American Pacific Bank

Established 1979

1999 Annual Report

SELECTED FINANCIAL INFORMATION

(In thousands, except for per share data)

RESULTS OF OPERATIONS	1999	1998	1997
Interest Income	$ 5,157	$ 4,660	$ 4,339
Interest Expense	2,161	1,858	1,537
Net Interest Income	2,996	2,802	2,802
Provision for Loan Losses	101	62	215
Other Income	268	265	204
Other Expenses	2,500	2,462	2,537
Income Before Income Taxes	663	543	254
Income Taxes/(Benefit)	191	74	(81)
Net Income	472	469	335
PER SHARE DATA*			*
Net Income Per Share	0.41	0.41	0.30
Book Value Per Share	4.47	4.03	3.60
BALANCES AT YEAR END			
Total Assets	53,280	51,874	43,114
Loans (Net of Loan Loss and Unearned Income)	45,741	35,446	29,826
Total Deposits	47,330	46,994	38,702
Shareholders' Equity	5,096	4,574	4,082
SELECTED STATISTICS			
Return on Average Assets	0.90%	1.01%	0.82%
Return on Average Equity	9.71%	11.16%	8.58%
Average Equity to Average Assets	9.21%	9.37%	9.54%
Net Interest Margin to Average Assets	5.68%	6.12%	6.85%
Interest Income to Average Earning Assets	10.15%	10.50%	10.66%

COMMON STOCK TRADING INFORMATON

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

Fiscal Year Ended Dec. 31, 1998	High	Low
Fourth Quarter	$5.50	$3.38
Third Quarter	6.38	4.25
Second Quarter	6.63	4.50
First Quarter	5.00	4.00

The bank did a 4 to 1 reverse split on May 19, 1997. The Per Share Data for 1997 was adjusted to reflect this change for comparison purposes.

American Pacific Bank

Since 1979

INTRODUCTION

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

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

Today, the Bank has a reputation of providing friendly, personal, and efficient service to customers living throughout Oregon and Southwest Washington in the areas of construction lending, commercial loans, permanent mortgages, business financing, consumer loans, and deposit services. The Bank relocated to its new headquarters in the financial district of downtown Portland in January 2000. American Pacific Bank's future will continue to be characterized by continued growth and success.

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Message from Chairman and President

January 31, 2000

Dear Shareholders & Friends,

The past year marked a period of strong growth and exciting improvements for American Pacific Bank. While both net earnings and loan production increased, your Bank also experienced an increase in assets and deposits. Management and staff have persisted in working diligently to ensure the success of each department, while continuously looking to make all necessary improvements and advancements. Both the loan portfolio and the credit card departments have benefitted from the appointment of Mr. Harlan Barcus as our new Chief Credit Officer. As the new millennium begins, American Pacific Bank looks forward to making the Year 2000 a year of exceptional growth and success.

We are pleased to report earnings for 1999, before taxes, were $662,578, or $0.58 per share, as compared to $542,368, or $0.48 per share, for 1998. This represents an increase of 22.2%. Due to the high taxes of $190,500 versus $73,675 for 1998, net earnings after taxes for 1999 were $472,078, as compared to $468,694 for 1998. The increase in income was due primarily to the increase in lending activities. As of December 31, 1999 total loans were $46.3 million as compared to $37.4 million for the same period a year ago, representing a 23.7% increase.

The Bank ended the fiscal year with $53.3 million in total assets, as compared to $51.8 million for the previous year, an increase of 2.9%. Total deposits were at $47.3 million as compared to $47.0 million from the previous year, an increase of 0.7%. Additionally, the Bank has not suffered any losses from the construction and mortgage loan portfolios in the last several years. Your Bank also remains well-capitalized with the leverage ratio at 9.5% and the risk-based capital ratio at 12.7%. The Book value as of December 31, 1999 was $4.47 per share.

In an effort to continue our history of growth, the Bank has moved to a new ground-level location in the heart of downtown Portland's financial district. From this new location, American Pacific Bank will continue to offer our personalized financial services, in addition to new services such as a small business loan department and an ATM and night depository. As we progress into the new millennium, American Pacific Bank is also prepared to advance into the high-tech environment of electronic banking. During Year 2000, the Bank will offer Internet Banking, as well as e-commerce which will provide links to other financial services. As we eagerly work to combine on-line banking with old-fashioned, individual attention, American Pacific Bank will continue to maintain our high standards of personal service while providing our customers with up-to-date banking services.

We look forward to a successful Year 2000 and thank you for your continued support and confidence.

Fai H. Chan
Chairman, Board of Directors

David T. Chen
President and Chief Executive Officer

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

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

AMERICAN PACIFIC BANK
BOARD OF DIRECTORS & MANAGEMENT

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 $53 million; the significant loss position of 1986 has turned into a profit; and, the securities trade within the NASDAQ system.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT

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

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.

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

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

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

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

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

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

YOUR BANK AT WORK

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

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

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

Real Estate Lending

American Pacific Bank's Real Estate Lending Division operates primarily in the following areas: construction lending for residential and commercial properties, residential and commercial term lending, and residential loan brokering.

The Bank's residential and commercial portfolio loans ended 1999 with $41.5 million in outstanding balances, and an increase of nearly 38% over the previous year. Most of the residential loans generated have been underwritten for sale on the secondary market providing the flexibility to maintain a high volume of loan availability, as well as liquidity of funds. Residential loans originated and sold during 1999 totaled $20 million.

American Pacific Bank's real estate loans range in size from $100,000 to $1,400,000. Projects greater than $1,400,000 are participated with other lenders. This allows us to be involved in larger loans, while at the same time maintaining a large and strong customer base and minimizing our exposure to risk.

Loan commitments for construction and commercial real estate lending for 1999 were in excess of $26 million. To control the risks involved in the speculative aspect of this business, the majority of the commitments are either portfolio loans, with a permanent loan takeout, or are sold on the secondary market.

During 1999, the entire Real Estate Lending Division experienced a significant gain in revenues over 1998. Over $3.5 million in interest and fee income was generated, an increase of 19% over the prior year.

Credit Card Lending

American Pacific Bank's secured credit card continues to be one of the best values in the nation as rated by Bank Rate Monitor and CardTrak. In addition to promoting our credit cards through a variety of traditional marketing channels, and directly through the bank's website (www.apbank.com), we offer our secured credit card through a variety of Internet e-commerce sites. Approximately one-half of our application requests come from the Internet. The usage of Internet and acquisition of quality credit card portfolios to achieve growth continues to be the bank's marketing emphasis in the future.

Secured credit cards require the account holder to deposit funds with the bank in an amount equal to the credit limit of the account. The deposits for all secured credit card accounts provide significant protection against losses as well as an effective and inexpensive funding source to the bank.

During 1999 our credit card portfolio was at $3.1 million at year-end, generating over $249,000 in net income. Net charge-offs on the portfolio were a very low 1.9% of average outstanding balances, as compared to the industry's average of 2.6%.

Internet Banking

Recognizing the importance of technology and the Internet, as well as the increasingly vital role they play in finance, the bank will introduce American Online Banking, our 'virtual' Internet branch in the year of 2000. Beginning with a completely redesigned web site, American Online Banking will quickly become a center of e-commerce for our clients. From viewing account statements, transferring funds, and paying bills to more sophisticated cash management functions of ACH and wire transfers, our virtual branch will allow customers to transact business any where, any time. Applying for American Pacific Bank credit cards, mortgage loans, and deposit accounts has never been more convenient or easier...we're your Bank for the new millennium!

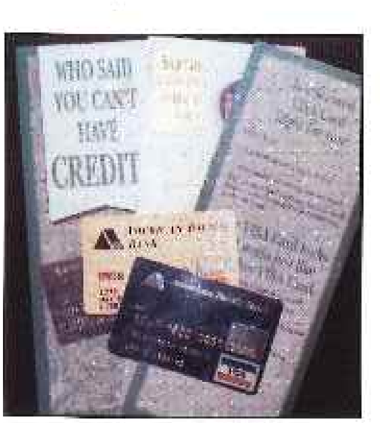
Small Business Lending Center

To better meet the needs of our small business customers, and to expand the bank's services, a Small Business Lending Center will open in 2000. With a combination of excellent service and experienced people, we will meet the needs of small businesses with lines of credit, term financing arrangements, SBA loans, deposit products, and online services.

Other Banking Services

During 1999, the bank's branches and customer service areas provided quality, personal service to high net worth individuals in our trade area and the Pacific Rim.

Other services we offer our customers include consumer loans of all types, including personal and auto loans. In addition to attracting new immigrants from the Pacific Rim, we regularly attract new customers who are tired of the large bank environment and are looking for efficient and personalized banking services.



AMERICAN PACIFIC BANK

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 1999, 1998, AND 1997

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, 1999 and 1998, 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, 1999. These financial statements are the responsibility of American Pacific Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Pacific Bank as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

Moss Adams LLP

Portland, Oregon
January 26, 2000

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

AMERICAN PACIFIC BANK
BALANCE SHEET

YEARS ENDED DECEMBER 31

ASSETS	1999	1998
Cash due from banks	$ 1,083,247	$ 913,767
Federal funds sold	525,000	10,460,000
Total cash and cash equivalents	1,608,247	11,373,767
Investment securities available-for-sale	3,811,195	2,036,632
Federal Home Loan Bank stock	162,800	-
Federal Reserve Bank stock	-	136,600
Loans held-for-sale	545,634	1,960,700
Loans, net of allowance for loan losses and unearned income	45,740,690	35,446,046
Land, buildings, equipment, and leasehold improvements, net	565,497	344,935
Accrued interest and other assets	645,436	576,269
Other real estate owned	200,548	-
Total assets	$ 53,280,047	$ 51,874,949

LIABILITIES AND STOCKHOLDERS' EQUITY	1999	1998
Deposits:		
Noninterest-bearing demand deposits	$ 2,438,696	$ 2,219,118
NOW and money market accounts	13,625,731	10,428,004
Savings accounts	2,328,087	2,049,311
Time deposits	28,936,997	32,297,152
Total deposits	47,329,511	46,993,585
Accrued interest and other liabilities	854,566	307,231
Total liabilities	48,184,077	47,300,816
COMMITMENTS AND CONTINGENCIES (Note 17)		
STOCKHOLDERS' EQUITY		
Common stock, no par value; 200,000,000 shares authorized, 1,171,776 shares issued and outstanding in 1999, 1,134,276 shares issued and outstanding in 1998	4,599,486	4,552,611
Surplus	940,625	905,000
Accumulated deficit	(413,778)	(885,856)
Accumulated other comprehensive income, net of taxes	(30,363)	2,378
Total stockholders' equity	5,095,970	4,574,133
Total liabilities and stockholders' equity	$ 53,280,047	$ 51,874,949

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31

	1999	1998	1997
INTEREST INCOME			
Interest and fees on loans	$ 4,654,709	$ 4,010,335	$ 3,719,671
Interest on investment securities			
U.S. Treasury securities	2,812	3,285	43,463
Obligations of U.S. government agencies	152,218	253,097	420,376
Other domestic taxable securities	8,303	9,087	8,192
Interest on Federal funds sold	338,903	382,920	147,445
Total interest income	5,156,945	4,658,724	4,339,147
INTEREST EXPENSE			
Interest on deposits	2,161,040	1,857,674	1,536,786
Net interest income	2,995,905	2,801,050	2,802,361
PROVISION FOR LOAN LOSSES	100,969	61,665	215,357
Net interest income after provision for loan losses	2,894,936	2,739,385	2,587,004
NONINTEREST INCOME			
Service charges and fees	121,150	128,447	167,993
Real estate brokerage fees, net of commissions	51,506	63,604	31,617
Gain on sale of loans	88,640	68,176	-
Gain (loss) on the sale of available-for-sale securities	-	1,217	(400)
Other noninterest income	6,476	3,195	4,652
Total noninterest income	267,772	264,639	203,862
NONINTEREST EXPENSES			
Salaries and employee benefits	1,286,850	1,244,740	1,187,227
Occupancy and equipment expenses	292,180	291,432	296,127
Other operating expenses	921,098	925,484	1,052,917
Total noninterest expenses	2,500,128	2,461,656	2,536,271
INCOME BEFORE PROVISION FOR INCOME TAXES	662,580	542,368	254,595
INCOME TAX PROVISION (BENEFIT)	190,502	73,675	(81,247)
NET INCOME	472,078	468,693	335,842
OTHER COMPREHENSIVE INCOME			
Unrealized gain (loss) on securities, net of tax:			
Unrealized holding (loss) gain arising during period	$ (32,741)	$ 22,094	$ 43,522
Reclassification adjustment for (gain) loss included in net income	-	(803)	264
Other comprehensive income	(32,741)	21,291	43,786
COMPREHENSIVE INCOME	$ 439,337	$ 489,984	$ 379,628
BASIC EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .41	$ .41	$ .30
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .40	$ .39	$ .28

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 1996	4,535,103	$ 4,550,423	$ 905,000	$ (1,690,391)	$ (62,699)	$ 3,702,333
1 for 4 reverse stock split	(3,401,327)	-	-	-		-
Net income and comprehensive income	-	-	-	335,842	43,786	379,628
BALANCE, December 31, 1997	1,133,776	4,550,423	905,000	(1,354,549)	(18,913)	4,081,961
Exercise of stock options	500	2,188	-	-	-	2,188
Net income and comprehensive income	-	-	-	468,693	21,291	489,984
BALANCE, December 31, 1998	1,134,276	4,552,611	905,000	(885,856)	2,378	4,574,133
Exercise of stock options	37,500	46,875	35,625	-	-	82,500
Net income and comprehensive income	-	-	-	472,078	(32,741)	439,337
BALANCE, December 31, 1999	1,171,776	$ 4,599,486	$ 940,625	$ (413,778)	$ (30,363)	$ 5,095,970

See accompanying notes.

AMERICAN PACIFIC BANK
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 472,078	$ 468,693	$ 335,842
Adjustments to reconcile net income to net cash from operating activities:			
Gain on sale of loans	(88,640)	(68,176)	-
Depreciation and amortization	57,195	43,178	56,495
Provision for loan losses	100,969	61,665	215,357
(Gain) loss on sale of available-for-sale securities	-	(1,217)	400
Deferred income taxes	(42,182)	62,032	(81,247)
Net sales (originations) of loans held-for-sale	1,415,066	(944,617)	(966,809)
Federal Home Loan Bank stock dividends	(5,100)	-	-
Change in cash due to changes in certain assets and liabilities:			
(Increase) decrease in accrued interest and other assets	(12,081)	85,240	124,916
Increase (decrease) in accrued interest and other liabilities	547,335	(23,607)	32,361
Net cash from operating activities	2,444,640	(316,809)	(282,685)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities	(2,286,511)	(1,116,902)	-
Purchases of Federal Reserve Bank stock	-	(50)	(200)
Purchases of Federal Home Loan Bank stock	(157,700)	-	-
Proceeds from sale of Federal Reserve Bank stock	136,600	-	-
Proceeds from maturity of available-for-sale securities	464,303	4,423,855	3,121,861
Proceeds from sale of available-for-sale securities	-	400,000	1,497,094
Loans originated, net of principal repayments	(10,507,521)	(5,074,936)	(6,250,996)
Purchase of credit card portfolios	-	(606,517)	-
Purchase of building improvements, equipment, and furniture	(277,757)	(45,354)	(38,254)
Net cash from investing activities	(12,628,586)	(2,019,904)	(1,670,495)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in noninterest-bearing demand, NOW, money market, and savings deposit accounts	$ 3,696,081	$ 794,749	$ 1,643,337
Net (decrease) increase in time accounts	(3,360,155)	7,497,271	3,167,716
Issuance of common stock	82,500	2,188	-
Net cash from financing activities	418,426	8,294,208	4,811,053
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,765,520)	5,957,495	2,857,873
CASH AND CASH EQUIVALENTS, beginning of year	11,373,767	5,416,272	2,558,399
CASH AND CASH EQUIVALENTS, end of year	$ 1,608,247	$ 11,373,767	$ 5,416,272
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for interest	$ 2,198,060	$ 1,900,230	$ 1,578,137
Cash paid for income taxes	$ 9,000	$ 10,000	$ 1,200
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES			
Unrealized (loss) gain on available-for-sale securities, net of taxes	$ (30,363)	$ 22,094	$ 43,522
Acquired real estate in settlement of loans	$ 200,548	$ -	$ -

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Investment securities – The Bank is required to specifically identify its investment securities as "held-to-maturity," "available-for-sale," or "trading accounts." Accordingly, management has determined that all investment securities held as of December 31, 1999 and 1998, 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 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. 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 1999, 1998, and 1997. The accompanying financial statements reflect any accounting adjustments required as a result of the regulatory examinations.

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

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

Land, buildings, equipment, and leasehold improvements – Land, buildings, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally by the straight-line method over the estimated useful lives of the assets, which range from 5 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 $13,118, $20,784, and $26,289 in 1999, 1998, and 1997, 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 the various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Statement of cash flows – For the purpose of presentation in the statement 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 short-term instruments 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 and Federal Reserve Bank stock – The carrying value of Federal Home Loan and Federal Reserve 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.

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

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

Stock options – The Bank measures compensation cost using the intrinsic value method, which computes compensation cost as the difference between a company's stock price and the option price at the grant date. Accordingly, no compensation cost has been recognized for its stock option plans. If the Bank followed the fair value based method of accounting for stock option plans, the effect would be insignificant to the 1999, 1998, and 1997 financial statements.

Recently issued accounting standards – In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Account Standard (SFAS) No. 137 "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that the Bank recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. SFAS No. 133, as amended by SFAS No. 137, shall be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. Other issued but not yet required FASB statements are not currently applicable to the Bank's operations. Management believes these pronouncements will have no material impact upon the Bank's financial position or results of operation.

Reclassifications – Certain reclassifications have been made to the 1998 and 1997 financial statements to conform with current year presentations.

NOTE 2 – INVESTMENT SECURITIES

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

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
December 31, 1999				
Obligations of U.S. government agencies	$ 2,287,199	$ -	$ (24,610)	$ 2,262,589
Collateralized mortgage obligations	1,500,000	-	(17,355)	1,482,645
Municipal securities	70,000	-	(4,039)	65,961
	$ 3,857,199	$ -	$ (46,004)	$ 3,811,195

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
December 31, 1998				
Collateralized mortgage obligations	$ 1,963,029	$ 3,949	$ -	$ 1,966,978
Municipal securities	70,000	-	(346)	69,654
	$ 2,033,029	$ 3,949	$ (346)	$ 2,036,632

The amortized cost and estimated fair value of investment securities as of December 31, 1999, by contractual maturity, are shown in the next column. 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 FAIR VALUE
Due in one year or less	$ -	$ -
Due after one year through five years	3,787,199	3,745,233
Due after five years through ten years	50,000	48,117
Due after ten years	20,000	17,845
	$ 3,857,199	$ 3,811,195

As of December 31, 1999 and 1998, investment securities with an amortized cost of $1,000,000 and $750,000 respectively, were pledged to secure deposits of public funds.

The Bank, as a member of the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) systems, was required to maintain an investment in restricted equity securities of FRB and FHLB. Both FRB and FHLB stock are not actively traded but are redeemable at current book value. In 1999, the Bank redeemed its interest in FRB stock for $136,600. As of December 31, 1999, the Bank's investment in FHLB stock was $162,800.

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

The composition of loan balances is summarized as follows:

	1999	1998
Commercial	$ 28,396,139	$ 17,589,586
Real estate – construction	9,161,249	10,533,312
Real estate – permanent	5,457,064	4,369,254
Credit cards	3,102,250	3,182,467
Installment	197,971	282,023
Overdraft accounts	1,513	11,112
	46,336,186	35,967,754
Allowance for loan losses	(470,658)	(428,542)
Unearned income	(124,838)	(93,166)
	$ 45,740,690	$ 35,446,046

Changes in the allowance for loan losses were as follows:

	1999	1998	1997
BALANCE, beginning of year	$ 428,542	$ 458,624	$ 345,839
Provision for loan losses	100,969	61,665	215,357
Loans charged-off	(68,305)	(102,809)	(110,825)
Recoveries on loans previously charged-off	9,452	11,062	8,253
BALANCE, end of year	$ 470,658	$ 428,542	$ 458,624

Impaired loans having recorded balances of $7,000 and $35,674 on December 31, 1999 and 1998, respectively, have been recognized by the Bank. The total allowance for loan losses related to these loans was $1,050 and $5,351 on December 31, 1999 and 1998, respectively. Interest income recognized for cash payments received on impaired loans was insignificant in 1999, 1998, and 1997. Had the impaired loans performed according to their original terms, additional interest income that would have been recognized during 1999, 1998, and 1997, respectively, would also have been insignificant.

The maturity range of the loan portfolio, including loans held-for-sale, as of December 31, 1999, is as follows:

	DUE IN ONE YEAR OR LESS	DUE AFTER ONE THROUGH FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
Commercial and real estate	$ 9,561,254	$ 2,526,181	$ 30,916,697	$ 43,004,132
Credit card loans	3,102,249	-	-	3,102,249
Installment loans and overdrafts	60,191	95,161	-	155,352
	$ 12,723,694	$ 2,621,342	$ 30,916,697	46,261,733
Nonaccrual loans				620,087
				$ 46,881,820
Fixed-rate loans	$ 4,101,239	$ 1,710,349	$ 3,678,839	$ 9,490,427
Adjustable rate loans	8,622,455	910,993	27,237,858	36,771,306
	$ 12,723,694	$ 2,621,342	$ 30,916,697	46,261,733
Nonaccrual loans				620,087
				$ 46,881,820

NOTE 4 – ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following:

	1999	1998
Accrued interest receivable	$ 227,614	$ 195,195
Deferred income taxes	234,407	192,225
Prepaid expenses	41,580	47,491
Other receivables	141,835	141,358
	$ 645,436	$ 576,269

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

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

	1999	1998
Land	$ 35,465	$ 35,465
Buildings	302,021	302,021
Equipment	568,777	570,965
Leasehold improvements	2,998	3,322
	909,261	911,773
Accumulated depreciation and amortization	(586,808)	(566,838)
	322,453	344,935
Construction in progress	243,044	-
	$ 565,497	$ 344,935

NOTE 6 – TIME DEPOSITS

Time certificates of deposit of $100,000 or more aggregated $6,466,809 as of December 31, 1999 and $5,541,731 as of December 31, 1998.

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, 1999:

	TIME CERTIFICATES OF $100,000 OR MORE	ALL OTHER TIME DEPOSITS
2000	$ 5,804,836	$ 19,428,684
2001	661,973	2,478,327
2002	-	563,177
	$ 6,466,809	$ 22,470,188

NOTE 7 – OTHER OPERATING EXPENSES

Other operating expenses for 1999, 1998, and 1997, were comprised of the following:

	1999	1998	1997
Credit card expense	$ 284,652	$ 282,282	$ 358,180
Data processing expenses	144,814	141,641	133,349
Telephone, postage, and wire transfer expenses	141,205	156,245	155,545
Professional services	106,718	89,759	124,367
Insurance	48,244	59,539	62,900
Stationery, supplies, and printing expenses	44,554	44,836	37,527
Public relations and business development	19,427	14,253	10,716
Automatic teller machine processing fees	14,099	8,058	7,610
Advertising	13,118	20,784	26,269
NSF and other operating losses	3,609	7,855	5,651
Other operating expenses	100,664	100,232	130,781
	$ 921,098	$ 925,484	$ 1,052,917

NOTE 8 – INCOME TAXES

The income tax provision consists of the following:

	1999	1998	1997
Current	$ 232,684	$ 11,643	$ -
Deferred	(42,182)	62,032	(81,247)
Income tax provision (benefit)	$ 190,502	$ 73,675	$ (81,247)

The 1999, 1998, and 1997 provisions for income taxes differ from amounts computed using statutory rates as follows:

	1999	1998	1997
Federal income taxes at statutory rates	$ 254,431	$ 159,356	$ 89,742
State income taxes, net of federal benefit	28,862	20,416	6,968
Decrease in valuation allowance	-	(149,689)	(142,000)
Other differences	(92,791)	43,592	(35,957)
	$ 190,502	$ 73,675	$ (81,247)
Effective tax rate	28.8%	13.6%	(31.91)%

Deferred tax asset and liability accounts consisted of the following as of December 31, 1999 and 1998:

	1999	1998
Deferred tax assets:		
Loan loss reserve	$ 81,978	$ 65,974
Net operating loss carryforward	128,204	145,906
Other	45,579	
	255,761	211,880
Deferred tax liabilities:		
Accumulated depreciation	$ (19,416)	$ (19,655)
Other	(1,938)	-
	(21,354)	(19,655)
Net deferred tax assets	$ 234,407	$ 192,225

As of December 31, 1999, the Bank had net operating loss carryforwards available to offset future income taxes in the approximate amount of $315,777. These carryforwards expire in 2009.

NOTE 9 – BANKCARD AGREEMENTS AND CREDIT CARD TRANSACTIONS

In May 1991, the Bank entered into a "Bankcard Program Development Agreement" with another Company for the purpose of assisting the Bank in development of its own secured and guaranteed consumer Visa and Mastercard programs. During 1996, the Agreement was terminated, the effect of which included the sale of $15,456,590 of the Bank's credit card portfolio to the counterparty to the Agreement. As a condition of the termination agreement, the counterparty also received a fee of 10% of the net profit from all retained credit card accounts for a period of 24 months following termination.

These consumer credit card accounts were originally required to be fully secured with time certificates of deposit at the Bank. The majority of these accounts have become partially unsecured with the passage of time due to the customer's creditworthiness. Total outstanding balances under both the fully and graduated secured credit card programs were $1,321,412 and $1,612,320 as of December 31, 1999 and 1998, respectively.

The remaining credit card portfolio consists of secured and unsecured accounts, which are serviced by Western States Bancard Association (WSBA). The Bank has assumed all risk management responsibilities including collection and due diligence procedures. WSBA provides all other portfolio service requirements. Unsecured accounts included in this credit card portfolio totaled $729,598 and $822,379; secured accounts totaled $1,051,240 and $747,768 as of December 31, 1999 and 1998, respectively.

For the years ending December 31, 1999, 1998, and 1997, the Bank's net interest margin on credit card accounts was as follows:

	1999	1998	1997
Interest and fee income	$ 928,181	$ 863,618	$ 951,206
Interest expense	236,196	308,307	365,177
Net interest margin	$ 691,983	$ 555,311	$ 586,029

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

Most of the Bank's commercial loan activity is to customers located near its headquarters and branch office. These geographical areas are primarily involved in commercial business and residential development activities. As of December 31, 1999 and 1998, commercial loans were 61% and 49%, respectively, of the Bank's loan portfolio.

The Bank's real estate lending department in Portland, Oregon makes real estate construction loans to builders and their customers primarily in the Portland, Oregon and Vancouver, Washington metropolitan areas. The office also provides real estate mortgage brokerage services to its customers for which it receives fee and commission income. As of December 31, 1999 and 1998, 20% and 29%, 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, 1999 and 1998, 7% and 9%, respectively, of the Banks loan portfolio was comprised of outstanding credit card balances.

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 loan included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features. The following table summarizes loan transactions between the Bank and related parties during 1999 and 1998:

	1999	1998
BALANCE, beginning of year	$ 16,755	$ 20,641
Loans made	780,091	741,612
Loans paid	(186,687)	(745,498)
BALANCE, end of year	$ 610,159	$ 16,755

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 has agreed to establish and maintain a website for soliciting credit card customers over the Internet. The program is designed to attract subprime and business credit card borrowers under a cash secured arrangement. The Bank has agreed to service the accounts for a monthly fee on a cost plus basis. EBanker will fully fund the program, and assume all risks and be responsible for any losses from co-branded accounts. Although no activity had occurred under this program as of December 31, 1991, management expects the co-branded credit card program will commence during the first half of 2000.

NOTE 12 – 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 will consist of 10,000 shares of common stock and warrants for 100,000 additional shares. The exercise price for the warrants will be $4.65 per share until September 30, 2000, then increasing to $5.15 per share through September 30, 2001, to $5.65 per share through September 30, 2002, to $6.15 per share through September 30, 2003, and to $6.65 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. Because finalization of the private placement offering will require approval by the Bank's shareholders at the annual shareholders' meeting in April 2000, the Bank has recorded subscription funds received from the Chairman as a liability at December 31, 1999.

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

The Employee Plan provides for the grant of options to employees up to an aggregate of 122,500 shares of common stock. All employees of the Bank who meet eligibility requirements may participate in the Employee Plan, which is administered by a committee of the Board of Directors. The committee has the authority to grant options including determination of the conditions and timing of grants, designation of the employees to whom options are to be granted, as well as the number of shares subject to option and selection of the exercise price for shares optioned. Under the plan, options may be exercised only while the grantee is an employee or within 12 months following termination of employment. The plan became effective upon stockholder approval and will terminate ten years after the effective date. As of December 31, 1999, options for 63,200 shares were outstanding under the Employee Plan.

The Outside Director Plan covers all nonemployee directors of the Bank. This plan provides for the grant of options to directors up to an aggregate of 9,750 shares of 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, 1999, options for 4,250 shares of common stock were outstanding under the Outside Director Plan.

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

The following summarizes options available and outstanding under both the Director and Employee Plans as of December 31, 1999, after the effect of the 1997 reverse stock split:

	OUTSIDE DIRECTOR PLAN		EMPLOYEE PLAN		COMBINED PLANS
	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES	WEIGHTED AVERAGE OPTION PRICE	SHARES
Options outstanding as of December 31, 1996	9,250	$ 5.52	94,125	$1.25	103,375
Options granted in 1997	-	$ -	4,500	$2.28	4,500
Options cancelled in 1997	(5,000)	$ 5.52	(625)	$1.25	(5,625)
Options outstanding as of December 31, 1997	4,250	$ 5.52	98,000	$1.26	102,250
Options exercisable as of 31-Dec-97	4,250	$ 5.52	98,000	$1.26	102,250
Options reserved as of December 31, 1997	5,500		22,000		27,500
Options outstanding as of December 31, 1997	4,250	$ 5.52	98,000	$ 1.26	102,250
Options granted in 1998	500	$ 4.38	5,400	$ 4.38	5,900
Options exercised in 1998	(500)	$ 4.38	-	$ -	(500)
Options cancelled in 1998	-	$ -	(2,500)	$ 1.25	(2,500)
Options outstanding as of December 31, 1998	4,250	$ 5.52	100,900	$ 1.46	105,150
Options exercisable as of December 31, 1998	4,250	$ 5.52	100,900	$ 1.46	105,150
Options reserved as of December 31, 1998	5,000		19,100		24,100
Options outstanding as of December 31, 1998	4,250	$ 5.52	100,900	$ 1.46	105,150
Options granted in 1999	-	$ -	7,000	$ 3.73	7,000
Options exercised in 1999	-	$ -	(37,500)	$ 1.25	(37,500)
Options cancelled in 1999	-	$ -	(7,200)	$ 3.80	(7,200)
Options outstanding as of December 31, 1999	4,250	$ 5.52	63,200	$ 1.57	67,450
Options exercisable as of December 31, 1999	4,250	$ 5.52	63,200	$ 1.57	67,450
Options reserved as of December 31, 1999	5,000		19,300		24,300

At December 31, 1999, the range of exercise prices and weighted average remaining contractual life of outstanding options was $1.25 – $5.52 and approximately ten months, respectively.

NOTE 13 – EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES

Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings Per Share" requires a dual presentation of basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the year. Diluted earnings per share reflect the potential dilution that could occur if common shares were issued pursuant to the exercise of options under the Bank's stock option plans. The following table illustrates the computations of basic and diluted earnings per share for the years ended December 31, 1999, 1998, and 1997:

1999	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
Basic earnings per share			
Income available to common shareholders	$472,078	1,146,707	$0.41
Effect of dilutive securities:			
Outstanding common stock options	-	26,463	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$472,078	1,173,170	$0.40
1998			
Basic earnings per share			
Income available to common shareholders	$468,693	1,134,028	$0.41
Effect of dilutive securities:			
Outstanding common stock options	-	60,071	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$468,693	1,194,099	$0.39
1997			
Basic earnings per share			
Income available to common shareholders	$335,842	1,133,775	$0.30
Effect of dilutive securities:			
Outstanding common stock options	-	72,615	
Diluted earnings per share			
Income available to common shareholders plus assumed conversions	$335,842	1,206,390	$0.28

NOTE 14 – EMPLOYEE BENEFIT PLANS

The Bank maintains a 401(k) Retirement Salary Savings and Profit Sharing Plan. All permanent employees are eligible once they meet the age and service requirements. Employer contributions match 50% of all qualified employee contributions, to a maximum of 3% of annual salary. Employer contributions of $20,176, $21,043, and $18,543 were made for the years ended December 31, 1999, 1998, and 1997, respectively.

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

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

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

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

	CONTRACT AMOUNT AS OF DECEMBER 31, 1999	1998
Financial instruments whose contract amounts represent credit risk:		
Construction loan commitments	$ 3,901,615	$ 5,077,228
Credit card commitments	4,781,363	4,468,691
Line of credit commitments	450,263	367,227
Letters of credit	26,000	61,000
	$ 9,159,241	$ 9,974,146

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 illustrates the estimated fair value and the related carrying values of the Bank's financial instruments as of December 31, 1999 and 1998.

	1999 CARRYING AMOUNT	1999 ESTIMATED FAIR VALUE	1998 CARRYING AMOUNT	1998 ESTIMATED FAIR VALUE
Cash and due from banks	$ 1,083,247	$ 1,083,247	$ 913,787	$ 913,787
Federal funds sold	$ 625,000	$ 625,000	$ 10,460,000	$ 10,460,000
Investment securities available-for-sale	$ 3,811,195	$ 3,811,195	$ 2,036,632	$ 2,036,632
Federal Reserve Bank stock	$ -	$ -	$ 136,600	$ 136,600
Federal Home Loan Bank stock	$ 162,800	$ 162,800	$ -	$ -
Loans held for sale	$ 545,634	$ 545,634	$ 1,960,700	$ 1,960,700
Loans, net of allowance for loan losses and unearned income	$ 45,740,690	$ 46,655,504	$ 35,446,046	$ 35,900,606
Accrued interest receivable	$ 227,614	$ 227,614	$ 195,195	$ 195,195
Noninterest-bearing demand deposits	$ 2,438,696	$ 2,438,696	$ 2,219,118	$ 2,219,118
NOW and money market accounts	$ 13,625,731	$ 13,625,731	$ 10,428,004	$ 10,428,004
Savings accounts	$ 2,328,087	$ 2,328,087	$ 2,049,311	$ 2,049,311
Time deposits	$ 28,936,997	$ 29,029,595	$ 32,297,152	$ 32,445,148
Accrued interest and other liabilities	$ 654,566	$ 654,566	$ 307,231	$ 307,231

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, 1999, 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, 1999, 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

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

Operating lease commitments – As of December 31, 1999, 1998, and 1997, the Bank leased certain branch facilities and equipment. Rent expense for 1999, 1998, and 1997 was $155,071, $150,000, and $154,644, respectively. The approximate minimum annual commitment for future rentals under operating leases is summarized as follows:

YEARS ENDING DECEMBER 31,	
2000	$ 166,964
2001	177,484
2002	179,224
2003	193,814
2004	190,110
Thereafter	1,078,306
	$ 1,985,902

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.

Year 2000 issue – Because of the unprecedented nature of the Year 2000 issue, its effects, if any, may not be identified until a future date. Management cannot assure that the Bank has identified all Year 2000 issues, that the Bank's remediation efforts have been successful in whole or in part, or that parties with whom the Bank does business will not be significantly impacted by Year 2000 issues.

NOTE 18 – REGULATORY MATTERS

As of December 31, 1999, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 1999 (in thousands)						
Total capital to risk-weighted assets	$5,596	12.8%	$3,507	≥8.0%	$4,384	≥10.0%
Tier 1 capital to risk-weighted assets	$5,126	11.7%	$1,754	>4.0%	$2,631	>6.0%
Tier 1 capital to average assets	$5,126	9.6%	$2,132	>4.0%	$2,666	>5.0%
As of December 31, 1998 (in thousands)						
Total capital to risk-weighted assets	$5,000	13.5%	$2,970	≥8.0%	$3,712	≥10.0%
Tier 1 capital to risk-weighted assets	$4,571	12.3%	$1,485	>4.0%	$2,227	>6.0%
Tier 1 capital to average assets	$4,571	9.2%	$1,981	>4.0%	$2,476	>5.0%

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

CORPORATE DATA

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Terra Nova Trading, LLC
Instinet Corporation
GBS Financial Corporation
The Brass Utility, L.L.C.
Spear, Leeds & Kellogg (ECN)
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