American Pacific Bank

1996 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

	1996	1995
RESULTS OF OPERATIONS		
Interest Income	$ 4,018	$ 4,069
Interest Expense	1,543	1,914
Net Interest Income	2,475	2,155
Provision for Loan Losses	200	(96)
Other Income	190	185
Other Expenses	2,194	2,118
Income Before Income Taxes	271	318
Income Taxes	86	65
Net Income	185	253
PER SHARE DATA		
Net Income / Per Share	0.05	0.07
Book Value Per Share	0.82	0.87
BALANCES AT YEAR END		
Total Assets	37,891	43,545
Loans (Net of Loan Loss and Unearned Income)	23,772	20,514
Total Deposits	33,891	39,994
Shareholders' Equity	3,702	3,039
SELECTED STATISTICS (IN PERCENTAGES)		
Return on Average Assets	0.49	0.56
Return on Average Equity	5.00	8.80
Average Equity to Average Assets	9.77	6.47
Net Interest Margin	6.07	4.51
Interest Income to Average Earning Assets	10.90	9.84
Non-accrual Loans 90+ Days to Average Assets	0.09	0.24

American Pacific Bank

INTRODUCTION

American Pacific Bank was organized and continues to operate under the laws of the state of Oregon. The Bank is a member of the Federal Reserve Bank of San Francisco, and all deposits are insured by the Federal Deposit Insurance Corporation. American Pacific Bank stock has been on NASDAQ (Symbol AMPBA) since 1989.

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

Today, the Bank has a reputation of providing friendly, personal and efficient service to customers living throughout Oregon and Southwest Washington in the areas of construction lending, commercial loans, permanent mortgages, business financing, and consumer loans. American Pacific Bank's future will continue to be characterized by continued growth and success.

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Dear Shareholders and Friends:

During fiscal 1996 American Pacific Bank began to expand its already established business relationships in Oregon's Asian communities and Pacific Rim countries. The Bank's Chairman, Mr. Fai Chan, began actively pursuing business relationships in Hong Kong; Mr. David Chen, President and Chief Executive Officer, began to explore opportunities in Taiwan. Our newly established Private Banking Department began actively promoting the Bank in both Oregon and Southwest Washington. Also of note, David Chen was asked to serve on Oregon Governor John Kitzhauber's International Trade Advisory Committee to promote Oregon business in the Far East, a position which he accepted.

Earnings for the year, before income tax and extraordinary expenses, were $361,852, as compared to 1995's earnings, before tax and extraordinary expenses, of $318,402. Earnings for the year, after income tax provision and extraordinary expenses, were $185,310, or 5 cents per share, as compared to a net income of $253,037, or 7 cents per share, reported for the fiscal year ended December 31, 1995. The net income for 1996 included a one-time conversion and deconversion credit card expense of $90,000. Net interest income rose 80%, to $789,247 for the fourth quarter, as compared with $439,346 for the same period one year ago. The Bank's earning assets remained high at 97%, a higher ratio compared to the peer group, and the Bank continues to maintain a strong cash and liquidity position.

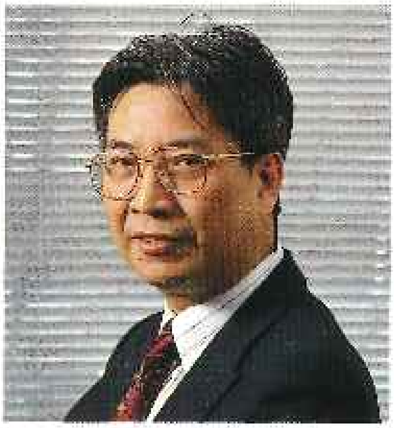
The Bank ended the year with $37,891,322 in total assets, down 13% from the previous year. Total deposits were at $33,890,512, down 15.2% from the previous year. The difference in the asset and deposit balances from 1996 to 1995 can be attributed to the sale of a portion of the credit card portfolio in 1996, which resulted in the non-renewal of the Certificate of Deposits that previously securitized the portion of the credit card portfolio that was sold. As reported in the 1996 second quarter news release, effective May 22, 1996, the Bank took the secured credit card operations in-house. The Bank now realizes all income and fees from the credit card portfolio, and will be responsible for any charge-offs. Previously, The Bank's secured credit card portfolio was managed under a five-year agreement by an outside vendor, whereby the Bank was compensated by a fixed rate of return. As part of the termination agreement with the outside vendor, the Bank sold a portion of the credit card portfolio; as a result, the Bank ended the 1996 fiscal year with $3,655,095 in secured credit card receivables.

The Bank ended the year with $23,771,716 in total loans, an increase of 15.9% compared to 1995. To date, the Bank has not suffered any losses from its real estate lending operations. As of December 31, 1996 classified assets (problem assets) were $88,992, or 0.23% of total assets, as compared to $178 093, or 0.41% reported on December 31, 1995, resulting in a reduction of $89,101 or 0.18%. This improvement reflects a direct effort by management to resolve problem assets, as well as to maintain high quality assets. During 1996, more than $520,000 of new capital was added, and the Bank continues to be a well capitalized bank.

As always, we thank our shareholders and friends for their continued support.

Fai H. Chan
Chairman

David T. Chen
President and Chief Executive Officer



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

"Our effective and personalized customer service fulfills a growing demand within the industry, as evidenced in the success of the Bank in 1996."
Mr. David T. Chen

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

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

BOARD OF DIRECTORS

Fai H. Chan: *Chairman of the Board*

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

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

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

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

Mr. Chen began his career with the National Bank of Commerce (later called Ranier Bank) in Seattle, Washington in 1966. In 1970, he entered the public sector serving as the Finance Director for various municipalities. The most recent of these was the city of Beaverton, Oregon where he was directly responsible for managing that 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 is active in the Portland community where he serves on the Board of Directors of both The Loaves and Fishes, Inc. and United Way.

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

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, Mr. Cheong's responsibilities include both supervision of all personnel and accountability for all financial and accounting aspects of the Bank.

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

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

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

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

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

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

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

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

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

MANAGEMENT

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

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

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

Mr. Christianson has over thirty years experience in banking, holding progressive positions as Department Head, Division Head and Senior Loan Officer. He has a strong background in both corporate and real estate lending. Most recently, he served as the Director of Corporate Banking and Senior Vice President of Barnett Bank of Marion County Florida. Prior to assuming that position, he was Senior Vice President of the Special Assets Department for Barnett Bank. In that capacity, he was responsible for all real estate and commercial loans which were classified substandard by the Bank. Reporting directly to the President, he directly handled negotiations and workout strategies for these loans. Mr. Christianson is a member of the American Bankers Association and has taught at the University of Oklahoma and Nova University of Ft. Lauderdale on the subject of commercial lending, and real estate lending.

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

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

YOUR MONEY AT WORK FOR YOU

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

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

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

Real Estate Lending

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

Our residential and commercial portfolio loans ended the year with over $11 million in outstanding balances. Most all of these loans are salable on the secondary market. This provides the Bank the flexibility to maintain a high volume of loans for our customers and prospects while at the same time provide liquidity for funding new loans. These loans ranged in size from $25,000 up to $750,000. Loan commitments for 1996 were increased close to $30 million.

The majority of all our construction loans generally have a permanent loan takeout unless it is put into our portfolio. The Loan Brokerage Department generated just over $38,000 in fee income during 1996. During that period, more loans were added to the Banks' portfolio instead of being brokered out.

In all, the Real Estate Lending Division generated close to $1.8 million in fee and interest income during 1996 an increase of over $200,000 from the previous year.

Credit Card Lending

American Pacific Bank continued to be one of the leading secured credit card lenders in the nation. In July of 1996 Money Magazine named American Pacific Bank as having one of the five "best secured credit cards" in the country. In May of 1996 the Bank changed servicers and took some of the credit card operations in-house. Using a variety of marketing firms and initiatives the bank actively seeks to increase its credit card portfolio.

Secured credit cards require the account holder to deposit funds with us in an amount equal to the credit limit of the account. These deposits secure the payment of the credit card balances. A new "No Income" credit card has been added during the past year that requires a deposit of 120% of the credit card amount. The deposits for these secured credit card accounts provide significant protection against losses to the bank.

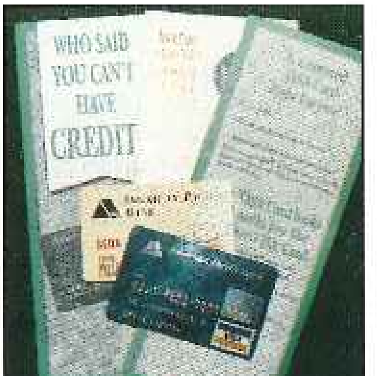
In 1995 and 1996, the Bank sold off most of the credit card accounts that had graduated to a partially unsecured status.

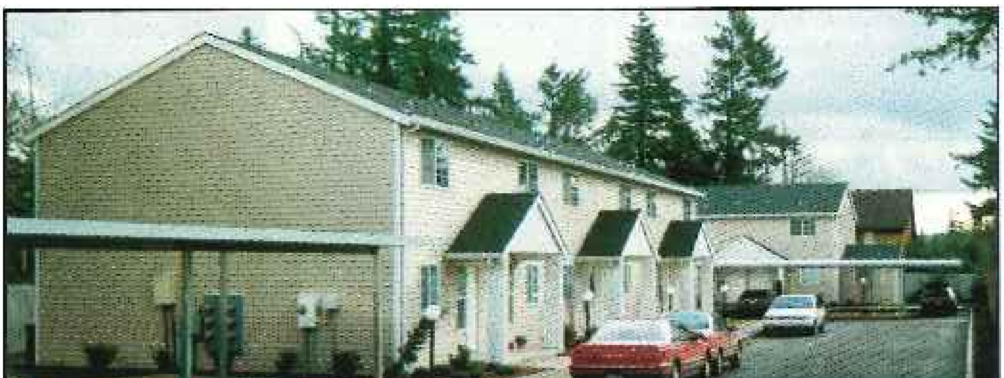
During 1996, our credit card portfolio (both secured and unsecured) averaged over $5.1 million. More than 8,500 card holders nationwide generated over $15.1 million in transactions financed by the Bank.

Other Banking Services

In 1996 the Bank's Private Banking Department, dealing with high net individuals in Portland and Pacific Rim countries, accounted for over $2.3 million in new loans and $2.6 million in deposits. Commercial, installment, Adjustable Rate Mortgages(ARM's) and Construction-Permanent Mortgages are provided by the Bank. This department has attracted new customers consisting of both companies and business people from many of the Pacific Rim countries. We expect this overseas and international customer base to continue to grow throughout 1997 and beyond.

The Bank is also considering expansion into Trust Services, Investment Banking Services and Management Consulting in the future.





AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 1996, 1995, and 1994

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, 1996 and 1995, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pacific Bank as of December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Moss Adams LLP

Portland, Oregon
January 14, 1997

AMERICAN PACIFIC BANK BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	1996	1995
Cash and noninterest-bearing balances due from depository institutions	$ 537,399	$ 1,498,380
Interest-bearing deposits due from depository institutions	2,021,000	11,049,000
Investment securities available-for-sale	10,256,680	9,169,544
Federal Reserve Bank stock	136,350	120,700
Loans, net of allowance for loan losses and unearned income	23,771,716	20,514,489
Land, office building, equipment, and improvements, net	367,442	421,592
Other real estate owned	-	98,479
Accrued interest and other assets	800,735	672,787
Total assets	$37,891,322	$43,544,971

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
Deposits		
Noninterest bearing demand deposits	$ 2,073,126	$ 1,900,974
NOW and money market accounts	8,818,543	7,720,034
Savings and time deposits	22,998,843	30,372,595
Total deposits	33,890,512	39,993,603
Accrued interest and other liabilities	298,447	512,374
Total liabilities	34,188,989	40,505,977
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Class A common stock, no par value; 200,000,000 shares authorized, 4,535,103 shares issued and outstanding in 1996 (3,496,369 in 1995)	4,550,423	4,028,800
Surplus	905,000	905,000
Accumulated deficit	(1,690,391)	(1,875,701)
Unrealized loss on available-for-sale securities, net of taxes	(62,699)	(19,105)
Total stockholders' equity	3,702,333	3,038,994
Total liabilities and stockholders' equity	$37,891,322	$43,544,971

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

AMERICAN PACIFIC BANK STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31

	1996	1995	1994
INTEREST INCOME			
Interest and fees on loans	$2,951,407	$3,231,513	$3,318,125
Interest on investment securities			
U.S. Treasury securities	120,408	22,489	15,647
Obligations of U.S. Government agencies	612,935	400,684	586,696
Other domestic taxable securities	7,425	8,014	6,947
Interest on deposits due from depository institutions	326,336	406,931	153,224
Total interest income	4,018,511	4,069,631	4,080,639
INTEREST EXPENSE			
Interest on deposits	1,543,091	1,914,158	1,614,446
Net interest income	2,475,420	2,155,473	2,466,193
Provision (adjustment) for loan losses	199,679	(96,120)	88,186
Net interest income after provision (adjustment) for loan losses	2,275,741	2,251,593	2,378,007
NONINTEREST INCOME			
Service charges and fees	135,655	153,406	156,380
Real estate brokerage fees, net of commissions	37,219	16,576	40,780
Gain on the sale of available-for-sale securities	9,396	-	-
Other noninterest income	8,329	15,034	4,101
Total noninterest income	190,599	185,016	201,261
NONINTEREST EXPENSES			
Salaries and employee benefits	974,855	959,241	822,304
Occupancy and equipment expenses	285,013	275,500	238,877
Other operating expenses	934,620	883,473	1,165,071
Loss on sale of available-for-sale securities	-	-	478,831
Loss on sale of held-to-maturity securities	-	-	1,075,000
Total noninterest expenses	2,194,488	2,118,214	3,780,083
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	271,852	368,395	(1,200,815)
INCOME TAX (EXPENSE) BENEFIT	(86,542)	(65,358)	325,000
NET INCOME (LOSS)	$ 185,310	$ 253,037	$ (875,815)
NET INCOME (LOSS) PER SHARE OF COMMON STOCK	$ .05	$ .07	$ (.27)

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

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

COMMON STOCK	SHARES	AMOUNT	SURPLUS	ACCUMULATED DEFICIT	NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES	TOTAL STOCKHOLDERS' EQUITY
BALANCE						
As of December 31, 1993	2,956,521	$ 3,535,826	$ 905,000	$ (1,252,923)	$ -	$ 3,187,903
ISSUANCE OF COMMON STOCK:						
Exercise of warrants	435,000	440,550	-	-	-	440,550
Public offering	10,000	5,000	-	-	-	5,000
NET CHANGE UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	(2,831)	(2,831)
NET LOSS	-	-	-	(875,815)	-	(875,815)
BALANCE						
As of December 31, 1994	3,401,521	3,981,376	905,000	(2,128,738)	(2,831)	2,754,807
ISSUANCE OF COMMON STOCK:						
Stock rights offering	81,848	40,924	-	-	-	40,924
Public offering	13,000	6,500	-	-	-	6,500
NET CHANGE UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	(16,274)	(16,274)
NET INCOME	-	-	-	253,037	-	253,037
BALANCE						
As of December 31, 1995	3,496,369	4,028,800	905,000	(1,875,701)	(19,105)	3,038,994
ISSUANCE OF COMMON STOCK:						
Exercise of options	10,000	3,125	-	-	-	3,125
Stock rights offering	1,028,734	518,498	-	-	-	518,498
NET CHANGE UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES, NET OF TAXES	-	-	-	-	(43,594)	(43,594)
NET INCOME	-	-	-	185,310	-	185,310
BALANCE						
As of December 31, 1996	4,535,103	$4,550,423	$905,000	$(1,690,391)	$(62,699)	$3,702,333

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

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31

	1996	1995	1994
CASH FLOWS RELATING TO OPERATING ACTIVITIES			
Net income (loss)	$ 185,310	$ 253,037	$ (875,815)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of equipment	-	(5,498)	-
Depreciation and amortization	64,396	40,846	57,787
Provision (adjustment) for loan losses	199,679	(96,120)	88,186
Loss on sale of held-to-maturity securities	-	-	1,075,000
Loss (gain) on sale of available-for-sale securities	(9,396)	-	478,831
Loss (gain) on sale of other real estate owned	(7,428)	-	5,567
Deferred taxes	86,542	65,358	(325,000)
Change in cash due to changes in certain assets and liabilities:			
Decrease (increase) in accrued interest and other assets	(192,032)	(18,535)	292,696
Increase (decrease) in accrued interest and other liabilities	(213,897)	(56,745)	23,087
Net cash provided by operating activities	113,174	182,343	820,339
CASH FLOWS RELATING TO INVESTING ACTIVITIES			
Net increase (decrease) in interest-bearing deposits	9,028,000	(5,377,000)	3,748,000
Purchases of held-to-maturity securities	-	-	(3,941,610)
Purchases of available-for-sale securities	(8,464,196)	(8,112,845)	(1,966,110)
Purchase of Federal Reserve Bank stock	(15,650)	(1,400)	-
Proceeds from sale of held-to-maturity securities	-	-	1,425,000
Proceeds from maturity of available-for-sale securities	4,434,623	1,063,365	-
Proceeds from sale of available-for-sale securities	2,885,781	2,700,000	3,074,931
Net (additions to) repayments of loans made to customers	(8,086,433)	1,700,813	(3,027,265)
Proceeds from sale of credit card portfolio	4,665,044	10,791,546	-
Purchase of credit card portfolio	(68,052)	-	-
Recoveries of charged-off loans	4,963	3,076	73,512
Purchase of building improvements, equipment, and furniture	(10,246)	(96,634)	(11,406)
Proceeds from sale of fixed assets	-	8,042	-
Proceeds from sale of other real estate owned	133,479	-	104,662
Net cash provided by (used in) investing activities	4,507,313	2,678,963	(520,286)
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Net increase (decrease) in noninterest-bearing demand, NOW, money market, and savings deposit accounts	1,377,196	1,588,306	(1,615,831)
Net increase (decrease) in time accounts	(7,480,287)	(3,976,638)	223,592
Issuance of common stock	521,623	47,424	445,550
Net cash used in financing activities	(5,581,468)	(2,340,908)	(946,689)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(960,981)	520,398	(646,636)
CASH AND CASH EQUIVALENTS, beginning of year	1,498,380	977,982	1,624,618
CASH AND CASH EQUIVALENTS, end of year	$ 537,399	$ 1,498,380	$ 977,982
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 1,717,083	$ 1,982,013	$ 1,639,092
SCHEDULE OF NONCASH ACTIVITIES			
Unrealized gain on available-for-sale securities, net of tax	$ 43,594	$ 16,274	$ 2,831
Transfer of securities from held-to-maturity to available-for-sale	$ -	$ 2,859,016	$ -

DISCLOSURE OF ACCOUNTING POLICY

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

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

AMERICAN PACIFIC BANK NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1996, 1995, and 1994

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

As a member of the Federal Reserve System and Federal Deposit Insurance Corporation (FDIC), the Bank is subject to the regulations of these federal agencies as well as the regulations of the Oregon State Department of Insurance and Finance. All of the regulatory agencies periodically conduct examinations of the Bank. Examinations by both the State of Oregon and the Federal Reserve took place in 1996 and 1995.

A report issued as a result of joint federal agency examinations in 1992 concluded that the Bank's credit concentrations, capital adequacy, past earnings, liquidity position, apparent noncompliance of specified banking regulations, as well as other factors, were of concern. As a result, the examiners and the Bank modified and replaced a 1984 Written Agreement during July 1993. The modified Written Agreement, which remains effective as of December 31, 1996, committed the Bank to the adoption of policies and procedures intended to address the concerns outlined in the 1992 examination report. In the opinion of management, the Bank is in substantial compliance with the provisions of the Written Agreement as of December 31, 1996.

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

Investment securities – The Bank is required to specifically identify its investment securities as "held-to-maturity," "available-for-sale," or "trading accounts." Accordingly, management has determined that all investment securities held as of December 31, 1996 and 1995, are "available-for-sale" and conform to the following accounting policies:

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

Securities available-for-sale – Available-for-sale securities consist of bonds, notes, debentures, and certain equity securities not classified as held-to-maturity securities. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount and a separate component of equity until realized. Fair values for investment securities are based on quoted market prices. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are charged against earnings as realized 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 expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's market price or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for loan losses and losses on other real estate owned. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. The Bank underwent examinations by applicable regulatory agencies during 1996, 1995, and 1994. The accompanying financial statements reflect the accounting adjustments required as a result of the regulatory examinations.

Land, office building, equipment, and improvements – Land, office building, equipment, and improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years.

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

Income taxes – Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Net income (loss) per share – Earnings (losses) per share are computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding for the years ending December 31, 1996, 1995, and 1994. Common stock equivalents include the number of shares issuable on exercise of the outstanding options less the number of shares that would have been purchased with the proceeds from the exercise of the options based on the average price of common stock during the year. The weighted average number of shares of common stock and common stock equivalents outstanding for the years ending December 31, 1996, 1995, and 1994, were 3,919,061, 3,454,660, and 3,284,646, respectively.

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

The Financial Accounting Standards Board issued Statement No. 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments" which became effective for the Bank for the year ending December 31, 1995. This pronouncement requires that banks holding derivative financial instruments, disclose quantitative and qualitative information about such instruments. As of December 31, 1996 and 1995, and for the years then ended, the Bank held no derivative financial instruments.

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

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

Available-for-sale securities – Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

Loans receivable – For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

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.

Reclassifications – Certain reclassifications have been made to the 1995 and 1994 financial statements to conform with current year presentations.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated market values of investment securities are as follows:

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
December31, 1995				
Available-for-sale securities:				
U.S. Treasury securities	$1,981,154	$6,768	$ -	$1,987,922
Collateralized mortgage obligations	2,460,633	-	38,805	2,421,828
Debentures	4,756,702	3,092	-	4,759,794
	$9,198,489	$9,860	$38,805	$9,169,544

The amortized cost and estimated market value of investment securities as of December 31, 1996, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AVAILABLE-FOR-SALE SECURITIES	
	AMORTIZED COST	ESTIMATED MARKET VALUE
Due in one year or less	$1,798,830	$1,798,806
Due after one year through five years	5,690,585	5,670,739
Due after five years through ten years	398,592	387,953
Collateralized mortgage obligations	2,463,671	2,399,182
	$10,351,678	$10,256,680

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

As of December 31, 1996 and 1995, investment securities with an amortized cost of $800,000 and $792,500, respectively, were pledged to secure deposits of public funds. In addition, the Bank had pledged $1,362,263 and $2,859,016, respectively, to VISA USA to support the Bank's secured credit card lending activities.

During 1994, due to market pressures on fixed rate investments, persuasion from regulatory authorities, and management's and the Board's desire not to expose the Bank to further interest rate risk, the Bank sold held-to-maturity securities having an amortized cost of $2,500,000. Proceeds of $1,425,000 from these sales resulted in recognized losses of $1,075,000. These losses combined with losses of $478,831 realized on the sale of available-for-sale securities, resulted in aggregate losses on securities sales of $1,553,831 in 1994. In 1996, the Bank realized gains of $9,396 on sales of available-for-sale securities; no gain or loss on the sale of investment securities was realized during 1995.

NOTE 3 – LOANS

The composition of loan balances is summarized as follows:

	DECEMBER 31, 1996	1995
Credit cards	$3,665,095	$9,001,336
Real estate - construction	7,772,109	8,291,772
Commercial and agricultural	8,449,690	2,793,402
Installment	4,357,946	781,533
Overdraft accounts	1,950	4,434
	24,246,790	20,871,977
Allowance for loan losses	(345,839)	(264,199)
Unearned income	(128,235)	(93,319)
	$23,771,716	$20,514,459

Impaired loans having recorded balances of $64,703 on December 31, 1996 and $108,715 on December 31, 1995, have been recognized. The total allowance for loan losses related to these loans was $9,205 and $20,994 on December 31, 1996 and 1995, respectively. Interest income on impaired loans of $23,440, $5,736, and $31,611 was recognized for cash payments received in 1996, 1995, and 1994, respectively. Had the impaired loans performed according to their original terms, additional interest income of $4,728, $1,074, and $22,348 would have been recognized during 1996, 1995, and 1994, respectively.

The maturity range of the loan portfolio as of December 31, 1996, is as follows:

	DUE IN ONE YEAR OR LESS	DUE AFTER ONE THROUGH FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
Commercial, agricultural, and real estate-construction loans	$ 10,049,817	$6,243,886	$3,893,929	$20,187,632
Credit card loans	3,654,933		-	3,654,933
Installment loans and overdrafts	73,999	293,995		367,994
	$13,778,749	$6,537,881	$3,893,929	24,210,559
Nonaccrual loans				35,231
				$24,245,790
Fixed rate loans	$ 10,163,815	$ 3,239,941	$ 3,893,929	$17,297,685
Adjustable rate loans	3,614,934	3,297,940		6,912,874
	$13,778,749	$6,537,881	$3,893,929	24,210,559
Nonaccrual loans				35,231
				$24,245,790

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	YEARS ENDED DECEMBER31. 1996	1995	1994
BALANCE, beginning of year	$ 264,169	$372,294	$240,262
Provision (adjustment) for loan losses	199,679	(96,120)	88,186
Loans charged-off	(122,972)	(15,081)	(29,666)
Recoveries on loans previously charged-off	4,963	3,076	73,512
BALANCE, end of year	$345,839	$264,169	$372,294

NOTE 5 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

The Bank's real estate loan production office in Portland, Oregon makes real estate construction loans to builders and their customers in the Portland, Oregon and Vancouver, Washington metropolitan areas. The office also provides real estate mortgage brokerage services to its customers for which it receives fee and commission income. As of December 31, 1996 and 1995, the Bank had 32.1% and 39.7%, respectively, of its loan portfolio comprised of real estate construction loans.

The Bank makes credit card loans to qualified individuals throughout the United States. With the exception of approximately $353,189 in outstanding, unsecured credit card accounts, all other approved credit card lines are fully secured with time certificates of deposit. As of December 31, 1996, 15.1% of the Banks loan portfolio was comprised of outstanding credit card balances. Of the outstanding balance of $3,655,095, approximately 10% were unsecured and 90% were secured with time certificates.

NOTE 6 – BANKCARD AGREEMENTS AND CREDIT CARD TRANSACTIONS

In May 1991, the Bank entered into a "Bankcard Program Development Agreement" with IJL Corporation (currently known as Renaissance Bankcard Services), an Oregon corporation involved in the business of developing, establishing, marketing, and servicing consumer credit card accounts. The Bank entered into the agreement with the intent of utilizing Renaissance's expertise in the development of its own secured and guaranteed consumer Visa and Mastercard programs. The original agreement with Renaissance extended for a five-year period with provisions for automatic one year extensions unless otherwise terminated by either party. However, as further described in Note 17, the Bank and Renaissance have completed a settlement agreement and mutual release, the effect of which included the sale of $15,456,590 of the Bank's credit card portfolio by December 31, 1996. As a condition of the agreement termination, Renaissance will receive a fee of 10% of the net profit from all retained credit card accounts for a period of 24 months.

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

The majority of these consumer credit card accounts are required to be fully secured with time certificates of deposit at the Bank. Certain other credit card accounts, known as "flips" or graduated secured accounts, have become partially unsecured with the passage of time due to the customer's creditworthiness. As of December 31, 1996, approximately 80% of the outstanding "flip" accounts were secured. Total outstanding balances under both the fully and graduated secured credit card programs were $3,177,662 as of December 31, 1996.

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

Another element of the Bank's credit card portfolio consists of unsecured accounts issued pursuant to an agreement with IBAA Bancard, Inc. (IBAA) or acquired through purchase. As of December 31, 1996 and 1995, IBAA unsecured credit cards totaled $285,167 and $320,042, respectively. A portfolio of unsecured credit cards purchased during 1996 at a discounted price of $68,052 totaled $68,022 as of December 31, 1996.

A final component of the Bank's credit card portfolio consists of secured accounts which are reported and managed by Western States Bankcard Association (WSBA) of Stockton, California. The Bank has assumed all risk management responsibilities including collection and due diligence procedures. WSBA provides all other portfolio management requirements. These accounts totaled $124,244 as of December 31, 1996.

For the years ending December 31, 1996, 1995, and 1994, the Bank's net interest margin on credit card accounts was as follows:

	YEARS ENDED DECEMBER 31. 1996	1995	19934
Interest and fee income	$980,917	$1,513,149	$1,507,328
Interest expense	543,188	806,259	950,753
Net interest margin	$ 437,729	$ 706,890	$ 556,575

NOTE 7 – LAND, OFFICE BUILDING, EQUIPMENT, AND IMPROVEMENTS

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

	YEARS ENDED DECEMBER 31, 1996	1995
Land	$ 35,465	$ 35,465
Buildings	299,306	299,306
Equipment	492,486	482,240
Leasehold improvements	12,347	12,347
	839,604	829,358
Accumulated depreciation and amortization	(472,162)	(407,766)
	$367,442	$ 421,592

NOTE 8 – TIME DEPOSITS

The aggregate amount of time certificates of deposit in denominations of $100,000 or more was $3,310,380 as of December 31, 1996 and $3,974,821 as of December 31, 1995.

The maturity range for time certificates of deposit of $100,000 or more and all other time deposits are as follows as of December 31, 1996:

	TIME CERTIFICATES OF $100,000 OR MORE	ALL OTHER TIME DEPOSITS
Due in three months or less	$2,126,290	$ 5,159,415
Due after three months through one year	931,543	12,227,959
Due after one year through five years	252,547	934,411
	$3,310,380	$18,321,785

NOTE 9 – OTHER OPERATING EXPENSES

Other operating expenses for 1996, 1995, and 1994, were comprised of the following:

	YEARS ENDED DECEMBER 31, 1996	1995	1994
Credit card expenses	$278,505	$ 14,649	$ 11,421
Data processing expenses	159,256	223,125	259,978
Professional services	118,896	169,127	323,819
Telephone, postage, and wire transfer expenses	147,610	137,257	137,318
Insurance	82,502	127,862	168,458
Stationery, supplies, and printing expenses	51,649	38,946	30,861
Advertising	21,353	24,815	17,588
Automatic teller machine processing fees	8,340	7,915	8,206
Public relations and business development	15,688	10,539	6,847
NSF and other operating losses	2,495	1,907	6,621
Other operating expenses	68,322	127,332	193,954
	$934,620	$883,473	$1,165,071

NOTE 10 – INCOME TAXES

The income tax provisions for December 31, 1996, 1995, and 1994, consist of the following:

	YEARS ENDED DECEMBER 31, 1996	1995	1994
Taxes currently payable	$ -	$ -	$ -
Deferred taxexpense	174,454	147,292	-
Benefit of net operating loss carryforward	(40,050)	(28,563)	-
Change in valuation allowance	(47,862)	(53,371)	(325,000)
Income tax expense (benefit)	$ 86,542	$ 65,358	$(325,000)

The 1996, 1995, and 1994 provisions for income taxes differ from amounts computed using statutory rates as follows:

	YEARS ENDED DECEMBER 31, 1996	1995	1994
Federal income taxes at statutory rates	$ 103,303	$108,254	$ -
State income taxes, net of federal benefit	11,124	6,935	-
Decrease in valuation allowance	(47,862)	(53,371)	(325,000)
Other differences	19,977	3,540	-
	$ 86,542	$ 65,358	$(325,000)

Deferred tax asset and liability accounts consisted of the following as of December 31, 1996 and 1995:

	DECEMBER 31, 1996	1995
Deferred tax assets	$ 89,500	$ 173,543
Net operating loss carryforward	249,000	398,029
Valuation allowance	(142,000)	(189,852)
Deferred tax liabilities	(23,500)	(122,068)
Net deferred tax asset	$ 173,000	$ 259,642

As of December 31, 1996, the Bank had net operating loss carryforwards available to offset future income taxes in the approximate amount of $650,000. These carryforwards expire in 2009.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. All loans and commitments to loans included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features. As of December 31, 1996 and 1995, only an auto loan with an outstanding balance of $10,751 and credit card loans with outstanding balances of $11,181 and $25,656, respectively, were outstanding to related parties.

NOTE 12 – EMPLOYMENT AGREEMENTS

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

NOTE 13 – COMMON STOCK TRANSACTIONS

Common stock warrants – During 1994 and 1993, outstanding warrants were exercised by the Bank's Chairman, executive officers, and various investors, to whom were transferred share purchase rights. The following summarizes the increase in the Bank's common stock for the exercise of warrants as well as the amount of unexercised warrants that expired in 1996:

	SHARE PURCHASE RIGHTS	EXERCISE PRICE	INCREASE IN COMMON STOCK	EXPIRED WARRANTS
Unexercised warrants at December 31, 1993	124,656			
Warrants issued	3,300,000			
Warrants cancelled	(2,910,000)			
Warrants exercised during 1994	(435,000)	$.89 to $1.05	$440,550	
Warrants expired in February 1996	79,656	$.89		$70,894

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

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

The Employee Plan provides for the grant of options to employees up to an aggregate of 490,000 shares of the Bank's common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. The Plan became effective upon stockholder approval and will terminate ten years after the effective date. As of December 31, 1996, options for 396,500 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This Plan provides for the grant of options to directors up to an aggregate of 39,000 shares of the Bank's common stock. The Plan is administered by a committee of the Board of Directors which specifies the conditions, timing, and exercise price of grants of options. Under the Plan, options may be exercised only while the grantee serves as a director or within 12 months following 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, 1996, all options had been granted under the Outside Director Plan and options to acquire 37,000 shares of common stock were outstanding.

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

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

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

Information concerning all outstanding options as of and for the years ended December 31, 1996 and 1995, is as follows:

	DECEMBER 31,			
	1996	AVERAGE EXERCISE PRICE	1995	AVERAGE EXERCISE PRICE
Under option, beginning of year	433,500	0.5400	49,000	$2.3700
Granted during the year	10,000	0.5313	386,500	0.3125
Exercised during the year	(10,000)	0.3125	-	-
Cancelled during the year	-		(2,000)	1.3800
Under option at year-end	433,500	$0.5500	433,500	$0.5400
Exercisable at year-end	433,500	$0.5500	433,500	$0.5400

NOTE 14 – EMPLOYEE BENEFIT PLANS

In August 1993, the Bank adopted a 401(k) Retirement Salary Savings and Profit Sharing Plan. The Plan became effective on July 1, 1993. All permanent employees are eligible once they meet the age and service requirements. Employer contributions are determined annually by the Board of Directors. Employer contributions of $12,328 and $15,482 were made for the years ended December 31, 1995 and 1994, respectively. No employer contributions were made for the year ended December 31, 1996.

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

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

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

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

	CONTRACT AMOUNT AT DECEMBER 31,	
	1996	1995
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$ 6,880,630	$ 4,547,107
Line of credit commitments	208,621	56,470
Credit card commitments	2,588,216	7,163,727
	$ 9,677,467	$11,767,304

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 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the estimated fair value and the related carrying values of the Bank's financial instruments at December 31, 1996 and 1995.

	DDECEMBER 31, 1996		DECEMBER 31, 1995	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Cash and due from financial institutions	$ 537,399	$ 537,399	$ 1,498,380	$ 1,498,380
Interest-earning balances with financial institutions	$ 2,021,000	$ 2,021,000	$11,049,000	$11,049,000
Securities available-for-sale	$10,256,680	$10,256,680	$ 9,169,544	$ 9,169,544
Loans, net of allowance for loan losses	$23,771,715	$23,836,370	$20,514,489	$20,532,218
Noninterest-bearing demand deposits	$ 2,073,126	$ 2,073,126	$ 1,900,974	$ 1,900,974
NOW and money market accounts	$ 8,818,543	$ 8,958,567	$ 7,720,034	$ 7,720,034
Savings and time deposits	$22,998,843	$22,932,843	$30,372,595	$30,355,780

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to have disposed of such items on December 31, 1996, 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 on December 31, 1996, should not necessarily be considered to apply at subsequent dates.

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

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments - As of December 31, 1996, 1995, and 1994, the Bank leased certain branch facilities as well as equipment and fixtures under noncancellable operating leases. Rent expense for 1996, 1995, and 1994, was $145,302, $125,631, and $103,759, respectively. The approximate annual commitment for rentals under these operating leases is summarized as follows:

YEARS ENDING DECEMBER 31,	
1997	$134,949
1998	122,649
1999	119,139
2000	11,803
	$388,540

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

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

The resolution between the parties also provided that the underlying Agreement would expire pursuant to its terms on May 28, 1996, unless otherwise renewed by mutual consent of both parties. At that time, the Bank had the option to sell, and Renaissance had the option to purchase, additional consumer credit card accounts which had become either totally or partially unsecured. As a result, additional credit card accounts totaling $4,665,044 were purchased by Renaissance.

Other litigation – In the ordinary course of business, the Bank may become involved in various other litigation arising from normal bank activities. In the opinion of management, the ultimate disposition of these actions will not have a material adverse effect on the Bank's financial position or results of operations.

NOTE 18 – REGULATORY MATTERS

As of December 31, 1996, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as adequately capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS:	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December31, 1996 (in thousands)						
Total capital to risk-weighted assets	$4,097	15.4 %	$2,128	≥8.0%	$2,660	≥10.0%
Tier I capital to risk-weighted assets	$3,702	14.2 %	$1,043	≥4.0%	$1,564	≥6.0%
Tier I capital to average assets	$3,702	9.2 %	$1,610	≥4.0%	$2,012	≥5.0%
As of December 31,1995 (in thousands)						
Total capital to risk-weighted assets	$3,301	15.1 %	$1,749	≥8.0%	$2,186	≥10.0%
Tier I capital to risk-weighted assets	$3,039	13.9 %	$ 875	≥4.0%	$1,312	≥6.0%
Tier I capital to average assets	$3,039	6.3 %	$1,930	≥4.0%	$2,412	≥5.0%

COMMON STOCK TRADING INFORMATION*

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

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

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

CORPORATE DATA

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Troster Singer Corporation
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STOCK EXCHANGE LISTING
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