

McGladrey & Pullen

Certified Public Accountants

Plaza Bank

Financial Report

December 31, 2008

Plaza

Bank

Financial

Report

December 31

2008

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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, 2008 and 2007, and the related statements of income, shareholders' equity and cash flows for the years 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 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Seattle, Washington
May 22, 2009

Financial
Statements

Balance Sheets

(Dollars in Thousands)

Plaza Bank

December 31, 2008 and 2007

	2008	2007
Assets		
Cash and due from banks	\$ 1,748	\$ 2,628
Interest-bearing deposits in other financial institutions	1,092	237
Federal funds sold	755	--
Cash and cash equivalents	3,595	2,865
Securities available for sale	8,676	11,066
Pacific Coast Bankers' Bancshares stock, at cost	170	170
FHLB-Seattle stock, at cost	427	--
Loans	74,585	58,615
Allowance for credit losses	(1,448)	(646)
Net loans	73,137	57,969
Premises and equipment, net	1,076	1,309
Accrued interest receivable	273	325
Foreclosed real estate	1,708	--
Other assets	267	350
Total assets	\$89,329	\$74,054
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Demand, non-interest-bearing	\$ 4,871	\$ 3,415
Savings and interest-bearing demand	8,447	8,313
Time	55,728	43,120
Total deposits	69,046	54,848
Securities sold under agreements to repurchase	1,000	1,000
FHLB borrowings	3,932	--
Accrued interest payable	278	281
Other liabilities	368	478
Total liabilities	74,624	56,607
Commitments and Contingencies	--	--
Shareholders' Equity		
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	19,527	19,454
Accumulated deficit	(7,210)	(4,241)
Accumulated other comprehensive income	188	34
Total shareholders' equity	14,705	17,447
Total liabilities and shareholders' equity	\$89,329	\$74,054

See notes to financial statements.

Statements of Income

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2008 and 2007

	2008	2007
Interest Income		
Loans	\$4,486	\$3,026
Federal funds sold and deposits in other financial institutions	19	260
Securities available for sale	495	402
Other interest income	7	--
Total interest income	5,007	3,688
Interest Expense		
Deposits	2,416	1,630
Securities sold under agreements to repurchase and federal funds purchased	69	55
FHLB borrowings	104	--
Total interest expense	2,589	1,685
Net interest income	2,418	2,003
Provision for Credit Losses	1,273	571
Net interest income after provision for credit losses	1,145	1,432
Non-Interest Income		
Service charges on deposit accounts	95	56
Other	53	35
Total non-interest income	148	91
Non-Interest Expense		
Salaries and employee benefits	2,420	2,100
Occupancy	562	544
Furniture and equipment	67	64
Data processing	508	404
Marketing and development	243	314
Other	462	365
Total non-interest expense	4,262	3,791
Net loss	(\$2,969)	(\$2,268)

See notes to financial statements.

Statements of Shareholders' Equity

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2008 and 2007

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2006	2,200,000	\$2,200	\$19,391	(\$1,973)	\$ 1	\$19,619
Comprehensive loss:						
Net loss	--	--	--	(2,268)	--	(2,268)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	33	33
Comprehensive loss						(2,235)
Stock-based compensation expense	--	--	63	--	--	63
Balance at December 31, 2007	2,200,000	2,200	19,454	(4,241)	34	17,447
Comprehensive loss:						
Net loss	--	--	--	(2,969)	--	(2,969)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	154	154
Comprehensive loss						(2,815)
Stock-based compensation expense	--	--	73	--	--	73
Balance at December 31, 2008	2,200,000	\$2,200	\$19,527	(\$7,210)	\$188	\$14,705

See notes to financial statements.

Statements of Cash Flows

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities		
Net loss	(\$2,969)	(\$ 2,268)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for credit losses, net	1,273	571
Depreciation and amortization	267	218
Stock-based compensation expense	73	63
Investment (accretion) amortization, net	(10)	(8)
Deferral of loan origination costs and fees, less amortization	105	190
(Increase) decrease in accrued interest receivable	52	(188)
Increase (decrease) in accrued interest payable	(3)	255
Other	(54)	116
Net cash used in operating activities	(1,266)	(1,051)
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Purchases	(2,250)	(12,078)
Maturities, prepayments and calls	4,804	9,045
Purchase of Pacific Coast Bankers' Bancshares stock	--	(170)
Purchase of Federal Home Loan Bank stock	(427)	--
Increase in loans made to customers, net of principal collections	(18,254)	(47,080)
Purchases of premises and equipment	(7)	(110)
Net cash used in investing activities	(16,134)	(50,393)
Cash Flows from Financing Activities		
Net increase in deposits	14,198	44,691
Increase in securities sold under agreements to repurchase	--	1,000
Proceeds from FHLB borrowings	9,500	--
Payments on FHLB borrowings	(5,568)	--
Net cash provided by financing activities	18,130	45,691
Net increase (decrease) in cash and cash equivalents	730	(5,753)
Cash and Cash Equivalents		
Beginning of year	2,865	8,618
End of year	\$3,595	\$ 2,865
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$2,589	\$1,430
Supplemental Disclosures of Non-Cash Investing Activities		
Fair value adjustment of securities available for sale	\$ 154	\$33
Foreclosed real estate acquired in settlement of loans	1,708	--

See notes to financial statements.

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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, except per share amounts.

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.

Declines in fair values of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Credit Losses

Loans 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.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

Loans and Allowance for Credit Losses *(concluded)*

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

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. Loans are considered impaired when, based on current information and events, it is probable the bank will be unable to collect all amounts due in accordance with the original contractual term of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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 daily based on 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 as well as required by regulatory provision. Past due status is based on contractual terms of loans. When interest accrual is discontinued, all unpaid accrued interest is reversed. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

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.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank (the FHLB) system, is required to maintain an investment in capital stock of the FHLB in an amount equal to the greater of 1 percent of its outstanding home loans or 5 percent of advances from the FHLB. No ready market exists for the FHLB stock, and it has no quoted market value.

The Bank views its investment in the FHLB stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing 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) impact of legislative and regulatory changes on the FHLB and 3) the liquidity position of the FHLB. The FHLB of Seattle recently reported a risk-based capital deficiency as of December 31, 2008, and therefore will not be able to pay a dividend for the fourth quarter of 2008, and will not be able to repurchase capital stock. The FHLB noted their primary concern with meeting the risk-based capital requirements relates to the potential impact of other-than-temporary impairment charges that they may be required to record on their private label mortgage back securities. While the FHLB of Seattle will be less than adequately capitalized as of December 31, 2008, the Bank does not believe that its investment in the FHLB is impaired as of this date; however, this estimate could change in the near term if: 1) significant other-than-temporary losses are incurred on the mortgage backed securities causing a significant decline in their regulatory capital status; 2) the economic losses resulting from credit deterioration on the mortgage backed securities increases significantly and 3) capital preservation strategies being utilized by the FHLB become ineffective.

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.

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.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

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. The bank maintains its cash in depository institutions, which, at times, may exceed federally insured limits. The bank has not experienced losses in such accounts.

Advertising

The Bank expenses advertising costs as incurred.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, foreclosure are to be sold and are initially recorded at the fair value of the properties, less estimated costs of disposal, establishing a new cost basis. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values, and revenue and expense from the operations of properties are charged to operations. The Bank had \$1,708 in foreclosed real estate at December 31, 2008, and none at December 31, 2007.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

Stock-Based Compensation

On January 1, 2006, the Bank adopted SFAS No. 123(R) using the modified-prospective method, which requires measurement of the compensation cost for all stock-based awards based on the grant-date fair value and recognition of compensation cost over the service period of stock-based awards. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Bank's valuation methodology previously utilized for options in footnote disclosure, required under SFAS No. 123.

Transfers to Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements

Effective January 1, 2008, the Bank partially adopted SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. SFAS 157 was issued to increase consistency and comparability in reporting fair values. In February 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 157-2 (FSP 157-2), which delays the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities, to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The delay is intended to allow additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS 157. The Bank has elected to apply the deferral provisions in FSP 157-2 and, therefore, has only partially applied the provisions of SFAS 157. The Bank's adoption of SFAS 157 did not have a material impact on the Bank's financial condition or results of operations.

SFAS 157, *Fair Value Measurements*, establishes a three-level valuation hierarchy for disclosure of fair value measurements and enhances disclosure requirements for fair value measurements. The three levels are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

Fair Value Measurements *(continued)*

The Bank has not adopted the provisions of SFAS 157 with respect to certain nonfinancial assets, such as foreclosed real estate. The Bank will fully adopt SFAS 157 with respect to such items effective January 1, 2009. The Bank does not believe that such adoption will have a material impact on the financial statements, but will result in additional disclosures related to the fair value of nonfinancial assets.

The Bank has identified securities available for sale and impaired loans with allocated reserves under SFAS 114 as those items requiring disclosure under SFAS 157.

The balance of securities available for sale at December 31, 2008, the fair value of which is disclosed on a recurring basis, is as follows:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	\$8,676	\$ - -	\$8,676	\$ - -

Securities available for sale consist of AAA-rated U.S. Government agency securities and other debt securities. The Bank discloses securities available for sale at fair value on a recurring basis. The fair value of the Bank's securities available for sale are determined using Level 1 inputs, which are derived from quoted prices in active markets and Level 2 inputs, which are derived from quoted prices for identical or similar assets in markets that are active or not active, that is, markets in which there are few transactions for the asset, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following presents such assets carried on the balance sheets by caption and by level within the SFAS 157 hierarchy as of December 31, 2008:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$2,398	\$ - -	\$ - -	\$ 2,398

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

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

Fair Value Measurements *(concluded)*

Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. During 2008, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for possible loan losses based upon the fair value of the underlying collateral. Impaired loans with a carrying value of \$2,410 were reduced by specific valuation allowance allocations totaling \$198, which includes estimated costs to sell. The fair value of the collateral for these impaired loans utilizing Level 3 valuation inputs was \$2,398, which does not include costs to sell.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheets, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic entities to annual financial statements for fiscal years beginning after December 15, 2008. The Bank has elected this deferral and, accordingly, will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Bank will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies* (SFAS No. 5). SFAS No. 5 requires the Bank to accrue for losses it believes are probable and can be reasonably estimated. An analysis of the impact of FIN 48 is not yet complete; however, upon adoption the Bank expects to record an adjustment to reduce opening retained earnings by an amount which is not material to its financial statements. The Bank does not expect that the adoption of the statement will have a material impact on its financial position, results of operations or cash flows.

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 2 - Securities Available for Sale

Securities available for sale have been classified according to management's intent. The amortized cost of securities available for sale and their approximate fair value for the years ended December 31, 2008 and 2007, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2008				
U.S. government and agency securities	\$ 2,000	\$ 41	\$ - -	\$ 2,041
Mortgage-backed securities	6,488	147	- -	6,635
Total	\$ 8,488	\$188	\$ - -	\$ 8,676
December 31, 2007				
U.S. government and agency securities	\$ 4,000	\$39	\$ - -	\$ 4,039
Mortgage-backed securities	7,032	11	(16)	7,027
Total	\$11,032	\$50	(\$16)	\$11,066

For the years ended December 31, 2008 and 2007, 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, 2008, 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	\$2,041
Due from one year to five years	- -	- -
Mortgage-backed securities	6,488	6,635
Total	\$8,488	\$8,676

There were no realized gains or losses on sales of securities in 2008 or 2007.

The fair value of pledged securities totaled \$8,676 and \$6,882 for the years ended December 31, 2008 and 2007, respectively.

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 3 - Loans

Loans at December 31 consist of the following:

	2008	2007
Commercial	\$31,485	\$19,708
Real estate:		
Commercial	31,028	23,804
Construction, land development and other land loans	6,218	13,933
Residential 1-4 family	2,510	254
Residential multifamily	3,202	885
Consumer	457	241
	74,900	58,825
Less net deferred loan origination costs	315	210
Total loans	\$74,585	\$58,615

At December 31, 2008 and 2007, the Bank has loans outstanding in the hotel/motel industry, which represents approximately 13.8 percent and 13.4 percent of total loans outstanding, respectively.

Changes in the allowance for credit losses for the years ended December 31, 2008 and 2007, are as follows:

	2008	2007
Balance at beginning of period	\$ 646	\$ 75
Provision for credit losses	1,273	571
Loans charged off	(471)	--
Balance at end of period	\$1,448	\$646

At December 31, 2008 and 2007, there were no loans 90 days and over past due still accruing interest or commitments to lend funds to borrowers whose loans have been modified. There were loans totaling \$2,410 determined to be impaired with \$198 specific reserves at December 31, 2008, and none at December 31, 2007. The average investment in impaired loans during 2008 and 2007 was \$1,554 and none, respectively.

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 are made on substantially the same terms as those prevailing at the time with similar parties. At December 31, 2008 and 2007, such loans outstanding were \$361 and \$920, respectively. During 2008 and 2007, there were loan advances of \$85 and \$920, respectively. Principal repayments on these loans were \$645 for 2008 and none for 2007.

Loans pledged as collateral for FHLB advances totaled \$12,630 at December 31, 2008, and none at December 31, 2007.

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 4 - Premises and Equipment

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

	2008	2007
Leasehold improvements	\$1,075	\$1,075
Furniture and equipment	575	563
	1,650	1,638
Less accumulated depreciation and amortization	574	329
Premises and equipment, net	\$1,076	\$1,309

The Bank leases its premises under operating leases. Rental expense for leased premises was \$370 and \$365 for 2008 and 2007, 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:

2009	\$ 386
2010	394
2011	401
2012	408
2013	425
Thereafter	753
Total minimum payments required	\$2,767

Note 5 - Deposits

The composition of deposits at December 31 is as follows:

	2008	2007
Demand deposits, non-interest-bearing	\$ 4,871	\$ 3,415
NOW	528	475
Savings and money market	7,919	7,838
Time certificates, \$100,000 or more	35,733	21,224
Other time certificates	19,995	21,896
Total deposits	\$69,046	\$54,848

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 5 - Deposits *(concluded)*

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

2009	\$41,346
2010	10,005
2011	1,194
2012	2,836
2013	199
Thereafter	148
Total	\$55,728

At December 31, 2008, the Bank had brokered deposits totaling \$5,034, or 7.29 percent of total deposits outstanding. At December 31, 2007, there were no brokered deposits outstanding.

The Bank is a State of Washington Public Depository. As part of this program, the Bank may be required to fund the losses of any uninsured deposits due to bank failure of other banks participating in the program based upon their pro rata share of total public deposits outstanding at the State of Washington. At December 31, 2008, the Bank held \$8,989 of public deposits, which is approximately 13.02 percent of the Bank's total deposits.

Note 6 - 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, if 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, 2008 or 2007.

The term of the second repurchase agreement is 23 months, maturing June 15, 2009. The balance of this agreement is \$1,000 at December 31, 2008 and 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 on the balance sheets.

Notes to Financial Statements

Plaza Bank
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Note 7 - FHLB Borrowings

FHLB borrowings at December 31, 2008, represent advances from the Federal Home Loan Bank of Seattle bearing a weighted-average interest rate of 3.99 percent and maturing various dates through January 2014. The FHLB line available is 15 percent of the Banks assets limited to available collateral and the balance outstanding at December 31, 2008, was \$3,932. The line is secured by investments and loans as discussed in Notes 2 and 3. The Bank had no long-term borrowings at December 31, 2007.

Principal reductions due on these borrowings for future years ending December 31 are as follows:

2009	\$1,000
2010	--
2011	--
2012	--
2013	1,795
Thereafter	1,137
Total	\$3,932

Note 8 - 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 non-elective contribution. Contributions by the Bank to this plan in 2008 and 2007 totaled \$90 and \$74, respectively.

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 9 - Income Taxes

The Bank has not provided for income taxes in 2008 and 2007 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:

	2008	2007
Deferred Tax Assets		
Cash basis accounting	\$ 36	\$ 48
Stock option expense	11	6
Organizational costs	204	222
Deferred income	--	40
Allowance for credit losses	300	36
Accumulated depreciation	51	20
Operating loss carry-forward	1,798	1,033
Total deferred tax assets	2,400	1,405
Deferred Tax Liabilities		
Deferred income	24	--
Net deferred tax assets before valuation allowance	2,376	1,405
Valuation Allowance	(2,376)	(1,405)
Net deferred tax assets	\$ --	\$ --

At December 31, 2008, the Bank has a net operating loss carry-forward totaling \$4,712, which expires in 2027 and may be applied against future taxable income.

Note 10 - 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

Plaza Bank
December 31, 2008 and 2007

Note 10 - 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:

	2008	2007
Commitments to extend credit	\$19,052	\$15,262
Commercial letter of credit	15	133
Total	\$19,067	\$15,395

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, 2008.

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 11 - 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.

Note 12 - 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 10-year contractual life and expire in 2016. No warrants have been exercised to date. Estimated remaining life is 7.4 years.

(continued)

Notes to Financial Statements

Plaza Bank
December 31, 2008 and 2007

Note 12 - Stock Compensation Plans *(concluded)*

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 10 years. Options vest ratably over the life of the option which is five years. The Bank has 254,500 options remaining to grant at December 31, 2008. There were no options granted in 2008. The fair value of each option 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:

Dividend yield	- -%
Expected life	5.3 years
Risk-free interest rate	3.45%
Expected volatility	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 was \$3.33.

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.

A summary of the status of the Bank's stock options granted and stock warrants as of December 31, 2008, and changes during the year and period ending on those dates, is presented below:

	Shares	Exercise Price
Options outstanding at beginning of year	298,000	\$10.02
Options forfeited	(10,000)	9.70
Outstanding at end of year	288,000	10.03
Vested or expected to vest at December 31, 2008	276,315	10.03
Exercisable at end of year	174,200	\$10.01

The weighted-average remaining contractual life for stock options granted is 7.7 years. All options and warrants outstanding are considered to be out-of-the-money at December 31, 2008; therefore, the aggregate intrinsic value is \$0. There were no options or warrants exercised or granted in 2008.

Notes to Financial Statements

Plaza Bank
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Note 13 - 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, 2008, 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.

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
December 31, 2008						
Tier 1 capital (to average assets)	\$14,517	16.64%	\$3,490	4.00%	\$4,362	5.00%
Tier 1 capital (to risk-weighted assets)	14,517	18.06	3,216	4.00	4,824	6.00
Total capital (to risk-weighted assets)	15,522	19.31	6,432	8.00	8,040	10.00
December 31, 2007						
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

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 and the Bank is not permitted to pay dividends until approval to do so by its regulators.