American Pacific Bank

1997 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

	1997	1996
RESULTS OF OPERATIONS		
Interest Income	$ 4,339	$ 4,018
Interest Expense	1,537	1,543
Net Interest Income	2,802	2,475
Provision for Loan Losses	215	200
Other Income	204	190
Other Expenses	2,537	2,194
Income Before Income Taxes	254	271
Income Taxes/(benefit)	(81)	86
Net Income	335	185
PER SHARE DATA*		
Net Income / Per Share	0.30	0.20
Book Value Per Share	3.60	3.28
BALANCES AT YEAR END		
Total Assets	43,114	37,891
Loans (Net of Loan Loss and Unearned Income)	29,826	23,772
Total Deposits	38,702	33,891
Shareholders' Equity	4,082	3,702
SELECTED STATISTICS (IN PERCENTAGES)		
Return on Average Assets	0.82	0.49
Return on Average Equity	8.58	5.00
Average Equity to Average Assets	9.54	9.77
Net Interest Margin to Average Assets	6.85	6.07
Interest Income to Average Earning Assets	10.66	10.90
Non-accrual Loans 90+ Days to Average Assets	0.09	0.09

**Per share data for 1996 was adjusted for comparison purposes. For further details, please see Financial Statements Note #12.*

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 has traded within the NASDAQ system (Symbol AMPBB) since 1989.

American Pacific Bank was formed in 1979 to provide banking services to the rural communities of Aumsville and Mill City, Oregon. Since that time, the Bank continues to evolve from its beginnings as a small community Bank into an institution with the strength to have an impact in the financial community encompassing the entire Pacific Rim. The scope of the Bank has increased not only to satisfy the needs of the people where it originated, but to also provide real estate, commercial, and personal lending services throughout Oregon and Southwest Washington. Executive offices, including a full service real estate lending production office, 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. The Bank is planning to move its headquarters to the Portland Metropolitan Area in 1998. American Pacific Bank's future will continue to be characterized by continued growth and success.

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Dear Shareholders & Friends, January 27, 1998

This past year proved to be a very positive year for your Bank. The overall performance produced notable results, including a strengthening of the management team, an increase in total assets, an increase in the area of private banking, and growth in the real estate lending area. We are happy to report that all of those resulted in a record profit level of Year 1997.

Earnings for the year, after income tax provisions and extraordinary expenses, were $335,842 or $0.30 per share, as compared to earnings of $185,310, or $0.20 per share, in the previous year. The 1997 net earnings figure represents an 81% increase over 1996. The growth in net income was primarily due to an increase in our loan portfolio. As of the 1997 year end, total loans were $30.8 million, as compared to $23.7 million in 1996. Net interest income rose 13.6% to $2.8 million in 1997 compared with $2.3 million in 1996. Your Bank's earning asset ratio was 94.3%, which put us in the upper end of the range of other banks in our peer group.

We are pleased to report that with the appointment of our new Chief Credit Officer, Mr. David Dahlstrom, your Bank's loan portfolio continues to be well managed and continues to grow. We ended the year with $43.1 million in total assets, an increase of 13% over 1996. Deposits were $38.7 million , an increase of 14% from the previous year. The Bank has maintained outstanding asset quality with loans that continue to perform well. (With the exception of normal losses in the area of credit cards, the Bank has not suffered any losses within the loan portfolio.)

As of December 31, 1997, Classified Assets were only $80,792 or less than two tenths of one percent of assets compared to $89,000 or 0.23% of 1996. This noticeably low classified asset figure reflects the continued effectiveness of our asset management.

The positive nature of 1997's results of American Pacific Bank were summed up well by the Portland Business Journal when they reported in an article entitled "The Year in Stocks" that American Pacific Bank was one of the best performers in Oregon. The Business Journal examined the stocks of 83 publicly held Oregon companies to see how they performed during 1997, using December 15, 1997 as their cut off date, and included our Bank as one of the best performers.

We thank our shareholders and friends for their continued support and we look forward to continuing positive results and growth in 1998.

Fai H. Chan
Chairman of the Board

David T. Chen
President and Chief Executive Officer

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

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

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

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

BOARD OF DIRECTORS

Fai H. Chan: *Chairman of the Board*

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

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

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

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

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

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

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

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

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

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

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

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

Bank with valuable input regarding day to day operations and future objectives.

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

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

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

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

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

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

MANAGEMENT

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

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

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

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

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

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

YOUR MONEY AT WORK FOR YOU

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

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

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

Real Estate Lending

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

The Bank's residential and commercial portfolio loans ended the last fiscal year with $19.3 million in outstanding balances. This was an increase of $8 million over the prior year representing a growth of 71%. Much of your Bank's portfolio is underwritten for sale on the secondary market providing the flexibility to maintain a high volume of loan availability, while at the same time, providing liquidity to fund additional loans.

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

Loan commitments for Fiscal 1997 were in excess of $25 million, and the Loan Brokerage Department generated more than $31,000 in net fee income for your Bank. To diminish the speculative aspect of this business, the majority of the commitments are either portfolio loans or have a permanent loan takeout.

During Fiscal 1998, the Residential Mortgage Department is expected to experience significant growth as a result of hiring additional loan officers and an additional loan processor. Also, this Department is currently transitioning from being simply a mortgage broker to assuming the role of a mortgage banker. The additional fees resulting from this business will have a strong impact on your Bank's profits.

During Fiscal 1997, the Bank's Real Estate Lending Division experienced a significant gain in revenues over Fiscal 1996. More than $2.5 million in fee and interest income was generated, resulting in a 42% gain of $700,000 over the prior year.

Credit Card Lending

American Pacific Bank continued to be one of the very few secured credit card lenders in the nation. Using a variety of marketing firms and initiatives, your Bank actively seeks to increase its credit card portfolio. During 1997, we purchased a small secured portfolio and we will continue to pursue other purchases in the coming year.

Secured credit cards require the account holder to deposit funds with the Bank in an amount equal to the credit limit of the account. In 1997, the Bank also implemented more flexible secured credit card programs, in order to be more competitive in the secured credit card marketplace. The deposits for all secured credit card accounts provide significant protection against losses as well as an effective funding source to the Bank.

During 1997, our credit card portfolio (both secured and unsecured) averaged over $3.1 million. More than 5,500 card holders nationwide generated almost $10 million in transactions during the year. Net losses on the average portfolio were approximately 3.5% which compares favorably to industry standards.

Other Banking Services

During Fiscal 1997, your Bank's Private Banking Department, which deals with high net worth individuals from both our traditional service area in the state of Oregon and people who live in Pacific Rim countries, accounted for over $1.7 million in new loans and $1.5 million in new deposits.

Services offered to these customers include commercial and installment loans, adjustable rate Mortgages (ARM's), construction and/or permanent mortgages, and credit cards. Your Bank also provides import Letters of Credit services to these individuals through its correspondent Bank.

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

We expect this overseas and international customer base to continue to grow in 1998 and beyond.

AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 1997, 1996, and 1995

INDEPENDENT AUDITOR'S REPORT

MOSS ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders
American Pacific Bank

We have audited the accompanying balance sheets of American Pacific Bank as of December 31, 1997 and 1996, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of American Pacific Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pacific Bank as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Moss Adams LLP

Portland, Oregon
February 9, 1998

AMERICAN PACIFIC BANK BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	1997	1996
Cash due from banks	$ 871,272	$ 537,399
Federal Funds Sold	4,545,000	2,021,000
Total cash and cash equivalents	5,416,272	2,558,399
Investment securities available-for-sale	5,703,667	10,256,680
Federal Reserve Bank stock	136,550	136,350
Loans held-for-sale	947,907	-
Loans, net of allowance for loan losses and unearned income	29,826,258	23,771,716
Land, buildings, equipment, and leasehold improvements, net	349,201	367,442
Accrued interest and other assets	734,509	800,735
Total assets	$43,114,364	$37,891,322

LIABILITIES AND STOCKHOLDERS' EQUITY	1997	1996
Deposits		
Noninterest-bearing demand deposits	$ 2,008,153	$ 2,073,126
NOW and money market accounts	10,237,736	8,818,543
Savings and time deposits	26,455,676	22,998,843
Total deposits	38,701,565	33,890,512
Accrued interest and other liabilities	330,838	298,477
Total liabilities	39,032,403	34,188,989
COMMITMENTS AND CONTINGENCIES (Note 17)		
STOCKHOLDERS' EQUITY		
Class A common stock, no par value; 200,000,000 shares authorized, 4,535,103 shares issued and outstanding in 1996	-	4,550,423
Class B common stock, no par value; 200,000,000 shares authorized, 1,133,775 shares issued and outstanding in 1997	4,550,423	-
Surplus	905,000	905,000
Accumulated deficit	(1,354,549)	(1,690,391)
Unrealized loss on available-for-sale securities, net of taxes	(18,913)	(62,699)
Total stockholders' equity	4,081,961	3,702,333
Total liabilities and stockholders' equity	$43,114,364	$37,891,322

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

AMERICAN PACIFIC BANK STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31

	1997	1996	1995
INTEREST INCOME			
Interest and fees on loans	$3,719,671	$2,951,407	$3,231,513
Interest on investment securities			
U.S. Treasury securities	43,463	120,408	22,489
Obligations of U.S. Government agencies	420,376	612,935	400,684
Other domestic taxable securities	8,192	7,425	8,014
Interest on Federal funds sold	147,445	326,336	406,931
Total interest income	4,339,147	4,018,511	4,069,631
INTEREST EXPENSE			
Interest on deposits	1,536,786	1,543,091	1,914,158
Net interest income	2,802,361	2,475,420	2,155,473
Provision (adjustment) for loan losses	215,357	199,679	(96,120)
Net interest income after provision (adjustment) for loan losses	2,587,004	2,275,741	2,251,593
NONINTEREST INCOME			
Service charges and fees	167,993	135,655	153,406
Real estate brokerage fees, net of commissions	31,617	37,219	16,576
Gain on the sale of available-for-sale securities	-	9,396	-
Other noninterest income	4,652	8,329	15,034
Total noninterest income	204,262	190,599	185,016
NONINTEREST EXPENSES			
Salaries and employee benefits	1,187,227	974,855	959,241
Occupancy and equipment expenses	296,127	285,013	275,500
Other operating expenses	1,052,917	934,620	883,473
Loss on sale of available-for-sale securities	400	-	-
Total noninterest expenses	2,536,671	2,194,488	2,118,214
INCOME BEFORE PROVISION FOR INCOME TAXES	254,595	271,852	318,395
INCOME TAX PROVISION (BENEFIT)	(81,247)	86,542	65,358
NET INCOME	$ 335,842	$ 185,310	$ 253,037
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .30	$ .20	$ .30
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .28	$ .20	$ .29

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

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK CLASS A SHARES	COMMON STOCK CLASS A AMOUNT	COMMON STOCK CLASS B SHARES	COMMON STOCK CLASS B AMOUNT	SURPLUS	ACCUMULATED DEFICIT	NET CHANGE IN UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES	TOTAL STOCKHOLDERS' EQUITY
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 IN 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
ISSUANCE OF COMMON STOCK:								
Exercise of options	10,000	3,125	-	-	-	-	-	3,125
Stock rights offering	1,028,734	518,498	-	-	-	-	-	518,498
NET CHANGE IN UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	-	-	(43,594)	(43,594)
NET INCOME	-	-	-	-	-	185,310	-	185,310
BALANCE								
As of December 31, 1996	4,535,103	4,550,423	-	-	905,000	(1,690,391)	(62,699)	3,702,333
1 FOR 4 REVERSE STOCK SPLIT	(3,401,328)	-	-	-	-	-	-	-
CONVERSION OF CLASS A TO CLASS B SHARES	(1,133,775)	(4,550,423)	1,133,775	4,550,423	-	-	-	-
NET CHANGE IN UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	-	-	43,786	43,786
NET INCOME	-	-	-	-	-	335,842	-	335,842
BALANCE								
As of December 31, 1997	-	$ -	1,133,775	$4,550,423	$905,000	$(1,354,549)	$(18,913)	$4,081,961

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

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31

	1997	1996	1995
CASH FLOWS RELATING TO OPERATING ACTIVITIES			
Net income	$ 335,842	$ 185,310	$ 253,037
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of equipment	-	-	(5,498)
Depreciation and amortization	56,495	64,396	40,846
Provision (adjustment) for loan losses	215,357	199,679	(96,120)
Loss (gain) on sale of available-for-sale securities	400	(9,396)	-
Gain on sale of other real estate owned	-	(7,428)	-
Deferred income taxes	(81,257)	86,542	65,358
Originations of loans held-for-sale	(947,907	-	-
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	124,916	(192,032)	(18,535)
Increase (decrease) in accrued interest and other liabilities	32,361	(213,897)	(56,745)
Net cash from operating activities	(282,685)	113,174	182,343
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	-	(8,464,196)	(8,112,845)
Purchases of Federal Reserve Bank stock	(200)	(15,650)	(1,400)
Proceeds from maturity of available-for-sale securities	3,121,861	4,434,623	1,063,365
Proceeds from sale of available-for-sale securities	1,497,094	2,885,781	2,700,000
Net (additions to) repayments of loans made to customers	(6,259,249)	(8,086,433)	1,700,813
Proceeds from sale of credit card portfolio	-	4,665,044	10,791,546
Purchase of credit card portfolio	-	(68,052)	-
Recoveries of charged-off loans	8,253	4,963	3,076
Purchase of building improvements, equipment, and furniture	(38,254)	(10,246)	(96,634)
Proceeds from sale of equipment and furniture	-	-	8,042
Proceeds from sale of other real estate owned	-	133,479	-
Net cash from investing activities	(1,670,495)	(4,520,687)	8,055,963
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in noninterest-bearing demand, NOW, money market, and savings deposit accounts	1,643,337	1,377,196	1,588,306
Net increase (decrease) in time accounts	3,167,716	(7,480,287)	(3,976,638)
Issuance of common stock	-	521,623	47,424
Net cash from financing activities	4,811,053	(5,581,468)	(2,340,908)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,857,873	(9,988,981)	5,897,398
CASH AND CASH EQUIVALENTS, beginning of year	2,558,399	12,547,380	6,649,982
CASH AND CASH EQUIVALENTS, end of year	$ 5,416,272	$ 2,558,399	$12,547,380
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 1,578,137	$ 1,717,083	$ 1,982,013
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Unrealized gain (loss) on available-for-sale securities, net of taxes	$ 43,786	$ (43,594)	$ (16,274)
Transfer of securities from held-to-maturity to available-for-sale	$ -	$ -	$ 2,859,016

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

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1997, 1996, and 1995

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – American Pacific Bank is a state-chartered bank authorized to provide banking services by the State of Oregon. The Bank, originally headquartered in Aumsville, Oregon, has one branch located in Mill City, Oregon and a real estate loan production office serving the Portland, Oregon and Vancouver, Washington metropolitan areas. During 1997, the Bank obtained both shareholder and state approval to move the Bank's headquarters to Mill City, with the intent of eventually moving the headquarters and the Mill City Branch to Portland. The customers of the Mill City branch will then be served by the Aumsville branch.

As a member of the Federal Reserve System and Federal Deposit Insurance Corporation (FDIC), the Bank is subject to the regulations of these federal agencies as well as the regulations of the Oregon State Department of Insurance and Finance. 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 1997 and 1996.

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. In July 1993, the Bank entered into an agreement with the Regulatory agencies. Such agreement limits the payment of dividends, requires maintenance of specified levels of capital and related ratios, commits the Bank to improve the quality of its loan portfolio, and to improve certain other operational matters. The agreement remains in effect. As of December 31, 1997, the Bank is in full compliance with the provisions of the agreement.

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. Actual results could differ significantly from those estimates. Significant estimates primarily involve the adequacy of the allowance for loan losses and the provision for loan losses.

Investment securities – The Bank is required to specifically identify its investment securities as "held-to-maturity," "available-for-sale," or "trading accounts." Accordingly, management has determined that all investment securities held as of December 31, 1997 and 1996, are "available-for-sale" and conform to the following accounting policy:

Securities available-for-sale – Available-for-sale securities consist of bonds, notes, debentures, and certain equity securities 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 and 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. Premiums and discounts are recognized as interest income using the interest method over the period to maturity.

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

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses and losses on other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 1997, 1996, and 1995. The accompanying financial statements reflect the accounting adjustments required as a result of the regulatory examinations.

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

Land, buildings, equipment, and improvements – Land, buildings, 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.

Other real estate owned – Other real estate acquired through partial or total satisfaction of loans is initially recorded at the lower of cost or fair market value. After the date of acquisition, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in loss on other real estate.

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

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.

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

Off-balance-sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank has entered 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 held for purposes other than trading and are recorded in the financial statements when the credits are funded or related fees are earned.

Recently issued accounting standards – In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130 "Reporting Comprehensive Income" which the Bank is required to adopt for years beginning after December 15, 1997. This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general purpose financial statements. When adopted, the unrealized gain or loss on available-for-sale securities will be recognized as a component of comprehensive income.

Other issued but not yet required FASB statements are not currently applicable to the Bank's operations.

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

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

Available-for-sale securities – Fair values for investment securities, 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.

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

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

Stock options – In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard defines a fair value based method of accounting for an employee stock option or similar equity instrument.

This statement gives entities a choice of recognizing related compensation expense by adopting the new fair value method or to continue to measure compensation using the intrinsic value approach under Accounting Principles board (APB) Opinion No. 25, the former standard. If the former standard for measurement were elected, SFAS No. 123 requires supplemental disclosure to show the effects of using the new measurement criteria. The Bank has elected to continue using the measurement prescribed by APB Opinion No. 25, and accordingly, this pronouncement has had no affect on the Bank's financial position or results of operations.

Reclassifications – Certain reclassifications have been made to the 1996 and 1995 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, 1997				
Available-for-sale securities:				
U.S. Treasury securities	$ 399,545	$ -	$ (45)	$ 399,500
Collateralized mortgage obligations	2,387,095	-	(21,087)	2,366,008
Debentures	2,945,683	-	(7,524)	2,938,159
	$5,732,323	$ -	$(28,656)	$5,703,667

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
December 31, 1996				
Available-for-sale securities:				
U.S. Treasury securities	$1,496,192	$ 856	$ (505)	$1,496,543
Collateralized mortgage obligations	2,463,671	-	(64,489)	2,399,182
Debentures	6,391,815	1,420	(32,280)	6,360,955
	$10,351,678	$2,276	$(97,274)	$10,256,680

The amortized cost and estimated market value of investment securities on December 31, 1997, 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	$1,246,954	$1,244,994
Due after one year through five years	1,699,499	1,694,730
Due after five years through ten years	398,775	397,936
Collateralized mortgage obligations	2,387,095	2,366,007
	$5,732,323	$5,703,667

As of December 31, 1997 and 1996, investment securities with an amortized cost of $800,000 were pledged to secure deposits of public funds. In addition, the Bank had pledged $1,362,263 as of December 31, 1996, to VISA USA to support the Bank's secured credit card lending activities. During the year ended December 31, 1997, pledged securities were no longer required under the VISA USA agreement.

In 1997, the Bank realized losses of $400 on sales of available-for-sale securities. In 1996, the Bank realized gains of $9,396 on sales of available-for-sale securities.

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

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loan balances is summarized as follows:

	DECEMBER 31, 1997	DECEMBER 31, 1996
Credit cards	$ 2,811,264	$ 3,655,095
Real estate - construction	7,232,273	7,772,109
Commercial and agricultural	13,074,947	8,448,690
Installment	7,246,564	4,367,946
Overdraft accounts	7,401	1,950
	30,372,469	24,245,790
Allowance for loan losses	(458,624)	(345,839)
Unearned income	(87,587)	(128,235)
	$29,826,258	$23,771,716

Changes in the allowance for loan losses were as follows:

	YEARS ENDED DECEMBER 31, 1997	1996	1995
BALANCE, beginning of year	$345,839	$ 264,169	$372,294
Provision (adjustment) for loan losses	215,357	199,679	(96,120)
Loans charged-off	(110,825)	(122,972)	(15,081)
Recoveries on loans previously charged-off	8,253	4,963	3,076
BALANCE, end of year	$458,624	$345,839	$264,169

Impaired loans having recorded balances of $40,566 on December 31, 1997 and $35,321 on December 31, 1996, have been recognized in conformity with SFAS No. 114, as amended by SFAS No. 118. The total allowance for loan losses related to these loans was $1,067 and $0 on December 31, 1997 and 1996, respectively. No interest income was recognized for cash payments received in 1977. Interest income on impaired loans of $14,648 and

$5,736 was recognized for cash payments received in 1996, and 1995, respectively. Had the impaired loans performed according to their original terms, additional interest income of $4,313, $3,051, and $1074 would have been recognized during 1997, 1996, and 1995, respectively.

The maturity range of the loan portfolio as of December 31, 1997, 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	$ 13,062,010	$7,303,234	$6,631,216	$26,996,460
Credit card loans	2,811,285		-	2,811,285
Installment loans and overdrafts	221,599	176,023	126,536	524,158
	$16,094,894	$7,479,257	$6,757,752	30,331,903
Nonaccrual loans				40,566
				$30,372,469
Fixed-rate loans	$ 6,387,543	$ 2,080,076	$ 7,705,659	$16,173,278
Adjustable rate loans	8,759,443	5,399,182		14,158,625
	$15,146,986	$7,479,258	$7,705,659	30,331,903
Nonaccrual loans				40,566
				$30,372,469

NOTE 4 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	YEARS ENDED DECEMBER 31, 1997	1996
Accrued interest receivable	$238,871	$285,649
Deffered income taxes	254,257	173,000
Credit card receivables	152,739	204,624
Other receivables	27,045	75,954
Prepaid expenses	61,597	61,508
	$734,509	$800,735

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

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

	YEARS ENDED DECEMBER 31, 1997	1996
Land	$ 35,465	$ 35,465
Buildings	299,306	299,306
Equipment	530,740	492,486
Leasehold improvements	12,347	12,347
	877,858	839,604
Accumulated depreciation and amortization	(528,657)	(472,162)
	$349,201	$367,442

NOTE 6 – TIME DEPOSITS

The aggregate amount of time certificates of deposit in denominations of $100,000 or more was $4,147,273 as of December 31, 1997 and $3,310,380 as of December 31, 1996.

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, 1997:

	TIME CERTIFICATES OF $100,000 OR MORE	ALL OTHER TIME DEPOSITS
1998	$4,147,273	$ 18,697,919
1999	-	768,109
2000	-	93,736
	$4,147,273	$19,559,764

NOTE 7 – OTHER OPERATING EXPENSES

Other operating expenses for 1997, 1996, and 1995, were comprised of the following:

	YEARS ENDED DECEMBER 31, 1997	1996	1995
Credit card expense	$358,180	$278,505	$ 14,649
Data processing expenses	133,349	159,256	223,125
Professional services	124,367	118,896	169,127
Telephone, postage, and wire transfer expenses	155,545	147,610	137,257
Insurance	62,900	62,502	127,862
Stationery, supplies, and printing expenses	37,527	51,649	38,946
Advertising	26,289	21,353	24,815
Automatic teller machine processing fees	7,610	8,343	7,915
Public relations and business development	10,718	15,688	10,538
NSF and other operating losses	5,651	2,496	1,907
Other operating expenses	130,781	68,322	127,332
	$1,052,917	$934,620	$883,473

NOTE 8 – INCOME TAXES

The income tax provisions for December 31, 1997, 1996, and 1995, consist of the following:

	YEARS ENDED DECEMBER 31, 1997	1996	1995
Current	$ -	$ -	$ -
Deferred	(81,247)	86,542	65,358
Income tax provision (benefit)	$ (81,247)	$ 86,542	$ 65,358

The 1997, 1996, and 1995 provisions for income taxes differ from amounts computed using statutory rates as follows:

	YEARS ENDED DECEMBER 31, 1997	1996	1995
Federal income taxes at statutory rates	$ 89,742	$ 103,303	$108,254
State income taxes, net of federal benefit	6,968	11,124	6,935
Decrease in valuation allowance	(142,000)	(47,862)	(53,371)
Other differences	(35,957)	19,977	3,540
	$ (81,247)	$ 86,542	$ 65,358

Deferred tax asset and liability accounts consisted of the following as of December 31, 1997 and 1996:

	DECEMBER 31, 1997	1996
Deferred tax assets	$ 156,247	$ 89,500
Net operating loss carryforward	120,000	249,000
Valuation allowance	-	(142,000)
Deferred tax liabilities	(22,000)	(23,500)
Net deferred tax asset	$ 254,247	$ 173,000

As of December 31, 1997, the Bank had net operating loss carryforwards available to offset future income taxes in the approximate amount of $320,000. These carryforwards expire in 2009.

NOTE 9 – BANKCARD AGREEMENTS AND CREDIT CARD TRANSACTIONS

In May 1991, the Bank entered into a "Bankcard Program Development Agreement" with IJL Corporation (currently known as Renaissance Bankcard Services), with the intent of utilizing Renaissance's expertise in the development of its own secured and guaranteed consumer Visa and Mastercard programs. The original agreement with Renaissance extended for a five-year period with provisions for automatic one year extensions unless otherwise terminated by either party. However, during 1996, the Bank and Renaissance completed a settlement agreement and mutual release, the effect of which included the sale of $15,456,590 of the Bank's credit card portfolio by December 31, 1996. As a condition of the agreement termination, Renaissance will receive a fee of 10% of the net profit from all retained credit card accounts for a period of 24 months.

The majority of these consumer credit card accounts were required to be fully secured with time certificates of deposit at the Bank. 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, 1997, approximately 80% of the outstanding "flip" accounts were secured. Total outstanding balances under both the fully and graduated secured credit card programs were $2,133,642 and $3,177,662 as of December 31, 1997 and 1996, respectively.

Another element of the Bank's credit card portfolio consisted of unsecured accounts issued pursuant to an agreement with IBAA Bankcard, Inc. (IBAA). As of December 31, 1996, IBAA unsecured credit cards totalled $285,167. During 1997, the agreement with IBAA was terminated and these accounts were transferred to Western States Bancard Association (WSBA) of Stockton, California. These unsecured accounts totalled $195,693 as of December 31, 1997.

Another segment of the Bank's credit card portfolio consists of credit cards acquired through purchase. A portfolio of unsecured credit cards purchased during 1997 and 1996 at a discounted price of $38,323 and $68,052, respectively, totalled $106,375 as of December 31, 1997.

A final component of the Bank's credit card portfolio consists of secured accounts which are serviced and reported by WSBA. The Bank has assumed all risk management responsibilities including collection and due diligence procedures. WSBA provides all other portfolio service requirements. These accounts totalled $375,575 and $124,244 as of December 31, 1997 and 1996, respectively. As of December 31, 1997, all of the Bank's credit card accounts are serviced by WSBA.

For the years ending December 31, 1997, 1996, and 1995, the Bank's net interest margin on credit card accounts was as follows:

	YEARS ENDED DECEMBER 31, 1997	1996	1995
Interest and fee income	$951,206	$980,917	$1,513,149
Interest expense	365,177	543,188	806,259
Net interest margin	$ 586,029	$ 437,729	$ 706,890

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial and agricultural loan activity is to customers located near its headquarters and branch office. 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, 1997 and 1996, the Bank had 23.8% and 32.1%, 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 $302,068 in outstanding, unsecured credit card accounts, all other approved credit card lines are fully secured with time certificates of deposit. As of December 31, 1997, 9.3% of the Banks loan portfolio was comprised of outstanding credit card balances. Of the outstanding balance of $2,811,285, approximately 11% were unsecured and 89% were secured with time certificates.

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. As of December 31, 1997 and 1996, only credit card loans with outstanding balances of $20,641 and $11,181, respectively, were outstanding to related parties.

NOTE 12 – COMMON STOCK TRANSACTIONS

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

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

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

The Employee Plan provides for the grant of options to employees up to an aggregate of 122,500 shares of the Bank's Class B common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. Under the plan, options may be exercised only while the grantee is an employee or within 12 months following termination of employment. The Plan became effective upon stockholder approval and will terminate ten years after the effective date. As of December 31, 1997, options for 98,000 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This Plan provides for the grant of options to directors up to an aggregate of 9,750 shares of the Bank's Class B common stock. The Plan is administered by a committee of the Board of Directors which specifies the conditions, timing, and exercise price of grants of options. Under the Plan, options may be exercised only while the grantee serves as a director or within 12 months following termination as a director. The exercise price for options may not be less than 85% of fair market value of the stock on the date of grant. Similar to the Employee Plan, the Outside Director Plan became effective in April 1992, and will terminate in ten years. As of December 31, 1997, options for 4,250 shares of common stock were outstanding under the Outside Director Plan.

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

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

	DIRECTOR'S PLAN		EMPLOYEE'S PLAN		COMBINED PLANS
	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES
Options outstanding at December 31, 1996	9,250	$12.00	94,125	$1.25	103,375
Options granted in 1997	-	$ -	4,500	$2.28	4,500
Options exercised in 1997		$		$	-
Options cancelled in 1997	(5,000)	$ -	(625)	$ -	(5,625)
Options outstanding at December 31, 1997	4,250	$12.00	98,000	$1.26	102,250
Options exercisable at December 31, 1997	4,250	$12.00	98,000	$1.26	102,250
Options reserved at December 31, 1997	5,500		24,500		30,000

	DIRECTOR'S PLAN		EMPLOYEE'S PLAN		COMBINED PLANS
	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES
Options outstanding at December 31, 1995	9,250	$12.00	94,125	$1.25	103,375
Options granted in 1996	-	$ -	2,500	$1.25	2,500
Options exercised in 1996	-	$ -	-	$ -	-
Options cancelled in 1996	-	$ -	(2,500)	$1.25	(2,500)
Options outstanding at December 31, 1996	9,250	$12.00	94,125	$1.25	103,375
Options exercisable at December 31, 1996	9,250	$12.00	94,125	$1.25	103,375
Options reserved at December 31, 1996	500		28,375		28,875

NOTE 13 – EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES

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

In 1997, the FASB issued SFAS No. 128, "Earnings Per Share" which is effective for financial statements issued for periods ending after December 15, 1997. SFAS No. 128 replaced standards for computing and presenting earnings per share and requires a dual presentation of basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options under the Company's stock option plans. Comparative earnings per share data for the years ended December 31, 1997, 1996, and 1995, have been restated to conform with the current year presentation. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 1997, 1996, and 1995:

1997	INCOME (Numerator)	SHARES (Denominator)	PER SHARE AMOUNT
Basic earnings per share			
Income available to common shareholders	$335,842	$1,133,775	$ 0.30
Effect of dilutive securities:			
Outstanding common stock options	-	72,615	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$335,842	$1,206,390	$ 0.28

1996	INCOME (Numerator)	SHARES (Denominator)	PERSHARE AMOUNT
Basic earnings per share			
Income available to common shareholders	$185,310	$ 948,390	$ 0.20
Effect of dilutive securities:			
Outstanding common stock options	-	38,757	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$185,310	$ 987,147	$ 0.20

1995	INCOME (Numerator)	SHARES (Denominator)	PERSHARE AMOUNT
Basic earnings per share			
Income available to common shareholders	$253,037	$ 854,881	$ 0.30
Effect of dilutive securities:			
Outstanding common stock options	-	22,298	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$253,037	$ 877,179	$ 0.29

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 $18,543 and $12,328 were made for the year ended December 31, 1997 and 1995, respectively. No employer contributions were made for the year ended December 31, 1996.

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

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

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

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

	CONTRACT AMOUNT AT DECEMBER 31, 1997	1996
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$4,088,949	$ 6,880,630
Line of credit commitments	202,213	208,621
Credit card commitments	2,703,092	2,588,216
	$ 6,994,254	$ 9,677,467

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, 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 Bank's financial instruments at December 31, 1997 and 1996.

	DECEMBER 31, 1997		DECEMBER 31, 1996	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Cash and due from banks	$ 871,272	$ 871,272	$ 537,399	$ 537,399
Federal funds sold	$ 4,545,000	$ 4,545,000	$ 2,021,000	$ 2,021,000
Investment securities available-for-sale	$ 5,703,667	$ 5,703,667	$10,256,680	$10,256,680
Loans, net of allowance for loan losses and unearned income	$29,826,258	$30,313,948	$23,771,716	$23,836,370
Accrued interest and other assets	$ 734,509	$ 734,509	$ 800,735	$ 800,735
Noninterest-bearing demand deposits	$ 2,008,153	$ 2,006,153	$ 2,073,126	$ 2,073,126
NOW and money market accounts	$10,237,736	$10,357,733	$ 8,818,543	$ 8,953,567
Savings and time deposits	$26,455,676	$27,011,690	$22,998,843	$22,932,843
Accrued interest and other liabilities	$ 330,838	$ 330,838	$ 298,477	$ 298,477

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to have disposed of such items at December 31, 1997, 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, 1997, should not necessarily be considered to apply at subsequent dates.

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments - As of December 31, 1997, 1996, and 1995, the Bank leased certain branch facilities as well as equipment and fixtures under noncancellable operating leases. Rent expense for 1997, 1996, and 1995, was $154,644, $145,302, and $125,631, respectively. The approximate minimum annual commitment for rentals under these operating leases is summarized as follows:

YEARS ENDING DECEMBER 31,	
1998	127,987
1999	125,067
2000	11,208
	$264,262

Litigation – 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

As of December 31, 1997, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31,1997 (in thousands)						
Total capital to risk-weighted assets	$4,338	15.0 %	$2,326	≥8.0%	$2,908	≥10.0%
Tier I capital to risk-weighted assets	$3,973	13.7 %	$1,163	≥4.0%	$1,744	≥6.0%
Tier I capital to average assets	$3,973	9.2 %	$1,724	>4.0%	$2,155	≥5.0%
As of December 31, 1996 (in thousands)						
Total capital to risk-weighted assets	$4,097	15.4 %	$2,128	≥8.0%	$2,660	>10.0%
Tier I capital to risk-weighted assets	$3,702	14.2 %	$1,043	≥4.0%	$1,564	≥6.0%
Tier I capital to average assets	$3,702	9.2 %	$1,610	>4.0%	$2,012	≥5.0%

COMMON STOCK TRADING INFORMATION*

Fiscal Year Ended Dec. 31, 1997	High	Low
Fourth Quarter	$5.63	$2.31
Third Quarter	2.50	2.25
Second Quarter**	2.75	2.00
First Quarter	3.25	2.13

Fiscal Year Ended Dec. 31, 1996***	High	Low
Fourth Quarter	$0.56	$0.50
Third Quarter	0.88	0.44
Second Quarter	0.56	0.44
First Quarter	0.88	0.38

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

**The Bank did a reverse stock split of 4 to 1 on May 19, 1997. The stock prices for the First Quarter and Second Quarter of 1997 were adjusted to reflect this change for comparison purposes. The new stock symbol of the reverse split is AMPB8.

***The stock prices for 1996 were not adjusted for the reverse split and were traded under the old symbol AMPBA.

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STOCK EXCHANGE LISTING
NASDAQ - AMPBB