Auditor's Report --
And Financial Statements

CORPORATE DATA

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