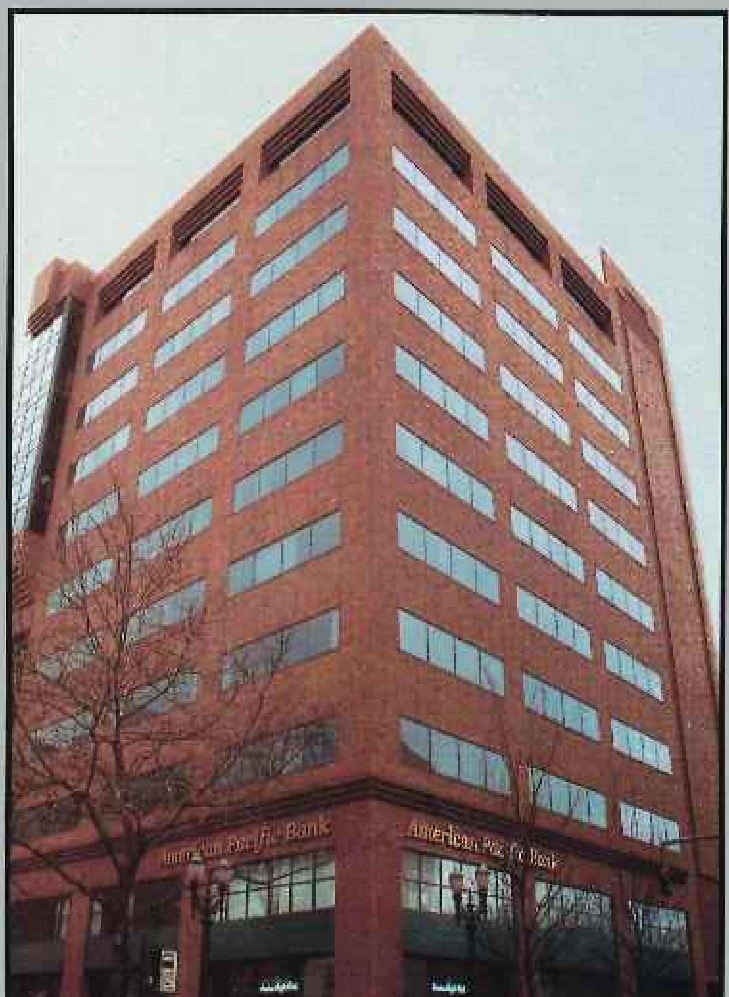
American Pacific Bank

Established 1979



2002 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	2002	2001	2000
Interest Income	$ 7,558	$ 7,378	$ 6,708
Interest Expense	2,296	3,685	3,119
Net Interest Income	5,262	3,693	3,589
Provision for Loan Losses	470	173	362
Other Income	465	534	319
Other Expenses	3,480	3,180	2,819
Income Before Income Taxes	1,777	873	727
Income Taxes/(Benefit)	675	336	276
Net Income	1,102	537	451
PER SHARE DATA			
Net Income Per Share	0.73	0.41	0.32
Book Value Per Share	5.29	4.47	4.23
BALANCES AT YEAR END			
Total Assets	100,423	75,749	78,741
Loans (Net of Loan Loss and Unearned Income)	86,236	69,977	70,740
Total Deposits	79,534	57,577	63,351
Shareholders' Equity	8,577	6,782	6,207
SELECTED STATISTICS (in percentages)			
Return on Average Assets	1.23%	0.68%	0.68%
Return on Average Equity	14.70%	8.30%	7.87%
Average Equity to Average Assets	8.34%	8.24%	8.69%
Net Interest Margin to Average Assets	5.86%	4.70%	5.45%
Interest Income to Average Earning Assets	8.79%	10.09%	10.18%

COMMON STOCK TRADING INFORMATON

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

American Pacific Bank

Since 1979

INTRODUCTION

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

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

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

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

Message from Chairman and President

March 1, 2003

Dear Shareholders and Friends,

We are pleased to inform our shareholders that 2002 was a banner year for the Bank. We exceeded $100 million in assets at year-end 2002 and we achieved the highest profits in the Bank's history. The Bank's asset quality continues to be excellent and the demand for our banking services continues to increase.

It should be noted that for the twelve months ended December 2002, net earnings after taxes were more than doubled, exceeding $1.1 million or $0.73 per share, as compared to $0.36 per share reported for the same period last year. Net interest income after loan loss reserves was approximately $4.8 million as compared to $3.5 million for the same period last year, an increase of 36%.

The Business Journal, in its 2003 Book of Lists, ranked American Pacific Bank the number one "Fastest-growing FDIC-insured Institution" in the Portland/Vancouver region based on the percentage of asset growth from 1999-2001. From the year 2001 to 2002, the Bank grew the asset size 33%, exceeding $100 million; total loans grew 23% to $87 million; and deposits grew 38% to approximately $80 million.

The Bank continues to be well-capitalized with the leverage ratio at 8.88% and the risk-based capital ratio at 10.79%. The book value of the Bank's stock as of December 31, 2002 was at $5.29 as compared to the December 2001 book value of $4.59 per share. The Business Tribune reported American Pacific Bank common stock as the second-highest in stock market price gain (62%) among Northwest stocks in 2002.

We expect 2003 will be another year filled with progressive performance and accomplishments. With our strategically located branches and our American Online Pacific Bank (www.apbank.com) delivery channel, the Bank will continue to provide efficient and personalized services to its customers in the years to come.

Yours truly,

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 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 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 1-3 (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*

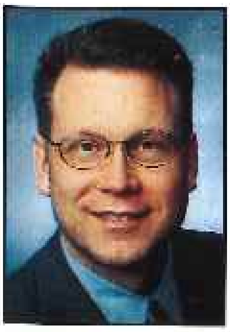
Richard Y. Cheong: *Senior Vice President, Chief Financial and Operations Officer and Corporate Secretary*

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 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., United Way of Oregon and Kids N Tennis.

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

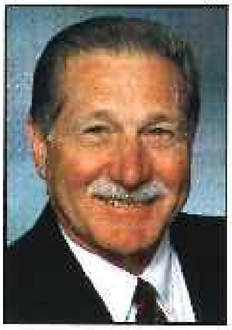


Mr. Barcus has been actively involved in the financial services industry for 18 years. Prior to joining American Pacific Bank, he was the managing director of Analyquest, LLC, a provider of software, educational curriculum and consulting services for the financial services industry. His career began 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.

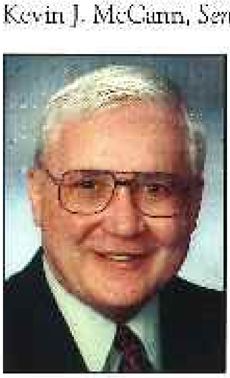
Mr. Barcus holds a Bachelors' Degree in Business Administration in Finance from Western State University, and is a graduate of the Pacific Coast Banking School at the University of Washington. He has also served on the faculty of the Northwest Commercial School of Lending at the University of Portland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

Kevin J. McCann, *Senior Vice President, Director of Business Lending*



Mr. McCann has thirty-one years of banking experience. He began his career in 1972 with Bank of America, shortly after obtaining a Bachelor's Degree in Management from California State University in Fullerton, California. He has a solid background in many types of lending, including commercial real estate, commercial and business lending. In addition, he has held NASD series 7,6, & 63 licenses.

While Mr. McCann was with Bank of America from 1972-1983, he was involved in installment, commercial and commercial real estate lending and, from 1978-1983, was Vice President, Manager of the bank's commercial real estate lending department in Newport Center, California. From 1983-1993 Mr. McCann was in the savings and loan industry, primarily with Pacific First Federal Savings of Seattle, WA, first as a Vice President and later as a Senior Vice President he managed one office and oversaw the management of two other offices in Southern California. He left this position in 1993 when he moved to the Northwest to rejoin Bank of America, where he was a Vice President in the Real Estate Lending Division. From 1995 to 2000, he was a Vice President with the bank's Private Banking Department in Portland, OR and Vancouver, WA.

Mr. McCann has been involved in several non-profit organizations in the Portland-Vancouver area including House of Umoja and Habitat for Humanity. He is currently a Court Appointed Special Advocate (CASA) in Southwest Washington.

YOUR BANK AT WORK

American Pacific Bank measures its success in many ways: customer satisfaction, profitability, growth, 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 $7.6 million, resulting in an average yield on loans 9.53%. This has been accomplished without compromising asset quality, as shown by our past due loan ratio of 1.02%, non-performing asset ratio of 0.00%, and net loan loss ratio of 0.09%.

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.

The Real Estate Division ended 2002 with $69.7 million in loans. Residential loans originated during 2002 totaled over $25 million, due to the favorable decline in interest rates.

Real estate loans range in size from $100,000 to $2,200,000. 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 2002 the Real Estate Division experienced solid growth in revenue with over $5.5 million in interest and fee income, an 8% gain over the prior year.

Business Lending Division

The Business Lending Division provides small businesses with lines of credit, term financing, SBA loans, and cash management products. It ended 2002 with $9.0 million in loans outstanding.

During 2002 the Business Lending Division contributed $597,000 in interest and fee income and over $1.3 million in deposits. The Management is pleased with the progress of this Division, and looks forward to its growing contribution to the Bank's profitability and further diversifying the risk and income of the loan portfolio.

Bankcard Center

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

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

The Bankcard Center ended 2002 with a credit card portfolio of $4.0 million and $786,000 in interest and fee income, an increase of 48% and 20% respectively over the prior year. The net charge-off rate during 2002 was 2.5%, which is less than the national average and substantially lower than the 5.4% level in 2001.

American Online Pacific Bank

Our fully transactional Internet branch, American Online Pacific 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, 2002, 2001, AND 2000

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, 2002 and 2001, 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, 2002. 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, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
January 30, 2003

AMERICAN PACIFIC BANK
BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	**2002**	**2001**
Cash due from banks	$ 2,748,547	$ 849,994
Federal funds sold	7,050,000	585,000
Total cash and cash equivalents	9,798,547	1,434,994
Investment securities available-for-sale	1,196,370	1,481,471
Federal Home Loan Bank stock	601,300	550,000
Loans, net of allowance for loan losses and unearned income	86,235,922	69,977,288
Loans held-for-sale	755,742	578,753
Land, buildings, equipment, and leasehold improvements, net	807,421	916,061
Accrued interest receivable and other assets	1,027,209	757,804
Other real estate owned	-	52,500
Total Assets	$ 100,422,511	$ 75,748,871

LIABILITIES AND STOCKHOLDERS' EQUITY	**2002**	**2001**
Deposits:		
Noninterest-bearing demand deposits	$ 4,769,857	$ 2,438,838
NOW and money market accounts	18,083,362	14,135,466
Savings and time deposits	56,681,248	41,002,282
Total deposits	79,534,467	57,576,586
Borrowed funds	11,600,000	11,000,000
Accrued interest payable and other liabilities	711,358	389,998
Total liabilities	91,845,825	68,966,584
COMMITMENTS AND CONTINGENCIES (Note 16 and 18)		
STOCKHOLDERS' EQUITY		
Class B common stock, no par value, 200,000,000 shares authorized; 1,621,027 shares issued and outstanding in 2002, 1,476,990 shares issued and outstanding in 2001	5,894,908	5,196,746
Surplus	1,000,238	1,000,238
Retained earnings	1,675,852	574,254
Accumulated other comprehensive income, net of taxes	5,688	11,049
Total stockholders' equity	8,576,686	6,782,287
Total liabilities and stockholders' equity	$ 100,422,511	$ 75,748,871

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	2002	2001	2000
INTEREST INCOME			
Interest and fees on loans	$ 7,389,343	$ 6,967,281	$ 6,346,297
Interest on investment securities			
State and municipal subdivisions	112	3,100	3,100
U.S. government agencies	54,441	78,964	210,479
Other domestic taxable securities	34,413	27,600	15,740
Interest on federal funds sold	80,039	300,550	132,796
Total interest income	7,558,348	7,377,495	6,708,412
INTEREST EXPENSE			
Interest on deposits and borrowings	2,296,532	3,684,875	3,119,465
Net interest income	5,261,816	3,692,620	3,588,947
PROVISION FOR LOAN LOSSES	469,757	173,268	362,165
Net interest income after provision for loan losses	4,792,059	3,519,352	3,226,782
NONINTEREST INCOME			
Service charges and fees	192,004	153,985	113,589
Gain on sale of loans	267,612	368,535	141,499
Reimbursement of leasehold improvements	-	-	53,666
Other noninterest income	5,345	11,264	32,032
Total noninterest income	464,961	533,784	340,786
NONINTEREST EXPENSES			
Salaries and employee benefits	1,641,174	1,483,188	1,405,897
Occupancy and equipment expenses	519,466	516,919	373,491
Real estate commissions, net of fees	129,591	124,721	21,459
Loss on sale of investment securities available-for-sale	-	-	390
Other operating expenses	1,190,101	1,055,468	1,039,496
Total noninterest expenses	3,480,332	3,180,296	2,840,733
INCOME BEFORE PROVISION FOR INCOME TAXES	1,776,688	872,840	726,835
PROVISION FOR INCOME TAXES	675,090	335,606	276,037
NET INCOME	1,101,598	537,234	450,798
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized (loss) gain on securities, net of tax:			
Unrealized holding (loss) gain arising during period	(5,361)	18,267	23,145
Total other comprehensive income (loss)	(5,361)	18,267	23,145
COMPREHENSIVE INCOME	$ 1,096,237	$ 555,501	$ 473,943
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.73	$ 0.36	$ 0.32
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 0.73	$ 0.36	$ 0.32

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Class B Common Stock			Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Surplus			
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	1,467,734	5,176,611	1,000,238	37,020	(7,218)	6,206,651
Issuance of stock	9,256	20,135	-	-	-	20,135
Net income and comprehensive income	-	-	-	537,234	18,267	555,501
BALANCE, December 31, 2001	1,476,990	5,196,746	1,000,238	574,254	11,049	6,782,287
Issuance of stock	8,887	27,905	-	-	-	27,905
Exercise of options	85,150	413,257	-	-	-	413,257
Exercise of warrants	50,000	257,000	-	-	-	257,000
Net income and comprehensive income	-	-	-	1,101,598	(5,361)	1,096,237
BALANCE, December 31, 2002	1,621,027	$ 5,894,908	$ 1,000,238	$ 1,675,852	$ 5,688	$ 8,576,686

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,101,598	$ 537,234	$ 450,798
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(267,612)	(368,535)	(141,499)
Loss on other real estate owned	20,650	-	-
Depreciation and amortization	115,165	123,979	89,336
Provision for loan losses	469,757	173,268	362,165
Gain on sale of investment securities available-for-sale	-	-	390
Deferred income tax provision (benefit)	11,838	7,023	(57,683)
Net change in loans held-for-sale	90,623	875,226	(488,366)
Federal Home Loan Bank stock dividends	(35,200)	(23,100)	(15,600)
Stock contributed to 401 (k) retirement plan	27,905	20,135	-
Change in cash due to changes in certain assets and liabilities:			
Accrued interest receivable and other assets	(278,481)	249,078	(332,120)
Accrued interest payable and other liabilities	321,360	6,185	9,588
Net cash from operating activities	1,577,603	1,600,493	(122,991)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment securities available-for-sale	(1,186,896)	(1,099,311)	-
Purchases of Federal Home Loan Bank stock	(16,100)	(80,800)	(267,700)
Proceeds from sale of investment securities available-for-sale	70,000	-	-
Proceeds from maturity of investment securities available-for-sale	1,395,218	1,975,246	1,519,604
Loans originated, net of principal repayments	(15,514,256)	937,174	(25,361,950)
Proceeds from the sale of other real estate owned	335,850	-	200,548
Purchase of credit card portfolios	(1,518,135)	(309,699)	-
Purchase of buildings, equipment, and leasehold improvements	(7,869)	(245,588)	(321,751)
Net cash from investing activities	(16,422,188)	(1,177,022)	(24,231,249)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in noninterest-bearing demand, NOW, money market, and savings deposit accounts	6,550,727	864,489	(557,144)
Net increase (decrease) in time accounts	15,407,154	(6,638,990)	16,578,720
Net (decrease) increase in short-term borrowings	(9,000,000)	2,200,000	8,800,000
Proceeds from long-term borrowings	9,600,000	-	-
Repayment of mortgage on other real estate owned	-	-	(164,978)
Proceeds from options exercised	413,257	-	65,625
Proceeds from warrants exercised	257,000	-	-
Issuance of common stock	-	-	255,750
Net cash from financing activities	23,228,138	(3,574,501)	24,977,973
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,363,553	(796,986)	623,733
CASH AND CASH EQUIVALENTS, beginning of year	1,434,994	2,231,980	1,608,247
CASH AND CASH EQUIVALENTS, end of year	$ 9,798,547	$ 1,434,994	$ 2,231,980
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid in cash	$ 2,323,649	$ 3,743,990	$ 3,056,895
Taxes paid in cash	$ 332,131	$ 332,584	$ 206,300
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Unrealized (loss) gain on available-for-sale securities, net of taxes	$ (5,361)	$ 18,267	$ 23,145
Acquired real estate in settlement of loans	$ 304,000	$ 52,500	$ -
Application of stock subscription payment to stock purchase	$ -	$ -	$ 255,750
Tax benefit of stock options exercised	$ -	$ -	$ 59,613

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

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, 2002 and 2001, 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 2002, 2001, and 2000. 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 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 $15,514, $20,294 and $40,861 in 2002, 2001, and 2000, 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. Valuation allowances are established to reduce deferred tax assets if its more likely than not that all or a portion of the potential deferred tax asset will not be realized.

Cash and cash equivalents – 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.

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

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

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

Stock-based compensation – As permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," the Bank continues to apply Accounting Principals Board (APB) Opinion No. 25 (APB 25) and related interpretations in accounting for its stock option plans. Under SFAS No. 123, a fair value method is used to determine compensation cost for stock options or similar equity instruments. Compensation is measured at the grant date and is recognized over the service or vesting period. Under APB 25, compensation cost is the excess, if any, of the quoted market price of the stock at the measurement date over the amount that must be paid to acquire the stock.

Had compensation cost for the Bank's options granted been determined consistent with SFAS No. 123, net income and diluted earnings per share would approximate the pro forma amounts below for 2002. Compensation cost for options granted in 2001 and 2000 is not significant.

	As Reported	Pro Forma
2002 Net income	$ 1,101,596	$ 1,023,251
Basic earnings per common and common equivalent share	$ 0.73	$ 0.68
Diluted earnings per common and common equivalent share	$ 0.73	$ 0.68

The fair value of each option granted is estimated at the grant date using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price and expected life of the option, the current price of underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the term of the option. The following assumptions were used to calculate the fair value of stock options granted as of December 31, 2002:

Risk-free Interest Rate	Expected Life	Expected Volatility	Expected Dividends
1.75%	2 years	16.16%	-

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

Recently issued accounting standards – In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, "Accounting for Stock-Based Compensation –Transition and Disclosure – an Amendment of FASB Statement No. 123." This statement amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Bank's management intends to continue using the intrinsic value method for stock-based employee compensation arrangements and, therefore, does not expect that the application provisions of this statement will have a material impact on its financial statements.

In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions." This statement provides guidance on the accounting for the acquisition of a financial institution and applies to all acquisitions except those between two or more mutual enterprises. The Bank's management does not expect that the application provisions of this statement will have a material impact on its financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The statement is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Bank's management does not expect that application of the provisions of this statement will have a material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under conflicting conditions. The Bank's management does not expect that the application of the provisions of this statement will have a material impact on its financial statements.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities." This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. This interpretation explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to entities in which an enterprise holds a variable interest that is acquired before February 1, 2003. The interpretation applies to public enterprises as of the beginning of the applicable interim or annual period. The Bank's management does not expect that the application of the provisions of this interpretation will have a material impact on its financial statements.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing a guarantee. The disclosure requirements of FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002, and the initial recognition and initial measurement provisions shall be applied on a prospective basis to guarantees issued or modified after December 31, 2002. The Bank's management does not expect that the application of the provisions of this interpretation will have a material impact on their financial statements.

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2002				
U.S. government agencies	$ 1,187,752	$ 8,618	$ -	$ 1,196,370
December 31, 2001				
Collateralized mortgage obligations	$ 295,218	$ 369	$ -	$ 295,587
Municipal securities	70,000	15	-	70,015
U.S. government agencies	1,099,512	16,357	-	1,115,869
	$ 1,464,730	$ 16,741	$ -	$ 1,481,471

The amortized cost and estimated fair value of investment securities available-for-sale as of December 31, 2002, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 299,839	$ 303,843
Due after one year through five years	887,913	892,527
	$ 1,187,752	$ 1,196,370

As of December 31, 2002 and 2001, investment securities with an amortized cost of $1,187,752 and $1,094,370, respectively, were pledged to secure deposits of public funds.

The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in restricted equity securities of the FHLB. FHLB stock is not actively traded but is redeemable at current book value. As of December 31, 2002, the Bank's investment in FHLB stock was $601,300.

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

The composition of loan balances is summarized as follows:

	2002	2001
Commercial	$ 67,793,128	$ 47,681,666
Real estate – construction	11,866,136	14,247,921
Real estate – permanent	3,499,388	6,007,096
Credit cards	3,969,462	2,648,055
Installment	171,330	163,377
Overdraft accounts	31,949	31,363
	87,331,393	70,779,478
Allowance for loan losses	(844,240)	(667,806)
Unearned income	(251,231)	(134,384)
Loans, net of allowance for loan losses and unearned income	$ 86,235,922	$ 69,977,288

Changes in the allowance for loan losses were as follows:

	2002	2001	2000
BALANCE, beginning of year	$ 667,806	$ 628,907	$ 470,658
Provision for loan loses	469,757	173,268	362,165
Loans charged-off	(301,875)	(152,632)	(230,280)
Recoveries on loans previously charged-off	8,552	18,263	26,364
BALANCE, end of year	$ 844,240	$ 667,806	$ 628,907

The Bank has recognized impaired loans having recorded balances of $217,179 and $312,024 on December 31, 2002 and 2001, respectively. The total allowance for loan losses related to these loans was $217,179 and $46,804 on December 31, 2002 and 2001, respectively. Interest income recognized for cash payments received on impaired loans was insignificant in 2002, 2001, and 2000. Had the impaired loans performed according to their original terms, additional interest income that would have been recognized during 2002, 2001, and 2000, would also have been insignificant.

The maturity range of the loan portfolio, including loans held-for-sale, as of December 31, 2002, is as follows:

	Due In One Year Or Less	Due After One Through Five Years	Due After Five Years	Total
Commercial and real estate	$ 20,345,187	$ 12,439,996	$ 51,129,211	$ 83,914,394
Credit card loans	3,969,462	-	-	3,969,462
Installment loans and overdrafts	126,697	46,525	30,057	203,279
	$ 24,441,346	$ 12,486,521	$ 51,159,268	88,087,135
Nonaccrual loans				-
				$ 88,087,135
Fixed-rate loans	$ 3,949,632	$ 1,384,332	$ 7,091,372	$ 12,425,336
Adjustable rate loans	20,491,714	11,102,189	44,067,896	75,661,799
	$ 24,441,346	$ 12,486,521	$ 51,159,268	88,087,135
Nonaccrual loans				-
				$ 88,087,135

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

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

NOTE 4 – CREDIT CARD PORTFOLIO

Certain of the Bank's consumer credit card accounts were originally required to be fully secured with time certificates of deposit or savings accounts at the Bank. The majority of these accounts have become partially unsecured with the passage of time due to the customer's creditworthiness. Unsecured accounts included in the credit card portfolio totaled $2,305,755 and $875,571 and secured and partially-secured accounts totaled $1,663,707 and $1,772,484 as of December 31, 2002 and 2001, respectively. Credit card account balances that were more than 30 days past due totaled $249,084 and $231,050 as of December 31, 2002 and 2001, respectively.

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

For the years ending December 31, 2002, 2001, and 2000, the Bank's net interest margin on credit card accounts was as follows:

	2002	2001	2000
Interest and fee income	$ 786,303	$ 728,594	$ 804,444
Interest expense	(103,401)	(171,878)	(176,569)
Net interest margin	$ 682,902	$ 556,716	$ 627,875

From time to time, the Bank has purchased credit card portfolios from other parties. Generally, after the first year of purchase, the Bank pays a rebate to the seller of .5% of net sales on accounts that were acquired. The Bank also maintains certain co-branded credit card programs with other institutions. These cards are promoted by both parties, and the Bank pays a one-time fee for each approved account application referred by the other party, as well as a percentage of net sales on approved accounts. Co-branded credit card balances totaled $1,868,445 and $311,519 as of December 31, 2002 and 2001, respectively.

NOTE 5 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	2002	2001
Accrued interest receivable	$ 398,559	$ 296,821
Deferred income taxes	273,229	285,067
Settlements and other receivables	197,142	68,968
Prepaid expenses	145,057	76,245
Software	13,222	30,703
	$ 1,027,209	$ 757,804

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

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

	2002	2001
Land	$ 35,465	$ 35,465
Buildings	316,869	316,869
Equipment	691,683	683,814
Leasehold improvements	683,496	683,496
	1,727,513	1,719,644
Accumulated depreciation and amortization	(920,092)	(803,583)
Land, buildings, equipment, and leasehold improvements, net	$ 807,421	$ 916,061

NOTE 7 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $17,295,438 and $11,950,609 as of December 31, 2002 and 2001, 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, 2002:

	Time Certificates of $100,000 Or More	All Other Time Deposits
Years ending December 31, 2003	$ 15,159,071	$ 32,881,196
2004	2,136,367	3,506,560
2005	-	600,686
	$ 17,295,438	$ 36,988,442

NOTE 8 – LINES OF CREDIT AND BORROWED FUNDS

The Bank is a member of the Federal Home Loan Bank (FHLB) of Seattle and has entered into an Advances, Security and Deposit Agreement which provides a credit arrangement from FHLB. Borrowings under the credit arrangement are collateralized by the Bank's FHLB stock as well as deposits or other instruments which may be pledged. As of December 31, 2002 and 2001, the Bank had borrowings outstanding with the FHLB of $11,600,000 and $11,000,000, respectively. The promissory notes carry fixed interest rates ranging from 2.49% to 3.30%.

The maturity of notes payable is as follows:

Years ending December 31, 2003	$ 2,000,000
2004	1,600,000
2005	8,000,000
	$ 11,600,000

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

NOTE 9 – OTHER OPERATING EXPENSES

Other operating expenses were comprised of the following:

	2002	2001	2000
Credit card expenses	$ 315,544	$ 256,363	$ 271,203
Data processing expenses	206,968	187,405	165,808
Telephone, postage, and wire transfer expenses	161,896	166,733	147,487
Professional services	127,726	134,456	115,253
Insurance	63,505	56,191	46,770
Automatic teller machine processing fees	60,734	50,862	36,406
Stationery, supplies, and printing expenses	35,852	52,109	46,312
NSF and other operating losses	20,064	10,152	1,394
Public relations and business development	16,670	10,939	60,063
Advertising	15,514	20,294	40,861
Other operating expenses	165,628	109,964	107,949
	$ 1,190,101	$ 1,055,468	$ 1,030,496

NOTE 10 – INCOME TAXES

The provision for income taxes consists of the following:

	2002	2001	2000
Current tax expense:			
Federal	$ 600,692	$ 298,086	$ 302,746
State	52,560	30,497	30,974
	663,252	328,583	333,720
Deferred tax expense (benefit):			
Federal	10,739	6,371	(52,329)
State	1,099	652	(5,354)
	11,838	7,023	(57,683)
Provision for income taxes	$ 675,090	$ 335,606	$ 276,037

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

	2002	2001	2000
Federal income taxes at statutory rates	$ 604,074	$ 296,766	$ 247,124
State income taxes, net of federal benefit	74,401	38,226	31,887
Other differences	(3,385)	814	(2,974)
	$ 675,090	$ 335,806	$ 276,037
	38.0%	38.4%	38.0%

Deferred tax asset and liability accounts consisted of the following:

	2002	2001
Deferred tax assets:		
Loan loss reserve	$ 225,037	$ 209,174
Net operating loss carryforward	59,699	105,891
Other	36,803	3,933
	321,539	318,998
Deferred tax liabilities:		
Accumulated depreciation	(18,392)	(16,554)
Other	(29,918)	(17,377)
	(48,310)	(33,931)
Net deferred tax assets	$ 273,229	$ 285,067

As of December 31, 2002, the Bank had net operating loss carryforwards of approximately $155,000 available to offset future income taxes. These carryforwards expire through the year 2006.

As of December 31, 2002, management has assessed the realizability of deferred tax assets and believes it is more likely than not that all deferred tax assets will be realized in the normal course of business. Accordingly, management has not reduced deferred tax assets by a valuation allowance.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial loan activity is to customers located near its headquarters and branch offices. These geographical areas are primarily involved in commercial business and residential development activities. As of December 31, 2002 and 2001, commercial real estate loans were 77% and 63%, respectively, of the Bank's loan portfolio.

The Bank's real estate lending department in Portland, Oregon, makes real estate construction loans to builders and their customers primarily in the Portland, Oregon, and Vancouver, Washington, metropolitan areas. The department also provides real estate mortgage brokerage services to its customers for which it receives fee and commission income. As of December 31, 2002 and 2001, 13% 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, 2002 and 2001, 5% and 4%, respectively, of the Bank's loan portfolio was comprised of outstanding credit card balances.

NOTE 12 – TRANSACTIONS WITH RELATED PARTIES

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

	2002	2001
BALANCE, beginning of year	$ 33,458	$ 658,966
Loans made	11,767	965,567
Loans paid	(13,727)	(1,591,075)
BALANCE, end of year	$ 31,498	$ 33,458

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, 2002, no activity had occurred.

NOTE 13 – COMMON STOCK TRANSACTIONS

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

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. On July 28, 2000, the chairman subscribed for 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, 2002, all shares of common stock pursuant to the private placement offering have been issued and 50,000 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 terminated in 2002. As of December 31, 2002, options for 8,800 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This plan provides for the grant of options to directors up to an aggregate of 10,725 shares of common stock. The plan is administered by a committee of the Board of Directors, which specifies the conditions, timing, and exercise price of grants of options. Under the plan, options may be exercised only while the grantee serves as a director or within 12 months following termination as a director. The exercise price for options may not be less than 85% of fair market value of the stock on the date of grant. Similar to the Employee Plan, the Outside Director Plan became effective in April 1992, and terminated in 2002. As of December 31, 2002, options for 7,775 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 (NQSOs) to nonemployee directors.

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

The Plan became effective upon stockholder approval and will terminate ten years after the effective date of the Plan. The Plan is administered by the Board of Directors. Options granted under this plan are not exercisable for one year and shall have terms not exceeding five years. Options may be exercised only while the grantee is an employee or within three months following termination. As of December 31, 2002, options for 138,500 shares were outstanding under the 2000 Stock Option Plan.

The following summarizes options available and outstanding under all plans as of December 31, 2002:

	Employee Plan		Outside Director Plan		2000 Stock Option Plan		Combined Plans
	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares	Weighted Average Option Price	Shares
Options outstanding as of December 31, 1999	69,520	$ 5.02	4,875	$ 5.02			74,395
Options granted in 2000	1,100	$ 2.90	5,500	$ 3.18			6,600
Options exercised in 2000	(57,750)	$ 1.14	-				(57,750)
Options canceled in 2000	(1,320)	$ 1.55	-				(1,320)
Options outstanding as of December 31, 2000	11,550	$ 3.03	10,175	$ 4.03			21,725
Options exercisable as of December 31, 2000	11,550	$ 3.03	10,175	$ 4.03			21,725
Options reserved as of December 31, 2000	21,450		-		275,000		296,450
Options outstanding as of December 31, 2000	11,550	$ 3.03	10,175	$ 4.03			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	11,550	$ 3.02	10,175	$ 4.03			21,725
Options exercisable as of December 31, 2001	11,550	$ 3.02	10,175	$ 4.03			21,725
Options reserved as of December 31, 2001	21,450		-		275,000		296,450
Options outstanding as of December 31, 2001	11,550	$ 3.02	10,175	$ 4.03	-		21,725
Options granted in 2002	-	$ -	-		218,500	$ 5.00	218,500
Options exercised in 2002	(2,750)	$ 2.05	(2,400)	$ 3.18	(80,000)	$ 5.00	(85,150)
Options cancelled in 2002		$ -	-		-		-
Options outstanding as of December 31, 2002	8,800	$ 3.31	7,775	$ 4.29	138,500	$ 5.00	155,075
Options exercisable as of December 31, 2002	8,800	$ 3.31	7,775	$ 4.29	-	-	16,575
Options reserved as of December 31, 2002	21,450		-		56,500		77,950

As of December 31, 2002, the range of exercise prices and weighted average remaining contractual life of outstanding options was $2.73 – $5.02 and approximately 4.1 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. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 2002, 2001, and 2000:

2002	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:			
Income available to common stockholders	$1,101,598	1,500,016	$ 0.73
Effect of dilutive securities:			
Outstanding common stock options and warrants	-	-	
Diluted earnings per share:			
Income available to common stockholders plus assumed conversions	$1,101,598	1,500,016	$ 0.73
2001			
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

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 up to a maximum of 3% of annual salary. Employer contributions of $28,362, $27,965, and $24,295 were made for the years ended December 31, 2002, 2001, and 2000, respectively. The Bank's contributions to the plan in 2002 and 2001 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 2002 and contributed 9,256 shares of common stock valued at $2.62 per share in 2001.

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

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

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

	Contract Amount as of December 31, 2002	2001
Financial instruments whose contract amounts represent credit risk:		
Credit card commitments	$ 14,485,226	$ 5,136,000
Construction loan commitments	2,517,202	4,991,000
Line of credit commitments	4,360,944	1,978,000
Letters of credit	595,000	53,000
	$ 21,958,372	$ 12,158,000

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.

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and due from banks	$ 2,748,547	$ 2,748,547	$ 849,994	$ 849,994
Federal funds sold	$ 7,050,000	$ 7,050,000	$ 585,000	$ 585,000
Investment securities available-for-sale	$ 1,196,370	$ 1,196,370	$ 1,481,471	$ 1,481,471
Federal Home Loan Bank stock	$ 601,300	$ 601,300	$ 550,000	$ 550,000
Loans, net of allowance for loan losses and unearned income	$ 88,236,922	$ 86,329,000	$ 69,977,268	$ 71,159,904
Loans held-for-sale	$ 755,742	$ 755,742	$ 578,753	$ 578,753
Accrued interest receivable	$ 398,559	$ 398,559	$ 296,821	$ 296,821
Noninterest-bearing demand deposits	$ 4,769,857	$ 4,769,857	$ 2,438,838	$ 2,438,838
NOW and money market accounts	$ 18,083,362	$ 18,083,362	$ 14,135,466	$ 14,135,466
Savings and time deposits	$ 56,681,248	$ 56,790,000	$ 41,002,282	$ 40,712,282
Federal Home Loan Bank borrowings	$ 11,630,000	$ 11,830,000	$ 11,000,000	$ 10,345,000
Accrued interest payable and other liabilities	$ 711,358	$ 711,358	$ 398,998	$ 398,998

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, 2002, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2002, should not necessarily be considered to apply at subsequent dates.

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

NOTE 18 – 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, 2002, 2001, and 2000, the Bank leased certain branch facilities and equipment. Rent expense for 2002, 2001, and 2000 was $273,813, $258,382, and $173,025, respectively. The approximate minimum annual commitment for future rentals under operating leases is summarized as follows:

Years ending December 31	2003	$ 227,614
	2004	223,910
	2005	234,137
	2006	219,610
	2007	228,517
	Thereafter	437,991
		$ 1,571,779

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, if any, of remediation efforts. Management believes that the outcome of this uncertainty should not have a material adverse effect on the financial condition, cash flows, or operating results of the Bank.

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

NOTE 19 – REGULATORY MATTERS

The 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, 2002, that the Bank meets all capital adequacy requirements to which it is subject by regulation.

As of December 31, 2002, 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		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2002 (in thousands)						
Total capital to risk-weighted assets	$ 9,415	10.8%	$ 6,978	≥8.0%	$ 8,723	≥10.0%
Tier 1 capital to risk-weighted assets	$ 8,571	9.8%	$ 3,489	≥4.0%	$ 5,234	≥6.0%
Tier 1 capital to average assets	$ 8,571	8.8%	$ 3,914	≥4.0%	$ 4,893	≥5.0%
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%

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

CORPORATE DATA

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