

MOSSES ADAMS

PACIFIC WEST BANK

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

DECEMBER 31, 2008 AND 2007

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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, 2008 and 2007, 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, 2008 and 2007, and the results of their 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 25, 2009

PACIFIC WEST BANK
BALANCE SHEETS

	December 31,	
	2008	2007
ASSETS		
Cash and due from banks	\$ 958,814	\$ 868,877
Federal funds sold	1,470,000	2,335,000
	2,428,814	3,203,877
Cash and cash equivalents	2,428,814	3,203,877
Investment securities available-for-sale, at fair value	-	984,217
Investment securities held-to-maturity, at amortized cost	-	872,192
Restricted equity securities	328,400	80,000
	328,400	1,936,409
Total investment securities	328,400	1,936,409
Loans receivable, net of allowance for loan losses and unearned income	57,315,283	35,779,228
Premises and equipment, net of accumulated depreciation and amortization	3,246,209	242,248
Deferred tax asset	104,680	190,202
Accrued interest receivable and other assets	518,409	292,121
Other real estate owned	358,772	363,970
	\$ 64,300,567	\$ 42,008,055
TOTAL ASSETS	\$ 64,300,567	\$ 42,008,055
LIABILITIES		
Deposits		
Noninterest-bearing demand deposits	\$ 4,812,287	\$ 6,398,546
Interest-bearing demand deposits	10,024,175	6,719,583
Savings accounts	311,721	90,567
Time certificates	33,693,348	18,875,222
	48,841,531	32,083,918
Total deposits	48,841,531	32,083,918
Federal Home Loan Bank borrowings	7,500,000	2,000,000
Accrued interest payable and other liabilities	384,021	414,655
	56,725,552	34,498,573
Total liabilities	56,725,552	34,498,573
COMMITMENTS AND CONTINGENCIES (Notes 13 and 14)		
STOCKHOLDERS' EQUITY		
Common stock, no par value; 10,000,000 shares authorized; 758,339 and 757,874 shares issued and outstanding in 2008 and 2007, respectively	7,693,627	7,642,076
Accumulated deficit	(118,612)	(133,040)
Accumulated other comprehensive income, net of taxes	-	446
	7,575,015	7,509,482
Total stockholders' equity	7,575,015	7,509,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,300,567	\$ 42,008,055

See accompanying notes.

PACIFIC WEST BANK
STATEMENTS OF INCOME

	Years Ended December 31,	
	2008	2007
INTEREST INCOME		
Interest and fees on loans	\$ 3,716,395	\$ 2,909,737
Interest on investment securities	40,970	81,559
Interest on federal funds sold and interest-bearing deposits with banks	6,910	37,195
Total interest income	<u>3,764,275</u>	<u>3,028,491</u>
INTEREST EXPENSE		
Interest on interest-bearing deposits	1,281,015	886,738
Interest on borrowings	216,072	66,780
Total interest expense	<u>1,497,087</u>	<u>953,518</u>
Net interest income before provision for loan losses	2,267,188	2,074,973
PROVISION FOR LOAN LOSSES	<u>240,000</u>	<u>193,000</u>
Net interest income after provision for loan losses	<u>2,027,188</u>	<u>1,881,973</u>
NONINTEREST INCOME		
Service charges and fees	<u>45,247</u>	<u>25,600</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	1,182,361	808,028
Occupancy expense	232,805	131,946
Data processing	160,076	125,405
Advertising and promotional expenses	111,273	36,949
Professional fees	55,805	73,936
Other noninterest expenses	303,020	135,807
Total noninterest expense	<u>2,045,340</u>	<u>1,312,071</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	27,095	595,502
PROVISION FOR INCOME TAXES	<u>12,667</u>	<u>233,906</u>
NET INCOME	<u>\$ 14,428</u>	<u>\$ 361,596</u>

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

	Common Stock		Accumulated Deficit	Accumulated Other Comprehensive Income, Net of Taxes	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount				
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	
Net income	-	-	361,596	-	361,596	\$ 361,596
Unrealized gain on securities available-for-sale, net of tax	-	-	-	446	446	446
Comprehensive income						<u>\$ 362,042</u>
BALANCE, December 31, 2007	757,874	7,642,076	(133,040)	446	7,509,482	
Common stock sales	465	5,000	-	-	5,000	
Stock-based compensation expense	-	46,551	-	-	46,551	
Net income	-	-	14,428	-	14,428	\$ 14,428
Unrealized market value adjustment on securities available-for-sale, net of tax	-	-	-	(446)	(446)	(446)
Comprehensive income						<u>\$ 13,982</u>
BALANCE, December 31, 2008	<u>758,339</u>	<u>\$ 7,693,627</u>	<u>\$ (118,612)</u>	<u>\$ -</u>	<u>\$ 7,575,015</u>	

PACIFIC WEST BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 14,428	\$ 361,596
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of premiums and discounts on investment securities	12,100	15,843
Provision for loan losses	240,000	193,000
Impairment charge on other real estate owned	18,883	-
Depreciation and amortization	97,444	38,290
Deferred income taxes	85,810	110,811
Stock-based compensation expense	46,551	44,797
Increase (decrease) in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	(226,288)	(35,735)
Accrued interest payable and other liabilities	(30,634)	272,749
Net cash from operating activities	<u>258,294</u>	<u>1,001,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of securities, available-for-sale	2,482,000	1,100,000
Proceeds from maturity of securities, held-to-maturity	870,000	930,000
Purchase of securities, available-for-sale	(1,508,425)	(2,084,050)
Purchase of restricted equity securities	(248,400)	(80,000)
Net originations of loans receivable	(21,776,055)	(14,465,678)
Purchase of premises and equipment	(3,101,405)	(163,612)
Additions to other real estate owned	(13,685)	-
Net cash from investing activities	<u>(23,295,970)</u>	<u>(14,763,340)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in demand deposits and savings accounts	1,939,487	1,070,051
Net change in time certificates	14,818,126	11,542,765
Proceeds from Federal Home Loan Bank borrowings	5,500,000	2,000,000
Proceeds from issuance of common stock	5,000	171,308
Net cash from financing activities	<u>22,262,613</u>	<u>14,784,124</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(775,063)</u>	<u>1,022,135</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,203,877</u>	<u>2,181,742</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,428,814</u>	<u>\$ 3,203,877</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid in cash	<u>\$ 1,426,891</u>	<u>\$ 788,791</u>
Taxes paid in cash	<u>\$ 77,200</u>	<u>\$ 11,700</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized (loss) gain on securities, available-for-sale, net of tax	<u>\$ (446)</u>	<u>\$ 446</u>
Transfer of loan in foreclosure to other real estate owned	<u>\$ -</u>	<u>\$ 363,970</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 from a single banking and administrative facility located in West Linn, Oregon. In 2008, a second branch location was opened in Lake Oswego, Oregon.

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.

In February 2008, Pacific West Bancorp, Inc. (the Company), an Oregon corporation, was formed for the purpose of becoming a holding company for the Bank. The Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision and examination by the Federal Reserve Board. As of December 31, 2008, the exchange of shares between the Bank and the Holding Company had not been executed, although approved by shareholders of the Bank.

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 other real estate owned, 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 credit quality of these institutions. The Bank has not experienced any losses in such accounts.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

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

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 designated investment securities held during the years ended December 31, 2008 and 2007, 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.

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, or (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, 2008 and 2007, the Bank met its minimum required investment in FHLB stock.

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

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.

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 – Premises and equipment 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 thirty-nine 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.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

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

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 \$111,273 and \$36,949 for the years ended December 31, 2008 and 2007, respectively.

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.

The Bank has elected to defer application of FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” until its year ending December 31, 2009. Application of this Interpretation will clarify the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” For the December 31, 2008 and 2007 financial statements, the Bank has accounted for uncertain tax positions in accordance with FASB Statement No. 5, “Accounting for Contingencies,” whereby the effect of the uncertain tax positions would be recorded if the outcome was considered probable and was reasonably estimable. There were no accrued expenses for uncertain tax positions as of December 31, 2008 and 2007.

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.

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

Fair value measurements – Effective January 1, 2008, the Bank adopted SFAS No. 157, “Fair Value Measures.” This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This standard has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and,

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction.

Following is a description of the valuation methodologies used for instruments measured at fair value on either a recurring or nonrecurring basis and recognized in the accompanying balance sheets.

Impaired loans – Impaired loans, measured at fair value on a nonrecurring basis, are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan’s observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

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

Reclassifications – Certain balances within the 2007 financial statements have been reclassified for consistency with the current year presentation. Such reclassifications have no effect on the previously reported results of operations.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31, 2007 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains (Losses)		Estimated Fair Value
		Less Than 12 Months	More Than 12 Months	
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

There were no realized gains or losses from the sale of investment securities for the years ended December 31, 2008 or 2007.

NOTE 3 – LOANS RECEIVABLE

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

	2008	2007
Real estate:		
Commercial	\$ 11,226,393	\$ 7,393,040
Construction	26,724,580	17,203,392
Consumer	8,890,656	2,023,119
Commercial and industrial	11,253,329	9,785,866
Consumer	211,538	107,379
	58,306,496	36,512,796
Allowance for loan losses	(775,827)	(537,827)
Unearned income	(215,386)	(195,741)
	57,315,283	35,779,228
Loans, net of allowance for loan losses and unearned income	\$ 57,315,283	\$ 35,779,228

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – LOANS RECEIVABLE – (continued)

As of December 31, 2008, there were twelve loans, representing six customer relationships, totaling approximately \$4,219,000 that were considered impaired. The specific allocation of the allowance for loan losses pertaining to impaired loans at December 31, 2008 was \$22,500. Three of these loans, which were to one borrower and totaled approximately \$986,000, were also on nonaccrual status as of December 31, 2008. Interest income that was not recognized on nonaccrual loans was \$11,415 for the year ended December 31, 2008 and the Bank's average recorded investment in impaired loans was \$1,078,239 for the year ended December 31, 2008. The Bank had no recorded investment in impaired or nonaccrual loans as of December 31, 2007 or for the year then ended.

Allowance for loan loss activity for the years ended December 31 was as follows:

	2008	2007
Beginning balance	\$ 537,827	\$ 350,000
Provision for loan losses	240,000	193,000
Loans charged-off	(2,000)	(5,173)
Ending balance	\$ 775,827	\$ 537,827

NOTE 4 – PREMISES AND EQUIPMENT

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

	2008	2007
Building	\$ 1,960,845	\$ -
Land	400,000	-
Furniture, fixtures, and equipment	375,650	117,799
Leasehold improvements	602,981	3,510
Computer software and hardware	113,985	84,234
Construction in progress	-	152,333
Total premises and equipment	3,453,461	357,876
Less accumulated depreciation and amortization	(207,252)	(115,628)
Premises and equipment, net of accumulated depreciation and amortization	\$ 3,246,209	\$ 242,248

Depreciation and amortization expense totaled \$97,444 and \$38,290 for the years ended December 31, 2008 and 2007, respectively.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – TIME CERTIFICATES

Time certificates of deposit of \$100,000 and over totaled \$23,524,192 and \$14,655,789 at December 31, 2008 and 2007, respectively. Scheduled maturities for all time certificates at December 31, 2008, were as follows:

Years ending December 31, 2009	\$ 27,482,526
2010	6,188,053
2011	3,814
2012	-
2013	18,955
	<u>18,955</u>
	<u>\$ 33,693,348</u>

NOTE 6 – LINES OF CREDIT

At December 31, 2008, the Bank had federal funds line of credit agreements with two financial institutions. The maximum borrowings available under these unsecured lines of credit totaled \$5,500,000. There were no borrowings outstanding under these agreements at December 31, 2008.

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 loans, deposits or other instruments, which may be pledged. As of December 31, 2008 and 2007, the Bank had borrowings outstanding with the FHLB of \$7,500,000 and \$2,000,000, respectively. As of December 31, 2008, the promissory notes carry fixed interest rates ranging from 0.75% to 5.39% and mature as follows:

Years ending December 31, 2009	\$ 2,000,000
2012	1,000,000
2013	3,500,000
2017	1,000,000
	<u>1,000,000</u>
	<u>\$ 7,500,000</u>

The \$1,000,000 borrowing maturing in 2017 and a \$1,000,000 borrowing maturing in 2013 are puttable advances and, after the initial lockout period, the FHLB may terminate the advance on a quarterly basis at par with seven business days notice to the Bank. The initial lockout period had expired for both borrowings as of December 31, 2008.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – INCOME TAXES

The provision for income taxes is comprised of the following:

	<u>2008</u>	<u>2007</u>
Current (benefit) expense	\$ (73,143)	\$ 123,095
Deferred expense	85,810	110,811
	<u>\$ 12,667</u>	<u>\$ 233,906</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>2008</u>	<u>2007</u>
Deferred tax assets:		
Unamortized pre-opening expenses	\$ 17,985	\$ 39,569
Allowance for loan losses	265,649	173,489
Stock-based compensation	31,819	15,805
Accrual to cash adjustment	27,926	19,817
Unfunded loan commitment allowance	7,104	5,184
Other	-	4,719
	<u>350,483</u>	<u>258,583</u>
Deferred tax liabilities:		
Deferred loan fee income	(32,047)	(26,502)
Unrealized gain on available for sale securities	-	(288)
Accumulated depreciation	(122,974)	(24,532)
Prepaid expenses and other	(90,782)	(17,059)
	<u>(245,803)</u>	<u>(68,381)</u>
Net deferred tax asset	<u>\$ 104,680</u>	<u>\$ 190,202</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, 2008.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – STOCK-BASED COMPENSATION

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 vesting of stock options are determined and approved by the Board of Directors. In 2008, the plan was amended to also allow for the granting of restricted stock awards to selected employees and directors of the Bank. The total number of shares available for all stock-based awards was 47,807 as of December 31, 2008.

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, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Dividend yield	0.00%	0.00%
Expected life (years)	7.0	7.0
Expected volatility	18.80%	15.99% - 16.25%
Risk-free rate	3.49%	3.90% - 4.69%
Weighted average fair value per share	\$3.18	\$3.32

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:

	Total Options	Incentive Options	Non- qualified Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding – December 31, 2007	105,122	41,000	64,122	\$ 10.36		
Options granted	10,000	-	10,000	\$ 10.50		
Options exercised	-	-	-	\$ -		
Options forfeited	(8,500)	(8,500)	-	\$ 10.16		
Options outstanding - December 31, 2008	<u>106,622</u>	<u>32,500</u>	<u>74,122</u>	\$ 10.39	6.90 years	<u>\$ -</u>
Options exercisable - December 31, 2008	<u>88,022</u>	<u>23,900</u>	<u>64,122</u>	\$ 10.38	5.47 years	<u>\$ -</u>

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – STOCK-BASED COMPENSATION – (continued)

Stock-based compensation expense for the years ended December 31, 2008 and 2007 was \$41,842 and \$44,797, respectively, and resulted in a deferred tax benefit of \$16,014 and \$15,805, respectively, for the years then ended. For options outstanding as of December 31, 2008, total compensation expense expected to be recognized over the 3.1 year average remaining service period is \$29,872.

During the year ended December 31, 2008, the Bank also granted 4,100 shares in the form of restricted stock awards. These awards vest over four years and had fair values ranging from \$9.33 to \$10.81 per share at the date of grant, which will be recognized as compensation expense over the vesting period. Compensation expense related to these restricted stock awards was \$4,709 for the year ended December 31, 2008.

The following is a summary of nonvested restricted stock awards for the year ended December 31, 2008:

	<u>Restricted Stock</u>	<u>Weighted Average Fair Value</u>
Nonvested shares at December 31, 2007	-	\$ -
Granted	4,100	\$ 10.09
Vested	-	\$ -
Forfeited	<u>(200)</u>	\$ 10.81
Nonvested shares at December 31, 2008	<u><u>3,900</u></u>	\$ 10.05

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 \$30,056 and \$21,746 for the years ended December 31, 2008 and 2007, respectively. There were no discretionary contributions to the Plan in 2008 or 2007.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

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 as those prevailing at the time for comparable transactions with unrelated 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>2008</u>	<u>2007</u>
Beginning balance	\$ 2,736,913	\$ 1,099,652
Loans made	2,596,159	1,891,914
Loans repaid	<u>(2,084,991)</u>	<u>(254,653)</u>
Ending balance	<u>\$ 3,248,081</u>	<u>\$ 2,736,913</u>

NOTE 12 – CONCENTRATIONS OF CREDIT RISK

The majority 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 balance of commitments to extend credit is comprised of borrowing arrangements that are consistent with the types of loans currently held in the Bank's portfolio. 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 Tier 1 and Tier 2 regulatory capital, or 25% of Tier 1 and Tier 2 regulatory capital 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.

NOTE 13 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK –
(continued)

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, 2008 totaled \$12,633,672.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments – The Bank leases space for use in banking operations primarily from related parties. At December 31, 2008, minimum payments under these lease agreements are as follows:

Years ending December 31, 2009	\$ 98,143
2010	70,335
2011	72,452
2013	74,626
2013	25,119
	<hr/>
	\$ 340,675
	<hr/> <hr/>

Rent expense under operating leases was \$108,942 and \$72,473 for the years ended December 31, 2008 and 2007, respectively.

PACIFIC WEST BANK
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – COMMITMENTS AND CONTINGENCIES – (continued)

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 management’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 their financial condition or results of operations.

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets are broken down in the table below by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, due to an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

	<u>Fair Value Measurements Using</u>				<u>Total Losses Included in Earnings</u>
	<u>Carrying Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
<u>Recurring Items</u>	\$ -	\$ -	\$ -	\$ -	
<u>Non-Recurring Items</u>					
Impaired loans	\$ 1,366,327	\$ -	\$ -	\$ 1,366,327	
Specific reserves	<u>(22,500)</u>	<u>-</u>	<u>-</u>	<u>(22,500)</u>	<u>\$ 22,500</u>
Total	<u>\$ 1,343,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,343,827</u>	

Impaired loans carried at fair value in the above table exclude other impaired loans that are carried at book value because related underlying collateral values are greater than recorded book amounts.

NOTE 16 – 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.

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, 2008 and 2007, that the Bank meets all regulatory requirements to which they are 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, 2008</u>						
(dollars in thousands)						
Total capital (to risk-weighted assets)	\$ 8,370	12.83%	\$ 5,220	≥8.00%	\$ 6,525	≥10.00%
Tier 1 capital (to risk-weighted assets)	\$ 7,575	11.61%	\$ 2,610	≥4.00%	\$ 3,915	≥6.00%
Tier 1 capital (to average assets)	\$ 7,575	12.38%	\$ 2,447	≥4.00%	\$ 3,058	≥5.00%
<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%