



American Pacific Bank

1995 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

	1995	1994
RESULTS OF OPERATIONS		
Interest Income	\$ 4,069	\$ 4,081
Interest Expense	1,914	1,614
Net Interest Income	2,155	2,467
Provision for Loan Losses	(96)	88
Other Income	185	201
Other Expenses	2,118	3,780
Income Before Income Taxes	318	(1,200)
Income Taxes	65	(325)
Net Income	253	(875)
PER SHARE DATA		
Net Income / (Loss) Per Share	0.07	(0.27)
Book Value Per Share	0.87	0.81
BALANCES AT YEAR END		
Total Assets	43,545	45,706
Loans, Net of Unearned Fees	20,514	32,914
Total Deposits	39,994	42,382
Shareholders' Equity	3,039	2,755
SELECTED STATISTICS (IN PERCENTAGES)		
Return on Average Assets	0.56	(1.93)
Return on Average Equity	8.80	(24.41)
Average Equity to Average Assets	6.47	7.90
Net Interest Margin	4.51	5.21
Interest Income to Average Earning Assets	9.84	9.22
Non-accrual Loans 90+ Days to Average Assets	0.24	0.41



American Pacific Bank

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 Bank stock has been on NASDAQ (Symbol AMPBA) since 1989.

American Pacific was formed in 1979 to provide banking services to the rural communities of Aumsville and Mill City, Oregon. Since that time, the Bank is continuing to evolve from its beginnings as a small community bank into an institution with the strength to have an impact in the financial community within the Pacific Rim. The scope of the Bank has increased to not only satisfy the needs of the people where it originated, but to also provide real estate, commercial and personal lending services throughout Oregon and Southwest Washington. Executive offices, including a full service real estate lending production offices, have been established in the financial district of 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, permanent mortgages, business financing, and consumer loans. American Pacific Bank's future will continue to be characterized by continued growth and success.

CHAIRMAN'S MESSAGE

Dear Shareholders and Friends:

It is with great pleasure that I share the many highlights and successes of American Pacific Bank's preceding year. I am eager to announce that the goals and expectations set for 1995 were exceeded. I can confidently add that the many accomplishments of American Pacific Bank in 1995 are due to the solid structure and strong sense of morale among the Bank's employees. It is attributes such as these which lead me to high expectations of success for American Pacific Bank in the future.

The Bank successfully recovered from a loss in 1994 due to rapid and unprecedented increases in interest rates throughout the year. In 1995, the Bank reported a net profit of \$253,041, or \$.07 per share, compared to a loss of \$875,815, or \$.27 loss per share, in 1994. The Bank's profit in 1995 was made possible through a combined effort from all departments to increase profitability and minimize risks.

In 1995 the Bank created a Private Banking Department in the Portland Office, which has proved to be very promising. From the onset of the program in mid-year, the department has acquired new customers from the Pacific Rim region and is continually seeking ways in which to increase business relations with them. In addition to enhancing its efforts in the local market area, management has made plans of tapping into the Asian market, in which the Bank has a competitive edge in language skills.

American Pacific Bank has proven that in offering personalized banking services, profitability can be improved. Management and staff have worked together in labeling American Pacific Bank a unique institution. Our high standards of service and personal touch will continue to set us apart from other banking institutions in our market. We are looking forward to fulfilling the demand of personalized banking, as well as increasing profitability in 1996.

Your continuing interest and support is greatly appreciated.



Fai H. Chan
Chairman



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

PRESIDENT'S MESSAGE

Dear Shareholders and Friends:

The stability American Pacific Bank experienced in 1995 will lead the way to a successful 1996. The Bank has remained competitive in its market, and has proved to be progressive, according to various ratios of the Bank. I am proud to announce that the Bank's liquidity and cash flow grew twice as strong throughout 1995. Furthermore, I am confident that our entire loan portfolio will continue in the trend of being one of the soundest among peer banks. Management and staff have worked diligently to enable the success of each department. In exceeding our goals set in 1995, the prediction of continued growth and profitability in 1996 becomes more attainable.

As strategically planned in 1995, the Bank sold approximately \$11 million in partially secured credit cards, while maintaining approximately \$9 million in fully and/or partially secured credit card accounts. Selling the credit card accounts was carefully planned for the benefit of managing the Bank's growth while ensuring minimal risk to the credit card portfolio. Through this sale, the Bank has achieved an enhanced asset quality without sacrificing profitability. We expect that this strategy will positively impact the overall condition of the Bank.

Once again, our Construction Loan Department experienced a successful year in 1995. The department's efforts were reflected in approximately \$19 million in commitments for 1995. The Construction Loan Department has set a profitable trend of positively effecting Bank earnings, while successfully bearing no losses. In addition to meeting the market demands, the Bank has implemented a Permanent Mortgage Loan Program without taking long-term interest rate risks. The Construction Loan Department remains to be an essential facet of American Pacific Bank's success.

American Pacific Bank's employees have defined the true meaning of team-work and have successfully incorporated this practice into their daily routines. This has been a contributing factor to the flexible financial position and structure of the asset/liability management and is reflected in the excellent level of asset quality. Our effective and personalized customer service fulfills a growing demand within the industry, as evidenced in the success of the Bank in 1995. Maintaining our high standards of service, while perpetuating strategic management, will ensure the continued success of American Pacific Bank in years to come.

I look forward to a profitable year for American Pacific Bank, its shareholders and customers. Thank you for your continued support.



David T. Chen
President and Chief Executive Officer



"Our effective and personalized customer service fulfills a growing demand within the industry, as evidenced in the success of the Bank in 1995."

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 that city's \$60 million annual budget. He was appointed by President Reagan's administration to an administrative post within the Farmers Home Administration



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 is active in the Portland community where he serves on the Board of Directors of both The Loaves and Fishes, Inc. and United Way.

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



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, Mr. Cheong's responsibilities include both supervision of all personnel and ac-

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

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

countability 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.

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.

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. Christianson, Jr.: Senior Vice President
and Chief Credit Officer



Mr. Christianson has over thirty years experience in banking, holding progressive positions as Department Head, Division Head and Senior Loan Officer. He has a strong background in both corporate and real estate lending. Most recently, he served as the Director of Corporate Banking and Senior Vice President of Barnett Bank of Marion County Florida. Prior to assuming that position, he was Senior Vice President of the Special Assets Department for Barnett Bank. In that capacity, he was

responsible for all real estate and commercial loans which were classified substandard by the Bank. Reporting directly to the President, he directly handled negotiations and workout strategies for these loans. Mr. Christianson is a member of the American Bankers Association and has taught at the University of Oklahoma and Nova University of Ft. Lauderdale on the subject of commercial lending, and real estate lending.

YOUR MONEY AT WORK FOR YOU

Real estate finance and secured credit cards are our two largest lines of business. Once again no losses were suffered in either of these two portfolios. Consumer and business loans make up the remainder of the bank's loan portfolio that continues to grow and be profitable.

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

Real Estate Lending

The Real Estate Lending Division operates in three areas: Construction Lending, Residential and Commercial Loan Brokering and Residential and Commercial Portfolio Lending.

A new product line has been added to the residential construction and portfolio loans; the "All-In-One" loan which is a construction/permanent loan that has one closing and one set of documents. This product affords us greater competitive advantage when vying for construction and/or permanent business. These loans will all be salable on the secondary market so that the bank can sell loans easily in order to maintain a high volume of loans for our customers and prospects while at the same time provide liquidity for funding new loans. These loans will range in size from \$25,000 up to \$600,000. Loan commitments for 1995 were just over \$25,500,000.

The commercial real estate portfolio while ending the year at approximately \$1.7 million is expected to increase in 1996 to offer further diversification to the real estate portfolio as well as a higher yield.

The majority of all our construction loans have a permanent loan takeout unless it is put into our portfolio. The loan brokerage while generating just over \$55,000 in fee income during 1995, has been reorganized and is expected to create more profit during 1996.

In all, the real estate lending department generated in excess of \$1,557,000 in fee and interest income during 1995.

Credit Card Lending

American Pacific Bank continues to be one of the leading secured credit card lenders in the nation. The credit cards have been marketed and serviced through a recognized third party company, that also guarantees a specific rate of return to the bank. In May of 1996 the Bank will be changing servicers and utilizing a variety of marketing firms and initiatives to improve the Bank's earnings.

Secured credit cards require the account holder to deposit funds with the bank in an amount equal to the credit limit of the account. These deposits secure the payment of the credit card balances. The deposits provide significant protection against losses to the bank.

During 1995, our credit card portfolio (both secured and unsecured) averaged over \$17 million. More than 48,000 card holders nationwide generated over \$48.7 million in transactions financed by the Bank.

In 1995, the Bank sold off most of the credit card accounts that had graduated to a partially unsecured status.

Other Banking Services

In 1995, the Bank established a Private Banking Department dealing with high net worth individuals in the Portland and Pacific Rim countries. Commercial, Installment, Adjustable Rate Mortgages (ARM's) and Construction-Permanent Mortgages are provided by the bank. One of the new products in the secured credit card area is a "No Income" credit card; however, an account holder must deposit 120% of the credit card limit in a deposit account.

The Bank is still considering Trust Services, Investment Banking Services and Management Consulting Services.



AMERICAN PACIFIC BANK
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 1995, 1994, and 1993

INDEPENDENT AUDITOR'S REPORT

MOSS ADAMS

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, 1995 and 1994, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years ended December 31, 1995, 1994, and 1993. These financial statements are the responsibility of the 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, 1995 and 1994, and the results of its operations and its cash flows for each of the three years ended December 31, 1995, 1994, and 1993, in conformity with generally accepted accounting principles.

Moss Adams

Portland, Oregon
January 26, 1996

AMERICAN PACIFIC BANK BALANCE SHEET

YEAR ENDED DECEMBER 31

ASSETS	1995	1994
Cash and noninterest-bearing balances due from depository institutions	\$ 1,498,380	\$ 977,982
Interest-bearing deposits due from depository institutions	11,049,000	5,672,000
Investment securities:		
Available-for-sale	9,169,544	1,963,966
Held-to-maturity	-	2,855,769
Federal Reserve Bank stock	120,700	119,300
Loans, net of allowance for loan losses and unearned income	20,514,489	32,913,804
Land, office building, equipment, and improvements, net	421,592	393,334
Other real estate owned	98,479	99,572
Accrued interest and other assets	<u>672,787</u>	<u>710,134</u>
Total assets	<u>\$43,544,971</u>	<u>\$45,705,861</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	1995	1994
Deposits		
Noninterest bearing demand deposits	\$ 1,900,974	\$ 1,679,758
NOW and money market accounts	7,720,034	6,218,620
Savings and time deposits	<u>30,372,595</u>	<u>34,483,557</u>
Total deposits	39,993,603	42,381,935
Accrued interest and other liabilities	<u>512,374</u>	<u>569,119</u>
Total liabilities	40,505,977	42,951,054
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Class A common stock, no par value; 200,000,000 shares authorized, 3,496,369 shares issued and outstanding in 1995 (3,401,521 in 1994)	4,028,800	3,981,376
Surplus	905,000	905,000
Accumulated deficit	(1,875,701)	(2,128,738)
Unrealized loss on available-for-sale securities, net of taxes	<u>(19,105)</u>	<u>(2,831)</u>
Total stockholders' equity	<u>3,038,994</u>	<u>2,754,807</u>
Total liabilities and stockholders' equity	<u>\$43,544,971</u>	<u>\$45,705,861</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN PACIFIC BANK STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31

	1995	1994	1993
INTEREST INCOME			
Interest and fees on loans	\$3,231,513	\$3,318,125	\$3,583,306
Interest on investment securities			
U.S. Treasury securities	22,489	15,647	-
Obligations of U.S. Government agencies	400,684	586,696	207,586
Other domestic taxable securities	8,014	6,947	13,540
Interest on deposits due from depository institutions	406,931	153,224	69,786
	<u>4,069,631</u>	<u>4,080,639</u>	<u>3,874,218</u>
INTEREST EXPENSE			
Interest on deposits	1,914,158	1,614,446	1,669,810
Net interest income	2,155,473	2,466,193	2,204,408
Provision (adjustment) for loan losses	<u>(96,120)</u>	<u>88,186</u>	<u>277,139</u>
Net interest income after provision (adjustment) for loan losses	<u>2,251,593</u>	<u>2,378,007</u>	<u>1,927,269</u>
NONINTEREST INCOME			
Loan charges and service fees	153,406	156,380	146,576
Real estate brokerage fees, net of commissions	16,576	40,780	233,364
Gain on the sale of securities	-	-	27,826
Other noninterest income	15,034	4,101	35,467
Total noninterest income	<u>185,016</u>	<u>201,261</u>	<u>443,233</u>
NONINTEREST EXPENSES			
Salaries and employee benefits	959,241	822,304	1,182,438
Occupancy and equipment expenses	275,500	238,877	275,939
Other operating expenses	883,473	1,165,071	860,699
Loss on sale of available-for-sale securities	-	478,831	-
Loss on sale of held-to-maturity securities	-	1,075,000	-
Total noninterest expenses	<u>2,118,214</u>	<u>3,780,083</u>	<u>2,319,076</u>
INCOME (LOSS)			
BEFORE PROVISION FOR INCOME TAXES	318,395	(1,200,815)	51,426
INCOME TAX (EXPENSE) BENEFIT	<u>(65,358)</u>	<u>325,000</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ 253,037</u>	<u>\$ (875,815)</u>	<u>\$ 51,426</u>
NET INCOME (LOSS) PER SHARE OF COMMON STOCK	<u>\$.07</u>	<u>\$(.27)</u>	<u>\$.02</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN PACIFIC BANK STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

COMMON STOCK	SHARES	AMOUNT	SUBSCRIBED STOCK	UNEARNED COMPENSATION	SURPLUS	ACCUMULATED DEFICIT	NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES	TOTAL STOCKHOLDERS' EQUITY
BALANCE								
As of December 31, 1992	\$2,475,521	\$3,107,736	\$ (53,400)	\$ (74,000)	\$ 905,000	\$(1,304,349)	\$ -	\$2,560,987
ISSUANCE OF COMMON STOCK:								
Exercise of warrants	481,000	428,090	-	-	-	-	-	428,090
PAYMENT FOR SUBSCRIBED SHARES	-	-	53,400	-	-	-	-	53,400
RECOGNITION OF UNEARNED COMPENSATION	-	-	-	74,000	-	-	-	74,000
NET INCOME	-	-	-	-	-	51,426	-	51,426
BALANCE								
As of December 31, 1993	2,956,521	3,535,826	-	-	905,000	(1,252,923)	-	3,187,903
ISSUANCE OF COMMON STOCK:								
Exercise of warrants	435,000	440,550	-	-	-	-	-	440,550
Public offering	10,000	5,000	-	-	-	-	-	5,000
NET CHANGE UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	-	-	(2,831)	(2,831)
NET LOSS	-	-	-	-	-	(875,815)	-	(875,815)
BALANCE								
As of December 31, 1994	3,401,521	3,981,376	-	-	905,000	(2,128,738)	(2,831)	2,754,807
ISSUANCE OF COMMON STOCK:								
Stock rights offering	81,848	40,924	-	-	-	-	-	40,924
Public offering	13,000	6,500	-	-	-	-	-	6,500
NET CHANGE UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	-	-	(16,274)	(16,274)
NET INCOME	-	-	-	-	-	253,037	-	253,037
BALANCE								
As of December 31, 1995	3,496,369	\$4,028,800	\$ -	\$ -	\$905,000	\$(1,875,701)	\$(19,105)	\$3,038,994

The accompanying notes are an integral part of these financial statements.

AMERICAN PACIFIC BANK STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31

	1995	1994	1993
CASH FLOWS RELATING TO OPERATING ACTIVITIES			
Net income (loss)	\$ 253,037	\$ (875,815)	\$ 51,426
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Gain on sale of equipment	(5,498)	-	-
Depreciation and amortization	40,846	57,787	67,636
Provision (adjustment) for loan losses	(96,120)	88,186	277,139
Loss on sale of held-to-maturity securities	-	1,075,000	-
Loss (gain) on sale of available-for-sale securities	-	478,831	(27,826)
Loss (gain) on sale of other real estate owned	-	5,567	(4,764)
Loss on disposal of real estate owned	-	-	(10,379)
Write-down of other real estate owned	-	-	11,498
Deferred taxes	65,358	(325,000)	-
Federal Reserve Bank stock dividend	(1,400)	-	-
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	(18,535)	292,696	(104,343)
Increase (decrease) in accrued interest and other liabilities	(56,745)	23,087	(512,664)
Net cash provided by (used in) operating activities	<u>180,943</u>	<u>820,339</u>	<u>(252,477)</u>
CASH FLOWS RELATING TO INVESTING ACTIVITIES			
Net increase (decrease) in interest-bearing deposits	(5,377,000)	3,748,000	(8,545,000)
Purchases of held-to-maturity securities	-	(3,941,610)	-
Purchases of available-for-sale securities	(8,112,845)	(1,966,110)	-
Proceeds from sale of held-to-maturity securities	-	1,425,000	-
Proceeds from maturity of available-for-sale securities	1,063,365	-	-
Proceeds from sale of available-for-sale securities	2,700,000	3,074,931	-
Purchases of investment securities prior to adoption of FASB No. 115	-	-	(6,032,800)
Proceeds from the sale or maturity of investment securities prior to adoption of FASB No. 115	-	-	4,849,071
Net (additions to) repayments of loans made to customers	1,700,813	(3,027,265)	(8,958,593)
Proceeds from sale of unsecured credit card portfolio	10,791,546	-	9,332,225
Recoveries of charged-off loans	3,076	73,512	-
Purchase of building improvements, equipment, and furniture	(96,634)	(11,406)	(23,099)
Proceeds from sale of fixed assets	8,042	-	29,603
Proceeds from sale of other real estate owned	-	104,862	-
Net cash provided by (used in) investing activities	<u>2,680,363</u>	<u>(520,286)</u>	<u>(9,348,593)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Net increase (decrease) in noninterest-bearing demand, NOW, money market, and savings deposit accounts	1,588,306	(1,615,831)	840,208
Net increase (decrease) in time accounts	(3,976,638)	223,592	8,263,184
Issuance of common stock	47,424	445,550	555,490
Net cash provided by (used in) financing activities	<u>(2,340,908)</u>	<u>(946,689)</u>	<u>9,658,882</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>520,398</u>	<u>(646,636)</u>	<u>57,812</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>977,982</u>	<u>1,624,618</u>	<u>1,566,806</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,498,380</u>	<u>\$ 977,982</u>	<u>\$ 1,624,618</u>
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Cash paid for interest	<u>\$ 1,982,013</u>	<u>\$ 1,639,092</u>	<u>\$ 1,436,617</u>
SCHEDULE OF NONCASH ACTIVITIES			
Unrealized gain (loss) on available-for-sale securities, net of tax	<u>\$ 16,274</u>	<u>\$ 2,831</u>	<u>\$ -</u>
Transfer of securities from held-to-maturity to available-for-sale	<u>\$ 2,859,016</u>	<u>\$ -</u>	<u>\$ -</u>
DISCLOSURE OF ACCOUNTING POLICY			

For purposes of reporting cash flows, cash and cash equivalents include: cash and noninterest-bearing balances due from depository institutions.

The accompanying notes are an integral part of these financial statements.

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1995, 1994, and 1993

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization

American Pacific Bank is a state-chartered bank authorized to provide banking services by the State of Oregon. The Bank, headquartered in Aumsville, Oregon, has one branch located in Mill City, Oregon and a real estate loan production office serving the Portland, Oregon and Vancouver, Washington metropolitan areas.

As a member of the Federal Reserve 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. All of the regulatory agencies periodically conduct examinations of the Bank. Examinations by both the State of Oregon and the Federal Reserve took place in 1993 and 1994. In November 1995, a joint examination was conducted by both agencies.

A report issued as a result of joint federal agency examinations in 1992 concluded that the Bank's credit concentrations, capital adequacy, past earnings, liquidity position, apparent noncompliance of specified banking regulations, as well as other factors, were of concern. As a result, the examiners and the Bank modified and replaced a 1984 Written Agreement during July 1993. The modified Written Agreement, which remains effective at December 31, 1995, committed the Bank to the adoption of policies and procedures intended to address the concerns outlined in the 1992 examination report. In the opinion of management, the Bank is in full compliance with the provisions of the Written Agreement as of December 31, 1995.

(b) 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. Significant estimates primarily involve the adequacy of the allowance for loan losses. Actual results could differ significantly from those estimates.

(c) Investment securities

The Bank adopted the Financial Accounting Standards Board's Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," as of January 1, 1994. The pronouncement requires that the Bank specifically identify its investment securities as "held-to-maturity," "available-for-sale," or trading accounts." Accordingly, management has determined that all investment securities held at December 31, 1995, are "available-for-sale" and conform to the following accounting policies:

Securities held-to-maturity - Bonds, notes, debentures, and time deposits for which the Bank has the intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Securities available-for-sale - Available-for-sale securities consist of bonds, notes, debentures, and certain equity securities not classified as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount as 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 held-to-maturity and 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 are charged against earnings as realized losses. Premiums and discounts are recognized as interest income using the interest method over the period to maturity.

(d) 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.

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 of 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 1995, 1994, and 1993. The accompanying financial statements reflect the accounting adjustments required as a result of the regulatory examinations.

The Bank adopted the Financial Accounting Standards Board's Statements No. 114 "Accounting by Creditors for Impairment of a Loan" and No. 118 "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures" as of January 1, 1995. These pronouncements require that impaired loans be 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. The adoption of these statements did not have a significant effect on the 1995 financial statements.

(e) Land, office building, equipment, and improvements

Land, office building, equipment, and 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.

(f) Other real estate owned

Other real estate acquired through partial or total satisfaction of loans, is carried at the lower of cost or fair market value. At the date of acquisition, losses, if any, are charged to the allowance for loan losses.

(g) Income taxes

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.

(h) Net income (loss) per share

Earnings per share were computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding for the years ending December 31, 1995, 1994, and 1993. Common stock equivalents include the number of shares issuable on exercise of the outstanding options less the number of shares that would have been purchased with the proceeds from the exercise of the options based on the average price of common stock during the year. The weighted average number of shares of common stock and common stock equivalents outstanding for the years ending December 31, 1995, 1994, and 1993, were 3,454,660, 3,284,646, and 2,646,563, respectively.

(i) Off-balance-sheet financial instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit as well as commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

The Financial Accounting Standards Board issued Statement No. 119 "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments" which became effective for the Bank for the year ending December 31, 1995. This pronouncement requires that banks holding derivative financial instruments, disclose quantitative and qualitative information about the instruments. As of December 31, 1995, and for the year then ended, the Bank held no derivative financial instruments.

(j) 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.

Held-to-maturity and available-for-sale securities - Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

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 certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial 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.

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.

(k) Reclassifications

Certain reclassifications have been made to the 1994 and 1993 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, 1995				
Available-for-sale securities:				
U.S. Treasury securities	\$1,961,154	\$6,768	\$ -	\$1,967,922
Collateralized mortgage obligations	2,460,633		39,805	2,421,828
Debentures	4,756,702	3,092	-	4,759,794
	<u>\$9,198,489</u>	<u>\$9,860</u>	<u>\$39,805</u>	<u>\$9,169,544</u>

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(Continued from last column)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
December 31, 1994				
Available-for-sale securities:				
U.S. Treasury securities	\$ 468,101	\$ -	\$ 553	\$ 487,548
Obligations of U.S. Government agencies:				
Debentures	1,480,154	-	3,736	1,476,418
	<u>\$1,968,255</u>	<u>\$ -</u>	<u>\$4,289</u>	<u>\$1,965,966</u>
Held-to-maturity securities:				
Obligations of U.S. Government agencies:				
Collateralized mortgage obligations	\$2,457,595	\$ -	\$308,553	\$2,149,042
Debentures	398,174	-	47,738	350,436
	<u>\$2,855,769</u>	<u>\$ -</u>	<u>\$356,291</u>	<u>\$2,499,478</u>

The amortized cost and estimated market value of investment securities at December 31, 1995, 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	\$1,986,896	\$1,991,679
Due after one year through five years	4,352,580	4,369,469
Due after five years through ten years	398,360	392,578
Collateralized mortgage obligations	2,460,633	2,421,828
	<u>\$9,198,489</u>	<u>\$9,169,544</u>

During 1995, pursuant to implementation guidance on accounting for certain investments in debt and equity securities issued in a Special Report by the Financial Accounting Standards Board, the Bank reassessed the appropriateness of its classifications for investment securities. Accordingly, securities with an amortized cost of \$2,859,016 were transferred from the held-to-maturity category to the available-for-sale category. This resulted in the recognition of an unrealized loss on available-for-sale securities, net of tax, of \$13,512 at the time of transfer.

As of December 31, 1995 and 1994, investment securities with an amortized cost of \$792,500 and \$800,000, respectively, were pledged to secure deposits of public funds. In addition, the Bank had pledged \$2,859,016 and \$2,855,768, respectively, to VISA USA to support the Bank's secured credit card lending activities.

During 1994, due to market pressures on fixed rate investments, persuasion from regulatory authorities, and management's and the Boards' desire not to expose the Bank to further interest rate risk, the Bank sold held-to-maturity securities having an amortized cost of \$2,500,000. Proceeds of \$1,425,000 from these sales resulted in recognized losses of \$1,075,000. These losses combined with losses of \$478,831 realized on the sale of available-for-sale securities, resulted in aggregate losses on securities sales of \$1,553,831 in 1994. The Bank realized no gain or loss on the sale of investment securities during 1995.

NOTE 3 - LOANS

The composition of loan balances is summarized as follows:

	DECEMBER 31,	
	1995	1994
Credit cards	\$ 3,001,336	\$19,898,419
Real estate - construction	8,291,272	10,693,795
Commercial and agricultural	2,793,402	2,264,367
Installment	781,533	647,830
Overdraft accounts	4,434	3,046
	<u>20,871,977</u>	<u>33,407,457</u>
Allowance for loan losses	(267,169)	(577,294)
Unearned income	(93,319)	(121,359)
	<u>\$20,511,489</u>	<u>\$32,913,804</u>

Impaired loans having recorded balances of \$108,715 at December 31, 1995 and \$132,404 at December 31, 1994, have been recognized in conformity with FASB Statement No. 114 as amended by FASB Statement No. 118. The total allowance for loan losses related to these loans was \$20,994 and \$34,197 on December 31, 1995 and 1994, respectively. Interest income on impaired loans of \$5,736 and \$31,611 was recognized for cash payments received in 1995 and 1994. Had the impaired loans performed according to their original terms, additional interest income of \$1,074 and \$22,348 would have been recognized during 1995 and 1994, respectively.

The maturity range of the loan portfolio as of December 31, 1995, is as follows:

	DUE IN ONE YEAR OR LESS	DUE AFTER ONE THROUGH FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
Commercial, agricultural and real estate-construction loans	\$ 8,217,999	\$1,474,146	\$1,283,814	\$10,975,959
Credit card loans	9,001,336	-	-	9,001,336
Installment loans and overdrafts	189,130	227,035	369,802	785,967
	<u>\$17,408,465</u>	<u>\$1,701,181</u>	<u>\$1,653,616</u>	20,763,262
Nonaccrual loans				108,715
				<u>\$20,871,977</u>
Fixed-rate loans	\$ 9,223,126	\$ 729,970	\$ 833,641	\$10,786,737
Adjustable rate loans	8,185,339	977,211	819,975	9,982,525
	<u>\$17,408,465</u>	<u>\$1,701,181</u>	<u>\$1,653,616</u>	20,763,262
Nonaccrual loans				108,715
				<u>\$20,871,977</u>

NOTE 4 ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
BALANCE, beginning of year	\$372,294	\$240,262	\$ 239,638
Provision (adjustment) for loan losses	(96,120)	88,786	277,139
Loans charged-off	(15,081)	(29,666)	(276,513)
Recoveries on loans previously charged-off	3,076	73,512	-
BALANCE, end of year	<u>\$264,169</u>	<u>\$372,294</u>	<u>\$240,262</u>

NOTE 5 SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial and agricultural loan activity is to customers located near its headquarters and branch office in Aumsville and Mill City, Oregon, respectively. These geographical areas are primarily involved in the agriculture and forest products industries.

The Bank's real estate loan production office 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, 1995 and 1994, the Bank had 39.7% and 31.7%, respectively, of its loan portfolio comprised of real estate construction loans.

The Bank makes credit card loans to qualified individuals throughout the United States. With the exception of approximately \$1,954,103 in outstanding, unsecured credit card accounts, all other approved credit card lines are fully secured with time certificates of deposit. As of December 31, 1995 the Bank had 43.1% of its loan portfolio comprised of outstanding credit card balances. Of the outstanding balance of \$9,001,336, approximately 22% were unsecured and 78% were secured with time certificates.

NOTE 6 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), an Oregon corporation involved in the business of developing, establishing, marketing, and servicing consumer credit card accounts. The Bank entered into the agreement with the intent of utilizing Renaissance's expertise in the development of its own secured and guaranteed consumer Visa and Mastercard programs. The original agreement with Renaissance extends for a five-year period with provisions for automatic one year extensions unless otherwise terminated by either party. However, as further described in Note 16, the Bank and Renaissance have completed a settlement agreement and mutual release, the effect of which included the sale of \$10,791,546 of the Bank's credit card portfolio by December 31, 1995.

Under terms of the original agreement, Renaissance has been generally responsible for marketing for credit card accounts and servicing the outstanding portfolio. The Bank has been responsible for approving credit terms, establishing secured deposit options, defining policies and procedures, and maintaining ownership of credit card account balances.

The majority of the Bank's consumer credit card accounts are required to be fully secured with time certificates of deposit at the Bank. Balances outstanding for these secured credit cards totaled \$3,602,382 as of December 31, 1995. Certain other credit card accounts, known as "flips" or graduated secured accounts, have become partially unsecured with the passage of time due to the customer's creditworthiness. As of December 31, 1995, outstanding "flip" accounts were \$5,078,912 of which approximately 32% or \$1,634,603 was unsecured. Total outstanding balances under both the fully and graduated secured credit card programs were \$8,681,294 as of December 31, 1995, with \$12,297,064 in time certificates of deposit collateralizing these obligations.

Another segment of the Bank's credit card portfolio consisted of guaranteed accounts. These accounts were established through a marketing agent for Renaissance. In December 1993, the Bank sold, without recourse and through Renaissance, its entire guaranteed credit card portfolio at book value of \$9,332,225. Included in the sale agreement was a provision that the Bank receive a fee of 1-1/2% per annum of the average outstanding balance of all sold credit card accounts until April 1994, when the Bank was no longer the issuer of these cards.

A final component of the Bank's credit card portfolio consists of unsecured accounts issued pursuant to an agreement with IBAA Bancard, Inc. As of December 31, 1995 and 1994, these unsecured credit cards totaled \$320,042 and \$333,733, respectively.

For the years ending December 31, 1995, 1994, and 1993, the Bank's net interest margin on credit card accounts was as follows:

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Interest and fee income	\$1,513,149	\$1,507,328	\$1,616,536
Interest expense	<u>806,259</u>	<u>950,753</u>	<u>825,307</u>
Net interest margin	<u>\$ 706,890</u>	<u>\$ 556,575</u>	<u>\$ 791,229</u>

NOTE 7 LAND, OFFICE BUILDING, EQUIPMENT, AND IMPROVEMENTS

Major classifications of land, office building, equipment, and improvements are summarized as follows:

	YEARS ENDED DECEMBER 31,	
	1995	1994
Land	\$ 35,465	\$ 35,465
Buildings	299,306	286,087
Equipment	482,240	428,199
Leasehold improvements	<u>12,347</u>	<u>12,347</u>
	829,358	762,098
Accumulated depreciation and amortization	<u>(407,766)</u>	<u>(368,764)</u>
	<u>\$421,592</u>	<u>\$393,334</u>

NOTE 8 TIME DEPOSITS

The aggregate amount of time certificates of deposit in denominations of \$100,000 or more was \$3,974,821 as of December 31, 1995 and \$3,055,310 as of December 31, 1994.

The maturity range for time certificates of deposit of \$100,000 or more and all other time deposits are as follows as of December 31, 1995:

	TIME CERTIFICATES OF \$100,000 OR MORE	ALL OTHER TIME DEPOSITS
Due in three months or less	\$2,610,500	\$ 6,928,738
Due after three months through one year	1,364,321	17,319,853
Due after one year through five years	-	389,060
	<u>\$3,974,821</u>	<u>\$25,137,651</u>

NOTE 9 OTHER OPERATING EXPENSES

Other operating expenses for 1995, 1994, and 1993, were comprised of the following:

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Data processing expenses	\$223,125	\$ 259,978	\$212,558
Professional services	169,127	323,819	152,462
Telephone, postage, and wire transfer expenses	127,257	137,218	146,349
Insurance	127,862	168,458	144,523
Stationery, supplies, and printing expenses	38,946	30,861	35,426
Advertising	24,815	17,588	20,967
Automatic teller machine processing fees	7,915	8,206	10,156
Public relations and business development	10,538	6,847	7,819
NSF and other operating losses	1,907	6,621	3,235
Other operating expenses	141,981	205,375	125,204
	<u>\$988,473</u>	<u>\$1,165,071</u>	<u>\$860,699</u>

NOTE 10 INCOME TAXES

The income tax provisions for December 31, 1995, 1994, and 1993, consist of the following:

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Taxes currently payable	\$ -	\$ -	\$ -
Deferred tax expense (benefit)	65,358	(325,000)	-
Provision for income taxes	<u>\$65,358</u>	<u>\$(325,000)</u>	<u>\$ -</u>

The 1995 and 1993 provisions for income taxes differ from amounts computed using statutory rates as follows:

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
Federal income taxes at statutory rates	\$108,254	\$ -	\$ 7,714
State income taxes, net of federal benefit	6,935	-	509
Application of net operating loss carryforward	(53,371)	-	(8,223)
Decrease in valuation allowance	-	(325,000)	-
Other differences	3,540	-	-
	<u>\$ 65,358</u>	<u>\$(325,000)</u>	<u>\$ -</u>

Deferred tax asset and liability accounts consisted of the following as of December 31, 1995 and 1994:

	DECEMBER 31,	
	1995	1994
Deferred tax assets	\$ 173,543	\$ 90,717
Net operating loss carryforward	398,029	451,400
Valuation allowance	(189,862)	(189,862)
Deferred tax liabilities	(122,068)	(27,235)
Net deferred tax asset	<u>\$ 259,642</u>	<u>\$ 325,000</u>

As of December 31, 1995, the Bank had net operating loss carryforwards available to offset future income taxes in the approximate amount of \$1,400,000. These carryforwards expire in 2009.

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 loans 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. There were no loans outstanding to directors, executive officers, principal stockholders, and companies with which they are associated at either December 31, 1995 and 1994, with the exception of an auto loan issued in September 1995, with an outstanding balance of \$15,372, and credit card loans with outstanding balances of \$25,656 and \$12,328 at December 31, 1995 and 1994, respectively.

NOTE 12 EMPLOYMENT AGREEMENTS

The Bank has established employment agreements for certain current and predecessor chief executive officers. In 1994, the Bank approved an employment agreement for its current President and Chief Executive Officer. Terms of the agreement provide for an annual salary of \$96,000, customary benefits, and provisions for a performance bonus based upon the attainment of profitability levels and a stipulated return on average assets.

NOTE 13 COMMON STOCK TRANSACTIONS

(a) Common stock warrants

During 1994 and 1993, outstanding warrants were exercised by the Bank's Chairman, executive officers, and various investors, to whom were transferred share purchase rights. The following summarizes the increase in the Bank's common stock for the exercise of warrants as well as the amount of unexercised warrants that remain outstanding:

	SHARE PURCHASE RIGHTS	EXERCISE PRICE	INCREASE IN COMMON STOCK ACTUAL AVAILABLE
	Unexercised warrants at December 31, 1992	605,656	
Warrants exercised	(481,000)	\$.89	\$426,090
Unexercised warrants at December 31, 1993	124,656		
Warrants issued	3,300,000		
Warrants cancelled	(2,910,000)		
Warrants exercised	(435,000)	\$.89 to \$1.05	\$444,550
Unexercised warrants at December 31, 1995, expir- ing in February 1996	79,656	\$.89	\$70,394

(b) Stock offerings and sales agreements

In October 1994, the Bank issued an offering memorandum for the sale of 3,500,000 shares of 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 common stock at \$.50 for a 35-day period ending November 21, 1995. As of December 31, 1995, additional capital of \$52,424 was raised as a result of these offerings.

In January 1994, the Bank executed stock sales agreements with the Chairman and executive officers of the Bank. Under these agreements, rights were granted to purchase 300,000 shares of stock at \$1 per share. Attached to each stock purchase right were ten stock warrants allowing for the purchase of 3,000,000 additional shares at an exercise price ranging from \$1.05 to \$1.25 per share.

During 1994, stock purchase rights for 390,000 shares were exercised and resulted in \$440,550 of additional capital. On December 15, 1994, to the extent that stock had not been purchased, either directly or indirectly through the exercise of warrants, the agreements were cancelled.

(c) Stock option plans

In April 1991, the Bank executed a stock option agreement with its Chairman of the Board. The agreement granted the Chairman options to acquire 100,000 shares of common stock at an option price of \$0.01 per share. On the date of grant, the Bank's common stock was trading at approximately \$7.5 per share. All shares under the option agreement were exercised during 1992. Compensation expense of \$74,000 associated with the Bank's granting of the 100,000 share option was included in salary expense for the year ended December 31, 1993.

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 490,000 shares of the Bank's 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. The Plan became effective upon stockholder approval and will terminate ten years after the effective date. As of December 31, 1995, options for 386,500 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 39,000 shares of the Bank's 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 his or her 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, 1995, all options have been granted 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 should such occur.

In conjunction with the Employee Plan, the Bank has established a Special Incentive Option program for management. In this program, options will be granted to the Bank's management only if the Bank exceeds specified annual return on asset targets. The exercise price for the Special Incentive Options is \$0.01 per share. The number of shares optioned are based on the fair market value of the Bank's common stock at the time of grant divided into management's performance based salary, which ranges from one to six months of normal compensation as described in the following table:

ANNUAL RETURN ON ASSETS	NUMBER OF MONTHS' BASE SALARY IN FORM OF SHARES
Less than 1.0%	None
1.0% to 1.49%	1.0
1.5% to 1.99%	2.0
2.0% to 2.49%	4.0
2.5% to 2.99%	5.0
3.0% or more	6.0

Information concerning all outstanding options as of December 31, 1995 and 1994, is as follows:

	1995	AVERAGE EXERCISE PRICE	1994	AVERAGE EXERCISE PRICE
Under option at beginning of year	49,000	\$2.37	89,500	(1)
Granted during the year	386,500	3.25	-	-
Exercised during the year	-	-	-	-
Cancelled during the year	(2,000)	1.38	(40,500)	(2)
Under option at year-end	435,500	5.54	49,000	\$2.37
Exercisable at year-end	435,500	5.54	49,000	\$2.37

(1) Options for 40,500 shares were at \$3.80 (Canadian) and 49,000 shares were at an average of \$2.37.

(2) Options for 40,500 shares were at \$3.80 (Canadian).

NOTE 14 EMPLOYEE BENEFIT PLANS

In August 1993, the Bank adopted a 401(k) Retirement Salary Savings and Profit Sharing Plan. The Plan became effective on July 1, 1993. All permanent employees are eligible once they meet the age and service requirements. Employer contributions are determined annually by the Board of Directors. Employer contributions of \$12,328 and \$15,482 were made for the years ended December 31, 1995 and 1994, respectively. No employer contributions were made for the year ended December 31, 1993.

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 statement of financial position. 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 AT DECEMBER 31,	
	1995	1994
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	\$ 4,547,107	\$ 7,066,976
Line of credit commitments	56,470	99,655
Credit card commitments	7,163,727	12,929,712
	\$11,767,204	\$20,146,344

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 depositing accounts held by the Bank, accounts receivable, inventory, property, plant and 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 16 FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the estimated fair value and the related carrying values of the Company's financial instruments at December 31, 1995.

	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Cash and due from financial institutions	\$1,498,380	\$1,498,380
Interest-earning balances with financial institutions	\$11,049,000	\$11,049,000
Securities available-for-sale	\$9,169,544	\$9,169,544
Loans, net of allowance for loan losses	\$20,514,489	\$20,532,218
Noninterest-bearing demand deposits	\$1,900,974	\$1,900,974
NOW and money market accounts	\$7,720,034	\$7,720,034
Savings and time deposits	\$30,372,595	\$30,355,780

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Company to have disposed of such items at December 31, 1995, 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, 1995, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Company 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

(a) Operating lease commitments

As of December 31, 1995, 1994, and 1993, the Bank leased certain branch facilities as well as equipment and fixtures under noncancellable operating leases. Rent expense for 1995, 1994, and 1993, was \$125,631, \$103,759, and \$130,629, respectively. The approximate annual commitment for rentals under these operating leases is summarized as follows:

YEARS ENDING DECEMBER 31,	
1996	\$156,001
1997	157,657
1998	145,557
1999	141,847
2000	11,603
Total minimum payments required	<u>\$612,665</u>

(b) Litigation

Pursuant to the terms of its Bankcard Program Development Agreement (see Note 6), IJL Corporation, now known as Renaissance Bankcard Services, Inc., developed, established, marketed, and serviced consumer credit card accounts on behalf of the Bank. In June 1994, the Bank declared a Notice of Material Breach, advising Renaissance that it had breached certain obligations pursuant to the Agreement, thus invoking the termination provisions set forth in the Agreement. In July 1994, Renaissance initiated legal proceedings against the Bank. In its complaint, Renaissance sought injunctive relief prohibiting the Bank from terminating the Agreement, and alleged breach of contract and misrepresentation with respect to an alleged refusal of the Bank to sell certain credit card accounts. By subsequent order of the Court, most of the disputes between the Bank and Renaissance were submitted to arbitration pursuant to the terms of the Agreement.

In mid-January 1995, the Bank and Renaissance reached an agreement in principle resolving all disputes between the parties. The parties subsequently negotiated a comprehensive Settlement Agreement and Mutual Release to effect such resolution. As agreed by both parties, the resolution provides, among other things, that Renaissance will purchase from the Bank its portfolio of partially or totally unsecured consumer credit card accounts existing as of February 28, 1995. The purchase price for the portfolio was at par, and was completed by December 31, 1995. The credit card accounts sold in 1995 amounted to \$10,791,546.

The resolution between the parties also provides that the underlying Agreement would expire pursuant to its terms on May 28, 1996, unless otherwise renewed by mutual consent of both parties. At that time, the Bank would have the option to sell, and Renaissance would have the option to purchase, additional consumer credit card accounts which have become either totally or partially unsecured.

Beginning May 1996, the Bank will contract with Western States Bankcard Association (WSBA) of Stockton, California, to report and manage the Bank's secured credit card portfolio. At that time, the Bank will assume all risk management responsibilities including collection and due diligence procedures. WSBA will provide all other portfolio management requirements.

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.

NOTE 18 REGULATORY MATTERS

The Bank is required to maintain minimum amounts of capital to total "risk weighted" assets, as defined by banking regulators. At December 31, 1995, the Bank is required to have minimum Tier 1 and total capital ratios of 4.00% and 8.00%, respectively. The Bank's actual ratios at that date were 13.86% and 15.11% for both Tier 1 and total capital ratios, respectively. The Bank's actual leverage ratio at December 31, 1995, was 6.28%.

COMMON STOCK TRADING INFORMATION*

Fiscal Year Ended Dec. 31, 1995	High	Low
Fourth Quarter	\$0.50	\$0.38
Third Quarter	0.56	0.38
Second Quarter	0.44	0.25
First Quarter	0.75	0.25

Fiscal Year Ended Dec. 31, 1994	High	Low
Fourth Quarter	\$0.75	\$0.25
Third Quarter	1.06	0.62
Second Quarter	1.62	1.00
First Quarter	1.75	0.94

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

CORPORATE DATA

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MARKET MAKERS

Black & Company, Inc.
Datek Securities Corp.
Ernst & Company
Herzog, Heine, Geduld, Inc.
Investors Associates, Inc.
Knight Securities L.P.
Nash Weiss / Div. of Shatkin Inv.
Paragon Capital Corporation
Sherwood Securities Corp.
Troster Singer Corporation
Wien Securities Corp.
Wm. V. Frankel & Co., Inc.

CORPORATE COUNCEL

Hampton Bolliger

AUDITORS

Moss Adams

STOCK EXCHANGE LISTING

NASDAQ - AMPBA

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