American Pacific Bank

Established 1979

2000 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	2000	1999	1998
Interest Income	$ 6,708	$ 5,157	$ 4,660
Interest Expense	3,119	2,161	1,858
Net Interest Income	3,589	2,996	2,802
Provision for Loan Losses	362	101	62
Other Income	319	268	265
Other Expenses	2,819	2,500	2,462
Income Before Income Taxes	727	663	543
Income Taxes/(Benefit)	276	191	74
Net Income	451	472	469
PER SHARE DATA*			
Net Income Per Share	0.32	0.37	0.38
Book Value Per Share	4.23	3.95	3.67
BALANCES AT YEAR END			
Total Assets	78,741	53,280	51,874
Loans (Net of Loan Loss and Unearned Income)	70,740	45,741	35,446
Total Deposits	63,351	47,330	46,994
Shareholders' Equity	6,207	5,096	4,574
SELECTED STATISTICS			
Return on Average Assets	0.68%	0.90%	1.01%
Return on Average Equity	7.87%	9.71%	11.16%
Average Equity to Average Assets	8.69%	9.21%	9.37%
Net Interest Margin to Average Assets	5.45%	5.68%	6.12%
Interest Income to Average Earning Assets	10.18%	10.15%	10.50%

COMMON STOCK TRADING INFORMATON

Fiscal Year Ended Dec. 31, 2000	High	Low
Fourth Quarter	$3.72	$2.25
Third Quarter	3.94	3.25
Second Quarter	4.00	1.50
First Quarter	12.00	1.50

Fiscal Year Ended Dec. 31, 1999	High	Low
Fourth Quarter	$4.19	$2.75
Third Quarter	5.50	3.00
Second Quarter	6.88	3.13
First Quarter	4.38	2.38

The bank did an 11 for 10 stock split on December 29, 2000. The Per Share Data for 1999 and 1998 were adjusted to reflect this split for comparison purposes.

American Pacific Bank

Since 1979

INTRODUCTION

American Pacific Bank was organized and continues to operate under the laws of the State of Oregon. The Bank is regulated and its deposits are insured by the Federal Deposit Insurance Corporation. American Pacific has traded within the NASDAQ system (Symbol AMPB) since 1989.

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

Today, the Bank has a reputation of providing friendly, personal and efficient service to customers living throughout Oregon and Southwest Washington in the areas of construction lending, commercial loans, permanent mortgages, business financing, consumer loans, credit cards and deposit services. The Bank relocated to its new headquarters in the financial district of downtown Portland in January 2000 and also provides full Internet banking and bill payment services to its customers through its online delivery channel, American OnLine Bank. On March 1, 2001, the Bank opened its new Wood Village Branch in Wal-Mart on the East Side of Portland. American Pacific Bank's future will continue to be characterized by continued growth and profitability.

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Message from Chairman and President

February 28, 2001

Dear Shareholders and Friends,

We have concluded another year of excellent developments and advancements here at American Pacific Bank. Loan production, deposits, assets and gross revenues have all grown consistently.

The Bank expanded in three areas. The first is our recently formed Business Lending Division, which will participate in the thriving small business lending market of the region. The second is our online banking delivery channel, American OnLine Bank, a full-service internet branch designed to bring our customers the latest in technology and convenience. Furthermore, we have pursued and achieved another goal in our 5-Year Plan by finalizing the preparations for our new Wood Village Branch. As of today, we have commenced operation of the branch, which is located in the new Wal-Mart in Wood Village. With the new branch, we are extending our services and coverage through Gresham and East Portland. By means of these three new facets of American Pacific Bank, we are enhancing our service traditionally, electronically and geographically.

The Bank's assets increased 48% to $78.7 million in 2000. Net earnings after taxes for Fiscal 2000 were $450,635 or $0.32 per share, as compared to $472,078 or $0.37 per share, reported for the prior fiscal year. This is a result of higher Federal and State Income taxes provided ($275,198 vs. $190,500 – a 45% increase), additional expenses for opening the new Portland Headquarters and Main Branch, additional expenses for the design and implementation of the Online Banking delivery channel, and start-up costs for the new Business Lending Division. However, the Bank's net interest income increased by 20%, total net income before taxes increased by 10%, loan production increased by 55%, and deposits increased by 34%. Despite the larger tax expenditure for fiscal 2000, the Bank's performance was much stronger than the previous year as exhibited by the growth in both loans and net interest income.

As we move forward into 2001, we anticipate continuing our record of strong growth and improving on both our innovative on-line banking and traditional individual service and attention. We thank you for your continued support and confidence.

Fai H. Chan
Chairman, Board of Directors

David T. Chen
President and Chief Executive Officer

"Bridging global communities through the Bank's online banking services will present better opportunities for our customers in the new millennium"

Fai H. Chan

"Combining electronic banking with old-fashioned friendly customer service will continue to set us apart from other financial institutions"

David T. Chen

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

BOARD OF DIRECTORS

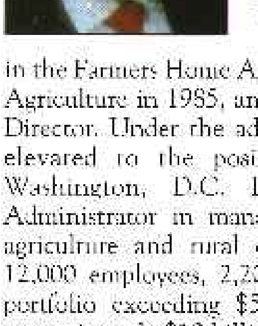
Fai H. Chan: *Chairman of the Board*

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

Mr. Chan became Chairman of American Pacific Bank in 1987 when it was still called Santiam Valley Bank and on the verge of failure. He assembled a completely new management team and immediately began a restructuring process. That process has evolved to the point where today the Bank's assets have grown from $9 million to well over $78 million; the significant loss position of 1986 has turned into a profit, and the securities trade within the NASDAQ system.

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

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



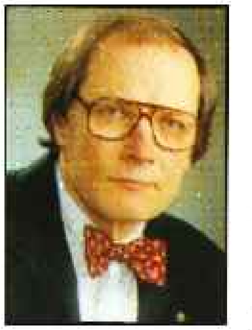
Mr. Chen began his career with the National Bank of Commerce (later called Ranier Bank) in Seattle, Washington in 1966. In 1970, he entered the public sector serving as the Finance Director for various municipalities. The most recent of these was the city of Beaverton, Oregon where he was directly responsible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

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

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

Tong Wan Chan, known as Tony Chan, began his career as an investment banker specializing in Asian equity financial products for Peregrine Investment Holdings Limited (PIHL) in Hong Kong. Mr. Chan was one of four people responsible for structuring and marketing for Peregrine Derivatives, a subsidiary of PIHL, which produced annual recurring profits of $20 to $30 million. More recently, Mr. Chan worked as an Investment Banker for Commerzbank, Global Equities, where he was involved in the establishment of a new regional business center in Hong Kong for the Global Equities Division. Since July 1999, Mr. Chan has worked for American Fronteer Financial Corporation as an Investment Banker specializing in the coordination of the Company's high tech and emerging Internet related strategic funding activities.

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 Corporate Secretary*

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

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

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

Harlan Barcus: *Senior Vice President and Chief Credit Officer*

Mr. Barcus has been actively involved in the financial services industry for 18 years. Prior to joining American Pacific Bank, he was the managing director of Analyquest, LLC, a provider of software, educational curriculum and consulting services for the financial services industry. His career began in 1981 with the Federal Deposit Insurance Corporation in Portland as a bank examiner. He was also on the faculty of the FDIC's National Training Center in Washington, DC.

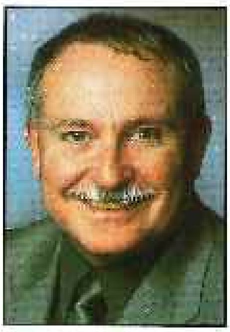
In 1990 Mr. Barcus joined U.S. Bank in Portland as a consultant, and eventually became a vice president and senior loan portfolio analyst for U.S. Bank's Credit Administration and Policy. In 1992 he was promoted to senior credit administration officer, and managed the commercial loan systems, management information systems and loan portfolio credit risk analysis functions for the bank. In 1995 Mr. Barcus was appointed program manager for U.S. Bank's interstate banking project, where he successfully directed the merger and integration of U.S. Bank's multiple state banks into a single entity.

Mr. Barcus holds a Bachelors' Degree in Business Administration in Finance from Western State University, and is a graduate of the Pacific Coast Banking School at the University of Washington. He has also served on the faculty of the Northwest Commercial School of Lending at the University of Portland for several years.

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 at 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 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 and Oregon Bankers Association, 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.

Thomas Y. Hagan: Senior Vice President, Director of Small Business Lending Center



Mr. Hagan began his banking career in 1969 after graduating from Montana State University at the Billings, Montana campus with a degree in Business Administration. He has had 22 years of experience in small business lending, both conventional and SBA guaranteed. His career started with First Bank System as the consumer loan department manager for banks in Valley City, North Dakota and Havre, Montana. In 1978 he left corporate banking and began a career in community banking. He eventually served as president of a small community bank in Glendive, Montana for nine years. Prior to moving to Portland, he served as a Vice President and Branch Manager for institutions in Anaconda and Billings, Montana. In April, 2000, Mr. Hagan was hired by American Pacific Bank to develop a small business lending center.

Mr. Hagan is a 1981 graduate of the Graduate School of Banking in Boulder, Colorado. He has extensive training in commercial lending through First Bank System and the AIB. He is a member of the Oregon Entrepreneurial Forum and the Oregon Banker's Association Lending Committee.

YOUR BANK AT WORK

Profitability is but one measure of our success. The positive contributions we make to the communities we serve is equally important.

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

The success of our commercial real estate, business, and credit card lending programs is evidenced by loan growth of more than fifty percent. However, this growth has been accomplished without compromising asset quality, as evidenced by our past due loan ratio of 0.63%, non-performing asset ratio of 0.08%, and net loan loss ratio of 0.35%.

Real Estate Lending Division

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

The Real Estate Division ended 2000 with $61.6 million in loans. Residential loans originated during 2000 totaled over $20.1 million.

Real estate loans range in size from $50,000 to $1,600,000. Projects larger than this are participated with other lenders, allowing us to participate in larger projects, while minimizing our risk exposure.

To mitigate the risks inherent in construction and commercial real estate loans, we actively manage the portfolio through frequent inspections, controlled disbursements, variable interest rate pricing, and sales to the secondary market.

During 2000 the Real Estate Division experienced a significant growth in revenue, with over $4.8 million in interest and fee income, a 37% gain over the prior year.

Business Lending Division

In April 2000 we opened our Business Lending Division, providing small businesses and farms with lines of credit, term financing, SBA loans, and cash management products. Establishing our niche in the small business market, we ended the year with $1.4 million in loans and commitments under management. We project increasing the portfolio to over $10 million in 2001, and look forward to this division becoming a significant contributor to the bank's profitability and further diversifying the potential concentration risk in our loan portfolio.

Bankcard Center

Our secured credit card products continue to be one of the best values in the nation, as rated by CardTrak.

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

We ended 2000 with a credit card portfolio of $3.7 million, with $804,000 in interest and fee income. Unfortunately, net charge-offs during 2000 rose to $203,000 as the economy began to soften and consumer bankruptcies grew. By implementing aggressive collection practices we have been able to stem credit losses and slash past due accounts to a ratio of 5.7%.

American Online Bank

With the increasingly important role the Internet is playing in our society, we launched our 'virtual' branch in September of 2000.

With a completely redesigned web-site, fully transactional Internet banking, and bill payment services, American Online Bank provides state-of-the-art convenience to all of American Pacific Bank's products and services. We ended the year with 131 online customers, grew to 197 online customers as of February 28, 2001, and anticipate rapid and steady growth through this delivery channel.

Other Banking Services

Through our three branches, including a new in-store Wal-Mart location, we provide quality, personal service to individuals throughout our trade area who are tired of the large bank environment. A special niche we serve are immigrants and clientele from the Pacific Rim and Latin America, with bilingual customer service tailored to their unique needs.

AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2000, 1999, AND 1998

INDEPENDENT AUDITOR'S REPORT

MOSS -ADAMS LLP

CERTIFIED PUBLIC ACCOUNTS

To the Board of Directors and Stockholders
American Pacific Bank

We have audited the accompanying balance sheets of American Pacific Bank as of December 31, 2000 and 1999, and the related statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2000. 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, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with generally accepted accounting principles.

Moss Adams LLP

Portland, Oregon
January 19, 2001

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

AMERICAN PACIFIC BANK
BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	2000	1999
Cash due from banks	$ 1,196,980	$ 1,083,247
Federal funds sold	1,035,000	525,000
Total cash and cash equivalents	2,231,980	1,608,247
Investment securities available-for-sale	2,329,528	3,811,195
Federal Home Loan Bank stock	446,100	162,800
Loans held-for-sale	1,175,500	545,634
Loans, net of allowance for loan losses and unearned income	70,740,475	45,740,690
Land, buildings, equipment, and leasehold improvements, net	794,653	565,497
Accrued interest and other assets	1,023,315	645,436
Other real estate owned	-	200,548
Total assets	$ 78,741,551	$ 53,280,047

LIABILITIES AND STOCKHOLDERS' EQUITY	2000	1999
Deposits:		
Noninterest-bearing demand deposits	$ 2,353,778	$ 2,438,696
NOW and money market accounts	13,219,088	13,625,731
Savings and time deposits	47,778,221	31,265,084
Total deposits	63,351,087	47,329,511
Federal Home Loan Bank line of credit	8,800,000	-
Accrued interest and other liabilities	383,813	854,566
Total liabilities	72,534,900	48,184,077
COMMITMENTS AND CONTINGENCIES (Note 18)		
STOCKHOLDERS' EQUITY		
Class B Common stock, no par value; 200,000,000 shares authorized, 1,467,704 shares issued and outstanding in 2000, 1,171,776 shares issued and outstanding in 1999	5,019,311	4,599,486
Surplus	1,157,538	940,625
Retained earnings (accumulated deficit)	37,020	(413,778)
Accumulated other comprehensive income (loss), net of taxes	(7,218)	(30,363)
Total stockholders' equity	6,206,651	5,095,970
Total liabilities and stockholders' equity	$ 78,741,551	$ 53,280,047

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	2000	1999	1998
INTEREST INCOME			
Interest and fees on loans	$ 6,346,297	$ 4,654,709	$ 4,010,335
Interest on investment securities			
State and municipal subdivisions	3,100	2,812	3,285
Obligations of U.S. government agencies	210,479	152,218	253,097
Other domestic taxable securities	15,740	8,303	9,087
Interest on Federal funds sold	132,796	338,903	382,920
Total interest income	6,708,412	5,156,945	4,658,724
INTEREST EXPENSE			
Interest on deposits and borrowings	3,119,465	2,161,040	1,857,674
Net interest income	3,588,947	2,995,905	2,801,050
PROVISION FOR LOAN LOSSES	362,165	100,969	61,665
Net interest income after provision for loan losses	3,226,782	2,894,936	2,739,385
NONINTEREST INCOME			
Service charges and fees	113,589	121,150	128,447
Gain on sale of loans	141,499	88,640	68,176
Real estate brokerage fees, net of commissions	-	51,506	63,604
Gain on the sale of available-for-sale securities	-	-	1,217
Reimbursement of leasehold improvements	53,666	-	-
Other noninterest income	32,032	6,476	3,195
Total noninterest income	340,786	267,772	264,639
NONINTEREST EXPENSES			
Salaries and employee benefits	1,405,897	1,286,850	1,244,740
Occupancy and equipment expenses	373,491	292,180	291,432
Real estate commissions, net of fees	21,459	-	-
Loss on sale of available-for-sale securities	390	-	-
Other operating expenses	1,039,496	921,098	925,484
Total noninterest expenses	2,840,733	2,500,128	2,461,656
INCOME BEFORE PROVISION FOR INCOME TAXES	726,835	662,580	542,368
INCOME TAX PROVISION	276,037	190,502	73,675
NET INCOME	450,798	472,078	468,693
OTHER COMPREHENSIVE INCOME			
Unrealized gain (loss) on securities, net of tax:			
Unrealized holding gain (loss) arising duringperiod	23,145	(32,741)	22,094
Reclassification adjustment for gain (loss) included in net income	-	-	(803)
Other comprehensive income	23,145	(32,741)	21,291
COMPREHENSIVE INCOME	$ 475,943	$ 441,336	$ 491,982
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.32	$ 0.37	$ 0.38
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.32	$ 0.37	$ 0.36

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Retained Earnings Surplus	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE, December 31, 1997	1,133,776	$ 4,550,423	$ 905,000	$ (1,354,549)	$ (18,913)	$ 4,081,961
Exercise of options	500	2,188	-	-	-	2,188
Net income and comprehensive income	-	-	-	468,693	21,291	489,984
BALANCE, December 31, 1998	1,134,276	4,552,611	905,000	(885,856)	2,378	4,574,133
Exercise of options	37,500	46,875	-	-	-	46,875
Tax benefit of stock options	-	-	35,625	-	-	35,625
Net income and comprehensive loss	-	-	-	472,078	(32,741)	439,337
BALANCE, December 31, 1999	1,171,776	4,599,486	940,625	(413,778)	(30,363)	5,095,970
Exercise of options	52,500	65,625	-	-	-	65,625
Tax benefit of stock options	-	-	59,613	-	-	59,613
Issuance of stock	110,000	354,200	157,300	-	-	511,500
Stock split 11 to 10	133,428	-	-	-	-	-
Net income and comprehensive income	-	-	-	450,798	23,145	473,943
BALANCE, December 31, 2000	1,467,704	$ 5,019,311	$ 1,157,538	$ 37,020	$ (7,218)	$ 6,206,651

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 450,798	$ 472,078	$ 468,693
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(141,499)	(88,640)	(68,176)
Depreciation and amortization	89,336	57,195	43,178
Provision for loan losses	362,165	100,969	61,665
Loss (gain) on sale of available-for-sale securities	390	-	(1,217)
Deferred income taxes	(57,682)	(42,182)	62,032
Net originations of loans held-for-sale	(488,367)	1,415,066	(944,617)
Federal Home Loan Bank stock dividend	(15,600)	(5,100)	
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	(332,120)	(12,081)	85,240
Increase (decrease) in accrued interest and other liabilities	9,588	582,960	(23,607)
Net cash from operating activities	(122,991)	2,480,265	(316,809)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	-	(2,286,511)	(1,116,902)
Purchases of Federal Reserve Bank stock	-	-	(50)
Purchases of Federal Home Loan Bank stock	-	(157,700)	-
Proceeds from sale of Federal Reserve Bank stock	-	136,600	-
Purchase of restricted equity securities	(267,700)	-	-
Proceeds from maturity of available-for-sale securities	1,519,604	464,303	4,423,855
Proceeds from sale of available-for-sale securities	-	-	400,000
Loans originated, net of principal repayments	(25,361,950)	(10,507,521)	(5,074,936)
Proceeds from the sale of other real estate owned	200,548	-	-
Purchase of credit card portfolios	-	-	(606,517
Purchase of building improvements, equipment, and furniture	(321,751)	(277,757)	(45,354)
Net cash from investing activities	(24,231,249)	(12,628,586)	(2,019,904)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in noninterest-bearing demand, NOW, money market, and savings deposit accounts	(557,144)	3,696,081	794,749
Net increase (decrease) in time accounts	16,578,720	(3,360,155)	7,497,271
Net increase in short-term borrowings	8,800,000	-	-
Repayment of mortgage on other real estate owned	(164,978)	-	-
Issuance of common stock	321,375	46,875	2,188
Net cash from financing activities	24,977,973	382,801	8,294,208
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	623,733	(9,765,520)	5,957,495
CASH AND CASH EQUIVALENTS, beginning of year	1,608,247	11,373,767	5,416,272
CASH AND CASH EQUIVALENTS, end of year	$ 2,231,980	$ 1,608,247	$ 11,373,767
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid in cash	$ 3,056,895	$ 2,198,060	$ 1,900,230
Taxes paid in cash	$ 206,300	$ 9,000	$ 10,000
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Unrealized gain (loss) on available-for-sale securities, net of taxes	$ 23,145	$ (30,363)	$22,094
Acquired real estate in settlement of loans	$ -	$ 200,548	$ -
Application of stock subscription payment to stock purchase	$ 255,750	$ -	$ -
Tax benefit of stock options	$ 59,613	$ 35,625	$ -

See accompanying notes.

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Bank is subject to the regulations of the Federal Deposit Insurance Corporation (FDIC) and the Oregon State Department of Insurance and Finance. Through their oversight responsibilities, these agencies periodically conduct examinations of the Bank.

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

Investment securities – The Bank is required to specifically identify its investment securities as "held-to-maturity," "available-for-sale," or "trading accounts." Accordingly, management has determined that all investment securities held as of December 31, 2000 and 1999, are "available-for-sale."

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

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of equity until realized. Fair values for investment securities are based on quoted market prices. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs would be included in earnings as realized losses. Premiums and discounts are recognized as interest income using the interest method over the period to maturity.

Loans, net of allowance for loan losses and unearned income – Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and unearned income. Interest on loans is calculated by using the simple-interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb 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. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 2000, 1999, and 1998. The accompanying financial statements reflect any accounting adjustments required as a result of the regulatory examinations.

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

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

Land, buildings, equipment, and leasehold improvements – Land, buildings, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

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

Advertising – Advertising costs are charged to expense during the year in which they are incurred. Advertising expenses were $40,861, $13,118, and $20,784 in 2000, 1999, and 1998, respectively.

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

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

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

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

Cash and cash equivalents – The carrying amounts of cash and cash equivalents approximate their fair value.

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

Federal Home Loan Bank stock – The carrying value of Federal Home Loan Bank stock approximates fair value.

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

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

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

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

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

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

Stock options – The Bank measures compensation cost using the intrinsic value method, which computes compensation cost as the difference between a company's stock price and the option price at the grant date. Accordingly, no compensation cost has been recognized for its stock option plans. If the Bank followed the fair value based method of accounting for stock option plans, the effect would be insignificant to the 2000, 1999, and 1998 financial statements.

Recently issued accounting standards – The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – a replacement of FASB Statement No. 125," effective for transfers and extinguishments occurring after March 31, 2001. The impact and adoption of this standard and other issued but not yet required FASB statements are not expected to materially affect the Bank's financial condition or results of operations.

Reclassifications – Certain reclassifications have been made to the 1999 and 1998 financial statements to conform with current year presentations.

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2000				
Available-for-sale securities:				
Collateralized mortgage obligations	$ 1,070,464	$ -	$ (6,359)	$ 1,064,105
Municipal securities	70,000	-	(2,329)	67,671
Agency notes and bonds	1,200,000	-	(2,248)	1,197,752
	$ 2,340,464	$ -	$ (10,936)	$ 2,329,528

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 1999				
Available-for-sale securities:				
Collateralized mortgage obligations	$ 1,500,000	$ -	$ (17,255)	$ 1,482,745
Municipal securities	70,000	-	(4,039)	65,961
Agency notes and bonds	2,287,199	-	(24,610)	2,262,589
	$ 3,857,199	$ -	$ (45,904)	$ 3,811,295

The amortized cost and estimated fair value of investment securities as of December 31, 2000, 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	$ 800,000	$ 799,000
Due after one year through five years	450,000	447,666
Due after five years through ten years	-	-
Due after ten years	20,000	18,757
Collateralized mortgage obligations	1,070,464	1,064,105
	$ 2,340,464	$ 2,329,528

As of December 31, 2000 and 1999, investment securities with an amortized cost of $713,642 and $1,000,000 respectively, were pledged to secure deposits of public funds.

The Bank, as a member of the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) systems, is required to maintain an investment in restricted equity securities of FRB and FHLB. Both FRB and FHLB stock are not actively traded, but are redeemable at current book value. In 1999, the Bank withdrew its membership in the FRB and redeemed its interest in FRB stock for $136,600. As of December 31, 2000, the Bank's investment in FHLB stock was $446,100.

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

The composition of loan balances is summarized as follows:

	2000	1999
Commercial	$ 44,042,005	$ 28,396,139
Real estate – construction	16,586,680	9,161,249
Real estate – permanent	8,056,375	5,457,064
Credit cards	2,713,533	3,102,250
Installment	142,891	197,971
Overdraft accounts	7,598	1,513
	71,551,082	46,336,186
Allowance for loan losses	(628,907)	(470,658)
Unearned income	(181,700)	(124,838)
	$ 70,740,475	$ 45,740,690

Changes in the allowance for loan losses were as follows:

	2000	1999	1998
BALANCE, beginning of year	$ 470,658	$ 428,542	$ 458,624
Provision for loan losses	362,165	100,069	61,665
Loans charged-off	(230,280)	(68,305)	(102,809)
Recoveries on loans previously charged-off	26,364	9,452	11,062
BALANCE, end of year	$ 628,907	$ 470,658	$ 428,542

The Bank has recognized impaired loans having recorded balances of $364,263 and $7,000 on December 31, 2000 and 1999, respectively. The total allowance for loan losses related to these loans was $6,520 and $1,050 on December 31, 2000 and 1999, respectively. Interest income recognized for cash payments received on impaired loans was insignificant in 2000, 1999, and 1998. Had the impaired loans performed according to their original terms, additional interest income that would have been recognized during 2000, 1999, and 1998, respectively, would also have been insignificant.

The maturity range of the loan portfolio, including loans held-for-sale, as of December 31, 2000, is as follows:

	Due Due In One Year Or Less	Due After One Through Five Years	Due After Five Years	Total
Commercial and real estate	$ 19,714,143	$ 24,641,835	$ 25,480,443	$ 69,836,421
Credit card loans	2,713,533	-		2,713,533
Installment loans and overdrafts	63,296	53,069	-	116,365
	$ 22,490,972	$ 24,694,904	$ 25,480,443	$ 72,666,319
Nonaccrual loans				60,263
				$ 72,726,582
Fixed-rate loans	$ 7,696,320	$ 5,643,121	$ 25,480,443	$ 38,819,884
Adjustable rate loans	14,794,652	19,051,783	-	33,846,435
	$ 22,490,972	$ 24,694,904	$ 25,480,443	72,666,319
Nonaccrual loans				60,263
				$ 72,726,582

NOTE 4 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	2000	1999
Accrued interest receivable	$ 439,155	$ 227,614
Deferred income taxes	292,090	234,407
Settlements receivable	193,124	106,765
Prepaid expenses	55,449	41,580
Software	42,296	-
Other receivables	1,201	33,070
	$ 1,023,315	$ 643,436

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

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

	2000	1999
Land	$ 35,465	$ 35,465
Buildings	316,869	302,021
Equipment	637,252	568,777
Leasehold improvements	484,470	246,042
	1,474,056	1,152,305
Accumulated depreciation and amortization	(679,403)	(596,808)
	$ 794,653	$ 555,497

NOTE 6 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $12,485,993 as of December 31, 2000 and $6,466,809 as of December 31, 1999.

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, 2000:

	Time Certificates Of $100,000 Or More	All Other Time Deposits
2001	$ 12,085,993	$ 28,579,828
2002	300,000	1,297,781
2003	100,000	151,515
	$ 12,485,993	$ 30,029,124

NOTE 7 – NOTES PAYABLE

The Bank is a member of the Federal Home Loan Bank (FHLB) of Seattle and has entered into Advances, Security and Deposit Agreements which provide a credit arrangement from FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as deposits or other instruments which may be pledged. As of December 31, 2000, the Bank had borrowings outstanding with the FHLB of $8,800,000. The Bank did not have any outstanding borrowings with the FHLB at December 31, 1999. The promissory notes mature in 2001 and carry interest rates ranging from 6.56% to 7.14%.

NOTE 8 – OTHER OPERATING EXPENSES

Other operating expenses for 2000, 1999, and 1998, were comprised of the following:

	2000	1999	1998
Credit card expense	$ 271,203	$ 284,652	$ 282,292
Data processing expenses	165,308	144,814	141,841
Professional services	115,253	106,716	89,759
Telephone, postage, and wire transfer expenses	147,487	141,205	156,245
Insurance	46,770	46,244	39,539
Stationery, supplies, and printing expenses	46,312	44,554	44,806
Advertising	40,867	73,118	20,784
Automatic teller machine processing fees	56,406	14,099	8,058
Public relations and business development	65,063	13,421	14,253
NSF and other operating losses	1,364	3,603	7,855
Other operating expenses	137,945	100,664	100,232
	$ 1,039,486	$ 921,038	$ 925,484

NOTE 9 – INCOME TAXES

The income tax provision consists of the following:

	2000	1999	1998
Current	$ 335,720	$ 232,684	$ 11,643
Deferred	(57,683)	(42,182)	62,032
Income tax provision	$ 278,037	$ 190,502	$ 73,675

The 2000, 1999, and 1998 provisions for income taxes differ from amounts computed using statutory rates as follows:

	2000	1999	1998
Federal income taxes at statutory rates	$ 247,124	$ 225,277	$ 184,405
State income taxes, net of federal benefit	31,887	28,862	20,416
Decrease in valuation allowance	-		(149,689)
Other differences	(2,974)	(63,637)	18,543
	$ 276,037	$ 190,502	$ 73,675
Effective tax rate	36.00%	28.80%	13.60%

Deferred tax asset and liability accounts consisted of the following as of December 31, 2000 and 1999:

	2000	1999
Deferred tax assets:		
Loan loss reserves	$ 142,113	$ 81,975
Net operating loss carryforwards	99,707	128,204
Other	70,079	45,579
	311,899	255,761
Deferred tax liabilities:		
Accumulated depreciation	(15,553)	(19,416)
Other	(4,256)	(1,938)
	(19,809)	(21,354)
Net deferred tax assets	$ 292,090	$ 234,407

As of December 31, 2000, the Bank net operating loss carryforwards of approximately $262,000 available to offset future income taxes. These carryforwards expire through the year 2011.

NOTE 10 – CREDIT CARD PORTFOLIO

Certain of the Bank's consumer credit card accounts were originally required to be fully secured with time certificates of deposit at the Bank. The majority of these accounts have become partially unsecured with the passage of time due to the customer's creditworthiness. The credit card portfolio is serviced by Western States Bancard Association (WSBA). The Bank has assumed all risk management responsibilities including collection and due diligence procedures. WSBA provides all other portfolio service requirements. Unsecured accounts included in the credit card portfolio totaled $637,034 and $729,598; secured and graduated secured accounts totaled $2,076,499 and $2,372,652 as of December 31, 2000 and 1999, respectively.

For the years ending December 31, 2000, 1999, and 1998, the Bank's net interest margin on credit card accounts was as follows:

	2000	1999	1998
Interest and fee income	$ 804,444	$ 925,181	$ 863,618
Interest expense	176,569	235,198	308,307
Net interest margin	$ 627,875	$ 691,983	$ 555,311

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial loan activity is to customers located near its headquarters and branch office. These geographical areas are primarily involved in commercial business and residential development activities. As of December 31, 2000 and 1999, commercial loans were 62% and 61%, respectively, of the Bank's loan portfolio.

The Bank's real estate lending department in Portland, Oregon makes real estate construction loans to builders and their customers primarily in the Portland, Oregon and Vancouver, Washington metropolitan areas. The office also provides real estate mortgage brokerage services to its customers for which it receives fee and commission income. As of December 31, 2000 and 1999, 23% and 20%, respectively, of the Bank's loan portfolio was comprised of real estate construction loans.

The Bank makes credit card loans to qualified individuals throughout the United States. As of December 31, 2000 and 1999, 4% and 7%, respectively, of the Banks loan portfolio was comprised of outstanding credit card balances.

NOTE 12 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loan included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features. The following table summarizes loan transactions between the Bank and related parties during 2000 and 1999:

	2000	1999
BALANCE, beginning of year	$ 623,623	$ 16,755
Loans made	105,356	793,555
Loans paid	(70,013)	(186,687)
BALANCE, end of year	$ 658,966	$ 623,623

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

NOTE 13 – COMMON STOCK TRANSACTIONS

Private placement offering – In June 1999, the Bank's Board of Directors approved a private placement offering for the sale of 11 units of equity interest at $46,500 per unit or an aggregate amount of $511,500. In the private placement offering, each unit consisted of 10,000 shares of common stock and warrants for 100,000 additional shares. The exercise price for the warrants was $4.23 per share until September 30, 2000, then increasing to $4.68 per share through September 30, 2001, to $5.14 per share through September 30, 2002, to $5.59 per share through September 30, 2003; and to $6.05 per share through September 30, 2004, when the warrants expire. These prices reflect the 2000 stock split.

As of December 31, 1999, the Bank's Chairman had subscribed to 5-1/2 units of the private placement offering and paid the subscription price of $255,750. Because finalization of the private placement offering required approval by the Bank's shareholders at the annual shareholders' meeting in April 2000, the Bank recorded subscription funds received from the Chairman as a liability at December 31, 1999.

The Bank's shareholders approved the private placement offering in April 2000. The liability for subscription funds recorded has been reclassified to common stock as of December 31, 2000. On July 28, 2000, the chairman subscribed the remaining 5-1/2 units and paid the subscription price of $255,750. The chairman also received 1,100,000 common stock warrants from the private placement offering. As of December 31, 2000 no common stock warrants had been exercised.

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 134,750 shares of common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan, which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. Under the plan, options may be exercised only while the grantee is an employee or within 12 months following termination of employment. The plan became effective upon stockholder approval and options issued under plan terminate ten years after the effective date. As of December 31, 2000, options for 11,550 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This plan provides for the grant of options to directors up to an aggregate of 10,725 shares of common stock. The plan is administered by a committee of the Board of Directors, which specifies the conditions, timing, and exercise price of grants of options. Under the plan, options may be exercised only while the grantee serves as a director or within 12 months following termination as a director. The exercise price for options may not be less than 85% of fair market value of the stock on the date of grant. Similar to the Employee Plan, the Outside Director Plan became effective in April 1992, and will terminate in ten years. As of December 31, 2000, options for 10,175 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.

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

The 2000 plan provides for the grant of options up to an aggregate of 275,000 shares of stock, all of which may be awarded to employees who do not own 10% or more of the voting stock of the Bank. No more than 60% of the options may be awarded as NOSO's.

The plan became effective upon stockholder approval and will terminate ten years after the effective date of the plan. The plan is administered by the Board of Directors. Options granted under this plan are not exercisable for one year, and shall have terms not exceeding five years. Options may be exercised only while the grantee is an employee or within three months following termination.

The following summarizes options available and outstanding under all plans as of December 31, 2000:

	Outside Director Plan		Employee Plan		2000 Stock Option Plan		Combined Plans
	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares
Options outstanding as of December 31, 1998	4,875	$ 5.02	110,990	$ 1.33			115,865
Options granted in 1999	-	$ -	7,700	$ 3.38			7,700
Options exercised in 1999	-	$	(41,250)	$ 1.14			(41,250)
Options canceled in 1999		$ -	(7,920)	$ 2.45			(7,920)
Options outstanding as of December 31, 1999	4,875	$ 5.02	69,520	$ 1.43			74,395
Options exercisable as of December 31, 1999	4,875	$ 5.02	69,520	$ 1.43			74,395
Options reserved as of December 31, 1999	5,500		21,230				26,730
Options outstanding as of December 31, 1999	4,875	$ 5.02	69,520	$ 1.43			74,395
Options granted in 2000	5,500	$ 3.10	1,100	$ 2.95			6,600
Options exercised in 2000	-	$ -	(57,750)	$ 1.14			(57,750)
Options cancelled in 2000	-	$ -	(1,320)	$ 1.55			(1,320)
Options outstanding as of December 31, 2000	10,175	$ 4.03	11,550	$ 3.03			21,725
Options exercisable as of December 31, 2000	10,175	$ 4.03	11,550	$ 3.03			21,725
Options reserved as of December 31, 2000	-		21,450		275,000		296,450

At December 31, 2000, the range of exercise prices and weighted average remaining contractual life of outstanding options was $2.05 – $5.02 and approximately 4.6 years, respectively.

NOTE 14 – EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES

Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options under the Bank's stock option plans and common stock warrants issued in the private placement offering. Comparative earnings per share data for the years ended December 31, 1999 and 1998 have been restated to reflect the 2000 stock split. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2000, 1999, and 1998:

2000	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 450,798	1,405,847	$ 0.32
Effect of dilutive securities:			
Outstanding common stock options and warrants	-	-	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 450,798	1,405,847	$ 0.32

1999	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 472,078	1,261,378	$ 0.37
Effect of dilutive securities:			
Outstanding common stock options	-	30,007	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 472,078	1,291,385	$ 0.37

1998	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share			
Income available to common shareholders	$ 468,693	1,247,432	$ 0.38
Effect of dilutive securities:			
Outstanding common stock options	-	66,056	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$ 468,693	1,313,488	$ 0.36

NOTE 15 – EMPLOYEE BENEFIT PLANS

The Bank maintains a 401(k) Retirement Salary Savings and Profit Sharing Plan. All permanent employees are eligible once they meet the age and service requirements. Employer contributions match 50% of all qualified employee contributions, to a maximum of 3% of annual salary. Employer contributions of $24,294, $20,176, and $21,043 were made for the years ended December 31, 2000, 1999, and 1998, respectively. The current year contribution was funded subsequent to year end by distribution of 6,902 shares of Bank stock, valued at the 2000 average market price of $3.5198 per share.

NOTE 16 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

	Contract Amount As of December 31, 2000	1999
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$ 5,283,000	$ 3,901,615
Credit card commitments	4,456,000	4,781,363
Line of credit commitments	299,000	450,263
Letters of credit	-	26,000
	$ 10,038,000	$ 9,159,241

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

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

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table illustrates the estimated fair value and the related carrying values of the Bank's financial instruments as of December 31, 2000 and 1999.

	2000 CARRYING AMOUNT	2000 ESTIMATED FAIR VALUE	1999 CARRYING AMOUNT	1999 ESTIMATED FAIR VALUE
Cash and due from banks	$ 1,196,980	$ 1,196,980	$ 1,083,247	$ 1,083,247
Federal funds sold	$ 1,035,000	$ 1,035,000	$ 525,000	$ 525,000
Investment securities available-for-sale	$ 2,329,528	$ 2,329,528	$ 3,811,195	$ 3,811,195
Federal Home Loan Bank stock	$ 448,100	$ 448,100	$ 182,800	$ 182,800
Loans held for sale	$ 1,175,500	$ 1,175,500	$ 545,634	$ 545,634
Loans, net of allowance for loan losses and unearned income	$ 70,740,476	$ 73,882,057	$ 46,740,690	$ 46,855,504
Accrued interest receivable	$ 439,155	$ 439,155	$ 227,614	$ 227,614
Non-interest-bearing demand deposits	$ 2,353,778	$ 2,353,778	$ 2,438,696	$ 2,438,696
NOW and money market accounts	$ 13,219,088	$ 13,219,088	$ 16,625,731	$ 16,625,731
Savings and time deposits	$ 47,778,221	$ 48,918,068	$ 51,295,084	$ 51,357,682
FHLB borrowings	$ 8,800,000	$ 8,800,000	$ -	$ -
Accrued interest and other liabilities	$ 383,813	$ 383,813	$ 654,566	$ 654,566

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, 2000, 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, 2000, 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 18 – COMMITMENTS AND CONTINGENCIES

Employment agreements – The Bank has entered into employment agreements with its Chief Executive Officer and its Chief Financial Officer. In addition to providing customary salaries and benefits to the executives, the Agreements which expire on March 30, 2002, provide for payments of 299% of the executives' most recent base salaries in the event of a change in Bank control, as defined. Further, in the case of the Chief Executive Officer, the Agreement provides for incentive compensation if net accounting profit goals, as defined, are attained.

Operating lease commitments – As of December 31, 2000, 1999, and 1998, the Bank leased certain branch facilities and equipment. Rent expense for 2000, 1999, and 1998 was $166,964, $155,071, and $150,000, respectively. The approximate minimum annual commitment for future rentals under operating leases is summarized as follows:

Years ending December 31, 2001	$201,134
2001	$ 201,134
2002	205,024
2003	219,614
2004	215,910
2005	220,137
Thereafter	880,117
	$ 1,947,936

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

NOTE 19 – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2000, that the Bank meets all capital adequacy requirements to which they are subject.

As of December 31, 2000, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2000 (in thousands)						
Total capital to risk-weighted assets	$6,783	9.7%	$5,597	≥8.0%	$6,996	≥10.0%
Tier 1 capital to risk weighted assets	$6,154	8.8%	$2,798	≥4.0%	$4,198	≥6.0%
Tier 1 capital to average assets	$6,154	8.1%	$3,025	>4.0%	$3,781	>5.0%
As of December 31, 1999 (in thousands)						
Total capital to risk-weighted assets	$5,596	12.8%	$3,507	≥8.0%	$4,384	≥10.0%
Tier 1 capital to risk weighted assets	$5,126	11.7%	$1,754	≥4.0%	$2,631	≥6.0%
Tier 1 capital to average assets	$5,126	9.6%	$2,132	>4.0%	$2,666	>5.0%

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

CORPORATE DATA

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Sherwood Securities Corp.
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