

# Plaza Bank

Financial Report  
December 31, 2010

Plaza

Bank

**Financial**

**Report**

December 31

2010

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## 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, 2010 and 2009, 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, 2010 and 2009, 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.

The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern. As discussed in Note 2 to the financial statements, the Bank has suffered recurring losses and has not met the regulatory capital requirements under the Consent Order issued by the Federal Deposit Insurance Corporation. This raises substantial doubt about the Bank's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*McGladrey & Pullen, LLP*

Seattle, Washington  
May 17, 2011

**Financial  
Statements**

## Balance Sheets

(Dollars in Thousands)

Plaza Bank

December 31, 2010 and 2009

	2010	2009
<b>Assets</b>		
Cash and due from banks	\$ 4,085	\$ 5,280
Interest-bearing deposits in other financial institutions	5,113	16,417
Federal funds sold	5,165	--
<b>Cash and cash equivalents</b>	<b>14,363</b>	<b>21,697</b>
Certificates of deposit	250	980
Securities available for sale	13,842	11,651
Pacific Coast Bankers' Bancshares stock, at cost	170	170
FHLB of Seattle stock, at cost	447	447
Loans	83,299	91,070
Allowance for credit losses	(3,326)	(3,665)
<b>Net loans</b>	<b>79,973</b>	<b>87,405</b>
Premises and equipment, net	692	855
Accrued interest receivable	389	390
Foreclosed real estate, net	1,352	851
Other assets	307	322
<b>Total assets</b>	<b>\$111,785</b>	<b>\$124,768</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Demand, non-interest-bearing	\$ 9,563	\$ 6,582
Interest-bearing demand	3,495	3,023
Savings and money markets	13,429	22,584
Time	71,557	79,990
<b>Total deposits</b>	<b>98,044</b>	<b>112,179</b>
Secured borrowings	716	--
FHLB borrowings	2,187	2,559
Accrued interest payable	174	135
Other liabilities	604	465
<b>Total liabilities</b>	<b>101,725</b>	<b>115,338</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: 3,154,000 and 2,200,000 shares	3,154	2,200
Additional paid-in capital	20,340	19,590
Accumulated deficit	(13,515)	(12,519)
Accumulated other comprehensive income	81	159
<b>Total shareholders' equity</b>	<b>10,060</b>	<b>9,430</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$111,785</b>	<b>\$124,768</b>

See notes to financial statements.

## Statements of Income

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2010 and 2009

	2010	2009
<b>Interest Income</b>		
Loans	\$5,893	\$5,673
Federal funds sold and deposits in other financial institutions	34	21
Securities available for sale	351	359
Other interest income	--	4
<b>Total interest income</b>	<b>6,278</b>	<b>6,057</b>
<b>Interest Expense</b>		
Deposits	1,752	2,155
FHLB borrowings	104	138
Other interest expense	10	24
<b>Total interest expense</b>	<b>1,866</b>	<b>2,317</b>
<b>Net interest income</b>	<b>4,412</b>	<b>3,740</b>
<b>Provision for Credit Losses</b>	<b>(1,119)</b>	<b>(4,100)</b>
<b>Net interest income (loss) after provision for credit losses</b>	<b>3,293</b>	<b>(360)</b>
<b>Non-Interest Income</b>		
Service charges on deposit accounts	126	131
Other	114	77
<b>Total non-interest income</b>	<b>240</b>	<b>208</b>
<b>Non-Interest Expense</b>		
Salaries and employee benefits	2,034	2,299
Occupancy	648	554
Furniture and equipment	75	123
Data processing	426	461
Marketing and development	96	104
Provision for foreclosed real estate valuation	215	857
Other	1,035	759
<b>Total non-interest expense</b>	<b>4,529</b>	<b>5,157</b>
<b>Net loss</b>	<b>(\$ 996)</b>	<b>(\$5,309)</b>

See notes to financial statements.

## Statements of Shareholders' Equity

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2010 and 2009

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2008	2,200,000	\$2,200	\$19,527	(\$ 7,210)	\$188	\$14,705
Comprehensive loss:						
Net loss	--	--	--	(5,309)	--	(5,309)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	(29)	(29)
<b>Comprehensive loss</b>						<b>(5,338)</b>
Stock-based compensation expense	--	--	63	--	--	63
<b>Balance at December 31, 2009</b>	<b>2,200,000</b>	<b>2,200</b>	<b>19,590</b>	<b>(12,519)</b>	<b>159</b>	<b>9,430</b>
Comprehensive loss:						
Net loss	--	--	--	(996)	--	(996)
Other comprehensive income:						
Change in fair value of securities available for sale	--	--	--	--	(78)	(78)
<b>Comprehensive loss</b>						<b>(1,074)</b>
Common stock issued, net of issuance costs	954,000	954	702	--	--	1,656
Stock-based compensation expense	--	--	48	--	--	48
<b>Balance at December 31, 2010</b>	<b>3,154,000</b>	<b>\$3,154</b>	<b>\$20,340</b>	<b>(\$13,515)</b>	<b>\$ 81</b>	<b>\$10,060</b>

See notes to financial statements.

## Statements of Cash Flows

(Dollars in Thousands)

Plaza Bank

Years Ended December 31, 2010 and 2009

	2010	2009
<b>Cash Flows from Operating Activities</b>		
Net loss	(\$ 996)	(\$ 5,309)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for credit losses	1,119	4,100
Provision for foreclosed real estate valuation	215	857
Loss on foreclosed real estate	23	--
Depreciation and amortization	174	241
Stock-based compensation expense	48	63
Investment accretion, net	(3)	(10)
Deferral of loan origination costs and fees, less amortization	101	59
Decrease (increase) in accrued interest receivable	1	(117)
Decrease (increase) in accrued interest payable	39	(143)
Other	153	23
<b>Net cash provided by (used in) operating activities</b>	<b>874</b>	<b>(236)</b>
<b>Cash Flows from Investing Activities</b>		
Activity in securities available for sale:		
Purchases	(13,056)	(9,997)
Maturities, prepayments and calls	10,789	7,003
Activity in certificates of deposit:		
Purchases	(250)	(3,470)
Maturities	980	2,490
Purchase of Federal Home Loan Bank stock	--	(20)
Decrease (increase) in loans made to customers, net of principal collections	4,646	(18,427)
Purchases of premises and equipment	(10)	(1)
Proceeds from sale of foreclosed real estate	828	--
<b>Net cash provided by (used in) investing activities</b>	<b>3,927</b>	<b>(22,422)</b>
<b>Cash Flows from Financing Activities</b>		
Net (decrease) increase in time deposits	(8,433)	24,262
Net (decrease) increase in other deposit accounts	(5,702)	18,871
Decrease in securities sold under agreements to repurchase	--	(1,000)
Payments on FHLB borrowings	(372)	(1,373)
Proceeds from secured borrowings	716	--
Common stock issued, net of issuance costs	1,656	--
<b>Net cash provided by (used in) financing activities</b>	<b>(12,135)</b>	<b>40,760</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(7,334)</b>	<b>18,102</b>
<b>Cash and Cash Equivalents</b>		
Beginning of year	21,697	3,595
<b>End of year</b>	<b>\$14,363</b>	<b>\$21,697</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	\$1,827	\$2,460
Fair value adjustment of securities available for sale	78	29
<b>Supplemental Disclosure of Non-Cash Investing Activities</b>		
Transfer of loan to foreclosed real estate	\$1,567	\$-

See notes to financial statements.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### **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 midsized 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, valuation of foreclosed real estate 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

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Plaza Bank  
December 31, 2010 and 2009

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

#### **Loans and Allowance for Credit Losses** *(continued)*

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.

A troubled debt restructuring is a loan which the Bank, for reasons related to the borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider. The loan terms which have been modified or restructured due to the borrower's financial difficulty include, but are not limited to, a reduction in the stated interest rate, an extension of the maturity at an interest rate below market, a reduction in the face amount of the debt, a reduction in the accrued interest, or extension, deferral, renewal or rewrite.

The restructured loans may be classified "special mention" or "substandard" depending on the severity of the modification. Loans that were paid current at the time of modification may be upgraded in their classification after a sustained period of repayment performance, usually six months or longer.

Loans that are past due at the time of modification are classified "substandard" and placed on nonaccrual status. Those loans may be upgraded in their classification and placed on accrual status once there is a sustained period of repayment performance, usually six months or longer, and there is reasonable assurance that repayment will continue.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### **Loans and Allowance for Credit Losses** *(concluded)*

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.

#### **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.

#### **FHLB of Seattle 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. At December 31, 2009, the FHLB of Seattle reported a risk-based capital deficiency, and, therefore, was not able to pay a dividend for the fourth quarter of 2009, 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. On October 25, 2010, the FHLB of Seattle entered into a Consent Order with the Federal Housing Finance Agency (FHFA) which, among other things, sets forth requirement for capital management, asset composition, and other operational and risk management improvements. Additionally, it establishes a Stabilization Period ending with the filing of the June 30, 2011 financial statement, during which period the FHLB of Seattle retains an undercapitalized classification. Subsequent to this period and upon achieving and maintaining financial thresholds established by the FHFA it may begin repurchasing member stock at par. While the FHLB of Seattle will be less than adequately capitalized as of December 31, 2010, 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.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### **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.

#### **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.

#### **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.

The Bank adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Bank may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods. Management has evaluated the Bank's tax positions and concluded that the Bank has not taken any uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

When applicable, the Bank will recognize interest and penalties related to unrecognized tax benefits within the income tax expense line on the accompanying statements of income. Accrued interest and penalties will be included within the related tax liability line on the balance sheets, when applicable. There was no accrued interest or penalties for the years ended December 31, 2010 and 2009. All tax returns since the inception of the Bank are open to audit by the federal tax authorities.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### **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 which have maturities of less than three months. 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 any 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.

#### **Stock-Based Compensation**

Compensation cost for all stock-based awards is measured based on the grant-date fair value and recognized over the service period of stock-based awards, generally defined as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model.

#### **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.

On January 1, 2010, the Bank adopted ASU 2009-16 (ASC Topic 860, *Transfers and Servicing*), *Accounting for Transfers of Financial Assets*. This ASU is intended to improve the information provided in the financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### Fair Value Measurements

ASC 820, *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.

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

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2010</b>				
Securities available for sale	\$13,842	\$- -	\$13,842	\$- -
<b>December 31, 2009</b>				
Securities available for sale	\$11,651	\$- -	\$11,651	\$- -

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 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.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### Fair Value Measurements *(concluded)*

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 ASC 820 hierarchy:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2010</b>				
Impaired loans	\$1,737	\$ - -	\$ - -	\$1,737
Foreclosed real estate	1,404	--	--	1,404
<b>December 31, 2009</b>				
Impaired loans	\$2,536	\$ - -	\$ - -	\$2,536
Foreclosed real estate	925	--	--	925

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 2010 and 2009, certain impaired loans were remeasured and reported at fair value through a specific valuation allowance allocation of the allowance for credit losses based upon the fair value of the underlying collateral or discounted cash flows. Impaired loans with a carrying value of \$2,443 and \$3,339, respectively, were reduced by specific valuation allowance allocations totaling \$752 and \$1,056, respectively, which includes estimated costs to sell. The fair value of the collateral for these impaired loans utilizing Level 3 valuation inputs was \$1,737 and \$2,536, respectively, which does not include costs to sell.

Foreclosed real estate is reported at the fair value. During 2010 and 2009, foreclosed real estate was remeasured and reported at fair value through a specific valuation allowance based upon the fair value of the collateral. Foreclosed real estate with a carrying value of \$1,567 and \$1,708, respectively, were reduced by specific valuation allowance allocations totaling \$215 and \$857, respectively, which includes estimated costs to sell. The fair value of the foreclosed real estate utilizing Level 3 valuation inputs was \$1,404 and \$925, respectively, which does not include costs to sell.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### Fair Value of Financial Instruments

The following methods and assumptions were used by the Bank in estimating the fair value of financial instruments as disclosed in these financial statements:

##### **Cash and Cash Equivalents**

The recorded amount is a reasonable estimate of fair value.

##### **Certificates of Deposit**

The recorded amount is a reasonable estimate of fair value.

##### **Securities Available for Sale**

The fair value of securities is based on quoted market prices.

##### **Federal Home Loan Bank Stock**

The carrying value of this equity security approximates fair value.

##### **Pacific Coast Bankers' Bancshares Stock**

The carrying value of this equity security approximates fair value.

##### **Loans**

For variable rate loans that reprice frequently and have no significant change in credit risk, fair value is based on carrying amount. The fair value of fixed rate loans is estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The fair value of impaired loans is estimated using discounted cash flow analyses or underlying collateral values net of selling costs, where applicable.

##### **Deposits**

The fair value of deposits with no stated maturity date is included at the amount payable on demand. The fair value of fixed rate certificates of deposit is estimated using a discounted cash flow calculation based on interest rates currently offered on similar certificates. The carrying amount of variable rate certificates of deposit approximates fair value at the reporting date.

##### **Secured Borrowings**

Secured borrowings are variable rate and re-price frequently, the carrying amount approximates fair value.

##### **Federal Home Loan Bank Borrowings**

The fair value of the Bank's borrowings is estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

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

#### **Fair Value of Financial Instruments** *(concluded)*

##### **Accrued Interest**

The carrying amount of accrued interest approximates fair value.

##### **Off-Balance-Sheet Instruments**

The fair value of commitments to extend credit and standby letters of credit is estimated using fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the customers. Since the majority of the Bank's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Bank has determined that they do not have a distinguishable fair value.

#### **Recent Accounting Pronouncements**

In June 2009, Financial Accounting Standards Board (the FASB) issued an accounting standard related to the *Accounting for Transfers of Financial Assets*, which is effective for reporting periods ending after September 15, 2009. This standard is expected to be codified as part of ASC 860, *Transfers and Servicing*. This standard, among other things, will modify the financial-components approach, remove the concept of a qualifying special-purpose entity, clarify the isolation and effective control conditions for sale accounting, amend initial measurement of a transferor's interest in transferred financial assets, and require additional disclosures.

In July 2010, the FASB issued Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires more robust and disaggregated disclosures about the credit quality of financing receivables and allowances for credit losses, including disclosure about credit quality indicators, past due information and modifications of finance receivables. This ASU is effective for the Bank for annual reporting periods ending after December 15, 2010. The Bank will adopt this guidance for the annual reporting period ending after December 15, 2011. The adoption of this guidance will significantly expand the existing disclosure requirements but will not have an impact on the Bank's financial position, results of operation and cash flows.

#### **Reclassifications**

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation.

#### **Subsequent Events**

The Bank has evaluated subsequent events through May 17, 2011, the date on which the financial statements were issued.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 2 - Going Concern

The Bank currently faces a number of challenges, including current and prior year losses driven by credit quality issues, and meeting the regulatory requirements of the Consent Order.

In 2010, the Bank implemented a plan to increase its Tier 1 capital to 10 percent by selling additional shares, reducing expenses and reducing the asset size of the Bank. While successful in implementing the plan, additional credit losses required higher than forecasted provisions to the allowance for loan and lease losses resulting in an operating loss for the year ended December 31, 2010. As noted elsewhere in this report, the Bank's Tier 1 capital ratio was 8.84 percent at December 31, 2010. The Bank's Tier 1 capital ratio has subsequently risen to 9.10 percent as of March 31, 2011, but remains under the 10 percent ratio as required under the Consent Order. The board of directors and management of the Bank have a goal to achieve the Tier 1 capital ratio of 10 percent through a combination of strategies that include raising additional capital, improving operating margins and controlling expenses.

The accompanying financial statements are presented assuming the Bank will continue as a going concern; however, the above conditions raise doubt about the Bank's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Bank be unable to continue as a going concern.

### Note 3 - 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 are as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2010</b>				
U.S. treasury securities	\$ 970	\$ 1	\$ --	\$ 971
U.S. government and agency securities	10,007	29	98	9,938
Mortgage-backed securities	2,784	149	--	2,933
<b>Total</b>	<b>\$13,761</b>	<b>\$179</b>	<b>\$98</b>	<b>\$13,842</b>
<b>December 31, 2009</b>				
U.S. government and agency securities	\$ 6,997	\$ 9	\$45	\$ 6,961
Mortgage-backed securities	4,495	195	--	4,690
<b>Total</b>	<b>\$11,492</b>	<b>\$204</b>	<b>\$45</b>	<b>\$11,651</b>

(continued)

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 3 - Securities Available for Sale *(concluded)*

At December 31, 2010, there were seven individual securities in an unrealized loss position. For the years ended December 31, 2010 and 2009, 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, 2010, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,000	\$ 1,001
Due from one year to five years	8,007	7,974
Due from five to ten years	1,970	1,934
Mortgage-backed securities	2,784	2,933
<b>Total</b>	<b>\$13,761</b>	<b>\$13,842</b>

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.

There were no realized gains or losses on sales of securities in 2010 or 2009.

The fair value of pledged securities totaled \$7,143 and \$4,690 for the years ended December 31, 2010 and 2009, respectively.

### Note 4 - Loans

Loans at December 31 consist of the following:

	2010	2009
Commercial	\$22,673	\$28,673
Real estate:		
Commercial	50,278	50,513
Construction, land development and other land loans	2,565	5,159
Farmland	1,224	1,266
Residential 1-4 family	4,288	4,405
Residential multifamily	2,314	791
Consumer	432	637
	<b>83,774</b>	<b>91,444</b>
Less net deferred loan origination costs	475	374
<b>Total loans</b>	<b>\$83,299</b>	<b>\$91,070</b>

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 4 - Loans (concluded)

At December 31, 2010 and 2009, the Bank has loans outstanding in the hotel/motel industry, which represents approximately 20.15 percent and 18.2 percent of total loans outstanding, respectively.

Changes in the allowance for credit losses for the years ended December 31 are as follows:

	2010	2009
Balance at beginning of year	\$3,665	\$1,448
Provision for credit losses	1,119	4,100
Recoveries	232	80
Loan balances charged off	(1,690)	(1,963)
<b>Balance at end of year</b>	<b>\$3,326</b>	<b>\$3,665</b>

The following is a summary of information pertaining to impaired loans:

	2010	2009
<b>December 31</b>		
Impaired loans without a valuation allowance	\$ 255	\$ 37
Impaired loans with a valuation allowance	2,443	3,302
<b>Total impaired loans</b>	<b>\$2,698</b>	<b>\$3,339</b>
<b>Valuation allowance related to impaired loans</b>	<b>\$752</b>	<b>\$1,055</b>
<b>Loans on nonaccrual status</b>	<b>\$948</b>	<b>\$4,911</b>
<b>Years Ended December 31</b>		
Average investment in impaired loans	\$3,619	\$3,369
Interest income recognized on impaired loans	--	--
Interest income recognized on a cash basis on impaired loans	--	--
<b>Total loans past due ninety days or more and still accruing</b>	<b>--</b>	<b>--</b>

There are no commitments to lend additional funds to borrowers whose terms have been modified in troubled debt restructurings as of December 31, 2010 or 2009.

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, 2010 and 2009, such loans outstanding were \$355 and \$372, respectively. During 2010 and 2009, there were loan advances of \$151 and \$75, respectively. Principal repayments on these loans were \$168 and \$64 for 2010 and 2009, respectively.

Loans pledged as collateral for FHLB advances totaled \$14,818 and \$16,433 at December 31, 2010 and 2009, respectively.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 5 - Foreclosed Real Estate

Changes in foreclosed real estate for the years ended December 31 are as follows:

	2010	2009
Balance as of beginning of year	\$ 851	\$1,708
Real estate acquired in settlement of loans	1,567	--
Valuation allowance on foreclosed real estate	(215)	(857)
Real estate sold	(851)	--
<b>Balance as of end of year</b>	<b>\$1,352</b>	<b>\$ 851</b>

### Note 6 - Premises and Equipment

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

	2010	2009
Leasehold improvements	\$1,075	\$1,075
Furniture and equipment	587	576
	<b>1,662</b>	<b>1,651</b>
Less accumulated depreciation and amortization	970	796
<b>Premises and equipment, net</b>	<b>\$ 692</b>	<b>\$ 855</b>

The Bank leases its premises under operating leases. Rental expense for leased premises was \$365 and \$362 for 2010 and 2009, respectively, which is included in occupancy expense.

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

2011	\$ 401
2012	408
2013	425
2014	435
2015	261
Thereafter	57
<b>Total minimum payments required</b>	<b>\$1,987</b>

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 7 - Deposits

The composition of deposits at December 31 is as follows:

	2010	2009
Demand deposits, non-interest-bearing	\$ 9,563	\$ 6,582
Interest-bearing demand	3,495	3,023
Savings and money market	13,429	22,584
Time certificates, \$100,000 or more	54,887	53,833
Other time certificates	16,670	26,157
<b>Total deposits</b>	<b>\$98,044</b>	<b>\$112,179</b>

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

2011	\$40,139
2012	18,991
2013	6,510
2014	1,560
2015	4,357
<b>Total</b>	<b>\$71,557</b>

At December 31, 2010 and 2009, the Bank had brokered deposits totaling \$31,398 and \$12,991, or 32.02 percent and 11.58 percent of total deposits outstanding, respectively.

The Bank is a State of Washington Public Depository. The Bank is required to collateralize all public deposits in excess of F.D.I.C. insurance. At December 31, 2010, the Bank held \$6,342 of public deposits, which is approximately 6.47 percent of the Bank's total deposits. Of this amount, \$5,622 was fully collateralized with marketable securities.

### Note 8 - Secured Borrowings

The Bank transferred a portion of loan to another financial institution in 2010. The transaction did not qualify as a sale. The uncollected loan balance at December 31, 2010, is \$716,000 and is included in loans on the balance sheet. The secured borrowings at December 31, 2010, represent advances from the other financial institution bearing interest at 7.50 percent and maturing in February 2016. The total underlying loan on the balance sheet is secured by business assets and borrower's property. There were no unsecured borrowings at December 31, 2009.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 9 - FHLB Borrowings

FHLB borrowings at December 31, 2010, represent advances from the Federal Home Loan Bank of Seattle bearing a weighted-average interest rate of 4.46 percent and maturing at various dates through August 2018. The FHLB line available is 15 percent of the Bank's assets limited to available collateral and the balances outstanding at December 31, 2010 and 2009, were \$2,187 and \$2,559, respectively. The line is secured by investments and loans as discussed in Notes 2 and 3.

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

2011	\$ 373
2012	373
2013	304
2014	--
2015	--
Thereafter	1,137
<b>Total</b>	<b>\$2,187</b>

### Note 10 - Employee Benefits

The Bank has a 401(k) profit sharing plan covering substantially all employees. Prior to March 31, 2009, contributions to the 401(k) profit sharing plan consisted of a 3 percent non-elective contribution. The profit sharing plan was modified April 1, 2009, discontinuing the non-elective contribution. Contributions by the Bank to this plan in 2010 and 2009 totaled \$0 and \$23, respectively.

### Note 11 - Income Taxes

The Bank has not provided for income taxes in 2010 and 2009 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:

	2010	2009
<b>Deferred Tax Assets</b>		
Cash basis accounting	\$ 46	\$ --
Stock option expense	19	15
Organizational costs	170	188
Foreclosed real estate valuation	73	290
Allowance for credit losses	794	901
Accumulated depreciation	111	87
Operating loss carryforward	3,349	2,820
<b>Total deferred tax assets</b>	<b>4,562</b>	<b>4,301</b>

(continued)

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 11 - Income Taxes *(concluded)*

	2010	2009
<b>Deferred Tax Liabilities</b>		
Cash basis accounting	\$ --	\$ 14
Deferred income	93	130
<b>Total deferred tax liabilities</b>	<b>93</b>	<b>144</b>
<b>Net deferred tax assets before valuation allowance</b>	<b>4,469</b>	<b>4,157</b>
<b>Valuation Allowance</b>	(4,469)	(4,157)
<b>Net deferred tax assets</b>	<b>\$ --</b>	<b>\$ --</b>

At December 31, 2010, the Bank has a net operating loss carryforward totaling \$9.8 million, which expire starting in 2026 through 2030 and may be applied against future taxable income.

### Note 12 - 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. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the accompanying balance sheets.

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:

	2010	2009
Commitments to extend credit	\$15,575	\$14,457
Standby letter of credit	100	--
Commercial letter of credit	--	797
<b>Total</b>	<b>\$15,675</b>	<b>\$15,254</b>

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### **Note 12 - Commitments and Contingencies** *(concluded)*

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 and is required in instances where the Bank deems necessary.

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 13 - Significant Concentration of 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.

The Bank has relied on brokers and Internet products to generate deposits. The regulators have required the Bank to adopt a liquidity plan to limit the Bank's reliance on non-core funding sources and a plan for substantially reducing its Non-Core Funding Dependency Ratio. The Non-Core Funding Dependence Ratio at December 31, 2010 and 2009, was 55.22 percent and 51.27 percent, respectively. There is no guarantee that the Bank can replace noncore funding with core deposits.

### **Note 14 - 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. The estimated remaining life is 5.4 years.

*(continued)*

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 14 - 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 280,000 options remaining to grant at December 31, 2010.

A summary of the status of the Bank's stock options granted and stock warrants as of December 31, 2010, and changes during the year ending on those dates, is presented below:

	Shares	Weighted-Average Exercise Price
Options and warrants outstanding at December 31, 2008	288,000	\$10.03
Options forfeited	(5,000)	10.00
<b>Options and warrants outstanding at December 31, 2009</b>	<b>283,000</b>	<b>\$10.04</b>
Options forfeited	(20,500)	10.10
<b>Options and warrants outstanding at December 31, 2010</b>	<b>262,500</b>	<b>\$10.04</b>
<b>Vested or expected to vest at December 31, 2010</b>	<b>252,500</b>	<b>\$10.04</b>
<b>Exercisable at December 31, 2010</b>	<b>228,000</b>	<b>\$10.02</b>

The weighted-average remaining contractual life for stock options granted is 6.4 years. All options and warrants outstanding are considered to be out-of-the-money at December 31, 2010; therefore, the aggregate intrinsic value is \$0. There were no options or warrants exercised or granted in 2010 or 2009. Unrecorded compensation cost was \$42 at December 31, 2010, and is expected to be recognized over the next 1.5 years. There were no tax benefits recognized for the years ended December 31, 2010 and 2009.

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 15 - Fair Value of Financial Instruments

The estimated fair values and recorded carrying amounts at December 31 are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	\$14,363	\$14,363	\$21,697	\$21,697
Certificates of deposit	250	250	980	980
Securities available for sale	13,842	13,842	11,651	11,651
Other investments, at cost	170	170	170	170
Federal Home Loan Bank stock, at cost	447	447	447	447
Net loans	79,973	76,439	87,405	79,389
Accrued interest receivable	389	389	390	390
<b>Financial Liabilities</b>				
Deposits	\$98,044	\$98,160	\$112,179	\$112,142
Federal Home Loan Bank borrowings	2,187	2,268	2,559	2,700
Secured borrowings	716	716	--	--
Accrued interest payable	174	174	135	135

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair value of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits, and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

### Note 16 - 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.

(continued)

## Notes to Financial Statements

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Plaza Bank  
December 31, 2010 and 2009

### Note 16 - Regulatory Matters *(concluded)*

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 March 15, 2010, the most recent notification from the Bank's regulator categorized the Bank as adequately 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 of 10 percent and 12 percent as prescribed in the Stipulation to the Issuance of a Consent Order.

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, 2010</b>						
Tier 1 capital (to average assets)	\$ 9,977	8.84%	\$4,515	4.00%	\$5,644	5.00%
Tier 1 capital (to risk-weighted assets)	9,977	11.52	3,465	4.00	5,197	6.00
Total capital (to risk-weighted assets)	11,062	12.77	6,929	8.00	8,662	10.00
<b>December 31, 2009</b>						
Tier 1 capital (to average assets)	\$ 9,271	7.60%	\$4,880	4.00%	\$6,099	5.00%
Tier 1 capital (to risk-weighted assets)	9,271	9.88	3,752	4.00	5,628	6.00
Total capital (to risk-weighted assets)	10,429	11.12	7,504	8.00	9,381	10.00

As a condition of obtaining FDIC insurance, the Bank was required to 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. Under revised FDIC regulations, this requirement was extended for the first five years of operation.