Capital Pacific Bancorp

2007

Annual Report

Dear Shareholder,

As you know, 2007 was a difficult year for our industry and our bank as we coped with a deteriorating housing market that adversely impacted credit quality. Stock prices for the banking sector reflect heightened investor concern as the economic outlook remains uncertain. Late in the fourth quarter of 2007, we addressed our own credit issues and wrote off a $2 million loan to a developer, which resulted in our posting a loss for both the fourth quarter and the year. We acknowledge that this was a disappointing result for the year.

Nevertheless, we are quite optimistic about our prospects in 2008. Credit quality has stabilized, and we begin the year with ample reserves for future loan losses. In addition, we expect to recognize substantial recoveries on the developer loan previously written off, although the amount and timing remain uncertain. More importantly, we are making measurable progress on our strategic initiatives in deposit-oriented sectors. Our attention and activities are focused on building our business with non-profit organizations, professional firms and property management companies. We acknowledge the extreme competition for deposits, but we remain confident of our success. We are appropriately managing our staff, management, marketing and product development resources around our strengths in these sectors. For example, our sector-targeted "Getting it Done" series of informational forums are increasingly popular and well attended. We have several more planned for 2008.

> *"As real estate investors and property managers, the larger, national banks have often not been a good fit. We appreciate that Capital Pacific Bank is the right size for us. They have always more than* **met our financing needs for working capital in a timely and efficient manner."**
>
> *–**Alan Kinsel**, Chairman, Kinsel Ameri Properties, Inc.*

> *"As our banking partner, Capital Pacific Bank has been both* **flexible and responsive.** *The service is first-rate. We like having our business in the hands of a* **truly local bank** *where we know the decision-making is done right here. Capital Pacific is in touch with our needs as a growing business; I feel like* **we're in this together."**
>
> *–**Mike Shackelford**, Managing Partner, Ater Wynne LLP*

Last year, we worked closely with the Oregon Facilities Authority in shaping the new SNAP bond program, offering tax-exempt loans to non-profit organizations. Last spring, we closed the first such SNAP bond originated in Oregon for one of our independent school clients. Additionally, we have expanded and refined our innovative product offering for property management companies. Capital E-Deposit (our desktop scanner which allows our clients to deposit checks from their offices without needing to visit a branch) has been well received by an increasing number of our clients, including law and accounting firms.

"Capital Pacific Bank **exceeded our expectations** *by seeking out creative ways to say* **"yes"** *to our financing needs, rather than the "no" responses typical of most banks. They looked at the whole picture, seeing substantive value in things ignored by others. And even when agreement was reached, they continued to seek savings for our school by introducing us to the new tax-free Oregon SNAP bond program,* **standing with us** *as we became the first non-profit in the state to be approved."*
*- **Rob Timmons**, Business Manager,*
The International School

"Capital Pacific Bank went above and beyond other local and regional banks to get our business. We recognized that and it made us feel special. Their commitment to being part of the community, their work with other nonprofits, and genuine interest in helping OMSI has created a **sense of loyalty and partnership between our organizations.** *Beyond that, there's a* **distinctly personal touch to their services.** *We like having a representative to call where we have a relationship versus a call center or an 800 number."*
*–**Tim Mack**, Vice President - Finance,*
Oregon Museum of Science and Industry

In 2007, we were faced with significant challenges including growing pains that resulted in structural changes in procedures and portfolio management. What we learned is that we will succeed so long as we do not compromise our commitment to elite client service. As such, we are working proactively with all of our staff to ensure that we are "getting it done" for our clients. Elite service, client trust, and innovative convenience are the foundation of our bank and are what make us different. We will always honor and nourish this culture which is organic and fundamental to our bank.

We wish to emphasize our excitement going forward into 2008 and our commitment to building the best business bank in Portland, based on strong credit quality, a growing client base, and an energized and capable staff. With these elements in place we will enhance our reputation among our targeted client sectors and significantly enhance shareholder value. On behalf of our staff and management team, I wish to thank you for your continuing support.

Mark Stevenson
Chief Executive Officer

CAPITAL PACIFIC BANCORP AND SUBSIDIARY

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Capital Pacific Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheets of Capital Pacific Bancorp and Subsidiary as of December 31, 2007 and 2006, and the related statements of operations, changes in stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of Capital Pacific Bancorp's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Pacific Bancorp and Subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 3, 2008

BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 517,021	$ 2,420,279
Federal funds sold	3,735,000	1,946,000
Time certificates of deposit with other banks	650,000	650,000
Available-for-sale investment securities	931,549	1,033,469
Federal Home Loan Bank stock, at cost	230,000	230,000
Loans, net of allowance for loan losses and unearned loan fees	126,131,465	105,185,854
Premises and equipment, net of accumulated depreciation	297,374	364,862
Accrued interest receivable and other assets	2,065,478	1,572,261
TOTAL ASSETS	$ 134,557,887	$ 113,402,725
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	19,531,478	$ 19,188,234
Interest-bearing demand and money market accounts	58,073,407	45,597,848
Time deposits	35,769,210	33,264,982
Total deposits	113,374,095	98,051,064
Lines of credit and other borrowings	6,253,181	181,351
Accrued interest payable and other liabilities	1,443,874	1,278,209
Total liabilities	121,071,150	99,510,624
COMMITMENTS AND CONTINGENCIES (Notes 11 and 13)		
STOCKHOLDERS' EQUITY		
Common stock, no par value, 10,000,000 shares authorized; 1,552,178 and 1,551,178 shares issued and outstanding, respectively	15,013,638	14,940,838
Accumulated deficit	(1,523,937)	(1,037,131)
Accumulated other comprehensive loss, net of tax	(2,964)	(11,606)
Total stockholders' equity	13,486,737	13,892,101
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 134,557,887	$ 113,402,725

See accompanying notes.

CAPITAL PACIFIC BANCORP AND SUBSIDIARY
STATEMENTS OF OPERATIONS

	Years Ended December 31, 2007	2006
INTEREST INCOME		
Interest and fees on loans	10,359,473	$ 7,899,406
Interest on investment securities	43,470	59,147
Interest on federal funds sold	39,055	52,219
Other interest income	33,922	34,945
Total interest income	10,475,920	8,045,717
INTEREST EXPENSE		
Interest on interest-bearing deposit accounts	2,071,011	1,130,124
Interest on time deposits	1,746,182	1,564,124
Interest on borrowed funds	324,787	235,695
Total interest expense	4,141,980	2,929,943
Net interest income before provision for loan losses	6,333,940	5,115,774
PROVISION FOR LOAN LOSSES	3,189,500	594,000
Net interest income after provision for loan losses	3,144,440	4,521,774
NONINTEREST INCOME		
Service charges and fees	513,631	378,750
Commissions on brokered loans	193,936	251,239
Gain on sale of loans	97,059	8,934
Other noninterest income	254,070	150,518
Total noninterest income	1,058,696	789,441
NONINTEREST EXPENSE		
Salaries and employee benefits	2,720,785	2,922,972
Occupancy	594,967	556,689
Correspondent bank	521,043	389,973
Professional	274,880	193,976
Data processing and telephone	196,575	165,841
Directors and shareholder relations	143,575	121,030
Regulatory assessment	106,668	18,120
Advertising and marketing	92,657	90,860
Provision for undisbursed commitments	18,000	23,000
Other noninterest expense	371,494	238,936
Total noninterest expense	5,040,644	4,721,397
(Loss) income before income tax (benefit) expense	(837,508)	589,818
INCOME TAX (BENEFIT) EXPENSE	(350,702)	247,669
NET (LOSS) INCOME	$ (486,806)	$ 342,149
(LOSS) EARNINGS PER SHARE OF COMMON STOCK		
Basic	$ (0.31)	$ 0.23
Diluted	$ (0.31)	$ 0.22
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR THE PERIOD		
Basic	1,551,649	1,519,068
Diluted	1,551,649	1,583,200

See accompanying notes.

	Common Stock		Accumulated	Accumulated Other Comprehensive	Total Stockholders'	Comprehensive
	Shares	Amount	Deficit	Loss	Equity	Income (Loss)
BALANCE, December 31, 2005	1,511,178	$ 14,540,818	$ (1,379,260)	$ (22,068)	$ 13,139,490	
Stock options exercised	40,000	400,000	–	–	400,000	
Net income	–	–	342,149	–	342,149	$ 342,149
Other comprehensive income: Unrealized gains arising during the period, net of tax	–	–	–	10,462	10,462	10,462
Comprehensive income						$ 352,611
BALANCE, December 31, 2006	1,551,178	14,940,818	(1,037,111)	(11,606)	13,892,101	
Stock options exercised	1,000	10,000	–	–	10,000	
Stock-based compensation	–	4,984	–	–	4,984	
Tax benefit from stock options exercised	–	57,816	–	–	57,816	
Net loss	–	–	(486,806)	–	(486,806)	$ (486,806)
Other comprehensive income: Unrealized gains arising during the period, net of tax	–	–	–	8,642	8,642	8,642
Comprehensive loss						$ (478,164)
BALANCE, December 31, 2007	1,552,178	$ 15,013,618	$ (1,523,917)	$ (2,964)	$ 13,486,737	

CAPITAL PACIFIC BANCORP AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2007	Years Ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (486,806)	$ 342,149
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	119,963	120,882
Recognition of interest only strips from sale of loans	(15,737)	-
Net amortization (accretion) of premiums and discounts on investment securities and interest-only strips	5,410	(2,155)
Deferred taxes	(350,702)	232,000
Gain on sale of loans	(97,059)	(8,934)
Provision for loan losses	3,189,500	594,000
Provision for undisbursed commitments	18,000	23,000
Stock-based compensation	4,984	-
Excess tax benefit from stock options exercised	(18,240)	-
Long-term incentive compensation	65,490	107,185
Changes in cash and cash equivalents in certain assets and liabilities:		
Increase in interest receivable and other assets	(136,455)	(329,858)
Increase (decrease) in interest payable and other liabilities	139,991	(75,985)
Net cash from operating activities	2,438,339	1,002,284
CASH FLOWS FROM INVESTING ACTIVITIES		
Net federal funds sold	(1,789,000)	(1,946,000)
Proceeds from maturity of investment securities	114,829	865,987
Purchases of Federal Home Loan Bank stock	-	(215,300)
Net maturities of time certificates of deposit with other banks	-	(102,000)
Net loans made to customers	(24,038,052)	(31,908,816)
Purchases of furniture and equipment	(52,475)	(238,725)
Net cash used in investing activities	(25,764,698)	(33,544,854)
CASH FLOWS FROM FINANCING ACTIVITIES		
Demand deposit and money market accounts received from customers	12,818,803	31,941,006
Time deposits received from customers	2,504,228	3,546,701
Net proceeds (repayments of) from borrowed funds	6,071,830	(55,273)
Net federal funds purchased	-	(1,721,000)
Proceeds from exercise of stock options	10,000	400,000
Excess tax benefit from stock options exercised	18,240	-
Net cash from financing activities	21,423,101	34,111,434

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2007	2006
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	$(1,903,258)	$ 1,568,864
CASH AND DUE FROM BANKS, beginning of year	2,420,279	851,415
CASH AND DUE FROM BANKS, end of year	$ 517,021	$ 2,420,279
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid in cash	$ 4,111,330	$ 2,849,744
Taxes paid in cash	$ 48,320	$ 7,367
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Change in fair value of available-for-sale investment securities, net of taxes	$ 8,642	$ 10,462

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Effective April 17, 2007, Capital Pacific Bancorp (Bancorp or the Company), a state of Oregon business corporation, was approved by stockholders for the purpose of becoming a holding company for Capital Pacific Bank. The tax-free structural reorganization through which Bancorp became the holding company for the Bank was completed under an Agreement and Plan of Exchange, whereby each of the issued and outstanding shares of the Bank's common stock was exchanged for one share of Bancorp's common stock.

On June 3, 2003, Capital Pacific Bank (the Bank) received regulatory approval to become a state chartered institution authorized to provide banking services in the state of Oregon, and commenced operations on August 4, 2003. The Bank, operating from its headquarters in Portland, Oregon, provides banking services to businesses and individuals located primarily in the Portland area. It is subject to the regulations of certain state and federal agencies, and will undergo periodic examinations by those regulatory authorities.

Basis of presentation – The accompanying consolidated financial statements include the accounts of Bancorp and its wholly-owned subsidiary, the Bank. Substantially all activity of Bancorp is conducted through its subsidiary and all significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

Management's estimates and assumptions – The financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The most significant accounting estimates for the Bank involve the determination of the recorded value of the allowance for loan losses and the long-term incentive compensation liability. Management believes the assumptions used in arriving at these estimates are appropriate.

Cash and due from banks – For purposes of reporting cash flows, cash and due from banks includes cash and deposits with correspondent banks. At December 31, 2007, the Bank had cash deposits at other financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with large, well capitalized financial institutions, management believes the risk of loss to be minimal. Cash and due from banks includes amounts the Bank is required to maintain with the Federal Reserve Bank of San Francisco. As of December 31, 2007, the Bank had a reserve requirement of $428,000.

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

Investment securities – The Bank is required to specifically identify its investment securities as "available-for-sale," "held-to-maturity," or "trading accounts." Accordingly, management has determined that all investment securities held at December 31, 2007 and 2006, are "available-for-sale." Securities are classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Gains or losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income or loss within stockholders' equity until realized. Fair values for these investment securities are based on quoted market prices.

Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

Federal Home Loan Bank stock – The Bank's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at par value, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Bank may request redemption at par value of any shares in excess of the amount the Bank is required to hold. Stock redemptions are made at the discretion of the FHLB.

Loans, net of allowance for loan losses and unearned loan fees – Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and unearned loan fees. Interest on loans is calculated by the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect

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

the borrower's ability to pay. Various regulatory agencies, as a regular part of their examination process, will periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of examinations.

Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. When the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Furniture and equipment – Furniture and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from two to ten years. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for renewals and betterments are capitalized.

Gain on sale of loans and interest-only strips – From time-to-time, the Bank may sell all or a partial interest in selected loans. The amount of gain or loss recognized on the sale of a loan is determined by an allocation of the sale price to the carrying amount of the portion of the loan sold and to the retained interest in the loan based on the relative fair value at the date of transfer. The fair values allocated to loan interests sold and retained are based on market prices, if available. Otherwise, fair values are determined based upon management's estimate of the present value of expected cash flows of instruments similar to the various components sold and retained.

When the Bank sells all or a portion of certain loans, it may retain the contractual right to receive a portion of the interest due on the sold loan. The right to these payments represents a retained interest in the sold loan and is commonly referred to as an interest-only strip. Interest-only strips are recorded at fair value similar to debt securities classified as available-for-sale. At December 31, 2007 and 2006, the carrying value of interest-only strips approximated fair market value.

Income taxes – Deferred tax assets and liabilities are determined based on the tax effects of the differences between the book and tax bases of various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established to reduce deferred tax assets if it is uncertain that all or a portion of the deferred tax assets will be realized.

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

Advertising and marketing – The Bank expenses advertising and marketing costs as they are incurred. Advertising and marketing costs were $92,657 and $90,860 for the years ended December 31, 2007 and 2006, respectively.

(Loss) Earnings per share of common stock – Basic (loss) earnings per share of common stock is computed by dividing net (loss) income available to stockholders by the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per share of common stock is computed similar to basic (loss) earnings per share of common stock except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. All outstanding common stock options were excluded from the diluted loss per share calculation at December 31, 2007 and 604 shares were excluded at December 31, 2006 because their impact on the calculation would have been antidilutive.

Stock-based compensation – The Bank adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-based Payment," an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation," using the prospective adoption method for stock-based awards. In accordance with this method, this statement was applied prospectively to new awards and to awards modified, repurchased, or cancelled after December 31, 2005.

Share-based awards that do not require future service (i.e., fully vested awards at the grant date) are expensed immediately. Share-based employee awards that require future service are amortized over the requisite service period. In accordance with SFAS No. 123R, the financials statements for the period ended December 31, 2007, include amortization of compensation expense recognized for stock-based compensation awards granted during 2007, recognized over the service period, net of estimated forfeitures of such awards. The Bank recognizes stock-based compensation expense on a straight-line basis.

The fair value of each option granted was estimated based on the following assumptions. Expected volatility was based on the historical volatility of the price of the Company's stock for a period consistent with the expected life of the options. The Company used historical data to estimate option exercise and employee termination rates within the valuation model. The expected term of options represents the period of time that stock options are expected to be outstanding and is estimated based on historical exercise and forfeiture activity. Expected dividends are estimated to be zero due to the Company's recent historical practice of not paying dividends. The risk-free rate of return for periods within the contractual life of the option was based on the U.S. Treasury yield curve in effect at the time of the grant.

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

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for the year ended December 31:

	2007
Dividend yield	0.00%
Expected life (years)	7
Expected volatility	11.72% - 18.92%
Risk-free rate	4.75% - 5.25%
Weighted average grant date fair value of options granted	$1.81

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received. The Bank maintains an allowance for off-balance sheet items, established as an accrued liability through charges to noninterest expense. The allowance is an amount that management believes will be adequate to absorb possible losses associated with off-balance sheet credit risk. The evaluations take into consideration such factors as changes in the nature and volume of the commitments to extend credit and undisbursed balances of existing lines of credit and letters of credit.

Fair value of financial instruments – The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash, due from banks, federal funds sold, and time certificates of deposit with other banks – The carrying amounts of cash and short-term instruments approximate their fair value.

Available-for-sale securities – Fair values for available-for-sale investment securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Restricted equity securities – The carrying amounts for restricted equity securities approximate fair values.

Loans receivable – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

Deposit liabilities – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable rate, fixed-term money market accounts, and certificates of deposit (CDs) approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Lines of credit and other borrowings – The carrying amounts of the Bank's borrowings approximate their fair value.

Off-balance sheet instruments – The Bank's off-balance sheet instruments include unfunded commitments to extend credit, standby letters of credit, and the notional amount of interest-only strips retained. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Reclassifications – Certain reclassifications have been made to the 2006 financial statements to conform with current year presentations. These reclassifications have no effect on previously reported net income.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of available-for-sale investment securities at December 31 are summarized as follows:

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 437,409	$ 69	$ (5,400)	$ 432,078
Obligations of U.S. governement agencies	499,099	372	-	499,471
	$ 936,508	$ 441	$ (5,400)	$ 931,549

2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 498,230	$ -	$ (18,752)	$ 479,478
Obligations of U.S. government agencies	554,654	-	(663)	553,991
	$ 1,052,884	$ -	$ (19,415)	$ 1,033,469

NOTE 2 – INVESTMENT SECURITIES – (continued)

These securities described in the following table had gross unrealized losses at December 31, 2007. The Bank has evaluated the unrealized losses for the mortgage-backed securities and U.S. government obligations and determined that the decline in value at December 31, 2007, is temporary and is related to the change in market interest rates since the date of their purchase.

	Less Than 12 Months		Greater Than 12 Months	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$ -	$ -	$ 367,813	$ (5,400)
Obligations of U.S. government agencies	-	-	-	-
	$ -	$ -	$ 367,813	$ (5,400)

The amortized cost and estimated fair value of available-for-sale investment securities at December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers could have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 367,828	$ 366,990
Due after one year through five years	557,006	552,872
Due after five years through ten years	11,674	11,687
	$ 936,508	$ 931,549

For the purpose of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted average contractual maturities of underlying collateral.

At December 31, 2007 and 2006, available-for-sale investment securities of $678,118 and $1,034,763, respectively, were pledged to secure other borrowings and public funds, as permitted or required by law. In addition to the securities, the Bank pledged $650,000 in time certificates of deposit at December 31, 2007 and 2006.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

As of December 31 the loan portfolio consisted of the following:

	2007	2006
Commercial loans	$ 63,428,013	$ 55,993,419
Real estate loans	61,163,805	49,583,858
Consumer loans	4,066,831	1,019,172
Overdrafts	177,856	83,713
Total loans	128,836,505	106,680,162
Less allowance for loan losses	(2,402,403)	(1,279,804)
Less unearned loan fees	(302,637)	(214,504)
Loans, net of allowance for loan losses and unearned loan fees	$ 126,131,465	$ 105,185,854

For the year ended December 31, 2007, there were $2,108,628 in charge-offs and recoveries of $41,781. Impaired loans totaled $1,809,785 at December 31, 2007, which approximated the Bank's average investment in impaired loans during 2007, for which the Bank allocated $365,611 of the allowance for loan losses. Lost interest income related to impaired loans in 2007 totaled $29,645. For the year ended December 31, 2006, there were $184,617 in charge-offs and recoveries of $5,421. Impaired loans totaled $150,000 at December 31, 2006, which approximated the Bank's average investment in impaired loans during 2006, for which the Bank allocated $106,397 of the allowance for loan losses. Lost interest income related to impaired loans in 2006 totaled $3,593.

During 2007, charge-offs included $2.0 million for an unsecured loan to a real estate developer. Management is actively pursuing recovery and believes the likelihood of a substantial recovery is probable.

NOTE 4 – PREMISES AND EQUIPMENT

As of December 31, the composition of premises and equipment is summarized as follows:

	2007	2006
Furniture and equipment	$ 454,816	$ 426,507
Leasehold improvement	207,276	184,244
Software	102,758	101,624
Total premises and equipment	764,850	712,375
Less accumulated depreciation	(467,476)	(347,513)
Premises and equipment, net of accumulated depreciation	$ 297,374	$ 364,862

NOTE 5 – TIME DEPOSITS

Time certificates of deposit of $100,000 and over aggregated to $33,264,982 and $31,823,602 at December 31, 2007 and 2006, respectively.

The scheduled maturities for all time certificates of deposit are as follows:

Years ending December 31, 2008	$ 21,357,296
2009	11,142,849
2010	2,212,607
2011	956,458
2012	100,000
	$ 35,769,210

NOTE 6 – LINES OF CREDIT AND OTHER BORROWINGS

The Bank has a borrowing agreement with the Federal Reserve Bank of San Francisco whereby it participates in the Treasury, Tax, and Loan Note Option program. Borrowings under this program are collateralized by investment securities and carried at an interest rate of approximately 4.84% during 2007. The note balance, which was $243,181 and $181,351 as of December 31, 2007 and 2006, respectively, is payable on demand.

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank's FHLB stock and loans, or other instruments, which may be pledged. As of December 31, 2007, outstanding advances from the FHLB totaled $6,000,000. The amount outstanding consists of one note, with a fixed rate of 4.62% maturing on January 3, 2008. As of December 31, 2006, the Bank had no outstanding borrowings with the FHLB. Maximum borrowings available from the FHLB for notes payable, lines of credit, and the Cash Management Advance program totaled $16.7 million at December 31, 2007. Available borrowings and their respective terms are subject to eligible collateral being pledged and are reduced by outstanding letters of credit. At December 31, 2007, there were no outstanding letters of credit at FHLB and $24,567,252 of loans were pledged as collateral.

The Bank also has federal funds line of credit agreements with three financial institutions, the Federal Reserve Bank of San Francisco, and Pacific Coast Bankers Bank. Maximum aggregate borrowings available under these lines totaled $27.9 million as of December 31, 2007. These lines support short-term liquidity requirements and their use may be limited, depending on the lending institution. At December 31, 2007 and 2006, there were no outstanding borrowings. The Bank had $21,903,710 of loans pledged as collateral at Federal Reserve Bank of San Francisco at December 31, 2007.

At December 31, 2007, the Company has outstanding $10,000 in notes payable to executives, bearing interest at the prime rate plus 1.00%, and due on demand.

NOTE 7 – INCOME TAXES

At December 31, 2007 and 2006, the Bank had available to offset future taxable income, net operating loss carryforwards of approximately $1,042,000 and $780,000 and unamortized preopening expenses, capitalized for tax purposes, of approximately $31,000 and $73,000, respectively. The net operating loss carryforwards will begin expiring in 2024, unless utilized in earlier tax years. The preopening expenses are being amortized and deducted for tax purposes over a 60-month period.

The income tax (benefit) expense consists of the following:

	2007	2006
Currently payable		
Federal	$ -	$ -
State and local	-	15,669
Adjustments to equity	-	-
	-	15,669
Deferred tax (benefit) expense		
Federal	(265,802)	184,000
State and local	(84,900)	48,000
	(350,702)	232,000
Income tax (benefit) expense	$ (350,702)	$ 247,669

Deferred income taxes represent the tax effect of differences in timing between financial income and taxable income. As of December 31, 2007 and 2006, net deferred tax benefits recorded among accrued interest receivable and other assets in the accompanying balance sheets include the following components:

	2007	2006
Deferred tax assets:		
Unamortized preopening expenses	$ 12,100	$ 28,600
Net operating loss carryforward	346,202	307,100
Accrual to cash adjustment	-	104,600
Allowance for loan losses	669,900	368,700
Reserve for off balance sheet commitments	61,200	54,200
Deferred compensation	81,000	-
Unrealized loss on securities	2,000	7,800
Nonaccrual loan interest	39,900	-
Other	17,200	10,500
Total deferred tax assets	1,229,502	881,500
Deferred tax liabilities:		
Loan origination costs	115,700	106,200
Accumulated depreciation	78,500	86,600
Prepaid expenses	62,900	45,200
Loan participation sale adjustment	8,700	4,000
Other	-	20,700
Total deferred tax liabilities	265,800	262,700
Net deferred tax assets	$ 963,702	$ 618,800

NOTE 7 – INCOME TAXES – (continued)

Management believes, based upon the Bank's historical performance, the deferred tax assets will be realized in the normal course of operations, and has determined that no valuation allowance is deemed necessary at December 31, 2007.

The following summarizes the differences between the provision for income taxes for financial statement purposes and the federal statutory rate of 34% for the year ended December 31, 2007.

	2007		
Federal, at statutory rate	$	(284,753)	34.00%
State and local, net of tax benefit		(44,547)	5.32%
Other		(21,402)	2.55%
Effective rate	$	(350,702)	41.87%

NOTE 8 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank expects to have such transactions in the future. Management believes loans and commitments to loan funds included in such transactions are made in compliance with applicable laws on substantially equivalent terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of the Bank, do not involve more than the normal risk of collection or present any other unfavorable features. At December 31, 2007 and 2006, loans outstanding to directors, executive officers, principal stockholders, and companies with whom they are associated totaled $273,896 and $32,653, respectively.

Related party deposits held by the Bank at December 31, 2007 and 2006, amounted to approximately $1,106,288 and $2,534,156, respectively.

NOTE 9 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

NOTE 9 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK – (continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the notional amounts of the Bank's financial instruments with off-balance sheet risk at December 31, 2007, are as follows:

	Contract Amounts
Financial instruments whose contract amounts contain credit risk:	
Undisbursed balance of existing lines of credit	$ 39,314,307
Letters of credit written	1,464,608
	$ 40,778,915

The undisbursed balance of existing lines of credit represents agreements to lend to customers, as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements including, commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

An allowance for off-balance sheet loan commitments, undisbursed lines of credit, and letters of credit has been established as an accrued liability in the amount of $156,000 and $138,000 at December 31, 2007 and 2006, respectively.

NOTE 10 – CONCENTRATIONS OF CREDIT RISK

A majority of the Bank's loans and commitments have been granted to customers in the Bank's market area. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The Bank's loan policies do not allow the extension of credit to any single borrower in excess of 25% of the Bank's capital (15% for other than real estate secured loans).

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease commitments – At December 31, 2007, the Bank leased its office space in Portland, Oregon, under an operating lease agreement which expires on August 31, 2013, and includes a fixed escalation clause. Approximate future minimum payments under this lease agreement are as follows:

Years ending December 31,	2008	$	239,000
	2009		256,000
	2010		269,000
	2011		287,000
	2012		287,000
	Thereafter		169,000
		$	1,507,000

Rent expense, excluding common area maintenance, was $245,801 for the years ended December 31, 2007 and 2006, respectively.

Legal contingencies – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, there are no matters presently known that are expected to have a material adverse effect on the financial condition of the Bank.

NOTE 12 – COMMON STOCK WARRANTS AND OPTIONS

Employee warrants – Current employees, who placed capital at risk to fund the Bank's organizational expenses prior to the initial offering of common stock, received one common stock warrant for each $10 invested. The Bank issued 40,400 warrants to these employees, each of which is exercisable for one share of common stock at a price of $10 per share. The warrants expire on August 4, 2013. As of December 31, 2007, no warrants issued to employees have been exercised.

NOTE 12 – COMMON STOCK WARRANTS AND OPTIONS – (continued)

Warrants issued to nonemployees – As compensation for services rendered in connection with the initial offering of common stock, the Bank issued a warrant to its Placement Agent. The warrant allows the Placement Agent to purchase up to 18,800 shares of common stock at $10 per share. The warrant expires June 4, 2008, and may be exercised at any time after June 4, 2004, until expiration. The Bank also issued warrants to a professional assisting with the initial offering as compensation for services rendered and to a director who placed capital at risk to fund the Bank's organizational expenses. These warrants allow the holder to purchase an aggregate of 2,900 shares of common stock at $10 per share through expiration on August 4, 2013. As of December 31, 2007, no warrants issued to nonemployees have been exercised.

Stock incentive plan – The Bank maintains a stock incentive plan approved by the Board of Directors and ratified by the stockholders in April 2004, authorizing the grant of up to 305,000 common stock shares. The stock incentive plan allows for the granting of both incentive and nonstatutory stock options. For all options, the option price, number of shares granted, and duration for the stock options are determined and approved by the Board of Directors. However, the exercise price for incentive stock options must be at least 100% of the fair market value of the shares on the date of grant, and if the optionee is a significant stockholder, the exercise price for incentive stock options must be at least 110% of the fair market value of the shares on the date of grant. The maximum life for stock options granted is ten years from the date of grant or five years if the optionee is a significant stockholder.

The following table summarizes stock options outstanding under this plan:

	Total Options	Incentive Options	Nonstatutory Options	Weighted Average Exercise Price	Weighted Average Fair Value
Options under grant – December 31, 2005	300,215	200,815	99,400	$ 10.96	
Options exercised in 2006	(40,000)	(40,000)	-	$ 10.00	
Options forfeited in 2006	(5,239)	(5,239)	-	$ 13.30	
Options under grant – December 31, 2006	254,976	155,576	99,400	$ 11.17	
Options granted in 2007	7,500	7,500	-	$ 11.22	$ 1.81
Options exercised in 2007	(1,000)	(10,000)	-	$ 10.00	
Options forfeited in 2007	(12,500)	(12,500)	-	$ 12.15	
Options under grant – December 31, 2007	248,976	140,576	99,400	$ 11.12	
Options exercisable – December 31, 2007	212,192	135,925	76,267	$ 10.95	
Options available for grant – December 31, 2007	13,691				

NOTE 12 – COMMON STOCK WARRANTS AND OPTIONS – (continued)

At the date of exercise, the total intrinsic value of options exercised in 2007 and 2006 was $1,000 and $132,000, respectively.

As of December 31, 2007, there was $14,392 of unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of approximately 3.5 years.

The following table summarizes information regarding stock options outstanding at December 31, 2007, under the Bank's stock option plan:

Incentive Stock Options				Nonstatutory Stock Options			
Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Average Remaining Contractual Life (in years)	Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Average Remaining Contractual Life (in years)
$ 9.75	3,000	-	0.90	$ 10.00	30,000	30,000	5.64
$ 10.00	106,500	106,500	2.54	$ 12.00	22,500	15,000	7.38
$ 10.70	12,000	12,000	5.96	$ 13.00	46,900	31,267	7.99
$ 10.75	4,250	4,063	6.46				
$ 11.50	2,000	-	9.51				
$ 11.90	625	313	7.54				
$ 13.00	8,483	5,489	7.98				
$ 13.30	375	281	6.86				
$ 13.75	10,239	6,826	4.88				
$ 13.80	1,500	-	9.13				
$ 13.92	604	453	6.94				
	149,576	135,925	3.75		99,400	76,267	7.14
Aggregate Intrinsic Value							
	$ -	$ -			$ -	$ -	

The fair value of options vested during 2007 and 2006 was $34,796 and $80,016, respectively.

NOTE 13 – EMPLOYMENT AGREEMENTS

In June 2005, the Bank entered into three-year employment agreements with key executive officers. In addition to providing each officer with compensation and other customary benefits, if certain conditions for termination as provided in the employment agreement are met, the officer is entitled to receive salary and other benefits from the effective date of termination through the remaining term of his or her employment agreement. At current compensation levels, if all covered executive officers under contract were terminated and entitled to receive benefits, the Bank would be required to make maximum monthly payments of $38,000 until the expiration of the contracts in June 2008.

In December 2005, the Bank entered into employment agreements with two additional executives. The agreements cover a three year period and include agreed-upon annual increases in base salary as of each anniversary date. In addition, both agreements include short and long-term incentive compensation opportunities based upon achievement of performance goals and thresholds as established by the Board of Directors for each fiscal year. The agreements also provide compensation, under certain conditions, in the event the executive is terminated. The maximum monthly payments that would be paid under an event of termination total $29,167 until the expiration of the contracts in December 2008. In addition, each executive is entitled to supplemental compensation equal to the short and long-term incentive compensation opportunities that would have been awarded had the executive achieved minimum performance standards during the contract period, but on a pro-rated basis equal to the number of months elapsed in the agreement at the time of termination divided by the term of the agreement.

In June 2006, the Bank entered into long-term incentive compensation agreements with an additional four executives, consistent with the terms described above. Collectively, the agreements with the six executives allow for the issuance of up to a total of 51,225 shares of stock, based upon achievement of performance standards at various thresholds at December 31, 2008, the performance measurement date. Pursuant to the agreement, if shares are not available at the time of settlement, the share-based awards are to be settled in cash. At December 31, 2007, the Banks stock incentive plan does not allow for issuing restricted shares. As a result, the Bank has presumed the agreements will be settled in cash and has accounted for the awards as liability awards. Based upon the forecasted performance of the Bank through the December 31, 2008 measurement date, the Bank has recognized compensation expense each year and has recorded a liability of $172,675 at December 31, 2007. Management evaluates the forecasted performance of the bank at least quarterly and adjusts the liability accordingly. If restricted shares under the stock incentive plan become authorized, the Bank intends on modifying the awards from liability to equity-based awards.

NOTE 14 – EMPLOYEE BENEFIT PLAN

The Bank has adopted a 401(k) savings investment plan which allows employees to defer certain amounts of compensation for income tax purposes under section 401(k) of the Internal Revenue Code. Essentially, all employees over the age of 18 are eligible to participate in the plan. Employees may elect to defer and contribute up to the statutory limits. Their contributions and those of the Bank, which are discretionary, are invested in employee-designated funds. Matching and profit sharing contributions to the plan were $55,740 and $52,164 for the years ended December 31, 2007 and 2006, respectively.

NOTE 15 – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2007, the Bank met all capital adequacy requirements to which they are subject.

NOTE 15 – REGULATORY MATTERS – (continued)

As of the most recent notifications from its regulatory agencies, the Bank was categorized as well-capitalized under the applicable regulatory framework. There are no conditions or events that management believes may have changed the Bank's category. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios. Bancorp's capital is substantially the same as the Bank. The following table presents selected regulatory capital information for the Bank:

	Actual		Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(in thousands)						
December 31, 2007						
Total capital to risk-weighted assets:	$ 15,129	11.17%	$ 10,837	≥8%	$ 13,546	≥10%
Tier 1 capital to risk-weighted assets:	$ 13,425	9.91%	$ 5,418	≥4%	$ 8,128	≥6%
Tier 1 capital to average assets:	$ 13,425	9.85%	$ 5,412	≥4%	$ 6,812	≥5%
December 31, 2006						
Total capital to risk-weighted assets:	$ 15,322	12.89%	$ 9,512	≥8%	$ 11,890	≥10%
Tier 1 capital to risk-weighted assets:	$ 13,904	11.69%	$ 5,232	≥4%	$ 7,134	≥6%
Tier 1 capital to average assets:	$ 13,904	12.06%	$ 4,610	≥4%	$ 5,763	≥5%

The Bank is prohibited from issuing cash dividends to the Bancorp until they have a surplus in retained earnings.

NOTE 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table estimates fair value and the related carrying value of the Bank's financial instruments at December 31:

	2007	
	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 517,021	$ 517,021
Federal Funds Sold	$ 3,735,000	$ 3,735,000
Time certificates of deposit with other banks	$ 650,000	$ 650,000
Available-for-sale investment securities	$ 931,549	$ 931,549
Federal Home Loan Bank stock, at cost	$ 230,000	$ 230,000
Loans receivable	$ 128,836,505	$ 131,219,568
Financial liabilities:		
Noninterest-bearing demand deposits	$ 19,531,478	$ 19,531,478
Interest-bearing demand and money market accounts	$ 58,073,407	$ 58,073,407
Time deposits	$ 35,769,210	$ 36,140,143
Lines of credit and other borrowings	$ 6,253,181	$ 6,256,481

	2006	
	Carrying Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 2,420,279	$ 2,420,279
Federal Funds Sold	$ 1,946,000	$ 1,946,000
Time certificates of deposit with other banks	$ 650,000	$ 650,000
Available-for-sale investment securities	$ 1,033,469	$ 1,033,469
Federal Home Loan Bank stock, at cost	$ 230,000	$ 230,000
Loans receivable	$ 106,680,162	$ 106,528,911
Financial liabilities:		
Noninterest-bearing demand deposits	$ 19,188,234	$ 19,188,234
Interest-bearing demand and money market accounts	$ 45,597,848	$ 45,597,848
Time deposits	$ 33,264,982	$ 33,106,025
Lines of credit and other borrowings	$ 181,351	$ 181,351

NOTE 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

While estimates of fair value are based on management's judgment of the most appropriate factors, there can be no assurance that were the Bank to have disposed of such items at December 31, 2007 or 2006, the estimated fair values would necessarily have been achieved at that date. Since market values may differ depending on various circumstances, the estimated fair values at December 31, 2007 and 2006, should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities of the Bank, that are not defined as financial instruments, are not included in the above disclosures, such as furniture and equipment. Also, nonfinancial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

Capital Pacific Bancorp, the parent company of Capital Pacific Bank, is **led by an experienced,** entrepreneurial management team and a well respected board of local business and community leaders. The bank has grown in size and expanded its innovative product line while retaining the critical elements that differentiate it from the competition. The bank's reputation for elite service continues to attract top-tier business clients and advance the bank toward becoming the best business bank in Portland.

Capital Pacific Bank

Getting it done.®

Our Management Team

(From left) Robert Countryman, *Executive Vice President, Business Development and Client Service;*
Mark Stevenson, *Chief Executive Officer;*
Harlan Barcus, *Chief Credit Officer;*
Tyson Smith, *Chief Information Officer;*
Felice Belfiore, *Chief Financial Officer;*
Robert A. Krueger, *President.*

Board of Directors

(From left) Robert A. Krueger, Richard C. Alexander, Mark Stevenson, Werner G. Nistler, Jr., Karen Whitman, Sheryl A. Manning, Thomas Tomjack, *Chairman,* Ronald A. Shellan, Frances Matson, Stephen Mitchell.

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