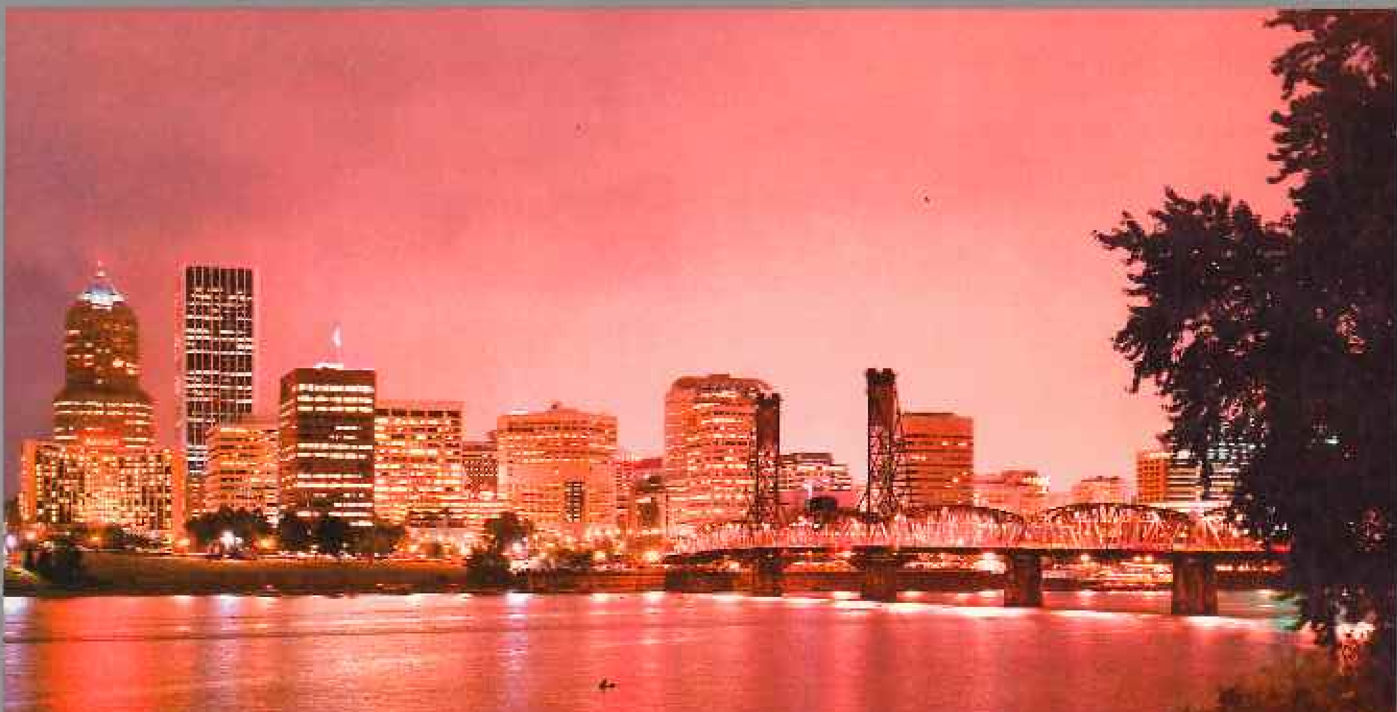
American Pacific Bank

Established 1979



2003 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	2003	2002	2001
Interest Income	$ 8,221	$ 7,558	$ 7,378
Interest Expense	2,154	2,296	3,685
Net Interest Income	6,067	5,262	3,693
Provision for Loan Losses	267	470	173
Other Income	217	465	534
Other Expenses	3,773	3,480	3,180
Income Before Income Taxes	2,244	1,777	873
Income Taxes/(Benefit)	853	675	336
Net Income	1,391	1,102	537
PER SHARE DATA			
Net Income Per Share	0.85	0.73	0.41
Book Value Per Share	6.06	5.29	4.47
BALANCES AT YEAR END			
Total Assets	108,312	100,423	75,749
Loans (Net of Loan Loss and Unearned Income)	97,983	86,236	69,977
Total Deposits	84,020	79,534	57,577
Shareholders' Equity	11,334	8,577	6,782
SELECTED STATISTICS (in percentages)			
Return on Average Assets	1.27%	1.23%	0.68%
Return on Average Equity	14.35%	14.70%	8.30%
Average Equity to Average Assets	8.88%	8.34%	8.24%
Net Interest Margin to Average Assets	6.06%	5.86%	4.70%
Interest Income to Average Earning Assets	7.53%	8.79%	10.09%

COMMON STOCK TRADING INFORMATON

Fiscal Year Ended Dec. 31, 2003	High	Low
Fourth Quarter	$8.50	$7.05
Third Quarter	7.99	6.70
Second Quarter	7.57	5.65
First Quarter	6.00	4.90

Fiscal Year Ended Dec. 31, 2002	High	Low
Fourth Quarter	$5.53	$4.69
Third Quarter	5.95	4.00
Second Quarter	5.86	3.90
First Quarter	3.98	2.99

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 regulated and its deposits are insured by the Federal Deposit Insurance Corporation. American Pacific Bank has traded within the NASDAQ systems (Symbol AMPB) 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 has continued to evolve from its beginnings as a small community bank into an institution with the strength to have an impact on the financial community encompassing the Pacific Rim. The scope of the Bank has increased to satisfy not only the needs of the people where it originated, but to also provide credit card services in addition to real estate, commercial, and personal lending 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 construction lending, commercial loans, business financing, consumer loans, credit cards and deposit services. The Bank relocated to its new headquarters in the financial district of downtown Portland in January 2000 and also provides full Internet banking and bill payment services to its customers through its online delivery channel, American Online Pacific Bank. On March 1, 2001, the Bank opened its new Wood Village Branch in Wal-Mart on the East Side of Portland. American Pacific Bank's future will continue to be characterized by continued growth and profitability.

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

Message from Chairman and President

March 15, 2004

Dear Shareholders and Friends,

As American Pacific Bank approaches its 25th Anniversary, we reflect with pride on our past close relationship with the community.

We believe that the success of American Pacific Bank is a direct result of management's philosophy that "the Bank can profit only when its customers also profit." This way of doing business has allowed us to grow in spite of difficult economic times.

Net earnings after taxes for the twelve months ended December 2003 were $1,391,542 or $0.85 per share, as compared to $1,101,598 or $0.73 per share reported for the same fiscal period last year. This represented an increase of $289,944 or 26%.

We exceeded $100 million in assets at year-end 2003, profits were the highest in our history and overall asset quality was excellent.

Shareholders approved American Pacific's holding company last year and we are now simply awaiting regulatory approval to implement changes afforded by the new structure.

Combining these changes with our strategically located branches and "American Online Pacific Bank" (www.apbank.com) delivery channel, we will be able to provide even better services to our customers in the years to come.

We look forward to continuing to assist all our existing and future customers with the high level of commitment that has been our trademark.

Yours truly,

Fai H. Chan
Chairman, Board of Directors

David T. Chen
President and Chief Executive Officer

"Our online banking services will provide extended banking services to our customers beyond the traditional boundary."
Fai H. Chan

"We have positioned ourselves to meet our customers' needs with friendly and efficient services."
David T. Chen

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

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 $78 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*

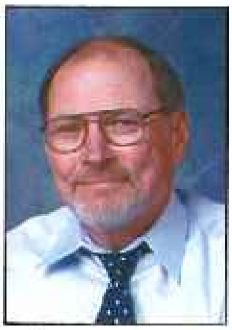
Mr. Chen began his career with the National Bank of Commerce (later called Ranier Bank) in Seattle, Washington in 1966. In 1970, he entered the public sector serving as the Finance Director for various municipalities. The most recent of these was the city of Beaverton, Oregon where he was directly responsible 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 the Oregon State Treasurer to serve as a Board member for the Oregon Facility Authority.

Tong Wan Chan: *Member of the Board of Directors*

Tong Wan Chan, known as Tony Chan, graduated from the University of British Columbia with a Bachelors of Commerce majoring in Finance. He holds a Series 7 and Series 24 licenses. He began his career as an investment banking specializing in Asian equity financial products for Peregrine Investment Holding Limited (PIHL) in Hong Kong. Mr. Chan was one of four people responsible for structuring and marketing for Peregrine Derivatives, a subsidiary PIHL, which produced annual recurring profits of $20 to $30 million. More recently, Mr. Chan worked as an Investment Banker for Commerzbank, Global Equities, where he was involved in the establishment of a new regional business center in Hong Kong for the Global Equities Division. Since July 1999, Mr. Chan has worked for American Frontier Financial Corporation as an Investment Banker specializing in the coordination of the Company's high tech and emerging Internet related strategic funding activities. He is now the Executive Director of an Asian conglomerate called Heng Fung Holdings and has been focusing on the corporate activity of Heng Fung Holdings specifically in strategic investments.

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: *Executive Vice President, Chief Financial and Operations Officer and Corporate Secretary*

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 responsibilities in personnel, operations, and accountability for all financial and accounting aspects of the Bank.

Mr. Cheong holds an MBA and a Bachelor of Business Administration, both in Finance, from the University of Oregon. He is active in the local community with Junior Achievement and the Oregon Northwest China Council, and has served on the Board of Loaves and Fishes, Inc., United Way of Oregon and Kids N Tennis.

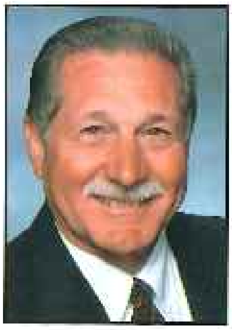
Steven Brown:
Senior Vice President and Chief Credit Officer

Mr. Brown started his banking career in 1981 with US Bank and remained for 21 years. His career has focused on lending and credit administration. Between 1981 and 1987, he held various branch consumer and commercial lending positions in Southern Oregon and the Willamette Valley. Between 1987 and 2002, he held various credit and credit administration positions, gaining exposure to all of the company's lending and credit functions. As a lending Relationship Manager, he managed a multi-million dollar loan and deposit portfolio. As a Credit Risk Assessment and Administration officer, he was promoted to VP. He was later promoted to VP and Credit Approval Officer.

As American Pacific Bank's Senior VP and Chief Credit Officer, Mr. Brown's responsibilities include maintaining credit quality goals and managing loan policy and the loan approval process. He is the chair of the Loan Committee and manages loan administration functions.

Mr. Brown holds a Bachelor's Degree in Business Administration in Marketing from the University of Oregon, and is a graduate of the Pacific Coast Banking School at the University of Washington.

Donovan Wahs:
Senior Vice President, Director of Real Estate Lending



Mr. Wahs has over forty years of banking experience. He began his career in 1963 after attending college at Oregon State University in Business Administration. He has a strong background in real estate lending, especially income property. His career started at Equitable Savings and Loan, where he held such various positions as Department Head, Branch Manager of four different offices, and Vice President of the largest loan production office in the company.

Since joining American Pacific Bank in 1992, he has had responsibility for all real estate lending activities. Mr. Wahs is affiliated with the Mortgage Bankers Association of America and the Oregon Bankers Association, where he sits on the State Real Estate Committee. Mr. Wahs is also a member of the Network of Oregon Affordable Housing (NOAH) Loan Committee and the Troubled Assets Committee. Previously, he has held positions in several organizational offices, such as past President of the Mortgage Bankers Association in Yakima, Washington; past Director of the Oregon State Beaver Club; and Vice President of the Corvallis Homes Builders Association. He is also a graduate of the Northwest Banking School from the University of Washington.

YOUR BANK AT WORK

American Pacific Bank measures its success in many ways: customer satisfaction, profitability, growth, and contributions to the diverse communities that we serve.

At the core of our lending programs is a credit philosophy focused on knowing our customer and understanding the borrower's ability to repay the loan. This approach, combined with experienced and decisive management, minimizes risk and maximizes profitability and customer satisfaction.

The success of our commercial real estate, business and credit card lending programs is evidenced by the interest income and fee generation of $8.0 million, resulting in an average yield on loans of 7.46%. This has been accomplished without compromising asset quality, as shown by our past due ratio of 0.98%, non-performing asset ratio of 0.23%, and net loan loss ratio of 0.2%.

Real Estate Lending Division

American Pacific Bank's Real Estate Lending Division focuses primarily on mini-perm lending for commercial and residential properties and construction financing for residential and commercial buildings.

The Real Estate Division ended 2003 with $80.9 million in loans. A total of $43.7 million was originated by the Real Estate Division during 2003. This produced a solid growth in revenue of almost $6 million in interest and fee income for a 13.6% return.

Real estate loans range in size from $250,000 to $3,000,000. Loans above this range are participated with other lenders, allowing us to take part in larger projects while minimizing our risk exposure.

To mitigate the risks inherent in construction and commercial real estate loans, the Bank actively manages this portfolio through frequent inspections, controlled disbursements, variable interest rate pricing with pre-established floor rates, and sales to the secondary market if needed.

Business Lending Division

The Business Lending Division provides small businesses with lines of credit, term financing, SBA loans, and cash management products. It ended 2003 with $13.8 million in loans outstanding.

During 2003, the Business Lending Division contributed $1,053,000 in interest and fee income and over $1.3 million in deposits. The Management is pleased with the progress of this Division and looks forward to growing its contribution to the Bank's profitability and further diversifying the risk and income of the loan portfolio.

Bankcard Center

American Pacific Bank continues to be one of the best values in the nation in secured credit card products, as rated by CardTrak.

Secured credit cards require the account holder to deposit funds with the Bank in an amount equal to, or greater than, the credit limit of the account. The deposits for the secured credit cards not only provide protection against losses, but also provide an effective and inexpensive funding source to the Bank.

The Bankcard Center ended 2003 with a credit card portfolio of $3.9 million and $993,000 in interest and fee income, an income increase of 26% over the prior year. The net charge-off rate during 2003 was 4.9%, which was less than the national average.

American Online Pacific Bank

Our fully transactional Internet branch, American Online Pacific Bank (www.apbank.com), continues to be used by more customers, providing state-of-the-art conveniences.

Other Banking Services

Through three strategically located branches, American Pacific Bank provides quality personal service to individuals and business throughout the Bank's trade area. A special niche the Bank serves is immigrants and clientele from the Pacific Rim and Latin America, with bilingual customer service tailored to their unique needs.

AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002, AND 2001

INDEPENDENT AUDITOR'S REPORT

MOSS ADAMS LLP

CERTIFIED PUBLIC ACCOUNTS

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, 2003 and 2002, 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, 2003. 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 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 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, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
February 10, 2004

AMERICAN PACIFIC BANK
BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	2003	2002
Cash due from banks	$ 1,155,545	$ 2,748,547
Federal funds sold	5,295,000	7,050,000
Total cash and cash equivalents	6,450,545	9,798,547
Investment securities available-for-sale	1,501,395	1,196,370
Federal Home Loan Bank stock, at cost	635,300	601,300
Loans, net of allowance for loan losses and unearned income	97,983,407	86,235,922
Loans held-for-sale	-	755,742
Land, buildings, equipment, and leasehold improvements, net	780,700	807,421
Accrued interest receivable and other assets	960,991	1,027,209
TOTAL ASSETS	$ 108,312,338	$ 100,422,511

LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2002
Deposits:		
Noninterest-bearing demand deposits	$ 5,333,569	$ 4,769,857
NOW and money market accounts	22,834,384	18,083,362
Savings and time deposits	55,852,345	56,681,248
Total deposits	84,020,298	79,534,467
Borrowed funds	12,600,000	11,600,000
Accrued interest payable and other liabilities	357,871	711,358
Total liabilities	96,978,169	91,845,825
COMMITMENTS AND CONTINGENCIES (Note 17 and 18)		
STOCKHOLDERS' EQUITY		
Class B common stock, no par value, 200,000,000 shares authorized; 1,868,935 shares issued and outstanding in 2003, 1,621,027 shares issued and outstanding in 2002	7,264,235	5,894,908
Surplus	1,000,238	1,000,238
Retained earnings	3,067,396	1,675,852
Accumulated other comprehensive income, net of taxes	2,300	5,688
Total stockholders' equity	11,334,169	8,576,686
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 108,312,338	$ 100,422,511

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	2003	2002	2001
INTEREST INCOME			
Interest and fees on loans	$ 8,014,441	$ 7,389,343	$ 6,967,281
Interest on investment securities			
U.S. government agencies	38,718	54,441	78,964
Other domestic taxable securities	34,100	34,413	27,600
State and municipal subdivisions	-	112	3,100
Interest on federal funds sold	133,780	80,039	300,550
Total interest income	8,221,039	7,558,348	7,377,495
INTEREST EXPENSE			
Interest on deposits and borrowings	2,153,586	2,296,532	3,684,875
Net interest income	6,067,453	5,261,816	3,692,620
PROVISION FOR LOAN LOSSES	266,917	469,757	173,268
Net interest income after provision for loan losses	5,800,536	4,792,059	3,519,352
NONINTEREST INCOME			
Service charges and fees	198,038	192,004	153,985
Gain on sale of loans	8,989	267,612	368,535
Other noninterest income	10,055	5,345	11,264
Total noninterest income	217,082	464,961	533,784
NONINTEREST EXPENSES			
Salaries and employee benefits	1,815,637	1,641,174	1,483,188
Occupancy and equipment expenses	541,822	519,466	516,919
Real estate commissions, net of fees	3,890	129,591	124,721
Other operating expenses	1,411,981	1,190,101	1,055,468
Total noninterest expenses	3,773,330	3,480,332	3,180,296
INCOME BEFORE PROVISION FOR INCOME TAXES	2,244,288	1,776,688	872,840
PROVISION FOR INCOME TAXES	852,744	675,090	335,606
NET INCOME	1,391,544	1,101,598	537,234
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized (loss) gain on securities, net of tax:			
Unrealized holding (loss) gain arising during period	(3,388)	(5,361)	18,267
Total other comprehensive income (loss)	(3,388)	(5,361)	18,267
COMPREHENSIVE INCOME	$ 1,388,156	$ 1,096,237	$ 555,501
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.85	$ 0.73	$ 0.36
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.78	$ 0.73	$ 0.36

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Class B Common Stock Shares	Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 2000	1,467,734	5,176,611	1,000,238	37,020	(7,218)	6,206,651
Issuance of stock	9,256	20,135	-	-	-	20,135
Net income and comprehensive income	-	-	-	537,234	18,267	555,501
BALANCE, December 31, 2001	1,476,990	5,196,746	1,000,238	574,254	11,049	6,782,287
Issuance of stock	8,887	27,905	-	-	-	27,905
Exercise of options	85,150	413,257	-	-	-	413,257
Exercise of warrants	50,000	257,000	-	-	-	257,000
Net income and comprehensive income	-	-	-	1,101,598	(5,361)	1,096,237
BALANCE, December 31, 2002	1,621,027	$ 5,894,908	$ 1,000,238	$ 1,675,852	$ 5,688	$ 8,576,686
Issuance of stock	13,808	69,869	-	-	-	69,869
Exercise of options	4,100	13,758	-	-	-	13,758
Exercise of warrants	230,000	1,285,700	-	-	-	1,285,700
Net income and comprehensive income	-	-	-	1,391,544	(3,388)	1,388,156
BALANCE, December 31, 2003	1,868,935	$ 7,264,235	$ 1,000,238	$ 3,067,396	$ 2,300	$ 11,334,169

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,391,544	$ 1,101,598	$ 537,234
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(8,989)	(267,612)	(368,535)
Loss on other real estate owned	-	20,650	-
Depreciation and amortization	113,544	115,165	123,979
Amortization of credit card purchase premium	38,683	-	-
Provision for loan losses	266,917	469,757	173,268
Deferred income tax provision	16,917	11,838	7,023
Net change in loans held-for-sale	764,731	90,623	875,226
Federal Home Loan Bank stock dividends	(34,000)	(35,200)	(23,100)
Stock contributed to 401 (k) retirement plan	31,534	27,905	20,135
Change in cash due to changes in certain assets and liabilities:			
Accrued interest receivable and other assets	12,363	(278,481)	249,078
Accrued interest payable and other liabilities	(315,152)	321,360	6,185
Net cash from operating activities	2,278,092	1,577,603	1,600,493
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities available-for-sale	(1,897,664)	(1,186,896)	(1,099,311)
Purchases of Federal Home Loan Bank stock	-	(16,100)	(80,800)
Proceeds from sale of investment securities available-for-sale	-	70,000	-
Proceeds from maturity of investment securities available-for-sale	1,590,000	1,395,218	1,975,246
Loans originated, net of principal repayments	(12,158,402)	(15,514,256)	937,174
Proceeds from the sale of other real estate owned	144,000	335,850	-
Purchase of credit card portfolios	-	(1,518,135)	(309,699)
Purchase of buildings, equipment, and leasehold improvements	(89,317)	(7,869)	(245,588)
Net cash from investing activities	(12,411,383)	(16,422,188)	(1,177,022)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in noninterest-bearing demand, NOW, money market, and savings deposit accounts	6,205,257	6,550,727	864,489
Net increase (decrease) in time accounts	(1,719,426)	15,407,154	(6,638,990)
Net (decrease) increase in short-term borrowings	-	(9,000,000)	2,200,000
Proceeds from long-term borrowings	3,000,000	9,600,000	-
Repayment of long term-borrowings	(2,000,000)	-	-
Proceeds from options exercised	13,758	413,257	-
Proceeds from warrants exercised	1,285,700	257,000	-
Net cash from financing activities	6,785,289	23,228,138	(3,574,501)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,348,002)	8,363,553	(796,986)
CASH AND CASH EQUIVALENTS, beginning of year	9,798,547	1,434,994	2,231,980
CASH AND CASH EQUIVALENTS, end of year	$ 6,450,545	$ 9,798,547	$ 1,434,994
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid in cash	$ 2,187,386	$ 2,323,649	$ 3,743,990
Taxes paid in cash	$ 1,183,345	$ 332,131	$ 332,584
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Unrealized (loss) gain on available-for-sale securities, net of taxes	$ (3,388)	$ (5,361)	$ 18,267
Acquired real estate in settlement of loans	$ 144,000	$ 304,000	$ 52,500
Stock issued in settlement of prior year accrued bonus	$ 38,335	$ -	$ -

See accompanying notes.

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – American Pacific Bank (the Bank), headquartered in Portland, Oregon, is an Oregon state-chartered financial institution. The Bank provides commercial banking products and services to the Portland and Salem, Oregon, metropolitan areas through three branch offices.

As of December 31, 2003, American Pacific Bancorp, a bank holding company, was in formation and pending regulatory approval to become the Parent Company of American Pacific Bank after a one-for-one tax-free exchange of common stock. Management believes the holding company will gain regulatory approval early in 2004 at which time the Bank will become a wholly-owned subsidiary of American Pacific Bancorp.

The Bank is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

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 sheets and revenues and expenses for the reporting period. Estimates and assumptions made by management primarily involve the valuation of the allowance for loan losses. Actual results could differ significantly from those estimates.

Cash and cash equivalents – Cash and cash equivalents normally include cash on hand, amounts due from banks, and federal funds sold.

Investment securities – The Bank is required to specifically identify its investment securities as "available-for-sale," "held-to-maturity," or "trading accounts." Accordingly, management has determined that all investment securities held as of December 31, 2003 and 2002, are "available-for-sale."

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

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of equity until realized. Fair values for investment securities are based on quoted market prices. 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 expense. 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 probable 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans, such as credit card loans, are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual credit card loans for impairment disclosures.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 2003, 2002, and 2001. 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. As of December 31, 2002, mortgage loans held-for-sale were carried at cost which approximated fair market value. The Bank had no loans held-for-sale as of December 31, 2003.

Mortgage loan sales are primarily on a servicing released basis. Gains or losses are recognized to the extent that the sale proceeds of the mortgage loans sold exceed or are less than the net book value at the time of sale.

Loan sales – The Bank sells participations in loans, retaining servicing rights, and an interest in the sold loans. Gain or loss on the sale of loans depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interest based on their relative fair value at the date of transfer. Quoted market prices are generally not available for retained interests, so the Bank generally estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, prepayment speeds, and discount rates commensurate with the risks involved.

No servicing asset or liability is recorded because the Bank estimates that the benefits of servicing are just adequate to compensate it for its servicing responsibilities.

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 by the straight-line method over the estimated useful lives of the assets, which range from 3 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. The Bank held no other real estate owned as of December 31, 2003 or 2002.

Advertising – Advertising costs are charged to expense during the year in which they are incurred. Advertising expenses were $21,498, $15,514 and $20,294 in 2003, 2002, and 2001, respectively.

Income taxes – Deferred tax assets and liabilities are determined based on the tax effects of the differences between the book and tax bases of 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.

Earnings per share – Basic earnings per share is computed by dividing net income available to stockholders by the weighted-average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Diluted earnings per share are computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. Included in the denominator is the dilutive effect of warrants and stock options computed under the treasury stock method.

Stock options – The Bank applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock option plans using the intrinsic value-based method. Accordingly, compensation costs are recognized as the difference between the exercise price of each option and the market price the Bank's stock at the date of each grant. Had compensation cost for the Bank's 2003 and 2002 grants for stock-based compensation plans been determined consistent with the fair value-based method defined in Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-BasedCompensation," its net income and earnings per common share for December 31, 2003 and 2002, would approximate the pro forma amounts shown below (in thousands, except per share data). Compensation cost for options granted in 2001 is not significant.

	2003	2002
Net income:		
As reported	$1,392	$1,132
Pro forma	$1,348	$1,023
Basic earnings per share:		
As reported	$0.85	$0.73
Pro forma	$0.82	$0.68
Diluted earnings per share:		
As reported	$0.78	$0.73
Pro forma	$0.76	$0.68

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for December 31, 2003 and 2002:

	2003	2002
Dividend yield	-	-
Expected life (years)	5	2
Expected volatility	15.27%	16.16%
Risk-free rate	1.50%	1.75%

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. 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 cash equivalents 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 Home Loan Bank stock – The carrying value of Federal Home Loan Bank stock approximates fair value.

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.

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

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 money market accounts and fixed-term 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.

Short-term borrowings – The carrying amounts of federal funds purchased, borrowings from the Federal Home Loan Bank, and other short-term borrowings maturing within 90 days approximate their fair values.

Long-term borrowings – The fair values of long-term borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

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

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

Recently issued accounting standards – In June 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes standards regarding classification and measurement of certain financial instruments with characteristics of both liabilities and equity. It requires financial instruments within the scope of this statement to be classified as liabilities (or assets in some circumstances). Many of these financial instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. For financial instruments created before the issuance date of this statement and still existing at the beginning of the interim period of adoption, transition is achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instruments at fair value. The Bank's management does not expect that the application of the provisions of this statement will have a material impact on its financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Bank's management does not expect that the application of the provisions of this statement will have a material impact on its financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. In December 2003, FASB made revisions and delayed implementation of certain provisions of FIN 46. As a public entity that is not a "Small Business Issuer," the Bank is now required to apply FIN 46 to all unconsolidated variable interest entities no later than March 31, 2004, with the exception of unconsolidated special-purpose entities, which had an implementation deadline of December 31, 2003.

Special-purpose entities for this provision are expected to include entities whose activities are primarily related to securitizations or other forms of asset-backed financings or single-lessee leasing arrangements. The Bank's management does not expect that the application of the provisions of this interpretation will have a material impact on its financial statements.

In November 2003, the Emerging Issues Task Force (EITF) researched a consensus that certain quantitative and qualitative disclosures should be required for debt and marketable equity securities classified as available-for-sale or held-to-maturity, under FASB Statements No. 115 and 124, that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. This EITF consensus is effective for fiscal years ending after December 15, 2003. Accordingly, the Bank has adopted this statement as of December 31, 2003, and the result did not have an impact on the Bank's statement of financial position or results of operations.

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2003				
Agency notes and bonds	$ 1,497,910	$ 3,485	$ -	$ 1,501,395
December 31, 2002				
Agency notes and bonds	$ 1,187,752	$ 8,618	$ -	$ 1,196,370

The Bank has no unrealized losses on investment securities as of December 31, 2003.

The amortized cost and estimated fair value of investment securities available-for-sale as of December 31, 2003, 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.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1,497,910	1,501,395
	$ 1,497,910	$ 1,501,395

As of December 31, 2003 and 2002, investment securities with an amortized cost of $899,653 and $1,187,752, respectively, were pledged to secure deposits of public funds.

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in restricted equity securities of the FHLB. FHLB stock is not actively traded but is redeemable at current book value. As of December 31, 2003, the Bank's investment in FHLB stock was $635,300.

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

The composition of loan balances is summarized as follows:

	2003	2002
Commercial	$ 80,563,270	$ 67,793,128
Real estate – construction	11,739,068	11,866,136
Real estate – permanent	3,152,975	3,499,388
Credit cards	3,845,903	3,969,462
Installment	79,424	171,330
Overdraft accounts	38,355	31,949
	99,398,995	87,331,393
Allowance for loan losses	(919,305)	(844,240)
Unearned income	(496,283)	(251,231)
Loans, net of allowance for loan losses and unearned income	$ 97,983,407	$ 86,235,922

Changes in the allowance for loan losses were as follows:

	2003	2002	2001
BALANCE, beginning of year	$ 844,240	$ 667,806	$ 628,907
Provision for loan losses	266,917	469,757	173,268
Loans charged-off	(201,770)	(301,875)	(152,632)
Recoveries on loans previously charged-off	9,918	8,552	18,263
BALANCE, end of year	$ 919,305	$ 844,240	$ 667,806

The Bank has recognized impaired loans having recorded balances of $244,516 and $217,179 on December 31, 2003 and 2002, respectively. The total allowance for loan losses related to these loans was $7,335 and $217,179 on December 31, 2003 and 2002, respectively. The Bank's average recorded investment in impaired loans for the years ended December 31, 2003, 2002, and 2001 was $230,848, $264,602, and $338,144. Interest income recognized for cash payments received on impaired loans was insignificant in 2003, 2002, and 2001. Had the impaired loans performed according to their original terms, additional interest income that would have been recognized during 2003, 2002, and 2001 would also have been insignificant.

The maturity range of the loan portfolio as of December 31, 2003, is as follows:

	Due In One Year Or Less	Due After One Through Five Years	Due After Five Years	Total
Commercial and real estate	$ 23,960,600	$ 9,854,043	$ 61,375,935	$ 95,190,578
Credit card loans	3,846,123	-		3,846,123
Installment loans, overdrafts and ready reserves	49,834	40,171	27,773	117,778
	$ 27,856,557	$ 9,894,214	$ 61,403,708	99,154,479
Nonaccrual loans				244,516
				$ 99,398,995
Fixed-rate loans	$ 25,801,367	$ 3,592,838	$ 61,403,709	$ 90,797,914
Adjustable rate loans	2,055,190	6,301,375	-	8,356,565
	$ 27,856,557	$ 9,894,213	$ 61,403,709	99,154,479
Nonaccrual loans				244,516
				$ 99,398,995

During 2001, the Bank sold $12,007,500 in mortgage loan participations in a securitization transaction. In that transaction, the Bank retained servicing responsibilities and a portion of the loans sold. As compensation for servicing the loans, the Bank retains 0.15% of loan proceeds before distribution to the participants. The participants have no recourse to the Bank's other assets for failure of debtors to pay when due.

In 2001, the Bank recognized pretax gains of $90,056 from the securitization of loans. The Bank had no such transactions in 2003 or 2002.

NOTE 4 – CREDIT CARD PORTFOLIO

Certain of the Bank's consumer credit card accounts were originally required to be fully secured with time certificates of deposit or savings accounts at the Bank. The majority of these accounts have become partially unsecured with the passage of time due to the customers' creditworthiness. Unsecured accounts included in the credit card portfolio totaled $1,947,993 and $2,305,755, and secured and partially secured accounts totaled $1,897,910 and $1,663,707 as of December 31, 2003 and 2002, respectively. Credit card account balances that were more than 30 days past due totaled $198,199 and $249,084 as of December 31, 2003 and 2002, respectively.

The credit card portfolio is serviced by Western States Bancard Association (WSBA). The Bank has assumed all risk management responsibilities including collection and due diligence procedures, while WSBA provides all other portfolio service requirements.

For the years ending December 31, 2003, 2002, and 2001, the Bank's net interest margin on credit card accounts was as follows:

	2003	2002	2001
Interest and fee income	$ 989,763	$ 786,303	$ 728,594
Interest expense	(61,447)	(103,401)	(171,878)
Net interest margin	$ 928,316	$ 682,902	$ 556,716

From time to time, the Bank has purchased credit card portfolios from other parties. Generally, after the first year of purchase, the Bank pays a rebate to the seller of .5% of net sales on accounts that were acquired. The Bank also maintains certain co-branded credit card programs with other institutions. These cards are promoted by both parties, and the Bank pays a one-time fee for each approved account application referred by the other party, as well as a percentage of net sales on approved accounts. Co-branded credit card balances totaled $1,814,287 and $1,868,445 as of December 31, 2003 and 2002, respectively.

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

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

	2003	2002
Land	$ 35,465	$ 35,465
Buildings	316,869	316,869
Equipment	761,918	691,683
Leasehold improvements	702,578	683,496
Total land, buildings, equipment, and leasehold improvements	1,816,830	1,727,513
Accumulated depreciation and amortization	(1,036,130)	(920,092)
Land, buildings, equipment, and leasehold improvements, net	$ 780,700	$ 807,421

NOTE 6 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	2003	2002
Accrued interest receivable	$ 403,836	$ 398,559
Deferred income taxes	256,312	273,229
Settlement and other receivables	211,815	197,142
Prepaid expenses	89,028	145,057
Software	-	13,222
Total accrued interest receivable and other assets	$ 960,991	$ 1,027,209

NOTE 7 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $19,613,794 and $17,295,438 as of December 31, 2003 and 2002, respectively.

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, 2003:

	Time Certificates of $100,000 Or More	All Other Time Deposits
Years ending December 31, 2004	$ 16,613,493	$ 25,849,481
2005	2,070,257	6,236,755
2006	930,044	864,425
	$ 19,613,794	$ 32,950,661

NOTE 8 – LINES OF CREDIT AND BORROWED FUNDS

The Bank is a member of the Federal Home Loan Bank (FHLB) of Seattle and has entered into an Advances, Security and Deposit Agreement which provides a credit arrangement from FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as loans or other instruments which may be pledged. As of December 31, 2003 and 2002, the Bank had borrowings outstanding with the FHLB of $12,600,000 and $11,600,000, respectively. The promissory notes carry fixed interest rates ranging from 2.49% to 3.24%.

The maturity of borrowed funds is as follows:

Years ending December 31, 2004	$ 1,600,000
2005	8,000,000
2006	3,000,000
	$ 12,600,000

Additionally, the Bank has line of credit agreements with correspondent banks with maximum borrowings available of $4,000,000 and an agreement with the FHLB allowing borrowings up to 25% of the Bank's total assets.

NOTE 9 – OTHER OPERATING EXPENSES

Other operating expenses were comprised of the following:

	2003	2002	2001
Credit card expenses	$ 470,473	$ 315,544	$ 256,563
Data processing expenses	229,317	206,968	187,405
Telephone, postage, and wire transfer expenses	181,080	161,896	166,733
Professional services	177,100	127,726	134,456
Insurance	71,037	63,505	56,191
Automatic teller machine processing fees	67,919	60,734	50,862
Stationary, supplies, and printing expenses	33,779	35,852	52,109
NSF and other operating losses	8,429	20,004	10,152
Public relations and business development	15,282	16,670	10,939
Advertising	21,498	15,574	20,294
Other operating expenses	136,067	165,628	109,964
	$ 1,411,981	$ 1,190,101	$ 1,055,468

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2003	2002	2001
Current tax expense:			
Federal	$ 758,251	$ 600,692	$ 298,086
State	77,576	62,560	30,497
	835,827	663,252	328,583
Deferred tax expense (benefit):			
Federal	15,346	10,739	6,371
State	1,571	1,099	652
	16,917	11,838	7,023
Provision for income taxes	$ 852,744	$ 675,090	$ 335,606

Deferred tax asset and liability accounts consisted of the following:

	2003	2002
Deferred tax assets:		
Loan loss reserve	$ 254,829	$ 226,037
Net operating loss carryforward	39,228	59,699
Other	26,675	35,803
	320,732	321,539
Deferred tax liabilities:		
Accumulated depreciation	(21,461)	(18,392)
Other	(42,959)	(29,918)
	(64,420)	(48,310)
Net deferred tax assets	$ 256,312	$ 273,229

As of December 31, 2003, the Bank had net operating loss carryforwards of approximately $102,293 available to offset future income taxes. These carryforwards expire through the year 2006.

Management believes, based upon the Bank's historical performance, that the deferred tax assets will be realized in the normal course of operations and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

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

	2003	2002	2001
Federal income taxes at statutory rates	$ 763,057	$ 604,074	$ 296,766
State income taxes, net of federal benefit	98,059	74,401	38,226
Other differences	(8,372)	(3,385)	614
	$ 852,744	$ 675,090	$ 335,606
	38.0%	38.0%	38.4%

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial loan activity is to customers located near its headquarters and branch offices. These geographical areas are primarily involved in commercial business and residential development activities. As of December 31, 2003 and 2002, commercial real estate loans were 75% and 77%, 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 primarily in the Portland, Oregon, and Vancouver, Washington, metropolitan areas. The department also provides real estate mortgage services to its customers for which it receives fee and interest income. As of December 31, 2003 and 2002, 12% and 13%, 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, 2003 and 2002, 4% and 5%, respectively, of the Bank's loan portfolio was comprised of outstanding credit card balances.

NOTE 12 – 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. The following table summarizes loan transactions between the Bank and related parties:

	2003	2002
BALANCE, beginning of year	$ 31,498	$ 33,458
Loans made	240,106	11,767
Loans paid	(237,272)	(13,727)
BALANCE, end of year	$ 34,332	$ 31,498

In December 1999, the Bank entered into a Co-Branded Credit Card Agreement with eBanker USA.Com, Inc. (eBanker), a company for which the Bank's chairman and chief executive officer serve as members of the Board of Directors. Under the Agreement, eBanker maintains a Web-site for soliciting credit card customers over the Internet. The program is designed to attract subprime and business credit card borrowers under a cash secured arrangement. The Bank has agreed to service the accounts for a monthly fee on a cost-plus basis. eBanker funds the program and assumes all risks, and is responsible for any losses from co-branded accounts. The program commenced during 2000; however, as of December 31, 2003, no activity had occurred.

NOTE 13 – COMMON STOCK TRANSACTIONS

Private placement offering – In June 1999, the Bank's Board of Directors approved a private placement offering for the sale of 11 units of equity interest at $46,500 per unit or an aggregate amount of $511,500. In the private placement offering, each unit consisted of 11,000 shares of common stock and warrants for 110,000 additional shares. The exercise price for the warrants was $4.23 per share until September 30, 2000, then increasing to $4.68 per share through September 30, 2001, to $5.14 per share through September 30, 2002, to $5.59 per share through September 30, 2003, and to $6.05 per share through September 30, 2004, when the warrants expire.

The private placement was fully subscribed by the Bank's chairman, who paid the subscription price of $511,500. The chairman also received 1,210,000 common stock warrants from the private placement offering. As of December 31, 2003, all shares of common stock pursuant to the private placement offering have been issued and 280,000 common stock warrants had been exercised. Warrants to purchase 930,000 shares of common stock remain outstanding as of December 31, 2003.

Stock option plans – In April 1992, stockholders 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 134,750 shares of 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 terminated in 2002. As of December 31, 2003, options for 3,200 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 10,725 shares of 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 terminated in 2002. As of December 31, 2003, there were no options outstanding under the Outside Director Plan.

Both restated plans for employees and directors have two restrictions in the recipients' 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.

In September 2000, stockholders of the Bank approved the 2000 Stock Option Plan (the Plan) for the granting of incentive stock options to employees and the granting of nonstatutory options (NQSOs) to nonemployee directors.

The Plan provides for the grant of options up to an aggregate of 275,000 shares of stock, all of which may be awarded to employees who do not own 10% or more of the voting stock of the Bank. No more than 60% of the options may be awarded as NQSOs.

The Plan became effective upon stockholder approval and will terminate ten years after the effective date of the Plan. The Plan is administered by the Board of Directors. Options granted under this plan are not exercisable for one year and shall have terms not exceeding five years. Options may be exercised only while the grantee is an employee or within three months following termination. As of December 31, 2003, options for 129,500 shares were outstanding under the 2000 Stock Option Plan.

The following summarizes options available and outstanding under all plans as of December 31, 2003:

	Employee Plan		Outside Director Plan		2000 Stock Option Plan		Combined Plans
	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares
Options outstanding as of December 31, 2000	11,550	$ 3.03	10,175	$ 4.03			21,725
Options granted in 2001	1,000	$ 3.00	-				1,000
Options canceled in 2001	(1,100)	$ 2.96					(1,100)
Options outstanding as of December 31, 2001	11,450	$ 3.02	10,175	$ 4.03			21,625
Options exercisable as of December 31, 2001	11,450	$ 3.02	10,175	$ 4.03			21,625
Options reserved as of December 31, 2001	21,550		-		275,000		296,550
Options outstanding as of December 31, 2001	11,450	$ 3.02	10,175	$ 4.03	-		21,625
Options granted in 2002	1,000	$ 3.90	-		218,500	$ 5.00	219,500
Options exercised in 2002	(2,750)	$ 2.95	(2,400)	$ 3.15	(80,000)	$ 5.00	(85,150)
Options canceled in 2002	-	$ -	-		-		
Options outstanding as of December 31, 2002	9,700	$ 3.31	7,775	$ 4.29	138,500	$ 5.00	155,975
Options exercisable as of December 31, 2002	8,700	$ 3.31	7,775	$ 4.29		-	16,475
Options reserved as of December 31, 2002			-		56,500		56,500
Options outstanding as of December 31, 2002	9,700	$ 3.31	7,775	$ 4.29	138,500	$ 5.00	155,975
Options granted in 2003	-				6,000	$ 6.16	6,000
Options exercised in 2003	(1,000)	$ 3.90	(3,400)	[illegible]	-		(4,400)
Options cancelled in 2003	(5,500)	$ 3.41	(4,375)	$ 5.02	(15,000)	$ 5.00	(24,875)
Options outstanding as of December 31, 2003	3,200	$ 3.24	-	$ -	129,500	$ 5.05	132,700
Options exercisable as of December 31, 2003	3,200	$ 3.24	-	$ -	125,500	$ 5.00	128,700
Options reserved as of December 31, 2003	-		-		65,500		65,500

As of December 31, 2003, the range of exercise prices and weighted-average remaining contractual life of outstanding options was $3.00 - $7.15 and approximately 3.3 years, respectively.

The effect of applying the fair value-based method to stock options granted in the years ended December 31, 2003, 2002, and 2001, resulted in an estimated weighted-average grant date fair value of $1.05, $0.54, and $0.32, respectively.

NOTE 14 – 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 and common stock warrants issued in the private placement offering. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2003, 2002, and 2001:

	2003	2002	2001
Basic earnings per share:			
Income available to common stockholders	$ 1,391,544	$ 1,101,598	$ 537,234
Weighted-average common shares outstanding	1,642,148	1,500,016	1,474,784
Basic earnings per share	$ 0.85	$ 0.73	$ 0.36
Diluted earnings per share:			
Income available to common stockholders	$ 1,391,544	$ 1,101,598	$ 537,234
Weighted-average common shares outstanding	1,642,148	1,500,016	1,474,784
Net effect of dilutive stock options – based on the treasury stock method using average market price	141,617	-	-
Weighted-average common shares outstanding and common stock equivalents	1,783,765	1,500,016	1,474,784
Diluted earnings per share	$ 0.78	$ 0.73	$ 0.36

NOTE 15 – 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 $21,105, $31,534, and $27,905 were made for the years ended December 31, 2003, 2002, and 2001, respectively. The Bank's contributions to the plan are made in the form of Bank common stock. Accordingly, the Bank contributed 2,483 shares of common stock valued at $8.50 per share in 2003, 6,232 shares of common stock valued at $5.06 per share in 2002, 8,887 shares of common stock valued at $3.14 per share in 2001.

The Bank has established an employee incentive compensation program which provides eligible participants additional compensation based upon the achievement of certain Bank goals. For the years ending December 31, 2003, 2002, and 2001, additional compensation of approximately $275,534, $280,054, and $138,284, respectively, was paid to eligible employees pursuant to this program.

The Bank entered into an employment agreement with its chief executive officer. The agreement provides certain benefits for a six-month period after the chief executive officer's termination. Additionally, upon termination of employment, the Bank is obligated to pay the chief executive officer for all then accumulated and unused vacation and sick leave at his then prevailing salary rate. As of December 31, 2003, the Bank had a liability of approximately $132,500 as its obligation for past services pursuant to the employment agreement.

NOTE 16 – CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market areas. The majority of such customers are also depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial and standby letters of credit were granted primarily to commercial borrowers as of December 31, 2003. The Bank's loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of $500,000 without approval from the Bank's loan committee.

NOTE 17 – 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 amounts recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. Unless noted otherwise, the Bank requires collateral or other security to support financial instruments with credit risk.

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.

The following summarizes the Bank's outstanding off-balance-sheet loan commitments:

	Contract Amount as of December 31, 2003	2002
Financial instruments whose contract amounts represent credit risk:		
Credit card commitments	$ 12,609,319	$ 14,485,226
Construction loan commitments	6,270,242	2,517,202
Line of credit commitments	2,093,133	4,360,944
Letters of credit	1,498,870	595,000
	$ 22,471,564	$ 21,958,372

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. Those 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 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table estimates fair value and the related carrying amount of the Bank's financial instruments.

	2003 Carrying Amount	2003 Estimated Fair Value	2002 Carrying Amount	2002 Estimated Fair Value
Cash and due from banks	$ 1,155,546	$ 1,155,545	$ 2,748,647	$ 2,748,647
Federal funds sold	$ 5,295,000	$ 5,295,000	$ 7,050,000	$ 7,050,000
Investment securities available-for-sale	$ 1,501,395	$ 1,501,395	$ 1,196,370	$ 1,196,370
Federal Home Loan Bank stock	$ 635,300	$ 635,300	$ 601,300	$ 601,300
Loans, net of allowance for loan losses and unearned income	$ 97,383,407	$ 97,807,000	$ 86,236,922	$ 86,229,000
Loans held-for-sale	$ -	$ -	$ 755,742	$ 755,742
Accrued interest receivable	$ 403,836	$ 403,836	$ 399,559	$ 399,559
Noninterest-bearing demand deposits	$ 5,333,569	$ 5,333,569	$ 4,769,857	$ 4,769,857
NOW and money market accounts	$ 22,934,384	$ 22,834,384	$ 18,083,362	$ 18,063,362
Savings and time deposits	$ 55,852,346	$ 55,857,000	$ 55,881,248	$ 56,738,000
Borrowed funds	$ 12,600,000	$ 12,576,000	$ 11,600,000	$ 11,630,000
Accrued interest payable and other liabilities	$ 357,871	$ 357,871	$ 711,358	$ 711,358

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 as of December 31, 2003 and 2002, 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 as of December 31, 2003 and 2002, 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 19 – COMMITMENTS AND CONTINGENCIES

Employment agreements – The Bank has entered into revised employment agreements with its chief executive officer and chief financial officer. In addition to providing customary salaries and benefits to the executives, the agreements which expire on May 31, 2006, provide for payments of 299% of the executives' most recent base salaries in the event of a change in Bank control, as defined in the employment agreements. Further, in the case of the chief executive officer, a Board resolution provides for incentive compensation in certain circumstances.

Operating lease commitments – As of December 31, 2003, the Bank leased certain branch facilities and equipment. Rent expense for 2003, 2002, and 2001 was $296,658, $273,813, and $258,382, respectively. The approximate minimum annual commitment for future rentals under operating leases is summarized as follows:

Years ending December 31, 2004	$ 223,910
2005	234,137
2006	219,610
2007	228,517
2008	228,517
Thereafter	209,474
	$ 1,344,165

Partnership contingency – The Bank acquired an undivided one-third interest in a partnership as a result of a loan default in April 1984. The partnership and the real property it owns are considered to have no value; however, the site may require remedial environmental expenses. These potential costs are subject to considerable uncertainty which affects the Bank's ability to estimate its ultimate cost, if any, of remediation efforts. Management believes that the outcome of this uncertainty should not have a material adverse effect on the financial condition, cash flows, or operating results of the Bank.

Legal contingencies – In the ordinary course of business, the Bank may become involved in various litigation arising from normal banking activities. In the opinion of management, after consultation with legal counsel, there are no current matters expected to have a material adverse effect on the Bank's financial condition or results of operations.

NOTE 20 – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2003, that the Bank meets all capital adequacy requirements to which it is subject by regulation.

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

	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2003 (in thousands)						
Total capital to risk-weighted assets	$12,251	12.3%	$ 7,952	≥8.0%	$ 9,940	≥10.0%
Tier 1 capital to risk-weighted assets	$11,332	11.4%	$ 3,976	≥4.0%	$ 5,964	≥6.0%
Tier 1 capital to average assets	$11,332	10.4%	$ 4,360	≥4.0%	$ 5,450	≥5.0%
As of December 31, 2002 (in thousands)						
Total capital to risk-weighted assets	$ 9,415	10.8%	$ 6,978	≥8.0%	$ 8,723	≥10.0%
Tier 1 capital to risk-weighted assets	$ 8,571	9.8%	$ 3,489	≥4.0%	$ 5,234	≥6.0%
Tier 1 capital to average assets	$ 8,571	8.8%	$ 3,914	≥4.0%	$ 4,893	≥5.0%

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

CORPORATE DATA

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