

PACIFIC WEST BANK

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Pacific West Bank

We have audited the accompanying balance sheets of Pacific West Bank as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of Pacific West Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific West Bank as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Portland, Oregon
March 21, 2008

PACIFIC WEST BANK
BALANCE SHEETS

| | December 31, | |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| ASSETS | | |
| Cash and due from banks | \$ 868,877 | \$ 1,386,742 |
| Federal funds sold | 2,335,000 | 795,000 |
| | 3,203,877 | 2,181,742 |
| Cash and cash equivalents | | |
| Investment securities available-for-sale, at fair value | 984,217 | - |
| Investment securities held-to-maturity, at amortized cost | 872,192 | 1,817,468 |
| Restricted equity securities | 80,000 | - |
| | 1,936,409 | 1,817,468 |
| Total investment securities | | |
| Loans receivable, net of allowance for loan losses and unearned income | 35,779,228 | 21,870,520 |
| Premises and equipment, net of accumulated depreciation and amortization | 242,248 | 116,926 |
| Deferred tax asset | 190,202 | 301,301 |
| Accrued interest receivable and other assets | 292,121 | 253,509 |
| Other real estate owned | 363,970 | - |
| | \$ 42,008,055 | \$ 26,541,466 |
| TOTAL ASSETS | \$ 42,008,055 | \$ 26,541,466 |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing demand deposits | \$ 6,398,546 | \$ 6,928,118 |
| Interest-bearing demand deposits | 6,719,583 | 5,182,743 |
| Savings accounts | 90,567 | 27,784 |
| Time certificates | 18,875,222 | 7,332,457 |
| | 32,083,918 | 19,471,102 |
| Total deposits | | |
| Federal Home Loan Bank borrowings | 2,000,000 | - |
| Accrued interest payable | 414,655 | 141,906 |
| | 34,498,573 | 19,613,008 |
| Total liabilities | | |
| COMMITMENTS AND CONTINGENCIES (Notes 13 and 14) | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, no par value; 10,000,000 shares authorized; 757,874 and 741,309 shares issued and outstanding in 2007 and 2006, respectively | 7,642,076 | 7,423,094 |
| Accumulated deficit | (133,040) | (494,636) |
| Accumulated other comprehensive income, net of taxes | 446 | - |
| | 7,509,482 | 6,928,458 |
| Total stockholders' equity | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 42,008,055 | \$ 26,541,466 |

PACIFIC WEST BANK
STATEMENTS OF INCOME

| | Years Ended December 31, | |
|---|---------------------------------|-------------------|
| | 2007 | 2006 |
| INTEREST INCOME | | |
| Interest and fees on loans | \$ 2,909,737 | \$ 1,575,104 |
| Interest on investment securities | 81,559 | 72,488 |
| Interest on federal funds sold and interest-bearing deposits with banks | 37,195 | 77,913 |
| Total interest income | <u>3,028,491</u> | <u>1,725,505</u> |
| INTEREST EXPENSE | | |
| Interest on interest-bearing deposits | 886,738 | 348,429 |
| Interest on federal funds purchased | 66,780 | 9,837 |
| Total interest expense | <u>953,518</u> | <u>358,266</u> |
| Net interest income before provision for loan losses | 2,074,973 | 1,367,239 |
| PROVISION FOR LOAN LOSSES | <u>193,000</u> | <u>161,800</u> |
| Net interest income after provision for loan losses | <u>1,881,973</u> | <u>1,205,439</u> |
| NONINTEREST INCOME | | |
| Service charges and fees | <u>25,600</u> | <u>10,258</u> |
| NONINTEREST EXPENSE | | |
| Salaries and employee benefits | 808,028 | 657,701 |
| Occupancy expense | 131,946 | 107,241 |
| Data processing | 125,405 | 92,190 |
| Professional fees | 73,936 | 40,338 |
| Advertising and promotional expenses | 36,949 | 35,427 |
| Other noninterest expenses | 135,807 | 124,423 |
| Total noninterest expense | <u>1,312,071</u> | <u>1,057,320</u> |
| INCOME BEFORE INCOME TAX EXPENSE (BENEFIT) | 595,502 | 158,377 |
| INCOME TAX EXPENSE (BENEFIT) | <u>233,906</u> | <u>(301,301)</u> |
| NET INCOME | <u>\$ 361,596</u> | <u>\$ 459,678</u> |

PACIFIC WEST BANK
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME

| | <u>Common Stock</u> | | <u>Accumulated Deficit</u> | <u>Accumulated Other Comprehensive Income, Net of Taxes</u> | <u>Total Stockholders' Equity</u> | <u>Comprehensive Income</u> |
|--|---------------------|---------------------|--------------------------------|---|---|---------------------------------|
| | <u>Shares</u> | <u>Amount</u> | | | | |
| BALANCE, December 31, 2005 | 741,309 | \$ 7,413,090 | \$ (954,314) | \$ (4,606) | \$ 6,454,170 | |
| Stock-based compensation expense | - | 10,004 | - | - | 10,004 | |
| Unrealized gain on securities available-for-sale, net of tax | - | - | - | 4,606 | 4,606 | \$ 4,606 |
| Net income | - | - | 459,678 | - | 459,678 | 459,678 |
| Comprehensive income | | | | | | <u>\$ 464,284</u> |
| BALANCE, December 31, 2006 | 741,309 | 7,423,094 | (494,636) | - | 6,928,458 | |
| Common stock sales | 8,100 | 85,688 | - | - | 85,688 | |
| Exercise of stock options | 8,465 | 85,620 | - | - | 85,620 | |
| Tax benefit of stock options exercised | - | 2,877 | - | - | 2,877 | |
| Stock-based compensation expense | - | 44,797 | - | - | 44,797 | |
| Unrealized gain on securities available-for-sale, net of tax | - | - | - | 446 | 446 | \$ 446 |
| Net income | - | - | 361,596 | - | 361,596 | 361,596 |
| Comprehensive income | | | | | | <u>\$ 362,042</u> |
| BALANCE, December 31, 2007 | <u>757,874</u> | <u>\$ 7,642,076</u> | <u>\$ (133,040)</u> | <u>\$ 446</u> | <u>\$ 7,509,482</u> | |

PACIFIC WEST BANK
STATEMENTS OF CASH FLOWS

| | Years Ended December 31, | |
|---|---------------------------------|---------------------|
| | 2007 | 2006 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 361,596 | \$ 459,678 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Amortization of premiums and discounts on investment securities | 15,843 | 15,565 |
| Provision for loan losses | 193,000 | 161,800 |
| Depreciation and amortization | 38,290 | 37,414 |
| Deferred income tax expense (benefit) | 110,811 | (301,301) |
| Stock-based compensation expense | 44,797 | 10,004 |
| Loss on sale of investment security, available-for-sale | - | 2,598 |
| Increase (decrease) in cash due to changes in certain assets and liabilities: | | |
| Accrued interest receivable and other assets | (35,735) | (129,976) |
| Accrued interest payable and other liabilities | 272,749 | 95,883 |
| Net cash from operating activities | <u>1,001,351</u> | <u>351,665</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of securities, available-for-sale | (2,084,050) | - |
| Proceeds from sale of securities, available-for-sale | 1,100,000 | 297,402 |
| Proceeds from maturity of securities, held-to-maturity | 930,000 | - |
| Purchase of restricted equity securities | (80,000) | - |
| Maturity of interest-bearing deposits with banks | - | 100,000 |
| Net originations of loans receivable | (14,465,678) | (9,772,590) |
| Purchase of premises and equipment | (163,612) | (9,435) |
| Net cash from investing activities | <u>(14,763,340)</u> | <u>(9,384,623)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net change in demand deposits and savings accounts | 1,070,051 | 2,748,276 |
| Net change in time certificates | 11,542,765 | 5,552,430 |
| Proceeds from Federal Home Loan Bank borrowings | 2,000,000 | - |
| Proceeds from issuance of common stock | 171,308 | - |
| Net cash from financing activities | <u>14,784,124</u> | <u>8,300,706</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,022,135 | (732,252) |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>2,181,742</u> | <u>2,913,994</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 3,203,877</u> | <u>\$ 2,181,742</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid in cash | <u>\$ 788,791</u> | <u>\$ 296,112</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Change in unrealized loss on securities, available-for-sale, net of tax | <u>\$ 446</u> | <u>\$ 4,606</u> |
| Transfer of loan in foreclosure to other real estate owned | <u>\$ 363,970</u> | <u>\$ -</u> |

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and operations – During 2004, Pacific West Bank (the Bank) completed a public offering for the sale of common stock, pursuant to an Offering Circular dated July 22, 2004. Proceeds from the sale of stock provided initial capitalization for operations and the Bank subsequently received regulatory approval to become a state-chartered institution to provide banking services in the State of Oregon. On November 4, 2004, the Bank commenced operations in West Linn, Oregon, where operations are currently conducted from a single banking and administrative facility.

The Bank is a full-service business and private bank, providing highly personalized depository and loan services to small- to medium-sized businesses and individuals. The Bank is subject to the regulations of certain federal and state agencies and will undergo periodic examinations by those regulatory authorities.

Method of accounting and use of estimates – The financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. 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 during the reporting period. Actual results could differ from those estimates. The most significant estimates or assumptions made by management relate to the adequacy of the allowance for loan losses, the fair value of available-for-sale investment securities, and the useful lives and methods of depreciable property and equipment.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash, demand and interest-bearing deposits at correspondent financial institutions with original maturities of 90 days or less, and federal funds sold. Federal funds sold represent excess cash funds that are generally invested on a daily basis. At times, balances may exceed the FDIC insured limit. Management believes that risk with respect to these balances is minimal due to the high credit quality of these institutions. The Bank has not experienced any losses in such accounts.

Investment securities – The Bank is required to specifically identify its investment securities as “held-to-maturity,” “available-for-sale,” or “trading accounts.” Management has designated investment securities held at December 31, 2007 and 2006, as either “held-to-maturity” or “available-for-sale.”

Securities are classified as held-to-maturity if the Bank has both the intent and ability to hold debt securities to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. Held-to-maturity securities are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the effective interest method over the period to maturity.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Securities are classified as available-for-sale if the Bank intends to hold those debt securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors such as: (1) changes in market interest rates and related changes in the 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. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as other comprehensive income and carried as accumulated comprehensive income or loss within stockholders' equity until realized. Fair values for these investment securities are based on quoted market prices. Premiums and discounts are recognized in interest income using the effective interest method. Realized gains and losses are determined using the specific-identification method and included in earnings.

Investments with fair values that are less than amortized cost are considered impaired. Impairment may result from either a decline in the financial condition of the issuing entity or, in the case of fixed interest rate investments, from rising interest rates. At each financial statement date, management assesses each investment to determine if impaired investments are temporarily impaired or if the impairment is other-than-temporary based upon the positive and negative evidence available. Evidence evaluated includes, but is not limited to, industry analyst reports, credit market conditions, and interest rate trends. If negative evidence outweighs positive evidence that the carrying amount is recoverable within a reasonable period of time, the impairment is deemed to be other-than-temporary and the security is written down in the period in which such determination is made.

Restricted equity securities – The Bank's investment in restricted equity securities consists of its investments in Federal Home Loan Bank of Seattle (FHLB) stock and is carried at cost which approximates fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB equity securities based on its outstanding FHLB borrowings. The Bank may request redemption of any stock in excess of the amount required. Stock redemptions are made at the discretion of the FHLB. As of December 31, 2007, the Bank met its minimum required investment in FHLB stock.

Loans receivable, 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 using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

The allowance for loan losses is established through a provision for loan losses charged to expenses. Estimated loan losses are charged against the allowance for loan losses when management believes that the collectibility of 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. Various regulatory agencies, as a regular part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examinations.

Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. Accrual of interest on impaired loans is discontinued when, in management's opinion, after considering economic and business conditions, collection efforts, and collateral position, the borrower's financial condition is such that collection of interest is doubtful. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Premises and equipment – Furniture, equipment, leasehold improvements, computer software and hardware are recorded at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the related lease term or life of the assets, whichever is shorter. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for renewals and betterments are capitalized. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are included in earnings.

Other real estate owned – Other real estate owned acquired through foreclosure or deeds in lieu of foreclosures, is carried at the lower of cost or estimated net realizable value. When property is acquired, any excess of the loan balance over its 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 and promotional expenses – The Bank expenses advertising and promotional costs as they are incurred. Advertising and promotional costs were \$36,949 and \$35,427 for the years ended December 31, 2007 and 2006, respectively.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Income taxes – Deferred income tax assets and liabilities are determined based on the tax effects of the differences between the book and tax bases of various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when it is uncertain if the Bank will be able to utilize all of the existing deferred tax assets as a deduction to future tax liabilities.

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank anticipates entering into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Stock options – The Bank adopted Statement of Financial Accounting Standards (SFAS) No. 123R, “Share-Based Payment” effective January 1, 2006. Accordingly, compensation costs related to stock-based plans are determined using the Black-Scholes option pricing model which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected term of the options, risk free interest rate, and dividend rates, if applicable. Compensation cost is recognized over the vesting period, or required service period, which is generally a one- to five-year period.

Reclassifications – Certain reclassifications have been made to the 2006 financial statements to conform with the current year presentation. These reclassifications have no effect on previously reported net income.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains (Losses) | | Estimated Fair Value |
|---|-------------------|---------------------------------|------------------------|----------------------------|
| | | Less Than 12 Months | More Than 12 Months | |
| <u>December 31, 2007</u> | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. government agency securities | \$ 983,483 | \$ 734 | \$ - | \$ 984,217 |
| Investment securities held-to-maturity: | | | | |
| U.S. government agency securities | \$ 872,192 | \$ - | \$ (1,633) | \$ 870,559 |
| <u>December 31, 2006</u> | | | | |
| Investment securities held-to-maturity: | | | | |
| U.S. government agency securities | \$ 1,817,468 | \$ - | \$ (28,821) | \$ 1,788,647 |

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2007, the Bank held three securities in an unrealized loss position. The unrealized losses on obligations of U.S. government agency securities resulted from interest rate increases subsequent to the purchase of the securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than par. Because the Bank has the ability and intent to hold these investments until a market price recovery or to maturity, the impairments on these investments are not considered to be other-than-temporary.

There were no realized gains or losses from the sale of investment securities for the year ended December 31, 2007. Realized losses from the sale of investment securities for the year ended December 31, 2006, were \$2,598.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 2 – INVESTMENT SECURITIES – (continued)

The amortized cost and estimated fair value of investment securities at December 31, 2007, by contractual maturity, are shown in the following table. Actual settlements may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Held-to-maturity Securities | | Available-for-sale Securities | |
|------------------------------------|--------------------------------|----------------------------|----------------------------------|----------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$ 872,192 | \$ 870,559 | \$ 483,483 | \$ 484,061 |
| Due in one year through five years | - | - | 500,000 | 500,156 |
| | <u>\$ 872,192</u> | <u>\$ 870,559</u> | <u>\$ 983,483</u> | <u>\$ 984,217</u> |

As of December 31, 2007, investment securities with a book value of \$1,856,409 were pledged to secure FHLB borrowings. No investment securities were pledged as of December 31, 2006.

NOTE 3 – LOANS RECEIVABLE

The composition of loan balances at December 31 is summarized as follows:

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| Real estate: | | |
| Commercial | \$ 6,631,807 | \$ 5,606,589 |
| Construction | 17,203,392 | 5,768,217 |
| Consumer | 2,784,352 | 1,952,747 |
| Commercial and industrial | 9,785,866 | 9,008,890 |
| Consumer | <u>107,379</u> | <u>48,276</u> |
| | 36,512,796 | 22,384,719 |
| Allowance for loan losses | (537,827) | (350,000) |
| Unearned income | <u>(195,741)</u> | <u>(164,199)</u> |
| Loans, net of allowance for loan losses and unearned income | <u>\$ 35,779,228</u> | <u>\$ 21,870,520</u> |

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE – (continued)

There were no loans on nonaccrual status as of December 31, 2007 and 2006. No loans were considered impaired by management as of December 31, 2007 and 2006, and during the years then ended.

Allowance for loan loss activity at December 31 was as follows:

| | <u>2007</u> | <u>2006</u> |
|---------------------------|-------------------|-------------------|
| Beginning balance | \$ 350,000 | \$ 188,200 |
| Provision for loan losses | 193,000 | 161,800 |
| Loans charged-off | <u>(5,173)</u> | <u>-</u> |
| Ending balance | <u>\$ 537,827</u> | <u>\$ 350,000</u> |

NOTE 4 – PREMISES AND EQUIPMENT

The major classifications of premises and equipment at December 31 are summarized as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| Furniture, fixtures, and equipment | \$ 117,799 | \$ 117,799 |
| Leasehold improvements | 3,510 | 3,510 |
| Computer software | 38,772 | 38,772 |
| Computer hardware | 45,462 | 34,183 |
| Construction in progress | <u>152,333</u> | <u>-</u> |
| Total premises and equipment | 357,876 | 194,264 |
| Less accumulated depreciation and amortization | <u>(115,628)</u> | <u>(77,338)</u> |
| Premises and equipment, net of accumulated depreciation and amortization | <u>\$ 242,248</u> | <u>\$ 116,926</u> |

Depreciation and amortization expense totaled \$38,290 and \$37,414 for the years ended December 31, 2007 and 2006, respectively.

As of December 31, 2007, the Bank was committed to purchase, for approximately \$2,242,000, an office building to be used as a future branch office and headquarters facility. Costs capitalized as construction in progress related to the purchase were \$152,333 at December 31, 2007.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – TIME CERTIFICATES

Time certificates of deposit of \$100,000 and over aggregated \$14,655,789 and \$3,426,190 at December 31, 2007 and 2006, respectively. Scheduled maturities for all time certificates at December 31, 2007, were as follows:

| | |
|--------------------------------|----------------------|
| Years ending December 31, 2008 | \$ 15,152,319 |
| 2009 | 2,702,664 |
| 2010 | <u>1,020,239</u> |
| | <u>\$ 18,875,222</u> |

NOTE 6 – LINES OF CREDIT

At December 31, 2007, the Bank had federal funds line of credit agreements with three financial institutions. The maximum borrowings available under these lines totaled \$7,500,000. There were no borrowings outstanding under these agreements at December 31, 2007.

NOTE 7 – FEDERAL HOME LOAN BANK BORROWINGS

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into an “Advances, Security and Deposit Agreement” which provides a credit arrangement with the FHLB. Borrowings under the credit arrangement are collateralized by the Bank’s FHLB stock as well as deposits or other instruments, which may be pledged. As of December 31, 2007, the Bank had borrowings outstanding with the FHLB of \$2,000,000. The Bank had no borrowings outstanding with the FHLB as of December 31, 2006. The promissory notes carry fixed interest rates ranging from 3.28% to 5.39% and mature as follows:

| | |
|--------------------------------|---------------------|
| Years ending December 31, 2012 | \$ 1,000,000 |
| 2017 | <u>1,000,000</u> |
| | <u>\$ 2,000,000</u> |

The \$1,000,000 borrowing maturing in 2017 is a putable advance and, after the initial lockout period, FHLB may terminate the advance on a quarterly basis at par with seven business days notice to the Bank. The initial lockout period ends December 1, 2008.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – INCOME TAXES

The income tax expense (benefit) is comprised of the following:

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------------|---------------------|
| Current expense | \$ 123,095 | \$ - |
| Deferred expense (benefit) | <u>110,811</u> | <u>(301,301)</u> |
| | <u>\$ 233,906</u> | <u>\$ (301,301)</u> |

Deferred income taxes represent the tax effect of differences in timing between financial statement income and taxable income. The asset and liability components of the net deferred tax asset at December 31 consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| Deferred tax assets: | | |
| Unamortized pre-opening expenses | \$ 39,569 | \$ 61,152 |
| Net operating loss carryforward | - | 198,356 |
| Allowance for loan losses | 173,489 | 101,380 |
| Stock-based compensation | 15,805 | 2,258 |
| Accrual to cash adjustment | 19,817 | - |
| Charitable contribution carryforward | - | 1,064 |
| Unfunded loan commitment allowance | 5,184 | - |
| Other | <u>4,719</u> | <u>-</u> |
| | <u>258,583</u> | <u>364,210</u> |
| Deferred tax liabilities: | | |
| Deferred loan fee income | (26,502) | (5,595) |
| Prepaid expenses | (17,059) | (11,355) |
| Unrealized gain on available for sale securities | (288) | - |
| Accumulated depreciation | (24,532) | (23,506) |
| Accrual to cash adjustment | <u>-</u> | <u>(22,453)</u> |
| | <u>(68,381)</u> | <u>(62,909)</u> |
| Net deferred tax asset | <u>\$ 190,202</u> | <u>\$ 301,301</u> |

The realization of the Bank's deferred tax assets is dependent upon future taxable income and the future reversal of deferred tax liabilities. Management has evaluated the likelihood of the realization of its deferred tax assets and has determined that no valuation allowance is necessary as of December 31, 2007.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – STOCK OPTION PLAN

The Bank maintains a stock option plan approved by the Board of Directors and ratified by the stockholders in April 2005. The plan allows for the granting of both incentive and nonqualified stock options. Exercise prices for incentive stock options cannot be less than 100% of the fair market value of the shares on the date of grant. Generally, stock options granted expire one to five years from the date of grant. Option exercise prices, number of shares granted to recipients, and durations for stock options are determined and approved by the Board of Directors.

The Bank uses the Black-Scholes option-pricing model to estimate the fair value of stock options. The Black-Scholes model requires the use of a number of assumptions including volatility of stock price, dividend yield, risk-free interest rate and expected life of the options.

The estimated fair value of options and the assumptions utilized to determine fair value for the years ended December 31, 2007 and 2006, were as follows:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|-----------------|---------------|
| Dividend yield | 0.00% | 0.00% |
| Expected life (years) | 7.0 | 7.0 |
| Expected volatility | 15.99% - 16.25% | 15.99% |
| Risk-free rate | 3.90% - 4.69% | 4.57% – 5.05% |
| Weighted average fair value per share | \$3.32 | \$3.77 |

The effects of applying SFAS No. 123R may not be indicative of compensation expense resulting from future grants of stock options.

The following table reflects stock option activity under this plan:

| | <u>Total Options</u> | <u>Incentive Options</u> | <u>Non- qualified Options</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term</u> | <u>Aggregate Intrinsic Value</u> |
|---|--------------------------|------------------------------|---------------------------------------|--|--|--|
| Options outstanding – December 31, 2006 | 100,587 | 39,500 | 61,087 | \$ 10.24 | | |
| Options granted | 13,000 | 1,500 | 11,500 | \$ 11.01 | | |
| Options exercised | (8,465) | - | (8,465) | \$ 10.11 | | <u>\$ 7,495</u> |
| Options forfeited | - | - | - | | | |
| Options outstanding - December 31, 2007 | <u>105,122</u> | <u>41,000</u> | <u>64,122</u> | \$ 10.36 | 7.59 years | <u>\$ 67,396</u> |
| Options exercisable - December 31, 2007 | <u>74,522</u> | <u>21,900</u> | <u>52,622</u> | \$ 10.28 | 5.11 years | <u>\$ 53,453</u> |
| Options available - December 31, 2007 | <u>53,207</u> | | | | | |

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – STOCK OPTION PLAN – (continued)

Stock-based compensation expense for the year ended December 31, 2007 was \$44,797 and resulted in a deferred tax benefit of \$15,805. For options outstanding as of December 31, 2007, total compensation expense expected to be recognized over the 2.2 year average remaining service period is \$40,301.

NOTE 10 – EMPLOYEE BENEFIT PLAN

The Bank has a salary deferral and profit sharing plan (the Plan) under the provisions of Section 401(k) of the Internal Revenue Code whereby eligible employees may defer a portion of their gross wages. Employees eligible to participate in the Plan must have completed 90 days of service and be over 21 years of age. Employees may contribute up to the maximum provided by IRS statutes. The Bank makes matching contributions to the Plan in the amount of 100% of elective deferrals up to 3% of compensation and 50% of additional deferrals up to another 2% of compensation. Bank matching contributions vest immediately. The Bank, through determination of the Board of Directors, may also make discretionary contributions to the Plan. Discretionary contributions vest over a period of three years. Bank matching contributions to the Plan totaled \$21,746 and \$18,607 for the years ended December 31, 2007 and 2006, respectively. There were no discretionary contributions to the Plan in 2007 or 2006.

NOTE 11 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, principal stockholders and companies in which they have an interest, 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. Loans and commitments to loan included in such transactions have been 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 do not involve more than the normal risk of collection or present any other unfavorable features. The amount of loans outstanding to directors, executive officers, principal stockholders and companies with which they are associated, was as follows for the year ended December 31:

| | <u>2007</u> | <u>2006</u> |
|-------------------|---------------------|---------------------|
| Beginning balance | \$ 1,099,652 | \$ 949,345 |
| Loans made | 1,891,914 | 382,664 |
| Loans repaid | <u>(254,653)</u> | <u>(232,357)</u> |
| Ending balance | <u>\$ 2,736,913</u> | <u>\$ 1,099,652</u> |

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

All of the Bank's loans and commitments have been granted to customers in the Bank's market area, the majority of whom are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Bank's loan policies do not allow the extension of credit to any single borrower or group of related borrowers in excess of 15% of the Bank's total stockholders' equity, or 25% of equity for certain real-estate secured credit.

NOTE 13 – 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 letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

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.

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 some 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 is based on management's credit evaluation of the counterparty. Collateral held varies, but may include cash, accounts receivable, inventory, equipment, residential real estate, and income-producing commercial 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 private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank may hold cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

Outstanding commitments to extend credit at December 31, 2007 and 2006 totaled \$13,706,225 and \$10,262,728, respectively.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments - The Bank leases space for use in banking operations and as corporate headquarters under an operating lease which expires on June 30, 2009, with extension options available. The Bank also entered into a letter of intent to lease from related parties for a new branch location. Occupancy is anticipated to commence during May 2008. At December 31, 2007, minimum payments under these lease agreements are as follows:

| | |
|--------------------------------|-------------------|
| Years ending December 31, 2008 | \$ 102,820 |
| 2009 | 87,228 |
| 2010 | 55,472 |
| 2011 | 57,136 |
| 2012 | 58,850 |
| Thereafter | 19,809 |
| | <u>\$ 381,315</u> |

Rental expense under operating leases was \$72,473 and \$63,320 for the years ended December 31, 2007 and 2006, respectively.

Legal contingencies – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. There can be no assurance that the ultimate outcome will not differ materially from the Bank’s assessment of each matter. There can also be no assurance that all matters that may be brought against the Bank are known at any point in time. In the opinion of management, after consultation with legal counsel, there are no matters presently known to the Bank that are expected to have a material adverse effect on the Bank’s financial condition or results of operations.

NOTE 15 – REGULATORY MATTERS

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

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 15 – REGULATORY MATTERS – (continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined by regulation) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all regulatory requirements to which it is subject.

As of the most recent notifications from its regulatory agencies, the Bank was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes may have changed the Bank's category.

| | Actual | | For Capital Adequacy Purposes | | To be Considered Well-Capitalized Under Prompt Corrective Action Provisions | |
|--|----------|--------|-------------------------------|--------|---|---------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| <u>December 31, 2007</u> | | | | | | |
| (dollars in thousands) | | | | | | |
| Total capital (to risk-weighted assets) | \$ 7,993 | 19.47% | \$ 3,286 | ≥8.00% | \$ 4,107 | ≥10.00% |
| Tier 1 capital (to risk-weighted assets) | \$ 7,509 | 18.29% | \$ 1,643 | ≥4.00% | \$ 2,464 | ≥6.00% |
| Tier 1 capital (to average assets) | \$ 7,509 | 18.25% | \$ 1,646 | ≥4.00% | \$ 2,057 | ≥5.00% |
| <u>December 31, 2006</u> | | | | | | |
| (dollars in thousands) | | | | | | |
| Total capital (to risk-weighted assets) | \$ 7,119 | 27.57% | \$ 2,066 | ≥8.00% | \$ 2,582 | ≥10.00% |
| Tier 1 capital (to risk-weighted assets) | \$ 6,796 | 26.32% | \$ 1,033 | ≥4.00% | \$ 1,549 | ≥6.00% |
| Tier 1 capital (to average assets) | \$ 6,796 | 27.62% | \$ 984 | ≥4.00% | \$ 1,230 | ≥5.00% |