

# McGladrey & Pullen

Certified Public Accountants

## Plaza Bank

### Financial Report

December 31, 2007

Plaza

Bank

**Financial**

**Report**

December 31

2007

## Contents

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Independent Auditor's Report .....	1
<b>Financial Statements</b>	
Balance Sheets.....	2
Statements of Income.....	3
Statements of Shareholders' Equity.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-19

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
**Plaza Bank**  
Seattle, Washington

We have audited the accompanying balance sheets of **Plaza Bank** as of December 31, 2007 and 2006, and the related statements of income, shareholders' equity and cash flows for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 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 **Plaza Bank** as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Seattle, Washington  
March 20, 2008

Financial  
Statements

## Balance Sheets

(Dollars in Thousands)

Plaza Bank  
December 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Cash and due from banks	\$ 2,628	\$ 1,629
Interest-bearing deposits in other financial institutions	237	164
Federal funds sold	--	6,825
<b>Cash and cash equivalents</b>	<b>2,865</b>	<b>8,618</b>
Securities available for sale	11,066	7,992
Pacific Coast Bankers' Bancshares stock, at cost	170	--
Loans	58,615	11,725
Allowance for credit losses	(646)	(75)
<b>Net loans</b>	<b>57,969</b>	<b>11,650</b>
Premises and equipment, net	1,309	1,419
Accrued interest receivable	325	137
Other assets	350	334
<b>Total assets</b>	<b>\$74,054</b>	<b>\$30,150</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand, non-interest-bearing	\$ 3,415	\$ 1,331
Savings and interest-bearing demand	8,313	4,963
Time	43,120	3,863
<b>Total deposits</b>	<b>54,848</b>	<b>10,157</b>
Securities sold under agreements to repurchase	1,000	--
Accrued interest payable	281	26
Other liabilities	478	348
<b>Total liabilities</b>	<b>56,607</b>	<b>10,531</b>
<b>Commitments and Contingencies</b>	<b>--</b>	<b>--</b>
<b>Shareholders' Equity</b>		
Common stock (par value: \$1); authorized 10,000,000 shares; issued and outstanding: 2,200,000 shares	2,200	2,200
Additional paid-in capital	19,454	19,391
Accumulated deficit	(4,241)	(1,973)
Accumulated other comprehensive income	34	1
<b>Total shareholders' equity</b>	<b>17,447</b>	<b>19,619</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$74,054</b>	<b>\$30,150</b>

See notes to financial statements.

## Statements of Income

(Dollars in Thousands)

Plaza Bank  
Year Ended December 31, 2007, and  
For the Period June 7, 2006 Through December 31, 2006

	2007	2006
<b>Interest Income</b>		
Loans	\$3,026	\$ 155
Federal funds sold and deposits in other financial institutions	260	462
Securities available for sale	402	99
<b>Total interest income</b>	<b>3,688</b>	<b>716</b>
<b>Interest Expense</b>		
Deposits	1,630	110
Securities sold under agreements to repurchase	55	--
<b>Total interest expense</b>	<b>1,685</b>	<b>110</b>
<b>Net interest income</b>	<b>2,003</b>	<b>606</b>
<b>Provision for Credit Losses</b>	<b>571</b>	<b>75</b>
<b>Net interest income after provision for credit losses</b>	<b>1,432</b>	<b>531</b>
<b>Non-Interest Income</b>		
Service charges on deposit accounts	91	8
<b>Non-Interest Expense</b>		
Salaries and employee benefits	2,100	965
Occupancy	544	263
Furniture and equipment	64	39
Data processing	404	208
Marketing and development	314	200
Other	365	159
<b>Total non-interest expense</b>	<b>3,791</b>	<b>1,834</b>
<b>Loss before preopening expenses</b>	<b>(2,268)</b>	<b>(1,295)</b>
<b>Preopening Expenses</b>	<b>--</b>	<b>(678)</b>
<b>Net loss</b>	<b>(\$2,268)</b>	<b>(\$1,973)</b>

See notes to financial statements.

## Statements of Shareholders' Equity

(Dollars in Thousands)

Plaza Bank  
Year Ended December 31, 2007, and  
For the Period June 7, 2006 Through December 31, 2006

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Comprehensive loss:						
Net loss	--	\$ --	\$ --	(\$1,973)	\$--	(\$ 1,973)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	1	1
<b>Comprehensive loss</b>						<b>(1,972)</b>
Common stock issued, net of issuance costs	2,200,000	2,200	19,372	--	--	21,572
Stock-based compensation expense	--	--	19	--	--	19
<b>Balance at December 31, 2006</b>	<b>2,200,000</b>	<b>2,200</b>	<b>19,391</b>	<b>(1,973)</b>	<b>1</b>	<b>19,619</b>
Comprehensive loss:						
Net loss	--	--	--	(2,268)	--	(2,268)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	33	33
<b>Comprehensive loss</b>						<b>(2,235)</b>
Stock-based compensation expense	--	--	63	--	--	63
<b>Balance at December 31, 2007</b>	<b>2,200,000</b>	<b>\$2,200</b>	<b>\$19,454</b>	<b>(\$4,241)</b>	<b>\$34</b>	<b>\$17,447</b>

See notes to financial statements.

## Statement of Cash Flows

(Dollars in Thousands)

Plaza Bank  
Year Ended December 31, 2007, and  
For the Period June 7, 2006 Through December 31, 2006

	2007	2006
<b>Cash Flows from Operating Activities</b>		
Net loss	(\$ 2,268)	(\$ 1,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses	571	75
Depreciation and amortization	218	122
Stock-based compensation expense	63	19
Investment (accretion) amortization, net	(8)	(5)
Deferral of loan origination costs and fees, less amortization	190	20
Increase in accrued interest receivable	(188)	(137)
Increase in accrued interest payable	255	26
Other	116	66
<b>Net cash used in operating activities</b>	<b>(1,051)</b>	<b>(1,787)</b>
<b>Cash Flows from Investing Activities</b>		
Activity in securities available for sale:		
Purchases	(12,078)	(8,986)
Maturities, prepayments and calls	9,045	1,000
Purchase of Pacific Coast Bankers' Bancshares stock	(170)	--
Increase in loans made to customers, net of principal collections	(47,080)	(11,745)
Purchases of premises and equipment	(110)	(1,593)
<b>Net cash used in investing activities</b>	<b>(50,393)</b>	<b>(21,324)</b>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	44,691	10,157
Increase in securities sold under agreements to repurchase	1,000	--
Common stock issued	--	21,572
<b>Net cash provided by financing activities</b>	<b>45,691</b>	<b>31,729</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,753)</b>	<b>8,618</b>
<b>Cash and Cash Equivalents</b>		
Beginning of period	8,618	--
<b>End of period</b>	<b>\$ 2,865</b>	<b>\$ 8,618</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	\$1,430	\$84
<b>Supplemental Disclosure of Non-Cash Investing Activities</b>		
Fair value adjustment of securities available for sale	\$33	\$1

See notes to financial statements.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Plaza Bank (the Bank) operates two branches: the main branch in downtown Seattle and a full service branch in Kent. The Bank provides loan and deposit services to customers, who are predominately small- and mid-sized businesses and middle-income individuals in western Washington.

#### Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and practices within the banking industry. Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, as of the date of the balance sheets, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of deferred tax assets.

All dollar amounts are stated in thousands.

#### Securities Available for Sale

Securities available for sale consist of debt securities that the Bank intends to hold for an indefinite period but not necessarily to maturity. Such securities may be sold to implement the Bank's asset/liability management strategies and in response to changes in interest rates and similar factors. Securities available for sale are reported at fair value. Unrealized gains and losses are reported as a net amount in a separate component of shareholders' equity entitled accumulated other comprehensive income. Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income over the period to maturity.

#### Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances and adjusted for any charge-offs, the allowance for credit losses, any deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method.

Because some loans may not be repaid in full, an allowance for credit losses is recorded. An allowance for credit losses is a valuation allowance for probable incurred credit losses. The allowance for credit losses is increased by a provision for credit losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and specific allowances.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies *(continued)*

#### Loans Receivable *(concluded)*

The formula portion of the general credit loss allowance is established by applying a loss percentage factor to the different loan types. The allowances are provided based on management's continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Bank's control, which may result in losses or recoveries differing from those provided.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Impaired loans consist of loans receivable that are not expected to be repaid in accordance with their contractual terms and are measured using the fair value of the collateral. Smaller balance loans are excluded from this analysis.

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 financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for credit losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Interest income on loans is accrued over the term of the loans based upon the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of loans. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has the ability to make contractual interest and principal payments, in which case the loan is returned to accrual status.

#### Pacific Coast Bankers' Bancshares Stock

The investment in Pacific Coast Bankers' Bancshares (PCBB) stock consists of an equity security. This investment is carried at cost. No ready market exists for PCBB stock, and it has no quoted market value.

#### Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is less. Asset lives range from three to 10 years. Gains or losses on dispositions are reflected in earnings.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies *(continued)*

#### Premises and Equipment *(concluded)*

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

#### Deferred Rent and Lease Incentives

Rental payments under operating leases for branch locations are charged to expense on the straight-line basis after consideration of rent holidays, step rent provisions and escalation clauses. Differences between rental expense and actual rent payments are recorded as deferred rent and included in other liabilities on the accompanying balance sheets.

#### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are treated as collateralized financing transactions and recorded at the amounts at which the securities were sold plus accrued interest. The market value of the underlying securities, which collateralize the related receivable on agreements to resell, is monitored, including accrued interest.

#### Income Taxes

Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of assets and liabilities, and 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. The deferred tax provision represents the difference between the net deferred tax asset/liability at the beginning and end of the year. Deferred tax assets are redeemed by a valuation allowance, when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

#### Cash Equivalents and Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other financial institutions. Cash flows from loans, deposits and securities sold under agreements to repurchase are reported net.

#### Advertising

The Bank expenses advertising costs as incurred.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies *(continued)*

#### Stock-Based Compensation

The Bank has a stock-based compensation option plan and stock warrants, which are described more fully in Note 12. The Bank accounts for the stock option plan under the recognition and measurement principles of SFAS No. 123-R, *Share-Based Payment*, and the stock warrants under the recognition and measurement principles of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. SFAS 123-R requires the cash flows related to the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The Bank did not have excess tax benefits resulting from exercise of nonqualified stock options or from disqualifying dispositions of shares acquired upon exercise of incentive stock options for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006. For the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, the Bank recognized compensation expense of \$63 and \$19 respectively. At December 31, 2007, compensation expense, related to unvested stock options, granted aggregated approximately \$268 and is expected to be recognized as follows:

	Stock-Based Compensation Expense
2008	\$ 71
2009	71
2010	71
2011	50
2012	5
<b>Total</b>	<b>\$268</b>

#### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2007. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of accumulated deficit for the fiscal year of adoption. The Bank does not expect the adoption of the statement will have a material impact on its financial position, results of operations and cash flows.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 1 - Nature of Operations and Summary of Significant Accounting Policies *(concluded)*

#### Recent Accounting Pronouncements *(concluded)*

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. This statement does not require any new fair value measurements but rather provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This statement is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. The Bank does not expect the adoption of this statement will have a material impact on its financial position, results of operation and cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value. The standard is designed to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007.

### Note 2 - Restricted Assets

The Bank is required to maintain a deposit, as collateral for a letter of credit, with US Bank. The amount of such balances for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, was approximately \$164 and is included in interest-bearing deposits in other financial institutions in the balance sheets.

### Note 3 - Preopening Expenses

In 2006 expenses incurred for professional fees, salaries and benefits, and interest from initial organization through the Bank's opening day totaled \$733. During the period prior to opening, the Bank earned \$55 in interest income on stock subscription funds, which was netted against expenses, for net preopening expenses of \$678.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 4 - Debt Securities

Debt securities have been classified according to management's intent. The amortized cost of securities available for sale and their approximate fair value for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2007</b>				
U.S. government and agency securities	\$ 4,000	\$39	\$ - -	\$ 4,039
Mortgage-backed securities	7,032	11	(16)	7,027
<b>Total</b>	<b>\$11,032</b>	<b>\$50</b>	<b>(\$16)</b>	<b>\$11,066</b>
<b>December 31, 2006</b>				
U.S. government and agency securities	\$ 7,991	\$ 1	\$ - -	\$ 7,992

For the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, there were no individual securities held in an unrealized loss position greater than 12 months.

Contractual maturities of debt securities available for sale at December 31, 2007, by contractual maturity, are as follows. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations, with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,000	\$ 2,006
Due from one year to five years	2,000	2,034
Mortgage-backed securities	7,032	7,026
<b>Total</b>	<b>\$11,032</b>	<b>\$11,066</b>

There were no realized gains or losses on sales of securities in 2007 or 2006.

The fair value of pledged securities totaled \$6,882 for the year ended December 31, 2007. There were no pledged securities in 2006.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 5 - Loans

Loans at December 31 consist of the following:

	2007	2006
Commercial	\$19,708	\$ 9,086
Real estate:		
Commercial	23,804	--
Construction, land development and other land loans	13,933	--
Residential 1-4 family	254	236
Residential multifamily	885	2,409
Consumer	241	14
	<b>58,825</b>	<b>11,745</b>
Less net deferred loan origination costs	210	20
<b>Total loans</b>	<b>\$58,615</b>	<b>\$11,725</b>

Changes in the allowance for credit losses for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006, are as follows:

	2007	2006
Balance at beginning of period	\$ 75	\$ --
Provision for credit losses	571	75
<b>Balance at end of period</b>	<b>\$646</b>	<b>\$75</b>

At December 31, 2007 and 2006, there were no impaired loans, loans 90 days and over past due still accruing interest or commitments to lend funds to borrowers whose loans have been modified.

The Bank, in the normal course of business, conducts transactions with its directors, shareholders and certain members of management. It is the Bank's policy that these transactions be made on substantially the same terms as those prevailing at the time with similar parties. At December 31, 2007 and 2006, such loans outstanding were \$917 and \$0, respectively. During 2007 and 2006, there were loan advances of \$917 and \$0, and there were no principal repayments on these loans.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 6 - Premises and Equipment

Components of premises and equipment at December 31 are as follows:

	2007	2006
Leasehold improvements	\$1,075	\$1,038
Furniture and equipment	563	492
	<b>1,638</b>	<b>1,530</b>
Less accumulated depreciation and amortization	329	111
<b>Premises and equipment, net</b>	<b>\$1,309</b>	<b>\$1,419</b>

The Bank leases its premises under operating leases. Rental expense for leased premises was \$365 and \$165 for 2007 and 2006, respectively, which is included in occupancy expense.

Minimum net rental commitments under noncancellable leases having an original or remaining term of more than one year for future years ending December 31 are as follows:

2008	\$ 377
2009	386
2010	394
2011	401
2012	408
Thereafter	1,178
<b>Total minimum payments required</b>	<b>\$3,144</b>

### Note 7 - Deposits

The composition of deposits at December 31 is as follows:

	2007	2006
Demand deposits, non-interest-bearing	\$ 3,415	\$ 1,331
NOW and money market accounts	8,313	4,963
Time certificates, \$100,000 or more	21,224	2,082
Other time certificates	21,896	1,781
<b>Total deposits</b>	<b>\$54,848</b>	<b>\$10,157</b>

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 7 - Deposits *(concluded)*

Scheduled maturities of time certificates of deposit for future years ending December 31 are as follows:

2008	\$23,868
2009	8,768
2010	6,738
2011	777
2012	2,729
Thereafter	240
<b>Total</b>	<b>\$43,120</b>

At December 31, 2007, the Bank had three deposit customer relationships, which accounted for \$22,184 or 41 percent of total deposits outstanding.

### Note 8 - Securities Sold Under Agreement to Repurchase

During 2007 the Bank entered into two repurchase agreements with customers. The first repurchase agreement has a daily term and is automatically renewable each subsequent day, as the customer's related deposit account is above a certain minimum balance. The securities which are the subject of the repurchase agreement are held by another institution, as custodian; however, the Bank reserves the right to substitute different but similar securities for those originally subject to the repurchase agreement. There was no balance in this account at December 31, 2007.

The term of the second repurchase agreement is 23 months, maturing June 15, 2009. The balance of this agreement is \$1,000,000 at December 31, 2007, with a 5.07 percent interest rate. The securities which are subject to the repurchase agreement are held by another institution, as custodian; however, the Bank reserves the right to substitute different but similar securities for those originally subject to the repurchase agreement. The securities underlying the repurchase agreement are included in securities available for sale in the balance sheet.

### Note 9 - Employee Benefits

The Bank has a 401(k) profit sharing plan covering substantially all employees. Contributions to the 401(k) profit sharing plan consist of a 3 percent nonelective contribution and profit sharing contributions, which are at the discretion of its board of directors. Contributions by the Bank to this plan in 2007 and 2006 totaled \$74 and \$3, respectively.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 10 - Income Taxes

The Bank has not provided for income taxes in 2007 and 2006 as a result of the net loss incurred.

Tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 are:

	2007	2006
<b>Deferred Tax Assets</b>		
Cash basis accounting	\$ 48	\$ 39
Stock option expense	6	1
Organizational costs	222	222
Deferred income	40	--
Allowance for credit losses	36	--
Accumulated depreciation	20	--
Operating loss carryforward	1,033	459
<b>Total deferred tax assets</b>	<b>1,405</b>	<b>721</b>
<b>Deferred Tax Liabilities</b>		
Allowance for credit losses	--	43
Accumulated depreciation	--	3
Deferred income	--	13
<b>Total deferred tax liabilities</b>	<b>--</b>	<b>59</b>
<b>Net deferred tax assets before valuation allowance</b>	<b>1,405</b>	<b>662</b>
<b>Valuation Allowance</b>	<b>(1,405)</b>	<b>(662)</b>
<b>Net deferred tax assets</b>	<b>\$ --</b>	<b>\$ --</b>

At December 31, 2007, the Bank has a net operating loss carryforward totaling \$3,032, which expires in 2026 and 2027 and may be applied against future taxable income.

### Note 11 - Commitments and Contingencies

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the accompanying balance sheets.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 11 - Commitments and Contingencies *(concluded)*

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit 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. A summary of the Bank's commitments at December 31 is as follows:

	2007	2006
Commitments to extend credit	\$15,262	\$15,945
Standby letter of credit	133	--
<b>Total</b>	<b>\$15,395</b>	<b>\$15,945</b>

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. 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 evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are issued primarily to support public and 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. Collateral held varies, as specified above, and is required in instances where the Bank deems necessary.

The Bank has agreements with commercial banks for lines of credit totaling \$7,500, none of which was used at December 31, 2007.

Because of the nature of its activities, the Bank is subject to various pending and threatened legal actions, which may arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Bank.

### Note 12 - Significant Concentration of Credit Risk

Most of the Bank's business activity is with customers in the state of Washington. Loans are generally limited by federal and state banking regulations to 20 percent of the Bank's shareholders' equity, excluding accumulated other comprehensive income.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 13 - Stock Compensation Plans

#### Stock Warrants

In 2006 the Bank granted organizing shareholders 102,500 warrants to purchase the Bank's common stock, at \$10.00 per share. Warrants have a ten-year contractual life and expire in 2016. No warrants have been exercised to date. Estimated remaining life is 8.4 years.

#### Stock Options

Under the Bank's stock option plan, the Bank may grant both incentive and non-qualified options for up to 440,000 shares of its common stock to certain key employees and directors. The exercise price of each option equals the fair market value of the Bank's stock on the date of grant, and an option's maximum term is ten years. Options vest ratably over the life of the option which is five years. The Bank has 244,500 options remaining to grant at December 31, 2007. The fair value of each option, grant is estimated on the date of grant, based on the Black-Scholes option pricing model and using the following weighted-average assumptions for the year ended December 31, 2007, and for the period June 7, 2006 through December 31, 2006:

	2007	2006
Dividend yield	--%	--%
Expected life	5.3 years	5.3 years
Risk-free interest rate	3.45%	4.58%
Expected volatility	25%	25%

There are no current plans to declare cash dividends in the near term; therefore, management assumed no dividend yield. The Bank elected to apply the simplified method prescribed under SFAS 123-R to calculate the expected life of the options. The Bank utilized a five-year, risk-free yield rate for the interest rate. Given the lack of historical data, the Bank selected a peer bank for the volatility calculation. The weighted-average fair value of options granted during 2007 and 2006 was \$3.33 and \$1.68, respectively.

The Black-Scholes model used by the Bank to calculate option values and other currently accepted option valuation models was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Bank's stock option awards. These models require highly subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 13 - Stock Compensation Plans *(concluded)*

#### Stock Options *(concluded)*

A summary of the status of the Bank's stock option plan and stock warrants as of December 31, 2007 and 2006, and changes during the year and period ending on those dates, is presented below:

	Shares	Exercise Price
Options outstanding at beginning of year	282,500	\$10.02
Options granted	16,000	10.40
Options forfeited	(500)	10.00
<b>Outstanding at end of year</b>	<b>298,000</b>	<b>10.02</b>
<b>Vested or expected to vest at December 31, 2007</b>	<b>285,815</b>	<b>10.02</b>
<b>Exercisable at end of year</b>	<b>139,200</b>	<b>\$10.00</b>

The estimated remaining contractual life for stock options granted is 8.7 years. All options and warrants outstanding are considered to be out-of-the-money at December 31, 2007; therefore, the aggregate intrinsic value is \$0.

### Note 14 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal 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 of the regulatory framework for prompt corrective action, the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital classification is 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 Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

As of December 31, 2007, the most recent notification from the Bank's regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2007 and 2006

### Note 14 - Regulatory Matters *(concluded)*

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual Amount	Ratio	Capital Adequacy Purposes Amount	Ratio	To be Well-Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
<b>December 31, 2007</b>						
Tier 1 capital (to average assets)	\$17,413	24.52%	\$2,841	4.00%	\$3,551	5.00%
Tier 1 capital (to risk-weighted assets)	17,413	26.94	2,585	4.00	3,878	6.00
Total capital (to risk-weighted assets)	18,059	27.94	5,170	8.00	6,463	10.00
<b>December 31, 2006</b>						
Tier 1 capital (to average assets)	\$19,616	67.67%	\$1,160	4.00%	\$1,449	5.00%
Tier 1 capital (to risk-weighted assets)	19,616	114.48	685	4.00	1,028	6.00
Total capital (to risk-weighted assets)	19,691	114.92	1,371	8.00	1,714	10.00

As a condition of obtaining FDIC insurance, the Bank must maintain 8 percent Tier 1 capital to risk-weighted assets for the first three years of operation.