American Pacific Bank

Established 1979

2001 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	2001	2000	1999
Interest Income	$ 7,378	$ 6,708	$ 5,157
Interest Expense	3,685	3,119	2,161
Net Interest Income	3,693	3,589	2,996
Provision for Loan Losses	173	362	101
Other Income	535	341	268
Other Expenses	3,180	2,841	2,500
Income Before Income Taxes	873	727	663
Income Taxes/(Benefit)	336	276	191
Net Income	537	451	472
PER SHARE DATA*			
Net Income Per Share	0.36	0.32	0.37
Book Value Per Share	4.59	4.23	3.95
BALANCES AT YEAR END			
Total Assets	75,749	78,741	53,280
Loans (Net of Loan Loss and Unearned Income)	69,977	70,740	45,741
Total Deposits	57,577	63,351	47,330
Shareholders' Equity	6,782	6,207	5,096
SELECTED STATISTICS (in percentages)			
Return on Average Assets	0.68%	0.68%	0.90%
Return on Average Equity	8.30%	7.87%	9.71%
Average Equity to Average Assets	8.24%	8.69%	9.21%
Net Interest Margin to Average Assets	4.70%	5.45%	5.68%
Interest Income to Average Earning Assets	10.09%	10.18%	10.15%

COMMON STOCK TRADING INFORMATON

Fiscal Year Ended Dec. 31, 2001	High	Low
Fourth Quarter	$3.15	$2.68
Third Quarter	3.85	3.00
Second Quarter	3.50	2.68
First Quarter	3.50	2.62

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

*The bank did an 11 for 10 stock split on December 29, 2000. The Per Share Data for 1999 was 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 Bank has traded within the NASDAQ systems (Symbol AMPB) since 1989.

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

Today, the Bank has a reputation of providing friendly, personal and efficient service to customers living throughout Oregon and Southwest Washington in the areas of construction lending, commercial loans, 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

March 6, 2002

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

Fai H. Chan

Dear Shareholders and Friends,

The Year 2001 was successful and filled with positive development, in spite of the year's economic recession. Loan production and revenues have expanded steadily.

The Bank's expansions were demonstrated by the successful establishment of our new Wood Village Branch, an in-store retail branch located in the new Wood Village Wal-Mart, the solid activity in Real Estate lending, and the rapid growth in business lending. With the addition of the new branch, the Bank now effectively serves customers and businesses extended through the Gresham area in East Portland. We continue to enhance our products and service with our traditional personalized customer care.

We are pleased to report that net income for the fourth quarter ended December 31, 2001 rose 149% as compared to same quarter in 2000, and net earnings after taxes for the fourth quarter of 2001 came to $221,516, or $0.15 per share, as compared to $88,916, or $0.07 per share, reported for the same period last year. Net earnings after taxes for year-end 2001 came to $537,234, or $0.36 per share, an increase of 19% as compared to $450,798, or $0.32 per share, reported for the same period last year.

It should also be noted that net interest income for the fourth quarter ended December 31, 2001 was $1,100,186 compared to $927,975 for the same quarter last year, an increase of 19%. The excellent results of the fourth quarter were partially facilitated by the decrease in interest expense, but were also due to the continued strong demand in both construction lending and commercial real estate lending.

The Bank reduced its assets size from $78,741,551 at the end of fiscal 2000 to $75,748,871 at the end of 2001, a decrease of 4%. This decrease was the result of management's decision to not renew higher cost jumbo deposits at maturity. Total deposits decreased $5,774,501 or 9% during fiscal 2001 as compared to fiscal 2000. Total outstanding loans decreased minimally from $72,726,852 in 2000 to $71,358,231 in 2001. This occurred because the Bank sold $12 million in commercial real estate loans in the second quarter of 2001 to ease the concentration in the commercial real estate loan portfolio and increase overall liquidity.

We expect 2002 will be another encouraging year for our Bank. With our strategically located branches and our American Online Bank (www.apbank.com) delivery channel, the Bank will provide services to its customers more efficiently in the years to come.

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

David T. Chen

Fai H. Chan
Chairman, Board of Directors

David T. Chen
President and Chief Executive Officer

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

BOARD OF DIRECTORS

Fai H. Chan: *Chairman of the Board*

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

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

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

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

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

Mr. Chen received his Master of Arts in Political Science from the University of Oregon, his Bachelor of Arts in Mathematics from the University of Washington, and a Bachelor of Arts in Public Administration from the Taiwan National Chung Hsing University. In addition to his responsibilities with the Bank, Mr. Chen was appointed by the Oregon State Treasurer to serve as a Board member for the Oregon Facility Authority.

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

Tong Wan Chan, known as Tony Chan, 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 Frontier 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 and Operations Officer and Corporate Secretary*

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

He joined the Bank in 1991 and has since been elevated to his present position. As Senior Vice President and CFO, Mr. Cheong's responsibilities include 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 Louves and Fishes, Inc., United Way of Oregon and Kids N Tennis.

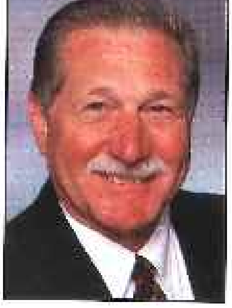
Harlan Barcus: *Senior Vice President and Chief Credit Officer*

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.

YOUR BANK AT WORK

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

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

The success of our commercial real estate, business, and credit card lending programs is evidenced by interest income and fee generation of $6.9 million, resulting in an average yield on loans of 10.7%, which is advantageous to our customers and your Bank. This has been accomplished without compromising asset quality, as shown by our past due loan ratio of 0.32%, non-performing asset ratio of 0.47%, and net loan loss ratio of 0.19%.

Real Estate Lending Division

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

During 2001 we sold $12 million of mini-perm commercial real estate loans as part of managing the balance sheet. Nonetheless, the Real Estate Division ended 2001 with $58.5 million in loans. Residential loans originated during 2001 totaled over $29.7 million, due in part to the favorable decline in interest rates throughout the year.

Real estate loans range in size from $100,000 to $1,500,000. Loans above this range are participated with other lenders, allowing us to take part in larger projects while minimizing our risk exposure.

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

During 2001 the Real Estate Division experienced solid growth in revenue with over $5.1 million in interest and fee income, a 6% gain over the prior year.

Business Lending Division

Our recently established Business Lending Division, providing small businesses with lines of credit, term financing, SBA loans, and cash management products, had a good year. It ended 2001 with $4.7 million in loans outstanding and $3.2 million in commitments under management. While these amounts were less than we had planned, partially due to the economic downturn, the Bank continues to preserve its excellent asset quality.

During 2001 the Business Lending Division contributed $310,000 in interest and fee income and almost $600,000 in deposits. Management has planned for loan growth in this Division of more than $10 million in 2002, and looks forward to it becoming an important contributor to the Bank's profitability and further diversifying both the risk and income of the loan portfolio.

Bankcard Center

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

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

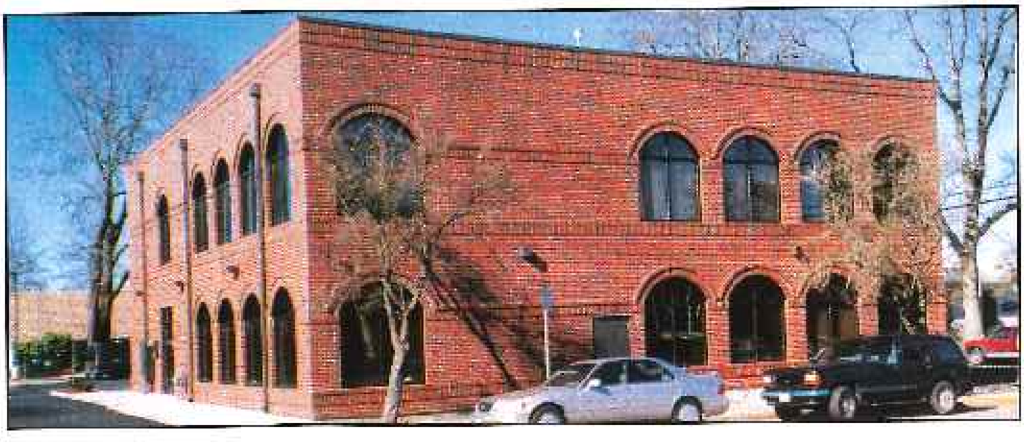
The Bankcard Center ended 2001 with a credit card portfolio of $2.7 million and $655,000 in interest and fee income. The net charge-off rate during 2001 was 5.4%, which is considerably lower than the year before, in spite of the economic downturn and the rise of consumer bankruptcies.

American Online Bank

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

Other Banking Services

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



AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2001, 2000, AND 1999

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, 2001 and 2000, 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, 2001. These financial statements are the responsibility of American Pacific Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pacific Bank, as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
January 18, 2002

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	2001	2000
Cash due from banks	$ 849,994	$ 1,196,980
Federal funds sold	585,000	1,035,000
Total cash and cash equivalents	1,434,994	2,231,980
Investment securities available-for-sale	1,481,471	2,329,528
Federal Home Loan Bank stock	550,000	446,100
Loans held-for-sale	578,753	1,175,500
Loans, net of allowance for loan losses and unearned income	69,977,288	70,740,475
Land, buildings, equipment, and leasehold improvements, net	916,061	794,653
Accrued interest and other assets	757,804	1,023,315
Other real estate owned	52,500	-
Total assets	$ 75,748,871	$ 78,741,551

LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2000
Deposits:		
Noninterest-bearing demand deposits	$ 2,438,838	$ 2,353,778
NOW and money market accounts	14,135,466	13,219,088
Savings and time deposits	41,002,282	47,778,221
Total deposits	57,576,586	63,351,087
Federal Home Loan Bank borrowings	11,000,000	8,800,000
Accrued interest and other liabilities	389,998	383,813
Total liabilities	68,966,584	72,534,900
COMMITMENTS AND CONTINGENCIES (Note 19)		
STOCKHOLDERS' EQUITY		
Class B common stock, no par value, 200,000,000 shares authorized; 1,476,990 shares issued and outstanding in 2001, 1,467,734 shares issued and outstanding in 2000	5,196,746	5,176,611
Surplus	1,000,238	1,000,238
Retained earnings	574,254	37,020
Accumulated other comprehensive income (loss), net of taxes	11,049	(7,218)
Total stockholders' equity	6,782,287	6,206,651
Total liabilities and stockholders' equity	$ 75,748,871	$ 78,741,551

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	2001	2000	1999
INTEREST INCOME			
Interest and fees on loans	$ 6,967,281	$ 6,346,297	$ 4,654,709
Interest on investment securities			
State and municipal subdivisions	3,100	3,100	2,812
U.S. government agencies obligations	78,964	210,479	152,218
Other domestic taxable securities	27,600	15,740	8,303
Interest on federal funds sold	300,550	132,796	338,903
Total interest income	7,377,495	6,708,412	5,156,945
INTEREST EXPENSE			
Interest on deposits and borrowings	3,684,875	3,119,465	2,161,040
Net interest income	3,692,620	3,588,947	2,995,905
PROVISION FOR LOAN LOSSES	173,268	362,165	100,969
Net interest income after provision for loan losses	3,519,352	3,226,782	2,894,936
NONINTEREST INCOME			
Service charges and fees	153,985	113,589	121,150
Gain on sale of loans	368,535	141,499	88,640
Real estate brokerage fees, net of commissions	-	-	51,506
Reimbursement of leasehold improvements	-	53,666	-
Other noninterest income	11,264	32,032	6,476
Total noninterest income	533,784	340,786	267,772
NONINTEREST EXPENSES			
Salaries and employee benefits	1,483,188	1,405,897	1,286,850
Occupancy and equipment expenses	516,919	373,491	292,180
Real estate commissions, net of fees	124,721	21,459	-
Loss on sale of available-for-sale securities	-	390	-
Other operating expenses	1,055,464	1,039,496	921,098
Total noninterest expenses	3,180,296	2,840,733	2,500,128
INCOME BEFORE PROVISION FOR INCOME TAXES	872,840	726,835	662,580
INCOME TAX PROVISION	335,606	276,037	190,502
NET INCOME	537,234	450,798	472,078
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on securities, net of tax:			
Unrealized holding gain (loss) arising during period	18,267	23,145	(32,741)
Other comprehensive income	18,267	23,145	(32,741)
COMPREHENSIVE INCOME	$ 555,501	$ 475,943	$ 441,336
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.36	$ 0.32	$ 0.37
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.36	$ 0.32	$ 0.37

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Class B Common Stock Shares	Class B Common Stock Amount	Surplus	Retained Earnings Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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 exercised	-	-	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 exercised	-	-	59,613	-	-	59,613
Issuance of stock	110,000	511,500	-	-	-	511,500
Stock split 11 to 10	133,458	-	-	-	-	-
Net income and comprehensive income	-	-	-	450,798	23,145	473,943
BALANCE, December 31, 2000	1,467,704	5,176,611	1,000,238	37,020	(7,218)	6,206,651
Issuance of stock	9,256	20,135	-	-	-	20,135
Net income and comprehensive income	-	-	-	537,234	18,267	555,501
BALANCE, December 31, 2001	1,476,960	$ 5,196,746	$ 1,000,238	$ 574,254	$ 11,049	$ 6,782,287

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 537,234	$ 450,798	$ 472,078
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(368,535)	(141,499)	(88,640)
Depreciation and amortization	123,979	89,336	57,195
Provision for loan losses	173,268	362,165	100,969
Loss on sale of available-for-sale securities	-	390	-
Deferred income taxes	7,023	(57,682)	(42,182)
Net originations of loans held-for-sale	874,854	(488,367)	1,415,066
Federal Home Loan Bank stock dividends	(23,100)	(15,600)	(5,100)
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	249,450	(332,120)	(12,081)
Increase (decrease) in accrued interest and other liabilities	6,185	9,588	582,960
Net cash from operating activities	1,580,358	(122,991)	2,480,265
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(1,099,311)	-	(2,286,511)
Purchases of Federal Home Loan Bank stock	(80,800)	(267,700)	(157,700)
Proceeds from sale of Federal Reserve Bank stock	-	-	136,600
Proceeds from maturity of available-for-sale securities	1,975,246	1,519,604	464,303
Loans originated, net of principal repayments	937,174	(25,361,950)	(10,507,521)
Proceeds from the sale of other real estate owned	-	200,548	-
Purchase of credit card portfolios	(309,699)	-	-
Purchase of building improvements, equipment, and furniture	(245,588)	(321,751)	(277,757)
Net cash from investing activities	(1,177,022)	(24,231,249)	(12,628,586)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in noninterest-bearing demand, NOW, money market, and savings deposit accounts	864,489	(557,144)	3,696,081
Net increase (decrease) in time accounts	(6,638,990)	16,578,720	(3,360,155)
Net increase in short-term borrowings	2,200,000	8,800,000	-
Repayment of mortgage on other real estate owned	-	(164,978)	-
Issuance of common stock	20,135	321,375	46,875
Net cash from financing activities	(3,554,366	24,977,973	382,801
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(796,986)	623,733	(9,765,520)
CASH AND CASH EQUIVALENTS, beginning of year	2,231,980	1,608,247	11,373,767
CASH AND CASH EQUIVALENTS, end of year	$ 1,434,994	$ 2,231,980	$ 1,608,247
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid in cash	$ 3,743,990	$ 3,056,895	$ 2,198,060
Taxes paid in cash	$ 332,584	$ 206,300	$ 9,000
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Unrealized gain (loss) on available-for-sale securities, net of taxes	$ 18,267	$ 23,145	$ (30,363)
Acquired real estate in settlement of loans	$ 52,500	$ -	$ 200,548
Application of stock subscription payment to stock purchase	$ -	$ 255,750	$ -
Tax benefit of stock options exercised	$ -	$ 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 three 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 sheets 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, 2001 and 2000, are "available-for-sale."

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

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

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

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

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

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 2001, 2000, and 1999. 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.

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

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

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

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

Advertising – Advertising costs are charged to expense during the year in which they are incurred. Advertising expenses were $20,294, $40,861 and $13,118 in 2001, 2000, and 1999, 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.

Statements 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 analysis, 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 analysis 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 2001, 2000, and 1999 financial statements.

Recently issued accounting standards – In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 clarifies the accounting for the impairment of long-lived assets and for long-lived assets to be disposed of, including the disposal of business segments and major lines of business. SFAS No. 144 will be effective for the Bank in the first quarter of 2002. Management does not expect that the application of the provisions of this statement will have a material impact on the Bank's financial statements.

In July 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 will be effective for the Bank in the first quarter of 2002. Management does not expect that the application of the provisions of this statement will have a material impact on their financial statements.

In July 2001, FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards change the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting and requiring companies to cease amortizing goodwill and certain intangible assets with an indefinite useful life created by business combinations accounted for using the purchase method of accounting. Instead, goodwill and intangible assets deemed to have an indefinite useful life will be subject to an annual review for impairment. The new standards will be effective for the Bank in the first quarter of 2002 and for purchase business combinations consummated after June 30, 2001. The application of the provisions of these statements will not have a material impact on the Bank's financial statements.

In September 2000, FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities – a Replacement of FASB Statement No. 125." SFAS No. 140 revises the criteria for accounting for securitizations and other transfers of financial assets and collateral. In addition, SFAS No. 140 requires certain additional disclosures. Except for the new disclosure provisions, which were effective for the year ended December 31, 2000, SFAS No. 140 was effective for the transfer of financial assets occurring after March 31, 2001. The provisions of SFAS No. 140 did not have a significant effect on the Bank's financial statements.

Reclassifications – Certain reclassifications have been made to the 2000 and 1999 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, 2001				
Collateralized mortgage obligations	$ 295,218	$ 369	$ -	$ 295,587
Municipal securities	70,000	15	-	70,015
Agency notes and bonds	1,099,512	16,357	-	1,115,869
	$ 1,464,730	$ 16,741	$ -	$ 1,481,471

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2000				
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

The amortized cost and estimated fair value of investment securities as of December 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Estimated Market Value
Due in one year or less	$ -	$ -
Due after one year through five years	1,149,512	1,166,767
Due after five years through ten years		-
Due after ten years	20,000	19,117
Collateralized mortgage obligations	295,218	295,587
	$ 1,464,730	$ 1,481,471

As of December 31, 2001 and 2000, investment securities with an amortized cost of $1,094,730 and $713,642, 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, 2001, the Bank's investment in FHLB stock was $550,000.

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

The composition of loan balances is summarized as follows:

	2001	2000
Commercial	$ 47,661,666	$ 44,042,005
Real estate – construction	14,247,921	16,588,890
Real estate – permanent	8,007,098	8,056,375
Credit cards	2,648,055	2,713,533
Installment	163,577	142,891
Overdraft accounts	31,363	7,598
	70,779,478	71,551,082
Allowance for loan losses	(667,806)	(628,907)
Unearned income	(134,384)	(181,700)
	$ 69,977,288	$ 70,740,475

Changes in the allowance for loan losses were as follows:

	2001	2000	1999
BALANCE, beginning of year	$ 628,907	$ 470,658	$ 428,542
Provision for loan loses	173,288	362,165	100,969
Loans charged-off	(152,832)	(230,280)	(68,305)
Recoveries on loans previously charged off	18,263	26,364	9,452
BALANCE, end of year	$ 667,806	$ 628,907	$ 470,658

The Bank has recognized impaired loans having recorded balances of $312,024 and $364,263 on December 31, 2001 and 2000, respectively. The total allowance for loan losses related to these loans was $46,804 and $6,520 on December 31, 2001 and 2000, respectively. Interest income recognized for cash payments received on impaired loans was insignificant in 2001, 2000, and 1999. Had the impaired loans performed according to their original terms, additional interest income that would have been recognized during 2001, 2000, and 1999, respectively, would also have been insignificant.

The maturity range of the loan portfolio, including loans held-for-sale, as of December 31, 2001, is as follows:

	Due in One Year Or Less	Due After One Through Five Years	Due After Five Years	Total
Commercial and real estate	$ 21,204,490	$ 13,216,751	$ 33,790,194	$ 68,211,435
Credit card loans	2,648,055	-		2,648,055
Installment loans and overdrafts	109,500	53,069	32,172	194,741
	$ 23,962,045	$ 13,269,820	$ 33,822,366	71,054,231
Nonaccrual loans				304,000
				$ 71,358,231
Fixed-rate loans	$ 18,022,005	$ 3,085,959	$ 33,822,366	$ 54,930,330
Adjustable rate loans	5,940,040	10,183,861	-	16,123,901
	$ 23,962,045	$ 13,269,820	$ 33,822,366	71,054,231
Nonaccrual loans				304,000
				$ 71,358,231

NOTE 4 – CREDIT CARD PORTFOLIO

Certain of the Bank's consumer credit card accounts were originally required to be fully secured with time certificates of deposit 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 $875,571 and $637,034 and secured and graduated secured accounts totaled $1,772,484 and $2,076,499 as of December 31, 2001 and 2000, respectively. Credit card account balances that were more than 30 days past due totaled $231,050 and $155,459 as of December 31, 2001 and 2000, respectively.

For the years ending December 31, 2001, 2000, and 1999, the Bank's net interest margin on credit card accounts was as follows:

	2001	2000	1999
Interest and fee income	$ 728,594	$ 804,444	$ 928,181
Interest expense	144,011	176,569	236,198
Net interest margin	$ 584,583	$ 627,875	$ 691,983

NOTE 5 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	2001	2000
Accrued interest receivable	$ 296,821	$ 439,155
Deferred income taxes	285,067	292,090
Settlements receivable	80,432	193,124
Prepaid expenses	76,245	55,449
Software	30,703	42,296
Other receivables	(11,464)	1,201
	$ 757,804	$ 1,023,315

NOTE 6 – LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

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

	2001	2000
Land	$ 35,465	$ 35,465
Buildings	316,869	316,869
Equipment	683,814	637,252
Leasehold improvements	683,496	484,470
	1,719,644	1,474,056
Accumulated depreciation and amortization	(803,583)	(679,403)
	$ 916,061	$ 794,653

NOTE 7 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $11,950,609 and $12,485,993 as of December 31, 2001 and 2000, respectively.

The scheduled maturities for time certificates of deposit of $100,000 or more and all other time deposits are as follows as of December 31, 2001:

	Time Certificates of $100,000 Or More	All Other Time Deposits
2002	$ 11,204,078	$ 23,116,927
2003	746,531	3,613,782
2004	-	195,409
	$ 11,950,609	$ 26,926,118

NOTE 8 – 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, 2001 and 2000, the Bank had borrowings outstanding with the FHLB of $11,000,000 and $8,800,000, respectively. The promissory notes mature in 2002 and 2003, respectively, and carry interest rates ranging from 2.36% to 3.30%.

NOTE 9 – SALE OF LOANS

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

In 2001, the Bank recognized pretax gains of $90,056 on the securitization of loans. Servicing fees received totaled $8,772.

NOTE 10 – OTHER OPERATING EXPENSES

Other operating expenses for 2001, 2000, and 1999 were comprised of the following:

	2001	2000	1999
Credit card expense	$ 256,363	$ 271,203	$ 284,652
Data processing expenses	187,405	165,806	144,814
Professional services	134,456	115,253	108,718
Telephone, postage, and wire transfer expenses	166,733	147,467	141,205
Insurance	50,191	46,770	46,244
Stationery, supplies, and printing expenses	52,109	46,312	44,554
Advertising	20,294	40,861	13,118
Automatic teller machine processing fees	50,862	38,406	14,099
Public relations and business development	10,939	50,063	19,421
NSF and other operating losses	10,152	1,384	2,609
Other operating expenses	109,064	107,949	100,664
	$ 1,055,468	$ 1,039,496	$ 921,098

NOTE 11 – INCOME TAXES

The income tax provision consists of the following:

	2001	2000	1999
Current	$ 328,583	$ 333,720	$ 232,684
Deferred	7,023	(57,683)	(42,162)
Income tax provision	$ 335,606	$ 276,037	$ 190,502

The 2001, 2000, and 1999 income tax provisions differ from amounts computed using statutory rates as follows:

	2001	2000	1999
Federal income taxes at statutory rates	$ 296,766	$ 247,124	$ 225,277
State income taxes, net of federal benefit	38,226	31,887	28,862
Other differences	614	(2,974)	(63,637)
	$ 335,606	$ 276,037	$ 190,502
	38.4%	38.0%	28.8%

Deferred tax asset and liability accounts consisted of the following:

	2001	2000
Deferred tax assets:		
Loan loss reserve	$ 209,174	$ 142,113
Net operating loss carryforward	105,891	99,707
Other	3,933	70,079
	318,998	311,899
Deferred tax liabilities:		
Accumulated depreciation	(16,554)	(15,553)
Other	(17,377)	(4,256)
	(33,931)	(19,809)
Net deferred tax assets	$ 285,067	$ 292,090

As of December 31, 2001, the Bank net operating loss carryforwards of approximately $209,000 available to offset future income taxes. These carryforwards expire through the year 2011.

NOTE 12 – 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, 2001 and 2000, commercial real estate loans were 63% and 59%, 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, 2001 and 2000, 20% and 23%, 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, 2001 and 2000, 4% of the Banks loan portfolio was comprised of outstanding credit card balances.

NOTE 13 – 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:

	2001	2000
BALANCE, beginning of year	$ 658,966	$ 623,623
Loans made	965,567	105,356
Loans paid	(1,591,075)	(70,013)
BALANCE, end of year	$ 33,458	$ 658,966

In December 1999, the Bank entered into a Co-Branded Credit Card Agreement with eBanker USA.Com, Inc. (eBanker), a company for which the Bank's chairman and chief executive officer serve as members of the Board of Directors. Under the Agreement, eBanker maintains a Web site for soliciting credit card customers over the Internet. The program is designed to attract subprime and business credit card borrowers under a cash secured arrangement. The Bank has agreed to service the accounts for a monthly fee on a cost-plus basis. eBanker funds the program, and assumes all risks and is responsible for any losses from co-branded accounts. The program commenced during the first quarter of 2000, however, as of December 31, 2001, no activity had occurred.

NOTE 14 – COMMON STOCK TRANSACTIONS

Stock split – All of the Bank's common stock transactions and disclosures provided below have been adjusted, as appropriate, for the 11-to-10 stock split completed in 2000.

Private placement offering – In June 1999, the Bank's Board of Directors approved a private placement offering for the sale of 11 units of equity interest at $46,500 per unit or an aggregate amount of $511,500. In the private placement offering, each unit consisted of 11,000 shares of common stock and warrants for 110,000 additional shares. The exercise price for the warrants was $4.23 per share until September 30, 2000, then increasing to $4.68 per share through September 30, 2001, to $5.14 per share through September 30, 2002, to $5.59 per share through September 30, 2003, and to $6.05 per share through September 30, 2004, when the warrants expire. 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 stockholders at the annual stockholders' meeting in April 2000, the Bank recorded subscription funds received from the chairman as a liability at December 31, 1999.

The Bank's stockholders 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 1,210,000 common stock warrants from the private placement offering. As of December 31, 2001, no common stock warrants had been exercised.

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

The Employee Plan provides for the grant of options to employees up to an aggregate of 134,750 shares of common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan, which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. Under the plan, options may be exercised only while the grantee is an employee or within 12 months following termination of employment. The plan became effective upon stockholder approval and options issued under the plan terminate ten years after the effective date. As of December 31, 2001, 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, 2001, 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 (the Plan) for the granting of incentive stock options to employees and the granting of nonstatutory options (NQSO's) to nonemployee directors.

The Plan provides for the grant of options up to an aggregate of 275,000 shares of stock, all of which may be awarded to employees who do not own 10% or more of the voting stock of the Bank. No more than 60% of the options may be awarded as NQSO'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, 2001:

	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, 1999	4,675	$ 5.02	69,520	$ 5.02			74,195
Options granted in 2000	5,500	$ 3.81	1,100	$ 2.96			6,600
Options exercised in 2000	-	$ -	(57,750)	$ 1.74			(57,750)
Options canceled 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
Options outstanding as of December 31, 2000	10,175	$ 4.03	11,550	$ 3.03			21,725
Options granted in 2001	-	$ -	1,100	$ 2.73			1,100
Options cancelled in 2001	-	$ -	(1,100)	$ 2.96			(1,100)
Options outstanding as of December 31, 2001	10,175	$ 4.03	11,550	$ 3.02			21,725
Options exercisable as of December 31, 2001	10,175	$ 4.03	11,550	$ 3.02			21,725
Options reserved as of December 31, 2001	-		21,450		275,000		296,450

At December 31, 2001, the range of exercise prices and weighted average remaining contractual life of outstanding options was $2.05 – $5.02 and approximately 3.6 years, respectively.

NOTE 15 – 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, 2000 and 1999, 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, 2001, 2000, and 1999:

2001	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common stockholders	$ 537,234	1,474,784	$ 0.36
Effect of dilutive securities:			
Outstanding common stock options and warrants			
Diluted earnings per share:			
Income available to common stockholders plus assumed conversions	$ 537,234	1,474,784	$ 0.36
2000			
Basic earnings per share:			
Income available to common stockholders	$ 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 stockholders plus assumed conversions	$ 450,798	1,405,847	$ 0.32
1999			
Basic earnings per share:			
Income available to common stockholders	$ 472,078	1,261,378	$ 0.37
Effect of dilutive securities:			
Outstanding common stock options and warrants	-	30,007	
Diluted earnings per share:			
Income available to common stockholders plus assumed conversions	$ 472,078	1,291,385	$ 0.37

NOTE 16 – 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 $27,965, $24,295, and $20,176 were made for the years ended December 31, 2001, 2000, and 1999, respectively. The Bank's contributions to the Plan in 2001 and 2000 were made in the form of Bank common stock. Accordingly, the Bank contributed 8,887 shares of common stock valued at $3.15 per share in 2001 and contributed 9,256 shares of common stock valued at $2.62 per share in 2002. The Bank's 1999 contributions to the Plan were made in cash.

NOTE 17 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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, 2001	2000
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$ 4,991,000	$ 5,283,000
Credit card commitments	5,136,000	4,456,000
Line of credit commitments	1,978,000	299,000
Letters of credit	53,000	-
	$ 12,158,000	$ 10,038,000

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. To support international letters of credit for its customers, the Bank maintains a $250,000 line of credit with a correspondent bank.

NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2001 Carrying Amount	2001 Estimated Fair Value	2000 Carrying Amount	2000 Estimated Fair Value
Cash and due from banks	$ 849,994	$ 849,994	$ 1,196,980	$ 1,196,980
Federal funds sold	$ 585,000	$ 585,000	$ 1,035,000	$ 1,035,000
Investment securities available-for-sale	$ 1,481,471	$ 1,481,471	$ 2,329,528	$ 2,329,528
Federal Home Loan Bank stock	$ 550,000	$ 550,000	$ 446,100	$ 446,100
Loans held-for-sale	$ 578,753	$ 578,753	$ 1,175,500	$ 1,175,500
Loans, net of allowance for loan losses and unearned income	$ 69,977,288	$ 71,159,904	$ 70,740,475	$ 73,382,067
Accrued interest receivable	$ 296,521	$ 296,521	$ 439,155	$ 439,155
Noninterest-bearing demand deposits	$ 2,438,839	$ 2,438,839	$ 2,353,778	$ 2,353,778
NOW and money market accounts	$ 14,135,466	$ 14,135,466	$ 13,219,088	$ 13,219,088
Savings and time deposits	$ 41,002,282	$ 40,712,282	$ 47,778,221	$ 48,619,038
FHLB borrowings	$ 11,000,000	$ 10,645,000	$ 8,900,000	$ 8,800,000
Accrued interest and other liabilities	$ 389,998	$ 389,998	$ 383,613	$ 383,613

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, 2001, 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, 2001, should not necessarily be considered to apply at subsequent dates.

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

NOTE 19 – COMMITMENTS AND CONTINGENCIES

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

Operating lease commitments – As of December 31, 2001, 2000, and 1999, the Bank leases certain branch facilities and equipment. Rent expense for 2001, 2000, and 1999 was $249,233 $166,964, and $155,071, respectively. The approximate minimum annual commitment for future rentals under operating leases is summarized as follows:

Years ending December 31, 2002	$ 205,024
2003	219,614
2004	215,910
2005	226,137
2006	216,610
Thereafter	666,508
	$ 1,749,803

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

NOTE 20 – REGULATORY MATTERS

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, 2001, that the Bank meets all capital adequacy requirements to which it is subject by regulation.

As of December 31, 2001, the most recent notification from the Federal Deposit Insurance Corporation 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 Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2001 (in thousands)						
Total capital to risk-weighted assets	$ 7,439	10.4%	$ 5,713	≥8.0%	$ 7,141	≥10.0%
Tier 1 capital to risk-weighted assets	$ 6,771	9.5%	$ 2,856	≥4.0%	$ 4,284	≥6.0%
Tier 1 capital to average assets	$ 6,771	9.1%	$ 2,981	≥4.0%	$ 3,727	≥5.0%
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%

NOTE 21 – INTEREST IN REAL ESTATE PARTNERSHIP

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

NOTE 22 – SUBSEQUENT EVENT

Subsequent to December 31, 2001, the Bank identified a series of fraudulent transactions initiated by one of its customer. Total exposure arising from the fraudulent transactions approximates $149,000. Management and legal counsel for the Bank are pursuing all appropriate and prudent courses of action to resolve this matter formally for the Bank. At the present time, management believes the Bank's exposure to loss will be insignificant.

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

CORPORATE DATA

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Sherwood Securities Corp.
Spear, Leeds & Kellogg
Wedbush Morgan Securities, Inc.
Hill, Thompson, Magid & Co.
Monroe Securities, Inc.
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