

FEDERAL DEPOSIT INSURANCE CORPORATION

550 17th Street, N.W. Washington, D.C. 20429

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTER ENDED SEPTEMBER 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ____ TO ____

FDIC Certificate Number: 20164

SUNWEST BANK

(Exact name of small business issuer as specified in its charter)

CALIFORNIA

(State or other jurisdiction of
incorporation or organization)

95-2630202

(IRS Employer
Identification No.)

17542 East 17th Street Ste 200 Tustin, California

(Address of principal executive offices)

92780-1960

(Zip Code)

(714) 730-4400

(Issuer's telephone number)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act YES NO

Number of shares outstanding of each of the issuer's classes of common equity as of November 4, 2005: 17,199

Transitional Small Business Disclosure Format. Yes No

PART I. FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

SUNWEST BANK AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Dollars in thousands)

	September 30, 2005 (unaudited)	December 31, 2004
ASSETS		
Cash and cash equivalents, including fed funds sold and mutual funds	\$ 65,662	\$ 59,247
Securities, available for sale (“AFS”), at fair value	55,231	57,005
Trading securities	-	10,148
Loans, net of allowances for estimated loan losses of \$2,350 and \$2,218, at September 30, 2005 and December 31, 2004, respectively	163,255	172,970
Investment in Federal Home Loan Bank (“FHLB”) stock	1,368	1,434
Premises and equipment, net	1,207	1,426
Other assets	1,863	2,017
Total Assets	\$ 288,586	\$ 304,247
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Demand deposits	\$ 156,525	\$ 159,423
Money market and savings accounts	74,479	77,257
Time deposits	16,316	26,042
Total deposits	247,320	262,722
FHLB advances	5,375	5,375
Accounts payable and other liabilities	3,655	5,005
Total Liabilities	256,350	273,102
Commitments and contingencies	-	-
Shareholder’s Equity		
Preferred stock, no par value: 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2005 or December 31, 2004	-	-
Common stock, no par value: 30,000,000 shares authorized, 17,199 and 17,187 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	27,091	27,063
Retained earnings, since November 2002	4,987	3,556
Accumulated other comprehensive income, net of tax	158	526
Total Shareholders’ Equity	32,236	31,145
Total Liabilities and Shareholders’ Equity	\$ 288,586	\$ 304,247

(See accompanying notes to consolidated financial statements)

SUNWEST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME - UNAUDITED
(Dollars in thousands, except per share amounts)

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Interest income				
Loans	\$ 3,109	\$ 3,215	\$ 9,417	\$ 9,165
Securities, AFS and trading	628	855	1,948	2,718
Fed funds sold and mutual funds	520	92	948	152
Total interest income	<u>4,257</u>	<u>4,162</u>	<u>12,313</u>	<u>12,035</u>
Interest expense				
Deposits	232	227	641	622
Borrowings	61	60	179	75
Total interest expense	<u>293</u>	<u>287</u>	<u>820</u>	<u>697</u>
Net interest income	3,964	3,875	11,493	11,338
Provision (benefit) for credit losses	<u>-</u>	<u>(239)</u>	<u>98</u>	<u>(294)</u>
Net interest income after provision (benefit) for credit losses	<u>3,964</u>	<u>4,114</u>	<u>11,395</u>	<u>11,632</u>
Noninterest income:				
Deposit charges	120	166	358	613
Net gain (loss) from sales of securities and trading activities	-	231	121	238
Other income	37	37	115	130
Total noninterest income	<u>157</u>	<u>434</u>	<u>594</u>	<u>981</u>
Noninterest expense:				
Compensation and benefits	1,398	1,541	4,218	4,783
Occupancy and depreciation	498	487	1,508	1,403
Customer service	612	101	1,600	237
Professional services	218	121	764	362
Other expenses	586	598	1,664	2,112
Total noninterest expense	<u>3,312</u>	<u>2,848</u>	<u>9,754</u>	<u>8,897</u>
Income before taxes	809	1,700	2,235	3,716
Income taxes	302	655	804	1,394
Net income	<u>\$ 507</u>	<u>\$ 1,045</u>	<u>\$ 1,431</u>	<u>\$ 2,322</u>
Net income per share:				
Basic	\$ 29.48	\$ 57.16	\$ 83.22	\$ 126.55
Diluted	\$ 29.40	\$ 56.97	\$ 83.05	\$ 126.13
Shares used to compute:				
Basic net income per share	17,197	18,282	17,195	18,349
Diluted net income per share	17,242	18,344	17,231	18,410

(See accompanying notes to consolidated financial statements)

SUNWEST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME - UNAUDITED
(Dollars in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2003	18,396	\$ 27,344	\$ 3,831	\$ 676	\$ 31,851
Net income	-	-	2,322	-	2,322
Other comprehensive income, net of tax:					
Net unrealized gain on securities AFS	-	-	-	65	65
Realized loss on sale of securities AFS	-	-	-	42	42
Common stock repurchased	(95)	(376)	-	-	(376)
Balance, September 30, 2004	<u>18,301</u>	<u>\$ 26,968</u>	<u>\$ 6,153</u>	<u>\$ 783</u>	<u>\$ 33,904</u>
Balance, December 31, 2004	17,187	\$ 27,063	\$ 3,556	\$ 526	\$ 31,145
Net income	-	-	1,431	-	1,431
Other comprehensive income, net of tax: Net unrealized loss on securities AFS	-	-	-	(368)	(368)
Common stock issued	12	28	-	-	28
Balance, September 30, 2005	<u>17,199</u>	<u>\$ 27,091</u>	<u>\$ 4,987</u>	<u>\$ 158</u>	<u>\$ 32,236</u>

(See accompanying notes to consolidated financial statements)

SUNWEST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(Dollars in thousands)

	For the Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 1,431	\$ 2,322
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (benefit) for credit losses	98	(294)
Net (gain) loss from sales of securities and trading activities	(121)	65
Amortization and accretion: securities	182	272
Depreciation and amortization	317	327
Accretion of deferred loan fees	(518)	(1,022)
FHLB Stock dividend	(44)	(24)
Decrease (increase) in other assets	411	(23)
Increase in accounts payable and other liabilities	503	1,536
Net cash provided by operating activities	2,259	3,159
Cash flows from investing activities:		
Purchases of securities AFS	(16,673)	(7,848)
Proceeds from sales of securities AFS	22,146	27,909
Proceeds from sale of FHLB stock	110	574
Proceeds from maturities and repayments of securities	5,763	8,923
Origination of loans, net of principal payments	10,135	(3,464)
Purchase of loans	-	(29,300)
Purchases of premises and equipment	(98)	(351)
Net cash provided by (used in) investing activities	21,383	(3,557)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(15,402)	8,359
Advances from FHLB and Federal Reserve	200	147,173
Repayment of advances from FHLB and Federal Reserve	(200)	(142,798)
Payments for fractional shares relating to 2004 stock split	(1,853)	-
Proceeds from exercise of stock options	28	10
Repurchase of common stock	-	(393)
Net cash provided by (used in) financing activities	(17,227)	12,351
Net increase (decrease) in cash and cash equivalents	6,415	11,953
Cash and cash equivalents:		
Beginning of period	59,247	34,150
End of period	\$ 53,662	\$ 46,103
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	\$ 737	\$ 640
Income taxes	621	92

(See accompanying notes to consolidated financial statements)

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

Basis of Presentation

The consolidated financial statements include the accounts of Sunwest Bank and its wholly-owned subsidiaries, Sunwest Leasing Corp, North Orange County Bancorp and WCV, Inc. All significant intercompany balances have been eliminated. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2005 interim period are not necessarily indicative of the results expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and the rules and regulations of the Federal Deposit Insurance Corporation and include all information and footnotes required for interim financial statement presentation. The financial information provided herein, including the information under the heading Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report on Form 10-KSB which contains the latest available audited consolidated financial statements and notes thereto, as of December 31, 2004 together with the MD&A as of such date.

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the 2005 presentation.

In November 2004, the shareholders of Sunwest Bank approved a 1 for 30 reverse stock split. All share and per share amounts for 2004 have been restated to reflect this split.

The Bank has a stock-based employee compensation plan. The Bank accounts for this plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock as of the grant date. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation" (as amended by SFAS No. 148) the Bank is required to disclose the proforma effect on earnings of stock options granted, had compensation cost been recognized over the vesting period of the options based on a fair value of the options. It is estimated that compensation cost and the proforma effect on earnings, calculated in accordance with SFAS No. 123, are immaterial.

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005
(Unaudited)

Earnings Per Share

Information used to calculate earnings per share for the nine months and the quarter ended September 30, 2005 and 2004 was as follows:

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
<i>(Dollars in thousands, except per share amounts)</i>				
Net income	\$ 507	\$ 1,045	\$ 1,431	\$ 2,322
Weighted average number of common shares outstanding:				
Basic	17,197	18,282	17,195	18,349
Dilutive effect of common stock equivalents: stock options	45	62	36	61
Dilutive	17,242	18,344	17,231	18,410
Net income per share:				
Basic	\$ 29.48	\$ 57.16	\$ 83.22	\$ 126.55
Diluted	29.40	56.97	83.05	126.13

New Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued SFAS No. 123 (Revised 2004), Share-Based Payment: an amendment of FASB Statements No. 123 and 95 ("SFAS 123R"). SFAS 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Compensation costs should be recognized over the requisite service period. The amount accrued each period until the vesting date is based on the estimated number of awards that are expected to vest, adjusted periodically to reflect the current estimate of forfeitures. SFAS 123R does not express a preference for a type of valuation model to be used in measuring the grant-date fair value that is accrued over the service period. The statement was effective for public companies (non-small business issuers) for interim and annual periods beginning after June 15, 2005. However, in April 2005, the SEC amended the effective date of SFAS 123R whereby non-small business issuers with a calendar year-end are required to implement SFAS 123R at the beginning of their next fiscal year. The Company intends to adopt SFAS 123R on January 1, 2006. The implementation of this standard is not anticipated to have a significant impact on the consolidated financial statements.

New Lease Commitment

In the third quarter of 2005, we entered into a leasing agreement, which will enable us to relocate our existing branch in Newport Beach to new facilities in the first quarter of 2006. The lease agreement is for a period of five years beginning on February 1, 2006 with a future minimum lease payments of \$77,000, \$86,000, \$89,000, \$92,000, \$95,000 and \$8,000 in 2006, 2007, 2008, 2009, 2010 and 2011, respectively.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Statements

Certain statements in this Report on Form 10-QSB constitute "forward-looking statements" under the Private Securities Litigation Act of 1995, which involve risks and uncertainties. Although we believe that the expectations reflected in our forward-looking statements are reasonable, these statements involve risks and uncertainties that are subject to change based on various important factors (some of which are beyond our control). These factors include, but are not limited to: the strength of the United States economy in general and the strength of the regional and local economies within California; inflation, interest rate and monetary fluctuations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; the effect of government regulation generally and any supervisory or regulatory orders, specifically; adverse changes in the local real estate market, as our loans are concentrated in California and significant majority of these loans have real estate as collateral; geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to act or threats of terrorism and/or military conflicts which could impact business and economic conditions in the United States and abroad; and the impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies. In addition, factors which may affect our forward-looking statements are set forth in our Annual Report on Form 10-KSB and in our other current and periodic filings with the FDIC.

We do not intend, and specifically disclaim any obligation to update our forward-looking information and statements, whether written or oral, to reflect changes. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in our consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable in the circumstances; however, actual results may differ significantly from these estimates and assumptions which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.

Our allowance for loan losses is established through a provision for loan losses charged to expense and may be reduced by a recapture of the allowance, which is also reflected in the statement of income. Loans are charged against the allowance for loan losses when management believes that collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on an evaluation of the collectibility of loans and prior loan loss experience. This evaluation also takes 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 the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions.

CHANGES IN FINANCIAL CONDITION

Overview: Sunwest Bank's financial condition has not changed significantly over the past few years. We fund our interest earning assets, (loans and investment securities), primarily with low cost deposits. Our only borrowing is a \$5.4 million FHLB advance. We continue to maintain high levels of liquidity as we invest our available funds in short-term investments (federal funds, certificates of deposits and money market mutual funds) or in securities. Our loan portfolio has decreased slightly as payoffs and paydowns have exceeded internally generated loan originations. Our deposit base is growing even though there was a \$15.4 million decrease in deposits from December 31, 2004. The maturity of \$13.8 million of brokered certificates of deposit and the anticipated withdrawal of an \$11.5 million deposit of proceeds from the sales of real estate made in fourth quarter of 2004 by one of our customers was offset by \$9.9 million increase in other deposits. Our capital position is strong as our current regulatory capital levels are well in excess of the minimum levels required to be well capitalized.

Cash and cash equivalents and securities: Between December 31, 2004 and September 30, 2005, cash and cash equivalents increased \$6.4 million due primarily to disposition of our trading securities during the second quarter of 2005. During the first nine months of 2005, we purchased \$16.7 million of investment securities comprised of US Treasury and tax free municipal securities with a weighted average yield of 4.04%, \$12 million in short-term certificates of deposit with a weighted average yield of 4.16%, collected \$5.7 million of maturities and repayments of securities and sold \$11.9 million of treasury securities with a weighted average market yield at the time of sale of 3.96%. A net gain of \$0.2 million was realized from the sale of these securities with a decrease of approximately 3 years in the weighted average duration of US Treasury securities.

Loans: The following table provides a breakdown of our loan portfolio as of the dates indicated:

<i>(Dollars in thousands)</i>	September 30, 2005	December 31, 2004
Commercial	\$ 55,147	\$ 52,639
Real estate – other	55,209	59,322
Real estate – construction	49,840	59,651
Personal loans	5,772	4,032
Total loans	<u>165,968</u>	<u>175,644</u>
Allowance for estimated loan losses	(2,350)	(2,218)
Deferred loan fees and expenses	(363)	(456)
Total loans, net	<u>\$ 163,255</u>	<u>\$ 172,970</u>

During the first nine months of 2005, total loans decreased \$9.6 million as a result of \$37.9 million of payoffs and collections of principal, net of advances, on existing loans, offset by \$28.3 million of fundings of new loans. Almost all of the payoffs and collections of principal were related to our real estate construction loans.

Deposits: The \$15.4 million decrease in deposits during the first nine months of 2005, reflects the maturity of \$13.8 million of brokered certificates of deposit, which were not renewed, and the anticipated withdrawal of an \$11.5 million deposit of proceeds from the sales of real estate made in fourth quarter of 2004 by one of our customers, offset by a \$9.9 million increase in other deposits.

Borrowings: As of September 30, 2005, our only borrowing consisted of a \$5.4 million FHLB advance, which matures in June of 2009. While we have the ability to borrow additional funds from the FHLB and other sources, we do not anticipate utilizing any additional borrowings in the near future due to our high level of liquidity.

RESULTS OF OPERATIONS

Overview

The following table provides selected financial information related to our results of operations for the periods indicated:

<i>(Dollars in thousands)</i>	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Income before taxes	\$ 809	\$ 1,700	\$ 2,235	\$ 3,716
Net income	507	1,045	1,431	2,322
Ratio of net income to: (annualized)				
Average shareholders equity	6.31 %	12.69 %	6.00 %	9.50 %
Average total assets	0.69 %	1.37 %	0.65 %	1.04 %

While net interest income for the quarter and nine months ended September 30, 2005 was not significantly different from the corresponding periods in the prior year, income before taxes decreased \$0.9 million and \$1.5 million for the quarter and nine months ended September 30, 2005. These decreases were primarily due to increases in analysis earnings credited to our business customers and increases in certain noninterest expenses offset by lower compensation and benefits expenses and net gains from sales of securities and trading activities (as compared to net losses from sales of securities in 2004).

Net Interest Income

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rate; (iii) net interest income; (iv) interest rate spread; and (v) net interest margin:

	For the Quarter Ended September 30,					
	2005			2004		
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
Interest earning assets:						
Loans	\$ 167,527	\$ 3,109	7.30 %	\$ 185,441	\$ 3,215	6.81 %
Securities, AFS	54,181	613	4.49	67,149	447	2.64
Trading securities	-	-	-	10,326	385	14.79
Fed funds sold / mutual funds	60,300	520	3.37	26,842	93	1.36
FHLB Stock	1,392	15	4.28	1,413	22	6.18
Total interest earning assets	283,400	4,257	5.91	291,171	4,162	5.63
Noninterest earning assets	12,254			14,191		
Total assets	<u>\$ 295,654</u>			<u>\$ 305,362</u>		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 26,949	11	0.16	\$ 26,779	10	0.15
Money market	72,138	127	0.70	83,955	139	0.66
Time and savings	20,117	94	1.85	31,000	78	1.00
Total deposits	119,204	232	0.77	141,734	227	0.64
Borrowings	5,375	61	4.54	5,375	60	4.47
Total interest bearing liabilities	124,579	293	0.93	147,109	287	0.78
Noninterest bearing deposits	135,148			123,545		
Other noninterest bearing liabilities	3,523			1,744		
Shareholders' equity	32,404			32,964		
Total liabilities and equity	<u>\$ 295,654</u>			<u>\$ 305,362</u>		
Net interest earning assets	<u>\$ 158,821</u>			<u>\$ 144,062</u>		
Net interest income / interest rate spread		<u>\$ 3,964</u>	<u>4.98 %</u>		<u>\$ 3,875</u>	<u>4.85 %</u>
Net interest margin			<u>5.50 %</u>			<u>5.24 %</u>

For the Nine Months Ended September 30,

	2005			2004		
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
Interest earning assets:						
Loans	\$ 173,515	\$ 9,417	7.19 %	\$ 174,552	\$ 9,165	6.93 %
Securities, AFS	54,025	1,733	4.29	68,726	2,291	4.44
Trading securities	6,669	168	3.37	21,066	385	2.43
Fed funds sold / mutual funds	43,145	948	2.90	17,203	152	1.16
FHLB Stock	1,426	47	4.41	1,217	42	4.60
Total interest earning assets	278,780	12,313	5.86	282,764	12,035	5.63
Noninterest earning assets	13,011			14,209		
Total assets	<u>\$ 291,791</u>			<u>\$ 296,973</u>		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand	\$ 27,703	34	0.16	\$ 26,004	30	0.15
Money market	73,037	390	0.71	81,295	380	0.62
Time and savings	18,817	217	1.54	32,206	212	0.88
Total deposits	119,557	641	0.72	139,505	622	0.59
Borrowings	5,378	179	4.44	2,800	75	3.57
Total interest bearing liabilities	124,935	820	0.88	142,305	697	0.65
Noninterest bearing deposits	131,449			120,776		
Other noninterest bearing liabilities	3,513			1,125		
Shareholders' equity	31,894			32,767		
Total liabilities and equity	<u>\$ 291,791</u>			<u>\$ 296,973</u>		
Net interest earning assets	<u>\$ 153,845</u>			<u>\$ 140,459</u>		
Net interest income / interest rate spread		<u>\$ 11,493</u>	<u>4.98 %</u>	<u>\$ 11,338</u>	<u>4.98 %</u>	
Net interest margin			<u>5.47 %</u>			<u>5.30 %</u>

Interest income: Although our yield on average interest earning assets increased 28 basis points and 23 basis points in the quarter and the nine months ended September 30, 2005 as compared to corresponding periods in 2004, interest income only increased \$0.1million and \$0.3 million because of decreases in the average balance of our interest earning assets.

The average yield on our loans increased 49 basis points to 7.30% in the third quarter of 2005 from 6.81% in the corresponding period in 2004 while average loans decreased \$17.9 million. The increase in yield was primarily the result of a 103 basis point increase in yield on non real estate loans and a 24 basis point increase in yield on real estate loans. These increases in yields were due to increased rates on this primarily adjustable rate loan portfolio as a result of the increase in short term interest rates in the overall market over the last 21 months. The yield on real estate loans did not increase as much as the yield on non real estate loans because of decreases in average deferred loans fees on new loan originations in 2004 and 2005. The \$17.9 million decrease in average loans is due to the high level of payoffs experienced by Sunwest Bank over the last 12 months, which was only partially offset by new loan originations.

The average yield on our loans increased 26 basis points to 7.19% in the first nine months of 2005 from 6.93% in the corresponding period in 2004. The increase in yield was primarily the result of a 76 basis point increase in yield on non real estate loans due to increased rates on this primarily adjustable rate loan portfolio as a result of the increase in short term interest rates in the overall market over the last 21 months. The yield in the primarily adjustable rate real estate loan portfolio did not change significantly as the impact of the increase in short term interest rates was offset by lower yields realized on purchased loans as compared to internally generated loans and decreases in average deferred loan fees on new loan originations in 2004 and 2005.

The yield on fed funds sold and mutual funds increased in the quarter and nine months ended September 30, 2005 as compared to the corresponding periods in 2004, as a result of the increase in short term interest rates in the overall market over the last 21 months.

Interest expense: Sunwest Bank has a high proportion of noninterest bearing deposit accounts and very limited levels of borrowing which allow us to fund our operations at a relatively low interest cost. At September 30, 2005, the proportion of noninterest bearing deposit accounts to total deposits was 53.99% and our borrowings were 2.1% of our total liabilities. As a result, for the quarter and nine months ended September 30, 2005, our cost of interest bearing liabilities was 0.93% and 0.88%, respectively, while our total interest costs as a percentage of average total liabilities were only 0.45% and 0.41% for the same respective periods. This benefit is partially offset by the analysis earnings we credit to our business checking customers, which can be used to pay for deposit charges and certain third party costs. These analysis earnings credits impact our deposit charges included in noninterest income and customer service costs included in noninterest expense.

The average costs of deposits increased to 0.77% and 0.72% for the quarter and nine months ended September 30, 2005 from 0.59% and 0.64% for the corresponding periods in 2004, while average interest bearing deposits decreased \$19.9 million and \$18.7 million, respectively. The increase in the average cost of deposits reflects the increase made to our deposit pricing in response to the increase in short term interest rates in the overall market over the last 21 months. The decrease in the average balances was primarily due to the maturity of \$13.8 million of brokered certificates of deposit accounts at the beginning of the first quarter of 2005 and reductions in our money market account balances.

In the second quarter of 2004, we borrowed \$5.4 million from the Federal Home Loan Bank for a period of 5 years at a fixed rate of 4.38%.

Net interest income / net interest margin: During the quarter and nine months ended September 30, 2005, our net interest margin increased 26 basis points and 17 basis points, respectively, as compared to the corresponding period in 2004, primarily due to increases in average net interest earning assets. The increases in average net interest earning assets is due primarily to \$10.6 million increases in average noninterest bearing demand deposits during these periods resulting from our ongoing marketing efforts focused on deposit growth. These increases in net interest margin offset the decreases in average interest earning assets during the quarter and nine months ended September 30, 2005 as compared to the same periods in 2004. As a result, our net interest income was relatively unchanged for the quarter and nine months ended September 30, 2005 as compared to the corresponding periods in 2004.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on our net interest income. Information is provided with respect to (i) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); (ii) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); and (iii) changes in rate/volume (change in rate multiplied by change in volume) for the periods indicated:

	For the Quarters Ended September 30, 2005 and 2004			
	Increase (Decrease) Due to			Net Increase (Decrease)
Rate	Volume	Rate / Volume		
Interest earning assets:				
Loans	\$ 226	\$ (305)	\$ (27)	\$ (106)
Securities AFS	310	(86)	(58)	166
Trading securities	-	-	(385)	(385)
Fed funds sold / mutual funds	135	113	179	427
FHLB Stock	(7)	-	-	(7)
Change in interest income	<u>664</u>	<u>(278)</u>	<u>(291)</u>	<u>95</u>
Interest bearing liabilities:				
Deposits:				
Interest bearing demand	1	-	-	1
Money market	9	(19)	(2)	(12)
Time and savings	66	(27)	(23)	16
Total deposits	<u>76</u>	<u>(46)</u>	<u>(25)</u>	<u>5</u>
Borrowings	1	-	-	1
Change in interest expense	<u>77</u>	<u>(46)</u>	<u>(25)</u>	<u>6</u>
Change in net interest income	<u>\$ 587</u>	<u>\$ (232)</u>	<u>\$ (266)</u>	<u>\$ 89</u>

	For the Nine Months Ended September 30, 2005 and 2004			
	Increase (Decrease) Due to			
	Rate	Volume	Rate / Volume	Net Increase (Decrease)
Interest earning assets:				
Loans	\$ 345	\$ (54)	\$ (39)	\$ 252
Securities AFS	(77)	(491)	10	(558)
Trading securities	147	(263)	(101)	(217)
Fed funds sold / mutual funds	224	226	346	796
FHLB Stock	(2)	7	-	5
Change in interest income	<u>637</u>	<u>(575)</u>	<u>216</u>	<u>278</u>
Interest bearing liabilities:				
Deposits:				
Interest bearing demand	2	2	-	4
Money market	56	(39)	(7)	10
Time and savings	<u>161</u>	<u>(88)</u>	<u>(68)</u>	<u>5</u>
Total deposits	219	(125)	(75)	19
Borrowings	<u>18</u>	<u>69</u>	<u>17</u>	<u>104</u>
Change in interest expense	<u>237</u>	<u>(56)</u>	<u>(58)</u>	<u>123</u>
Change in net interest income	<u>\$ 400</u>	<u>\$ (519)</u>	<u>\$ 274</u>	<u>\$ 155</u>

Noninterest Income

The changes in noninterest income were impacted by changes in the net gain (loss) from sales of securities and trading activities and decreases in deposit charges. From time to time, we may decide to sell securities at which time any gain or loss is recognized. Because no securities were sold in the third quarter of 2005, no gain or loss on sales of securities was realized as compared to \$0.2 million of gain realized in the third quarter of 2004. Gains on sales of securities and trading activities for the nine-month period ending September 30, 2005 totaled \$0.1 million compared to \$0.2 million for the corresponding period in 2004. Deposit charges for the quarter and nine months ended September 30, 2005, decreased \$0.1 million and \$0.3 million, respectively, when compared to the corresponding periods in the prior year. While we are prohibited by Federal regulations from paying interest on our checking accounts, our business checking customers are credited with analysis earnings which can be used to pay for deposit charges and certain third party costs. Because of the increase in the overall interest rate market, the analysis earnings credit rates used during the first nine months of 2005 was almost three times greater than the similar rates used in the first nine months of 2004, resulting in lower deposit charges.

Noninterest Expense

Noninterest expense increased \$0.5 million and \$0.9 million, respectively, during the quarter and nine months ended September 30, 2005 as compared to the corresponding periods in 2004 due to increases in both customer service and professional services offset by decreases in compensation and benefits. Eligible third party costs related to analysis earnings credits and paid on behalf of certain of our business customers are recorded as customer service expenses. As discussed above, the analysis earnings credits attributed to our customers were significantly higher in the first nine months of 2005 as compared to the first nine months of 2004 because of the increase in the overall interest rate market, resulting in \$0.5 million and \$1.4 million of higher customer service costs in the quarter and nine months ended September 30, 2005 as compared to the corresponding periods in 2004. The increase in professional services for the first nine months of 2005 when compared to the corresponding period in 2004 was due to \$0.3 million of legal costs incurred related to the proposed restructuring of Sunwest Bank approved by its shareholders in the fourth quarter of 2004 and regulatory compliance issues. The decreases in compensation and benefits were primarily due to a decrease in the number of full time equivalent employees from 74 in the first nine months of 2004 to 63 for the first nine months of 2005.

Income Taxes

Our effective income tax rate for the nine months of 2005 was 35.9% as compared to 37.5% for the corresponding period in 2004. As a result of the merger of West Coast Bancorp with and into Sunwest Bank in 2001, as of January 1, 2005, Sunwest Bank has \$3.4 million of tax benefits available to offset future income tax expense relating to the net operating tax loss carryforward of West Coast Bancorp, subject to annual limitations of approximately \$0.9 million.

Nonperforming Assets and Provision for Credit Losses

At September 30, 2005 and December 31, 2004, we did not have any loans on nonaccrual status.

The following table summarizes the activity in our allowance for loan losses for the periods indicated:

<i>(Dollars in thousands)</i>	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Balance: beginning of period	\$ 2,350	\$ 2,516	\$ 2,218	\$ 2,557
Provision (benefit) for credit losses	-	(239)	98	(294)
Recoveries of amounts previously charged off	-	3	34	17
Balance: end of period	<u>\$ 2,350</u>	<u>\$ 2,280</u>	<u>\$ 2,350</u>	<u>\$ 2,280</u>
Allowance for loan losses as a percentage of total loans	1.42%	1.29%	1.42%	1.29%

The allowance for loan losses is derived by analyzing the historical loss experience and asset quality within each loan portfolio segment, along with assessing qualitative environmental factors, and correlating it with the delinquency and classification status for each portfolio segment. We utilize a loan grading system with five classification categories, including assets classified as Pass, based upon credit risk characteristics which categorizes each loan by risk grade allowing for a more consistent review of similar loans. Management has also evaluated the loss exposure of classified loans, which are reviewed individually based on the evaluation of the cash flow, collateral, other sources of repayment, guarantors and any other relevant factors to determine the inherent loss potential in the credit.

Management considers the following qualitative environmental factors in determining the allocated loss factors when analyzing the allowance for loan losses: the levels of and trends in past due, nonaccrual and impaired loans; levels of and trends in charge-offs and recoveries; the trend in volume and terms of loans; the effects of changes in credit concentrations; the effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; the experience, ability and depth of management and other relevant staff; national and local economic trends and conditions; and industry conditions.

Management believes that its allowance for loan losses at September 30, 2005 was adequate. Nevertheless, there can be no assurance that additions to such allowance will not be necessary in future periods. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our valuation allowance. These agencies may require increases to the allowance based on their judgments of the information available to them at the time of their examination.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to maintain cash flows that are adequate to fund our operations and meet our debt obligations and other commitments on a timely and cost-effective basis. Our liquidity management is both a daily and long-term function of funds management. Liquid assets are generally invested in short-term investments such as federal funds sold. If we require funds beyond our ability to generate them internally, various forms of both short and long-term borrowings provide an additional source of funds.

Liquidity management at Sunwest Bank focuses on its ability to generate sufficient cash to meet the funding needs of current loan demand, deposit withdrawals, principal and interest payments with respect to outstanding borrowings and to pay operating expenses. Sunwest Bank monitors its liquidity in accordance with guidelines established by its Board of Directors and applicable regulatory requirements. Sunwest Bank's need for liquidity is affected by its loan activity, net changes in deposit levels and the scheduled maturities of its borrowings. The principal sources of the Bank's liquidity consist of deposits, loan interest and principal payments and prepayments, FHLB advances and proceeds from the sale of securities.

Sunwest Bank's liquid asset ratio (the sum of cash, investments available-for-sale, excluding pledged amounts, and Federal funds sold, divided by total assets) was 39.6% at September 30, 2005. At September 30, 2005, Sunwest Bank had available borrowing capacity totaling approximately \$100 million. Management believes the Bank has sufficient liquidity to support its operations.

Capital Resources and Dividends

The following table reflects Sunwest Bank's actual levels of regulatory capital as of September 30, 2005 and the applicable minimum regulatory capital requirements as well as the regulatory capital requirements that apply to be deemed "Well Capitalized" pursuant to the prompt corrective action requirements.

<i>(Dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of September 30, 2005</u>						
Tier 1 leverage ratio	\$ 32,078	10.85%	\$ 11,826	4.00%	\$ 14,783	5.00%
Tier 1 risk-based capital ratio	32,078	14.45	8,880	4.00	13,320	6.00
Total risk based capital ratio	34,608	15.59	17,760	8.00	22,200	10.00
<u>As of December 31, 2004</u>						
Tier 1 leverage ratio	\$ 30,272	10.09%	\$ 11,999	4.00%	\$ 14,999	5.00%
Tier 1 risk-based capital ratio	30,272	13.03	9,290	4.00	13,936	6.00
Total risk based capital ratio	32,684	14.07	18,581	8.00	23,226	10.00

Sunwest Bank is classified as a "Well Capitalized" depository institution for regulatory purposes.

We have no material commitments for capital expenditures as of September 30, 2005. Sunwest Bank has not paid dividends in 2005 and has no plans to pay dividends.

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of Sunwest Bank as of September 30, 2005:

(Dollars in thousands)

Commitments to fund loans	60,290
Commitments under letters of credit	672

Of the commitments to fund loans, \$7.1 million are for construction loans. The remainder relates primarily to revolving lines of credit or other commercial loans, and many of these commitments are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements.

ITEM 3. *Controls and Procedures*

- (a) Based on their evaluation of Sunwest Bank's disclosure controls and procedures as of the end of the period covered by this report on Form 10-QSB, Sunwest Bank's principal executive officer and principal financial officer have concluded that Sunwest Bank's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) are effective.
- (b) There has been no change in Sunwest Bank's internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected or is reasonably likely to materially affect Sunwest Bank's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

Sunwest Bank held its Annual Meeting of Shareholders (the "Meeting") on August 21, 2005.

At the Meeting, the following individuals were elected to serve as directors until the 2006 Annual Meeting of Shareholders and until their successors are elected and have qualified:

<u>Name of Director</u>	<u>Votes For</u>	<u>Authority Withheld</u>
Tara O. Balfour		151
Sergio D. Bechara		169
Irving R. Beimler		153
Michael A. Cohen		149
Karen D. Conlon		149
Eric D. Hovde		178
Russell E. Wertz		148
Steven P. Williams		148

Item 5. Other Information

None

Item 6. Exhibits

<u>Number</u>	<u>Description</u>
10.13	Lease Agreement dated September 16, 2005 by and between Sunwest Bank and McMorgan Institutional Real Estate Fund I, LLC, for the Airport Branch located at 1500 Quail, Suite 120, Newport Beach, California. Incorporated by reference to Exhibit 10.1 filed by Sunwest Bank on a Form 8-K on September 21, 2005.
10.14	Amendment dated October 31, 2005 to Consulting Agreement between Sunwest Bank and Tara Balfour dated July 25, 2005, as amended on August 2, 2005.
31.1	Section 302 Certification for Irving R. Beimler
31.2	Section 302 Certification for John Michel
32.1	Section 906 Certification for Irving R. Beimler and John M. Michel

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized,

SUNWEST BANK

Registrant

Date: November 4, 2005

/s/ Irving R. Beimler

Irving R. Beimler, Chief Executive Officer

Date: November 4, 2005

/s/ John Michel

John M. Michel, Chief Financial Officer

CERTIFICATIONS

I, Irving R. Beimler, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Sunwest Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation date; and
 - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 4, 2005

/s/ Irving R. Beimler
Irving R. Beimler
Chief Executive Officer

CERTIFICATIONS

I, John M. Michel, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Sunwest Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation date; and
 - c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 4, 2005

/s/ John Michel
John Michel
Chief Financial Officer

**CEO CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Sunwest Bank (the "Company") on Form 10-QSB for the period ending September 30, 2005 as filed with the Federal Deposit Insurance Corporation (the "Report"), we, Irving R. Beimler, Chief Executive Officer of the Company, and John M. Michel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge, based on a review of the Report of the Company, and except as corrected or supplemented in a subsequent report:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	SUNWEST BANK _____ Registrant
Date: <u>November 4, 2005</u>	<u>/s/ Irving R. Beimler</u> Irving R. Beimler, Chief Executive Officer
Date: <u>November 4, 2005</u>	<u>/s/ John Michel</u> John M. Michel, Chief Financial Officer