



Financial Statements

**Years Ended
December 31, 2009
and 2008**

Pacific West Bank

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Pacific West Bank

We have audited the accompanying balance sheet of Pacific West Bank (the Bank) as of December 31, 2009 and the related statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Pacific West Bank as of and for the year ended December 31, 2008, were audited by other auditors whose report dated March 25, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Pacific West Bank as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DELAP LLP

April 8, 2010

Pacific West Bank

Balance Sheets

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Cash and Cash Equivalents		
Cash and due from banks	\$ 12,192,942	\$ 958,814
Interest-bearing time deposit with a bank	249,000	-
Federal funds sold	-	1,470,000
Total Cash and Cash Equivalents	12,441,942	2,428,814
Interest-Bearing Time Deposits with Banks	3,099,000	-
Federal Home Loan Bank Stock - at Cost	441,800	328,400
Loans - Net	55,852,410	57,315,283
Premises and Equipment - Net	3,149,875	3,246,209
Deferred Tax Assets	-	104,680
Other Real Estate Owned	2,462,199	358,772
Accrued Interest Receivable and Other Assets	441,248	518,409
Total Assets	\$ 77,888,474	\$ 64,300,567
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing demand	\$ 5,664,877	\$ 4,812,287
Interest-bearing demand	15,072,911	10,024,175
Savings accounts	413,270	311,721
Time	44,542,770	33,693,348
Total Deposits	65,693,828	48,841,531
Federal Home Loan Bank Borrowings	5,500,000	7,500,000
Accrued Interest Payable and Other Liabilities	354,386	384,021
Total Liabilities	71,548,214	56,725,552
Commitments and Contingencies (Note 6)		
Stockholders' Equity		
Preferred stock - 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, no-par value; 10,000,000 shares authorized; 759,314 shares issued and outstanding (758,339 as of December 31, 2008)	7,705,007	7,693,627
Accumulated deficit	(1,364,747)	(118,612)
Total Stockholders' Equity	6,340,260	7,575,015
Total Liabilities and Stockholders' Equity	\$ 77,888,474	\$ 64,300,567

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

Pacific West Bank
Statements of Operations
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Interest Income		
Interest and fees on loans	\$ 3,812,904	\$ 3,716,395
Interest on investment securities	23,649	40,970
Interest on federal funds sold and interest-bearing deposits with banks	<u>15,182</u>	<u>6,910</u>
Total Interest Income	<u>3,851,735</u>	<u>3,764,275</u>
Interest Expense		
Interest on interest-bearing deposits	1,326,589	1,281,015
Interest on borrowings	<u>229,783</u>	<u>216,072</u>
Total Interest Expense	<u>1,556,372</u>	<u>1,497,087</u>
Net Interest Income	2,295,363	2,267,188
Provision for Loan Losses	<u>996,000</u>	<u>240,000</u>
Net Interest Income After Provision for Loan Losses	<u>1,299,363</u>	<u>2,027,188</u>
Noninterest Income		
Service charges and fees	<u>54,261</u>	45,247
Noninterest Expense		
Salaries and employee benefits	1,322,445	1,182,361
Occupancy	340,119	257,934
Data processing	174,612	160,076
Federal Deposit Insurance Corporation assessment	170,302	31,700
Advertising	121,246	111,273
Professional fees	81,198	55,805
Other real estate owned	75,244	32,811
Correspondent bank fees	42,258	29,435
Other	<u>193,854</u>	<u>183,945</u>
Total Noninterest Expense	<u>2,521,278</u>	<u>2,045,340</u>
Income (Loss) Before Income Taxes	(1,167,654)	27,095
Provision for Income Taxes	<u>78,481</u>	<u>12,667</u>
Net Income (Loss)	<u>\$ (1,246,135)</u>	<u>\$ 14,428</u>

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

Pacific West Bank

Statements of Stockholders' Equity

Years Ended December 31, 2009 and 2008

	Common Stock		Accumulated Deficit	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income - Net of Taxes	Total Stockholders' Equity
	Shares	Amount				
Balances - December 31, 2007	757,874	\$ 7,642,076	\$ (133,040)		\$ 446	\$ 7,509,482
Issuance of common stock	465	5,000	-		-	5,000
Stock-based compensation expense	-	46,551	-		-	46,551
Net income	-	-	14,428	\$ 14,428	-	14,428
Other comprehensive loss - unrealized losses on investment securities available-for-sale - net of income taxes	-	-	-	(446)	(446)	(446)
Comprehensive income				<u>\$ 13,982</u>		
Balances - December 31, 2008	758,339	7,693,627	(118,612)		-	7,575,015
Stock-based compensation expense	-	11,380	-		-	11,380
Restricted shares vested	975	-	-		-	-
Net loss and comprehensive loss	-	-	(1,246,135)	<u>\$ (1,246,135)</u>	-	(1,246,135)
Balances - December 31, 2009	<u>759,314</u>	<u>\$ 7,705,007</u>	<u>\$ (1,364,747)</u>		<u>\$ -</u>	<u>\$ 6,340,260</u>

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

Pacific West Bank

Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Net income (loss)	\$ (1,246,135)	\$ 14,428
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Amortization of premiums and discounts on investment securities	-	12,100
Depreciation and amortization	154,095	97,444
Loss on disposal of premises and equipment	1,960	-
Provision for loan losses	996,000	240,000
Losses on other real estate owned	54,219	18,883
Provision for deferred income taxes	104,680	85,810
Stock-based compensation expense	11,380	46,551
Decrease (increase) in accrued interest receivable and other assets	77,161	(226,288)
Decrease in accrued interest payable and other liabilities	(29,635)	(30,634)
Net Cash Provided by Operating Activities	<u>123,725</u>	<u>258,294</u>
Cash Flows From Investing Activities		
Increase in interest-bearing time deposits with banks	(3,099,000)	-
Additions to other real estate owned	(30,000)	(13,685)
Proceeds from sales of other real estate owned	657,260	-
Purchases of Federal Home Loan Bank stock	(113,400)	(248,400)
Net originations of loans	(2,318,033)	(21,776,055)
Purchases of premises and equipment	(59,721)	(3,101,405)
Purchase of securities, available-for-sale	-	(1,508,425)
Proceeds from sale of securities, available-for-sale	-	2,482,000
Proceeds from maturity of securities, held-to-maturity	-	870,000
Net Cash Used by Investing Activities	<u>(4,962,894)</u>	<u>(23,295,970)</u>
Cash Flows From Financing Activities		
Net increase in deposits	16,852,297	16,757,613
Proceeds from Federal Home Loan Bank borrowings	-	5,500,000
Payments on Federal Home Loan Bank borrowings	(2,000,000)	-
Proceeds from issuance of common stock	-	5,000
Net Cash Provided by Financing Activities	<u>14,852,297</u>	<u>22,262,613</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>10,013,128</u>	<u>(775,063)</u>
Cash and Cash Equivalents - Beginning of Year	<u>2,428,814</u>	<u>3,203,877</u>
Cash and Cash Equivalents - End of Year	<u>\$ 12,441,942</u>	<u>\$ 2,428,814</u>

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

Pacific West Bank
Statements of Cash Flows (Continued)
Years Ended December 31, 2009 and 2008

	2009	2008
Supplemental Disclosures of Cash Flow Information		
Cash paid (refunds received) during the year for		
Interest	\$ 1,644,293	\$ 1,426,891
Income taxes	\$ (79,780)	\$ 77,200
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Change in unrealized losses on investment securities, available-for-sale, net of income taxes	\$ -	\$ (446)
Transfer of loans to other real estate owned	\$ 2,784,906	\$ -

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

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies

a. Description of business

During 2004, Pacific West Bank (the Bank) commenced operations as a state-chartered institution to provide banking services in the State of 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's branches are located in West Linn and Lake Oswego, Oregon. The Bank is subject to the regulations of certain federal and state agencies and is subject to periodic examinations by those regulatory authorities.

In February 2008, Pacific West Bancorp, Inc. (the Holding Company), an Oregon corporation, was formed for the purpose of becoming a holding company for the Bank. The Holding Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the supervision of, and examination by, the Federal Reserve Board. As of December 31, 2009, the exchange of shares between the Bank and the Holding Company had not been executed, although it has been approved by shareholders of the Bank.

b. Method of accounting

The Bank prepares its financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The Bank utilizes the accrual method of accounting which recognizes income when earned and expenses and losses when incurred. The preparation of financial statements in conformity with GAAP requires management of the Bank (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income, expenses and losses during the reporting periods. Actual results could differ from those estimates. The most significant estimates made by Management relate to the determination of the allowance for loan losses, the fair value of other real estate owned and the determination of the valuation allowance for deferred tax assets.

c. Subsequent events

Management has evaluated, for potential recognition or disclosure in the financial statements, subsequent events that have occurred through April 8, 2010, which is the date that the financial statements were available to be issued.

d. Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of collection), interest-bearing deposits with original maturities of 90 days or less and federal funds sold. Federal funds are generally sold for one day periods.

The Bank maintains balances in correspondent bank accounts which, at times, may exceed federally insured limits. Management believes that its risk of loss associated with such balances is minimal due to the financial strength of the correspondent banks. The Bank has not experienced any losses in such accounts.

Pacific West Bank
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

e. Federal Home Loan Bank stock

As a member of the Federal Home Loan Bank system (FHLB system), the Bank is required to maintain a minimum level of investment in FHLB of Seattle (FHLB) stock based on specific percentages of its outstanding mortgages, total assets, or FHLB advances. As of December 31, 2009 and 2008, the Bank met its minimum required investment. The Bank may request redemption at par value of any FHLB stock in excess of the minimum required investment; however, stock redemptions are at the discretion of the FHLB.

The Bank's investment in FHLB stock – which has limited marketability – is carried at cost, which approximates fair value. GAAP provides that, for impairment testing purposes, the value of long-term investments such as FHLB stock is based on the “ultimate recoverability” of the par value of the security without regard to temporary declines in value. The determination of whether a decline affects the ultimate recovery is influenced by criteria such as: 1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and length of time a decline has persisted; 2) the impact of legislative and regulatory changes on the FHLB; and 3) the liquidity position of the FHLB. The FHLB is one of twelve member banks of the FHLB system, which has significant borrowing capacity through the U.S. Department of the Treasury. The twelve member banks are individually and collectively liable for the debts of all members. This joint and several liability strengthens the overall position of the individual member banks. As of December 31, 2009, the FHLB reported that it had met all of its regulatory capital requirements, but remained classified as “undercapitalized” by its regulator. The FHLB will not repurchase capital stock or pay a dividend while it is classified as undercapitalized. The FHLB has noted that its primary concern with meeting the risk-based capital requirements relates to the potential impact of other-than-temporary-impairment charges that it may be required to record on its private label mortgage-backed securities. While the FHLB was undercapitalized as of December 31, 2009, Management does not believe that its investment in the FHLB is impaired. However, this estimate could change if: 1) significant other-than-temporary losses are incurred on the FHLB's mortgage-backed securities causing a significant decline in its regulatory capital status; 2) the economic losses resulting from credit deterioration on the FHLB's mortgage-backed securities increases significantly; or 3) capital preservation strategies being utilized by the FHLB become ineffective.

f. Loans

Loans are stated at the amount of unpaid principal, reduced by the allowance for loan losses and deferred loan fees.

Interest income on all loans is accrued as earned on the simple interest method. The accrual of interest on loans is discontinued when, in Management's opinion, the borrower may be unable to make payments as they become due. When accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent that cash payments are received in excess of principal due.

The Bank charges fees for originating loans. These fees, net of certain loan origination costs, are deferred and amortized to interest income over the term of the related loan. If the loan is repaid prior to maturity, the remaining unamortized deferred loan origination fee is recognized in interest income at the time of repayment. Deferred loan fees are not significant to the accompanying financial statements.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

g. Allowance for loan losses

The allowance for loan losses represents Management's recognition of the assumed risks of extending credit. The allowance is established to absorb known and inherent losses in the loan portfolio as of the balance sheet date. The allowance requires complex subjective judgments as a result of the need to make estimates about matters that are uncertain. The allowance is maintained at a level currently considered adequate to provide for potential loan losses based on Management's assessment of the various factors affecting the portfolio.

The allowance is based on estimates, and ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. Therefore, the Bank cannot provide assurance that, in any particular period, the Bank will not have significant losses in relation to the amount reserved. The allowance is increased by provisions charged to operations and reduced by loans charged-off, net of recoveries.

The Bank's methodology for assessing the appropriate level of the allowance for loan losses generally consists of applying loss factors to outstanding loan balances segregated by differing loan categories, establishing specific allowances for impaired loans and establishing an unallocated portion of the allowance. Loss factors are derived from Management's understanding of the Bank's current loan portfolio and estimates based on historical and industry experience. The Bank considers loans to be impaired when Management believes that it is probable that all amounts due will not be collected according to the contractual terms. An impaired loan must be valued using the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the loan's underlying collateral or related guaranty. The Bank primarily measures impairment on all large balance nonaccrual loans (typically real estate and commercial and industrial loans) based on the estimated fair value of the underlying collateral. In certain other cases, impairment may be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Amounts deemed impaired are either specifically allocated for in the allowance for loan losses or reflected as a partial charge-off of the loan balance. Smaller balance homogeneous loans (typically consumer installment loans) are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer installment loans for impairment disclosure.

The unallocated portion of the allowance is based upon Management's evaluation of various qualitative and environmental factors that are not directly measured in the determination of the allocated and specific reserves. Such factors include uncertainties in economic conditions; changes in the Bank's loan policies, procedures and personnel; uncertainties in identifying triggering events that directly correlate to subsequent loss rates; risk factors that have not yet manifested themselves in loss allocation factors; historical and peer group loss experience data that may not precisely correspond to the current portfolio; etc. The unallocated allowance may also be affected by review by the bank regulatory authorities who may require increases or decreases to the unallocated allowance based on their evaluation of the information available to them at the time of their examinations. Also, loss data representing a complete economic cycle is not available for all sections of the loan portfolio. Accordingly, the unallocated allowance helps to minimize the risk related to the margin of imprecision inherent in the estimation of allocated loan losses. Due to the subjectivity involved in the determination of the unallocated portion of the allowance for loan losses, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period.

Pacific West Bank
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

g. Allowance for loan losses (continued)

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the accompanying financial statements. In addition, various regulatory agencies, as an integral 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 in the future based on their judgment of the information available to them at the time of their examinations.

h. Allowance for unfunded loan commitments

The Bank maintains a separate allowance for estimated losses related to unfunded loan commitments. Management estimates the amount of probable losses related to unfunded loan commitments by applying the estimated loss factors used in the allowance for loan loss methodology to the expected amount of commitments that will actually require funding. The allowance for unfunded loan commitments was \$18,500 as of December 31, 2009 and 2008. In accordance with industry practice and regulatory guidance, the allowance for estimated losses related to unfunded loan commitments is included in accrued interest payable and other liabilities in the accompanying balance sheets. Increases (decreases) in the allowance for unfunded loan commitments are recorded in noninterest expense in the accompanying statements of operations.

i. Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the shorter of the estimated useful lives of the assets or term of the lease for leasehold improvements. Amortization of leasehold improvements is included in depreciation and amortization expense in the accompanying financial statements. 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 or amortization are removed from the respective accounts, and the resulting gains or losses are included in earnings.

Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If Management determines that impairment exists, the assets are reduced with an offsetting charge to expense.

j. Other real estate owned

Other real estate owned (OREO), acquired through foreclosure or deeds in lieu of foreclosure, is carried at the lower of cost or estimated net realizable value. When the property is acquired, any excess of the loan balance over the estimated net realizable value of the property acquired is charged to the allowance for loan losses. Holding costs, any subsequent write-downs to net realizable value, or any disposition gains or losses are included in noninterest income and expenses. The valuation of OREO is subjective in nature and may be adjusted in the future because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or persons involved in selling OREO, in determining the estimated fair value of particular properties.

Pacific West Bank
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

k. Preferred stock

The Bank's preferred stock is issuable with the voting rights, par value, dividend and other features determined by the Bank's Board of Directors. As of December 31, 2009 and 2008, there were no shares of preferred stock issued or outstanding.

l. Advertising

Advertising costs are generally charged to expense during the year in which they are incurred. The Bank incurred advertising expenses of \$121,246 and \$111,273 for the years ended December 31, 2009 and 2008, respectively.

m. Income taxes

The provision (credit) for income taxes is based on income and expenses as reported for financial statement purposes using the "asset and liability method" for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 (credit) for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. At December 31, 2009, the Bank established a valuation allowance against its deferred tax assets (see Note 7).

The Bank has evaluated its income tax positions as of December 31, 2009. Based on this evaluation, the Bank has determined that it does not have any uncertain income tax positions for which an unrecognized tax liability should be recorded. The Bank would recognize interest and penalties related to income tax matters as interest expense and other noninterest expense, respectively, in the statements of operations. The Bank had no interest or penalties related to income tax matters during the years ended December 31, 2009 and 2008.

The Bank files income tax returns in the U.S. federal and Oregon jurisdictions. The Bank is no longer subject to U.S. federal and Oregon tax examinations by tax authorities for years before 2006.

n. Stock-based compensation

Effective January 1, 2006, the Bank adopted new authoritative accounting guidance which required the Bank to measure and recognize as compensation expense all stock-based awards made to employees and Board members. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation 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 terms of the options, risk-free interest rate, and dividend rates, if applicable.

The Bank's stock-based compensation plan is described more fully in Note 10.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

o. Recently issued accounting standards

Effective for reporting periods ended after September 15, 2009, the Financial Accounting Standards Board's (FASB's) *Accounting Standards Codification* (the ASC) became the FASB's single source of authoritative GAAP for all public and non-public non-governmental entities. While the ASC does not change GAAP, all existing authoritative accounting literature, with certain exceptions, was superseded by and incorporated into the ASC. Subsequent changes to GAAP will be incorporated into the ASC through the issuance of Accounting Standards Updates. The adoption of the ASC did not affect the Bank's financial condition, results of operations or cash flows.

In July 2006, the FASB clarified the accounting for uncertainty in income taxes, establishing a recognition threshold and measurement for income tax positions recognized in an enterprise's financial statements and prescribing a two-step evaluation process for tax positions. The first step is recognition, and the second is measurement. For recognition, an enterprise judgmentally determines whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the "more-likely-than-not" recognition threshold, it is measured and recognized in the financial statements. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Tax positions that meet the "more-likely-than-not" recognition threshold at the effective date of this guidance may be recognized, or continue to be recognized, upon its adoption. The cumulative effect of applying this guidance shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. This guidance became effective for the Bank beginning January 1, 2009, and did not have a significant effect on the Bank's financial statements.

In December 2007, the FASB issued new accounting guidance related to business combinations, which applies to all transactions and other events in which one entity obtains control over one or more other businesses. This guidance requires that the acquisition method of accounting be used for all business combinations and for the acquirer to be identified for each business combination. The guidance requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of the acquisition date. This guidance also requires an acquirer to recognize assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values. This changes the requirements of previous GAAP which permitted deferred recognition of preacquisition contingencies until certain criteria were met. This guidance also requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed. This guidance became effective for business combination reporting for fiscal years beginning after December 15, 2008. This new standard will change the Bank's accounting treatment for business combinations on a prospective basis for any future business combinations.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

o. Recently issued accounting standards (continued)

In April 2009, the FASB issued new authoritative literature to provide additional guidance and enhance disclosures regarding fair value measurements and impairment of securities as follows:

The first of these standards includes new authoritative accounting guidance which (i) changes existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the existing requirement that the entity's management asserts that it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not that it will not have to sell the security before recovery of its cost basis. Under this guidance, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent that the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income or loss. The Bank adopted the provisions of the new authoritative accounting guidance during the year ended December 31, 2009, which did not significantly affect the Bank's financial statements.

The second standard provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have decreased significantly. The standard also provides guidance on identifying circumstances that indicate a transaction is not orderly. The revised provisions of the standard were effective for the year ended December 31, 2009 and did not have a significant effect on the Bank's financial statements.

Further new authoritative accounting literature provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles, such as an income approach or market approach. The new authoritative accounting guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The foregoing new authoritative accounting guidance became effective for the Bank's financial statements for periods ending after October 1, 2009 and did not have a significant effect on the Bank's financial statements.

In May 2009, the FASB issued new authoritative guidance to establish general standards of accounting for – and disclosure of – events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. In particular, this guidance sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective beginning June 15, 2009 and does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The adoption of this guidance as of December 31, 2009 is reflected in the Bank's financial statements.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

1. Description of Business and Summary of Significant Accounting Policies (Continued)

o. Recently issued accounting standards (continued)

In June 2009, the FASB issued new authoritative guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. This guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative guidance became effective January 1, 2010 and is not expected to have a significant effect on the Bank's future financial statements.

p. Reclassifications

Certain reclassifications have been made to prior year balances to conform with the current year presentation.

2. Loans

Loans as of December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Real estate		
Commercial	\$ 15,439,052	\$ 11,226,393
Construction	9,706,543	26,724,580
Consumer	16,251,996	8,890,656
Commercial and industrial	15,274,241	11,253,329
Consumer	<u>614,573</u>	<u>211,538</u>
Total	57,286,405	58,306,496
Allowance for loan losses	(1,304,526)	(775,827)
Deferred loan fees	<u>(129,469)</u>	<u>(215,386)</u>
Loans - Net	<u>\$ 55,852,410</u>	<u>\$ 57,315,283</u>

The Bank's branches and many of its customers are located in Clackamas County, Oregon, and a substantial portion of the Bank's loans are collateralized by real estate in this geographic area. Accordingly, the ultimate collectibility of a substantial portion of the Bank's loan portfolio is susceptible to changes in the economic conditions in this market.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

2. Loans (Continued)

Transactions in the allowance for loan losses for the years ended December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Balances - Beginning of Year	\$ 775,827	\$ 537,827
Provision for loan losses	996,000	240,000
Loans charged-off	(467,301)	(2,000)
Balances - End of Year	\$ 1,304,526	\$ 775,827

Loans on nonaccrual status as of December 31, 2009 and 2008 were approximately \$3,860,000 and \$986,000, respectively. Interest income which would have been realized on such nonaccrual loans outstanding at year-end, if they had remained current, aggregated approximately \$180,000 and \$11,000 for the years ended December 31, 2009 and 2008, respectively.

Total impaired loans as of December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Impaired loans with an associated allowance	\$ 562,660	\$ 1,366,327
Impaired loans without an associated allowance	7,190,969	2,853,094
Total Recorded Investment in Impaired Loans	\$ 7,753,629	\$ 4,219,421
Amount of Allowance for Loan Losses Allocated to Impaired Loans	\$ 205,525	\$ 22,500

The average recorded investment in impaired loans was approximately \$6,300,000 and \$2,000,000 in 2009 and 2008, respectively. Interest income recognized on impaired loans was approximately \$106,000 and \$28,000 in 2009 and 2008, respectively. Interest income recognized for cash payments received on impaired loans during 2009 and 2008 was insignificant.

The Bank's operations, like those of other financial institutions operating in the Bank's market, are significantly influenced by various economic conditions including local economies, the strength of the real estate market and the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. There has been a significant slow-down in the real estate markets due to negative economic trends and credit market disruption, the impacts of which are not yet completely known or quantified. Recently, there have been tighter credit underwriting and higher premiums on liquidity, both of which may continue to place downward pressure on real estate values. Any further downturn in the real estate markets could materially and adversely affect the Bank's business because a significant portion of the Bank's loans are secured by real estate. The Bank's ability to recover on defaulted loans by selling the real estate collateral would then be diminished, and the Bank would be more likely to suffer losses on defaulted loans. Consequently, the Bank's results of operations and financial condition are dependent upon the general trends in the economy, and, in particular, the residential and commercial real estate markets. If there is a further decline in real estate values, the collateral for the Bank's loans would provide less security. Real estate values could be affected by, among other things, a worsening of economic conditions, an increase in foreclosures, a decline in home sale volumes, and an increase in interest rates. Further, the Bank may experience an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Bank given a sustained weakness or a weakening in business and economic conditions generally or specifically in the principal market in which the Bank does business. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for loan losses.

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Notes to Financial Statements
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3. Premises and Equipment

Premises and equipment as of December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Building and improvements	\$ 2,474,212	\$ 2,474,212
Land	400,000	400,000
Furniture, fixtures, and equipment	383,586	375,650
Computer software and hardware	157,167	113,985
Leasehold improvements	<u>89,614</u>	<u>89,614</u>
Total	3,504,579	3,453,461
Less accumulated depreciation and amortization	<u>(354,704)</u>	<u>(207,252)</u>
Premises and Equipment - Net	\$ 3,149,875	\$ 3,246,209

Depreciation and amortization expense was \$154,095 and \$97,444 for the years ended December 31, 2009 and 2008, respectively.

4. Time Deposits

Time deposits of \$100,000 or more aggregated \$20,391,209 and \$9,962,192, as of December 31, 2009 and 2008, respectively.

As of December 31, 2009, the scheduled annual maturities of all time deposits were as follows:

2010	\$ 43,257,335
2011	1,265,674
2012	-
2013	<u>19,761</u>
Total	\$ 44,542,770

5. Other Borrowings

The Bank is a member of the FHLB. As a member, the Bank has a committed line of credit up to 15% of total assets, subject to the Bank pledging sufficient collateral and maintaining the required investment in FHLB stock. As of December 31, 2009 and 2008, the Bank had borrowings outstanding with the FHLB of \$5,500,000 and \$7,500,000, respectively, which were secured by certain of the Bank's loans aggregating approximately \$20.6 million and \$17.3 million as of December 31, 2009 and 2008, respectively. As of December 31, 2009, the FHLB borrowings outstanding had fixed interest rates ranging from 2.77% to 5.39%. As of December 31, 2009, the Bank had remaining available maximum borrowings from the FHLB of approximately \$5.5 million.

Pacific West Bank
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

5. Other Borrowings (Continued)

As of December 31, 2009, the contractual annual maturities of the Bank's FHLB borrowings outstanding were as follows:

2012	\$ 1,000,000
2013	3,500,000
2017	<u>1,000,000</u>
Total	<u>\$ 5,500,000</u>

A \$1,000,000 borrowing maturing in 2013 and the \$1,000,000 borrowing maturing in 2017 are putable advances and the FHLB may terminate the advances on a quarterly basis at par with seven business days notice to the Bank.

As of December 31, 2009, the Bank had \$1,770,434 in available short-term borrowings from the Federal Reserve Bank collateralized by certain of the Bank's loans aggregating approximately \$3.6 million. There were no borrowings outstanding under this facility as of December 31, 2009.

As an additional source of liquidity, the Bank has federal funds borrowing agreements with correspondent banks aggregating \$5,500,000. There were no borrowings outstanding under these agreements as of December 31, 2009. Subsequent to December 31, 2009, Management has been informed that the Bank will have to collateralize any borrowings pursuant to these arrangements.

6. Commitments and Contingencies

a. Off-balance sheet financial instruments

In the ordinary course of business, the Bank has commitments to extend credit to its customers which are financial instruments with off-balance sheet risk. These financial instruments involve elements of credit and interest-rate risk in excess of amounts recognized in the accompanying balance sheets. As of December 31, 2009 and 2008, the Bank had no commitments to extend credit at below-market interest rates and held no derivative financial instruments.

The Bank's exposure to credit loss for commitments to extend credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in underwriting and offering commitments as it does for on-balance sheet financial instruments. As of December 31, 2009, outstanding commitments to extend credit were \$5,811,612.

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 the payment of fees. 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 Bank applies established credit-related standards and underwriting practices in evaluating the creditworthiness of such obligors. The amount of collateral obtained, if it is deemed necessary by the Bank upon the extension of credit, is based on Management's credit evaluation of the counterparty. Collateral held for commitments varies but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Pacific West Bank
Notes to Financial Statements
Years Ended December 31, 2009 and 2008

6. Commitments and Contingencies (Continued)

b. Operating leases

The Bank leases space for banking operations under an operating lease with a limited liability company that is partially owned by certain Board members. The lease has renewal options. As of December 31, 2009, the aggregate minimum annual rental commitments under this operating lease were as follows:

2010	\$	70,162
2011		72,274
2012		74,444
2013		31,399
Total	\$	<u>248,279</u>

Total rental expense was \$106,213 and \$108,942 in 2009 and 2008, respectively. Rental expense for the related party lease was \$63,725 and \$46,843 in 2009 and 2008, respectively.

c. Operating environment and financial condition

During the year ended December 31, 2009, the Bank incurred a net loss of \$1,246,135. The loss was primarily related to a \$996,000 pre-tax provision for loan losses and establishment of a \$521,022 valuation allowance against deferred tax assets. The loan loss provision was required as a result of the economic downturn, which negatively affected certain of the Bank's real estate related construction and development loans. The deferred tax valuation allowance was required for the reasons discussed in Note 7. In addition, subsequent to December 31, 2009, the Bank was required by its regulators to take measures to improve its safety and soundness (see Note 12). In response to the adverse economic conditions and regulatory directives, Management has been, and will continue to work toward, reducing the amount of the Bank's nonperforming assets, adjusting the balance sheet by reducing nonperforming loan totals as feasible, closely monitoring controllable operating costs, and augmenting deposits while striving to maintain liquidity and capital. Accordingly, Management believes that the Bank has sufficient capital and liquidity to successfully meet its obligations in the normal course of business. However, the Bank's inability to successfully implement its plans or further deterioration in economic conditions and real estate prices could have a material adverse effect on the Bank's financial position and liquidity.

d. Litigation

In the ordinary course of business, the Bank becomes involved in various litigation arising from normal banking activities. In the opinion of Management, the ultimate disposition of these actions will not have a material adverse effect on the Bank's financial statements as of and for the year ended December 31, 2009.

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Notes to Financial Statements
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7. Income Taxes

The provision (credit) for income taxes for the years ended December 31 is as follows:

	<u>2009</u>	<u>2008</u>
Current		
Federal	\$ (26,199)	\$ (74,611)
State	-	1,468
Total current	<u>(26,199)</u>	<u>(73,143)</u>
Deferred		
Federal	73,929	14,764
State	30,751	71,046
Total deferred	<u>104,680</u>	<u>85,810</u>
Provision for Income Taxes	<u>\$ 78,481</u>	<u>\$ 12,667</u>

The provision for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences in 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Expected federal income tax provision (credit) at statutory rate	\$ (397,002)	\$ 9,212
State income tax, net of federal effect	(50,457)	1,181
Valuation allowance	521,022	-
Other - net	4,918	2,274
Provision for Income Taxes	<u>\$ 78,481</u>	<u>\$ 12,667</u>

The components of the net deferred tax assets and liabilities as of December 31 consist of the following:

	<u>2009</u>	<u>2008</u>
Deferred Tax Assets		
Allowance for loan losses	\$ 447,855	\$ 265,649
Stock-based compensation	33,574	31,819
Accrual to cash adjustment	27,888	27,926
Unfunded loan commitment allowance	7,104	7,104
Net operating loss carryforwards	177,266	-
Unamortized pre-opening expenses	-	17,985
Other	14,030	-
Total Deferred Tax Assets	<u>707,717</u>	<u>350,483</u>
Valuation allowance	(521,022)	-
Total Deferred Tax Assets - Net of Valuation Allowance	<u>186,695</u>	<u>350,483</u>
Deferred Tax Liabilities		
Deferred loan fee income	(37,455)	(32,047)
Accumulated depreciation and amortization	(122,833)	(122,974)
Prepaid expenses and other	(26,407)	(90,782)
Total Deferred Tax Liabilities	<u>(186,695)</u>	<u>(245,803)</u>
Deferred Tax Assets - Net	<u>\$ -</u>	<u>\$ 104,680</u>

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

7. Income Taxes (Continued)

The Bank has net operating loss carryforwards of approximately \$429,000 available to offset future federal taxable income through 2030 and approximately \$725,000 available to offset future state taxable income through 2024.

The valuation allowance for deferred tax assets as of December 31, 2009 was \$521,022. There was no valuation allowance as of December 31, 2008. Management determined that a valuation allowance was required as of December 31, 2009 by evaluating the nature and amount of historical and projected 2010 taxable income, the scheduled reversal of deferred tax assets and liabilities, and available tax planning strategies.

8. Transactions with Related Parties

Certain directors, officers and principal shareholders of the Bank (and the companies with which they are associated) are customers of, and have had banking transactions with, the Bank in the ordinary course of the Bank's business. In addition, the Bank expects to continue to have such banking transactions in the future. All loans, and commitments to loan, to such parties are generally made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. In the opinion of Management, these transactions do not involve more than the normal risk of collectibility or present any other unfavorable features.

An analysis of activity with respect to such loans for the years ended December 31 is as follows:

	<u>2009</u>	<u>2008</u>
Balances - Beginning of Year	\$ 3,248,081	\$ 2,736,913
Additions	1,573,269	2,596,159
Repayments	<u>(1,082,973)</u>	<u>(2,084,991)</u>
Balances - End of Year	<u>\$ 3,738,377</u>	<u>\$ 3,248,081</u>

9. 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 the Internal Revenue Service 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 (the Board), may also make discretionary contributions to the Plan. Discretionary contributions vest over a period of three years. Bank matching contributions to the Plan were \$38,320 and \$30,056 for the years ended December 31, 2009 and 2008, respectively. There were no discretionary contributions to the Plan in 2009 or 2008.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

10. Stock-Based Compensation Plan

The Bank has a stock-based compensation plan (the Plan) which provides that the Bank may grant incentive and non-qualified options and restricted stock awards for up to 166,794 shares of its common stock to certain employees and directors. The exercise price of each incentive option cannot be less than the fair market value of the Bank's common stock on the date of grant. Options become exercisable and restricted stock grants vest at the discretion of the Board. Generally, options expire after a period of ten years. As of December 31, 2009, 42,157 shares reserved under the Plan were available for future grant.

The following table presents the activity related to stock options for the years ended December 31:

	2009		2008	
	Options Outstanding	Weighted-Average Exercise Price	Options Outstanding	Weighted-Average Exercise Price
Balances - Beginning of Year	106,622	\$ 10.39	105,122	\$ 10.36
Granted	-	-	10,000	10.50
Forfeited	(5,600)	10.28	(8,500)	10.16
Balances - End of Year	101,022	\$ 10.39	106,622	\$ 10.39
Exercisable - End of Year	92,522	\$ 10.38	88,022	\$ 10.38

The estimated fair value of options and the assumptions utilized to determine fair value for options issued during the year ended December 31, 2008 were as follows:

Dividend yield	0.00 %
Expected life (years)	7.0
Expected volatility	18.80 %
Risk-free rate	3.49 %
Weighted-average fair value per share	\$3.18

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Notes to Financial Statements

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10. Stock-Based Compensation Plan (Continued)

Information regarding the range of exercise price, number, weighted-average exercise price and weighted-average remaining contractual life of stock options as of December 31 is as follows:

	2009		2008	
	Options Outstanding	Exercisable Options	Options Outstanding	Exercisable Options
December 31, 2009				
Range of exercise prices	\$10.00 - \$11.38	\$10.00 - \$11.38	\$10.00 - \$11.38	\$10.00 - \$11.38
Shares subject to options	101,022	92,522	106,622	88,022
Weighted-average exercise price	\$ 10.39	\$ 10.38	\$ 10.39	\$ 10.38
Remaining contractual life (years)	5.88	5.65	6.90	5.47

Outstanding stock options had no intrinsic value as of December 31, 2009 and 2008.

Unrecognized stock-based compensation expense related to stock options was \$13,539 as of December 31, 2009. As of December 31, 2009, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.7 years.

The Bank also granted restricted stock awards during the years ended December 31, 2009 and 2008. These awards vest over four years and had fair values ranging from \$2.55 to \$10.50 per share at the date of grant, which is being recognized as compensation expense over the vesting period.

The following table presents activity related to restricted stock awards for the years ended December 31:

	2009		2008	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Nonvested Shares - Beginning of Year	3,900	\$ 10.05	-	\$ -
Granted	12,000	2.55	4,100	10.09
Vested	(975)	9.47	-	-
Forfeited	(750)	10.50	(200)	10.81
Nonvested Shares - End of Year	14,175	\$ 3.56	3,900	\$ 10.05

As of December 31, 2009, unrecognized compensation cost related to restricted stock awards was \$47,919, which is expected to be recognized over a weighted-average life of 2.3 years.

Stock-based compensation expense is recognized ratably over the requisite service period for all awards. Stock-based compensation expense for the years ended December 31, 2009 and 2008 was \$11,380 and \$46,551, respectively.

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Notes to Financial Statements

Years Ended December 31, 2009 and 2008

11. Estimated Fair Values of Financial Instruments

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. As of December 31, 2009 and 2008, Management has elected to not report any of the Bank's assets or liabilities at fair value under the "fair value option" provided by GAAP.

GAAP provides the following hierarchy of valuation techniques:

- Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities.
- Level 2: Significant observable inputs other than quoted prices in Level 1, such as quoted prices in active markets for similar assets or liabilities, or quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Significant unobservable inputs based on a company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Certain assets and liabilities are measured at fair value on a recurring or non-recurring basis (i.e., the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments when there is evidence of impairment). Assets and liabilities measured at fair value on a recurring basis are initially measured at fair value and then re-measured at fair value at each financial statement reporting date. Assets and liabilities measured at fair value on a non-recurring basis result from write-downs due to impairment or lower-of-cost-or-market accounting on assets or liabilities not initially measured at fair value.

In accordance with GAAP, the Bank applied the fair value measurement and disclosure requirements to nonfinancial assets and liabilities measured at fair value on a non-recurring basis beginning with the year ended December 31, 2009.

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Bank records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans when establishing the allowance for loan losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace, and the related nonrecurring fair value measurement adjustments have generally been classified as Level 3. Loans subject to nonrecurring fair value measurement were \$7,753,629 as of December 31, 2009.

OREO is measured at estimated fair value less estimated costs to sell. Fair value was generally determined based on third-party appraisals of fair value in an orderly sale. Historically, appraisals have considered comparable sales of similar assets in reaching a conclusion as to fair value. Many recent real estate sales could be termed distressed sales, since a preponderance are short-sale or foreclosure related, and this has directly impacted appraisal valuation estimates. Estimated costs to sell OREO were based on standard market factors. The valuation of OREO is subject to significant external and internal judgment. Management periodically reviews OREO to determine whether the property continues to be carried at the lower of its recorded book value or estimated fair value, net of estimated costs to sell. As of December 31, 2009, the carrying value of OREO was \$2,462,199, which approximates fair value.

Pacific West Bank

Notes to Financial Statements

Years Ended December 31, 2009 and 2008

11. Estimated Fair Values of Financial Instruments (Continued)

As of December 31, 2009 and 2008, the Bank had no financial assets or liabilities measured at fair value on a recurring basis.

The following table represents the assets measured at fair value on a nonrecurring basis as of December 31:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2009			
Impaired loans	\$ -	\$ -	\$ 7,753,629
OREO	-	-	2,462,199
Total	\$ -	\$ -	\$ 10,215,828
2008			
Impaired loans	\$ -	\$ -	\$ 4,219,421
OREO	-	-	358,772
Total	\$ -	\$ -	\$ 4,578,193

12. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the tables below) of Tier 1 capital to average assets and Tier 1 and total capital to risk-weighted assets (all as defined in the regulations). Management believes that as of December 31, 2009 and 2008, the Bank met or exceeded all relevant capital adequacy requirements.

On March 18, 2010, the Bank entered into a "Stipulation to the Issuance of a Consent Order" (the Order) with the Federal Deposit Insurance Corporation, its principal federal banking regulator, and the Oregon Division of Finance and Corporate Securities which requires the Bank to take certain measures to improve its safety and soundness. The Order was based on certain findings from an examination of the Bank (Examination) conducted in September 2009 based upon financial and lending data measured as of June 30, 2009. In entering into the Order, the Bank did not concede the findings or admit to any of the assertions therein.

Pacific West Bank

Notes to Financial Statements

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12. Regulatory Matters (Continued)

Under the Order, the Bank is required to take certain measures to improve its capital position and capital ratios; reduce its level of adversely classified assets; restrict extensions of new credit to borrowers with adversely classified loans; reduce its loan concentrations in real estate related portfolios; eliminate reliance on brokered deposits; improve management, lending practices and board supervision; and assure that its allowance for loan losses is maintained at an appropriate level. The Order also prohibits the payment of cash dividends or other distributions to the Bank's shareholders without the consent of the regulators, requires the Bank to have and retain qualified management, develop and begin implementing a three-year strategic plan, develop and implement a written liquidity and funds management policy, and eliminate and/or correct all violations from the Examination.

Among the corrective actions required are for the Bank to develop and adopt a plan to maintain certain minimum capital requirements. Specifically, within 180 days from the effective date of the Order, the Bank is required to increase and thereafter maintain its capital levels to ensure that its leverage ratio (also called the Tier 1 capital to average assets ratio) equals or exceeds 10.0 percent and its total risk-based capital ratio equals or exceeds 12.0 percent. As of December 31, 2009, the Bank's leverage ratio was 8.1 percent, and its total risk-based capital ratio was 11.5 percent.

As of December 31, 2009, the Bank was "well capitalized" under the regulatory framework for prompt correction action. To be categorized as "well capitalized," the Bank had to maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables.

The Bank's actual and required capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		Regulatory Minimum to be "Adequately Capitalized"		Regulatory Minimum to be "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009						
Tier 1 capital (to average assets)	\$ 6,340	8.1 %	\$ 3,119	4.0 %	\$ 3,899	5.0 %
Tier 1 capital (to risk-weighted assets)	6,340	10.2	2,504	4.0	3,756	6.0
Total capital (to risk-weighted assets)	7,122	11.5	5,007	8.0	6,259	10.0
December 31, 2008						
Tier 1 capital (to average assets)	7,575	12.4	2,447	4.0	3,058	5.0
Tier 1 capital (to risk-weighted assets)	7,575	11.6	2,610	4.0	3,915	6.0
Total capital (to risk-weighted assets)	8,370	12.8	5,220	8.0	6,525	10.0

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