

FEDERAL DEPOSIT INSURANCE CORPORATION

550 17th Street NW, Washington, D.C. 20429

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

or

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

(Name of Small Business Issuer in Its Charter)

California

(State or other jurisdiction of
incorporation or organization)

95-2630202

(I.R.S. Employer Identification No.)

17542 East 17th Street Tustin, California

(Address of Principal Executive Offices)

92780-1960

(Zip Code)

(714) 730-4400

Issuer's Telephone Number, Including Area Code

Securities registered under Section 12(b) of the Act: **None**

Securities registered under Section 12(g) of the Act:

Common Stock, No Par Value

(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Total revenues for the most recent fiscal year: **\$17,824,000.**

As of March 22, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$20,984,000 based upon the last sale price on such date.

Number of shares of Common Stock of the registrant outstanding as of March 22, 2006: **17,221**

Transitional Small Business Disclosure Format: YES NO

Documents Incorporated by Reference

Items 9, 10, 11, 12 and 14 of Part III of this 10-KSB are incorporated by reference from registrant's Proxy information statement which will be filed within 120 days of the fiscal year ended December 31, 2005.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Certain statements in this Report on Form 10-KSB 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. For a discussion of certain other factors, which may affect such forward looking statements, see “Item 1. Business – Business Considerations and Certain Other Factors That May Affect Future Results of Operations and Stock Price.”

We do not intend, and specifically disclaim any obligation to update our forward-looking statements. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Business

Sunwest Bank (the “Bank”) commenced operations as a California state-chartered bank in 1970 and is the oldest commercial bank founded in Orange County, California. At December 31, 2005, the Bank had total consolidated assets of \$296.5 million, total deposits of \$254.9 million, total loans of \$158.3 million and consolidated shareholders’ equity of \$32.8 million.

The Bank presently has four banking offices within Orange County, California. The main office is located in Tustin, California and the other three branch offices are located in Newport Beach, Anaheim and Laguna Hills, California. Through its network of banking offices, the Bank emphasizes personalized service combined with services primarily directed to small and medium sized businesses and professionals. Although the Bank focuses its marketing of services to businesses and professionals, a wide range of consumer banking services are made available to all of its customers.

The Bank offers a wide range of deposit instruments. These include personal and business checking and saving accounts, including interest-bearing negotiable order of withdrawal (“NOW”) accounts, Super NOW accounts and money market accounts, time certificates of deposit accounts (“CDs”) and individual retirement accounts (“IRAs”). The Bank also offers a service that provides greater access to Federal Deposit Insurance Corporation (“FDIC”) insurance for consumers, small businesses, nonprofit organizations and corporations with large cash reserves. The Certificate of Deposit Account Registry Service (“CDARS”) provides a secure savings and investment option for customers looking for additional FDIC insurance above the \$100,000 insurance limit. CDARS enables the Bank to offer its customers the convenience of relationship banking combined with the security of investing in FDIC-insured CDs.

The Bank engages in a full complement of lending activities, including commercial, consumer installment, and real estate loans. Commercial loans are loans to local community businesses and may be unsecured or secured by assets of the business and/or its principals. Consumer installment loans include loans for automobiles, home improvements, debt consolidation and other personal needs. Real estate loans include secured short-term mini permanent real estate loans and construction loans. In addition, the Bank originates loans that are guaranteed under the Small Business Investments Act.

The Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include ATMs, ACH originations, on-line banking for business customers, touch-tone federal and state tax payment processing, lockbox services, courier services, travelers' checks, safe deposit, Mastercard and Visa merchant credit card services, ATM cards, Visa debit cards and business sweep accounts.

The Bank is subject to continued examination by the Federal Deposit Insurance Corporation ("FDIC") and the California Department of Financial Institutions ("DFI").

At December 31, 2005, the Bank employed 66 full-time equivalent employees.

Competition

The banking and financial services business is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. We compete for loans, deposits, and customers with other commercial banks, savings and loan associations, savings banks, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other nonbank financial service providers. Many competitors are much larger in total assets and capitalization, have greater access to capital markets, including foreign-ownership, and/or offer a broader range of financial services.

Economic Conditions, Government Policies, Legislation, and Regulation

Our profitability, like most financial institutions, is primarily dependent on our interest rate margins. In general, the difference between the interest rates paid by us on interest-bearing liabilities, such as deposits and other borrowings, and the interest rates received by us on our interest-earning assets, such as loans extended to our clients and securities held in our investment portfolio, will initially comprise the major portion of our earnings. These rates are highly sensitive to many factors that are beyond our control, such as inflation, recession and unemployment, and the impact which future changes in domestic and foreign economic conditions might have on us cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "FRB"). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) through its open-market operations in U.S. Government securities by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the target federal funds and discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest-earning assets and paid on interest-bearing liabilities. The nature and impact on us of any future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. We cannot predict whether any potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations.

Supervision and Regulation

General.

We are extensively regulated under both federal and certain state laws. This regulation is intended primarily for the protection of depositors and the deposit insurance fund and not for the benefit of stockholders of the financial institution. Set forth below is a summary description of the material laws and regulations which relate to our operations. The description is qualified in its entirety by reference to the applicable laws and regulations.

The Bank.

As a California chartered bank, we are subject to primary supervision, periodic examination, and regulation by the DFI and FDIC, as well as certain regulations promulgated by the FRB. If, as a result of an examination of the bank, the FDIC or DFI determines that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of our operations are unsatisfactory or that we are violating or have violated any law or regulation, various remedies are available to the FDIC, including the power to enjoin “unsafe or unsound” practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict our growth, to assess civil monetary penalties, to remove officers and directors, and ultimately to terminate our deposit insurance, which would result in a revocation of the bank’s charter. See “Safety and Soundness Standards.”

The DFI also possesses broad powers to take corrective and other supervisory actions to resolve the problems of California state-chartered banks. These enforcement powers include cease and desist orders, the imposition of fines, the ability to take possession of a bank and the ability to close and liquidate a bank.

Any changes in federal or state banking laws or the regulations of the banking agencies could have a material adverse impact on us, the bank and our operations. For example, in January 2006, the federal banking agencies jointly issued proposed guidance for banks and thrifts with high and increasing concentrations of commercial real estate (CRE) construction and development loans. The implementation of these guidelines in final form could result in increased reserves and capital costs for banks and thrifts with “CRE concentration.” The bank’s CRE portfolio as of December 31, 2005 would not meet the definition of CRE concentration as set forth in the proposed guidelines.

Because California permits commercial banks chartered by the state to engage in any activity permissible for national banks, the bank can form subsidiaries to engage in the many so-called “closely related to banking” or “nonbanking” activities commonly conducted by national banks in operating subsidiaries, but also expanded financial activities to the same extent as a national bank. However, in order to form a financial subsidiary, the bank must be well-capitalized and would be subject to the same capital deduction, risk management and affiliate transaction rules as applicable to national banks. Generally, a financial subsidiary is permitted to engage in activities that are “financial in nature” or incidental thereto, even though they are not permissible for the national bank to conduct directly within the bank. The definition of “financial in nature” includes, among other items, underwriting, dealing in or making a market in securities, including, for example, distributing shares of mutual funds. The subsidiary may not, however, engage as principal in underwriting insurance (other than credit life insurance), issue annuities or engage in real estate development or investment or merchant banking.

Bank Securities Registration

The bank’s securities are registered with the FDIC under the Securities Exchange Act of 1934, as amended and as adopted by the FDIC (the “Exchange Act”). As such, we are subject to the information, proxy solicitation, insider reporting, corporate governance, and other requirements and restrictions of the Exchange Act.

Dividends and Other Transfers of Funds

The bank is subject to various statutory and regulatory restrictions on its ability to pay dividends. Under such restrictions, the amount available for payment of dividends by the bank totaled \$5.7 million at December 31, 2005 without the approval of the Commissioner of Financial Institutions for the State of California (the "Commissioner"). In addition, the bank's regulators have the authority to prohibit the bank from paying dividends, depending upon the bank's financial condition, if such payment is deemed to constitute an unsafe or unsound practice.

The FDIC also has authority to prohibit the Bank from engaging in activities that, in the FDIC's opinion, constitute unsafe or unsound practices in conducting its business. It is possible, depending upon the financial condition of the bank in question and other factors, that the FDIC could assert that the payment of dividends or other payments might, under some circumstances, be such an unsafe or unsound practice. Further, the FDIC has established guidelines with respect to the maintenance of appropriate levels of capital by banks or bank holding companies under their jurisdiction. Compliance with the standards set forth in such guidelines and the restrictions that are or may be imposed under the prompt corrective action provisions of federal law could limit the amount of dividends the Bank may pay. An insured depository institution is prohibited from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions if after such transaction the institution would be undercapitalized.

Capital Standards

The federal banking agencies have adopted risk-based minimum capital guidelines intended to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets and transactions which are recorded as off balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit equivalent amounts of off balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk federal banking agencies, to 100% for assets with relatively high credit risk.

The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risk. Under the capital guidelines, a banking organization's total capital is divided into tiers. "Tier I capital" consists of (1) common equity, (2) qualifying noncumulative perpetual preferred stock, (3) a limited amount of qualifying cumulative perpetual preferred stock and (4) minority interests in the equity accounts of consolidated subsidiaries (including trust-preferred securities), less goodwill and certain other intangible assets. Qualifying Tier I capital may consist of trust-preferred securities, subject to the FRB's final rule adopted March 4, 2005, which changed the criteria and quantitative limits for inclusion of restricted core capital elements in Tier I capital. "Tier II capital" consists of hybrid capital instruments, perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, preferred stock that does not qualify as Tier I capital, a limited amount of the allowance for loan and lease losses and a limited amount of unrealized holding gains on equity securities. "Tier III capital" consists of qualifying unsecured subordinated debt. The sum of Tier II and Tier III capital may not exceed the amount of Tier I capital.

The risk-based capital guidelines require a minimum ratio of qualifying total capital to risk-adjusted assets of 8% and a minimum ratio of Tier 1 capital to risk-adjusted assets of 4%. In addition to the risk-based guidelines, federal banking regulators require banking organizations to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage ratio. For a banking organization rated in the highest of the five categories used by regulators to rate banking organizations, the minimum leverage ratio of Tier 1 capital to total assets must be 3%.

A bank that does not achieve and maintain the required capital levels, may be issued a capital directive by the FDIC to ensure the maintenance of required capital levels. As discussed above, we are required to maintain certain levels of capital. The regulatory capital guidelines as well as our actual capitalization as of December 31, 2005 follow (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage ratio.....	\$ 32,189	10.73%	\$ 12,003	4.00%	\$ 15,004	5.00%
Tier 1 risk-based capital ratio ...	32,189	15.62	8,242	4.00	12,363	6.00
Total risk based capital ratio	34,720	16.85	16,484	8.00	20,605	10.00

The risk-based capital guidelines are based upon the 1988 capital accord of the international Basel Committee on Banking Supervision. A new international accord, referred to as Basel II, which emphasizes internal assessment of credit, market and operational risk, supervisory assessment and market discipline in determining minimum capital requirements, currently becomes mandatory in 2008 only for banks with over \$250 billion in assets or total on-balance-sheet foreign exposure of \$10 billion or more. Alternative capital requirements are under consideration by the U.S. federal banking agencies for smaller U.S. banks, which may be negatively impacted competitively by certain provisions of Basel II.

Prompt Corrective Action

Federal banking agencies possess broad powers to take corrective and other supervisory action to resolve the problems of insured depository institutions, including but not limited to those institutions that fall within any undercapitalized category. Each federal banking agency has promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on its capital ratios:

- “well capitalized;”
- “adequately capitalized;”
- “undercapitalized;”
- “significantly undercapitalized;” and
- “critically undercapitalized.”

The regulations use an institution’s risk-based capital, leverage capital and tangible capital ratios to determine the institution’s capital classification. An institution is treated as well capitalized if its total capital to risk-weighted assets ratio is 10.00% or more; its core capital to risk-weighted assets ratio is 6.00% or more; and its core capital to adjusted total assets ratio is 5.00% or more. At December 31, 2005, the bank’s capital ratios exceed these minimum percentage requirements for “well capitalized” institutions.

An institution that, based upon its capital levels, is classified as well capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions. The federal banking agencies, however, may not treat a significantly undercapitalized institution as critically undercapitalized unless its capital ratio actually warrants such treatment.

Safety and Soundness Standards

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal regulators and/or state regulations for state banks, for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, or any condition imposed in writing by the agency or any written agreement with the agency. Further, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized – without the express permission of the institution’s primary regulator.

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems, (ii) loan documentation, (iii) credit underwriting, (iv) asset growth, (v) earnings, and (vi) compensation, fees and benefits. In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and earnings standards. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets, (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses, (iii) compare problem asset totals to capital, (iv) take appropriate corrective action to resolve problem assets, (v) consider the size and potential risks of material asset concentrations, and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk. These guidelines also set forth standards for evaluating and monitoring earnings and for ensuring that earnings are sufficient for the maintenance of adequate capital and reserves.

Premiums for Deposit Insurance

Through the Bank Insurance Fund (“BIF”), the FDIC insures our customer deposits up to prescribed limits for each depositor. The amount of FDIC assessments paid by each BIF member institution is based on its relative risk of default as measured by regulatory capital ratios and other factors. Specifically, the assessment rate is based on the institution’s capitalization risk category and supervisory subgroup category. An institution’s capitalization risk category is based on the FDIC’s determination of whether the institution is well capitalized, adequately capitalized or less than adequately capitalized. An institution’s supervisory subgroup category is based on the FDIC’s assessment of the financial condition of the institution and the probability that FDIC intervention or other corrective action will be required.

The assessment rate currently ranges from zero to 27 cents per \$100 of domestic deposits. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis. Due principally to continued growth in deposits, the BIF is nearing its minimum ratio of 1.25% of insured deposits as mandated by law. If the ratio drops below 1.25%, it is likely the FDIC will be required to assess premiums on all banks. Any increase in assessments or the assessment rate could have a material adverse effect on earnings, depending on the amount of the increase. Furthermore, the FDIC is authorized to raise insurance premiums under certain circumstances.

The FDIC is authorized to terminate a depository institution’s deposit insurance upon a finding by the FDIC that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution’s regulatory agency.

All FDIC-insured depository institutions must pay an annual assessment to provide funds for the payment of interest on bonds issued by the Financing Corporation, a federal corporation chartered under the authority of the Federal Housing Finance Board. The bonds, commonly referred to as FICO bonds, were issued to capitalize the Federal Savings and Loan Insurance Corporation (“SAIF”). The FICO assessment rate for the fourth quarter of fiscal 2005 was 1.34 basis points for each \$100 of assessable deposits. The FICO assessments are adjusted quarterly to reflect changes in the assessment bases of the FDIC’s insurance funds and do not vary depending on a depository institution’s capitalization or supervisory evaluations.

The enactment in February 2006, of the Federal Deposit Insurance Reform Act of 2006, or FDIRA, provides, among other things, for the merger of the BIF and the SAIF into the Deposit Insurance Fund; future inflation adjustment increases in the standard maximum deposit insurance amount of \$100,000; the increase of retirement account coverage to \$250,000; changes in the formula and factors to be considered by the FDIC in calculating the FDIC reserve ratio, assessments and dividends, and a one-time aggregate assessment credit for depository institutions in existence on December 31, 1996 (or their successors) which paid assessments to recapitalize the insurance funds after the banking crises of the late 1980s and early 1990s. The FDIC is to issue regulations implementing the provisions of FDIRA. At this time it is uncertain what effect FDIRA and the forthcoming regulations will have on the bank.

Loans-to-One Borrower Limitations

With certain limited exceptions, the maximum amount of obligations, secured and unsecured, that any borrower (including certain related entities) may owe to a California state bank at any one time may not exceed 25% of the sum of the shareholders equity, allowance for loan losses, capital notes and debentures of the bank. Unsecured obligations may not exceed 15% of the sum of the shareholders equity, allowance for loan losses, capital notes and debentures of the bank.

Extensions of Credit to Insiders and Transactions with Affiliates

The Federal Reserve Act and FRB Regulation O place limitations and conditions on loans or extensions of credit to:

- a bank's or bank holding company's executive officers, directors and principal shareholders (i.e., in most cases, those persons who own, control or have power to vote more than 10% of any class of voting securities);
- any company controlled by any such executive officer, director or shareholder; or
- any political or campaign committee controlled by such executive officer, director or principal shareholder.

Loans and leases extended to any of the above persons must comply with the loan-to-one-borrower limits, require prior full board approval when aggregate extensions of credit to the person exceed specified amounts, must be made on substantially the same terms (including interest rates and collateral) as, and follow credit-underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions with non-insiders, and must not involve more than the normal risk of repayment or present other unfavorable features. In addition, Regulation O provides that the aggregate limit on extensions of credit to all insiders of a bank as a group cannot exceed the bank's unimpaired capital and unimpaired surplus. Regulation O also prohibits a bank from paying an overdraft on an account of an executive officer or director, except pursuant to a written pre-authorized interest-bearing extension of credit plan that specifies a method of repayment or a written pre-authorized transfer of funds from another account of the officer or director at the bank.

The bank also is subject to certain restrictions imposed by Federal Reserve Act Sections 23A and 23B and FRB Regulation W on any extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, any affiliates, the purchase of, or investments in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of any affiliates. Such restrictions prevent any affiliates from borrowing from the bank unless the loans are secured by marketable obligations of designated amounts. Further, such secured loans and investments to or in any affiliate are limited, individually, to 10.0% of our capital and surplus (as defined by federal regulations), and such secured loans and investments are limited, in the aggregate, to 20.0% of our capital and surplus. Some of the entities included in the definition of an affiliate are parent companies, sister banks, sponsored and advised companies, investment companies whereby the bank's affiliate serves as investment advisor, and financial subsidiaries of the bank. Additional restrictions on transactions with affiliates may be imposed on us under the prompt corrective action provisions of federal law and the supervisory authority of the federal and state banking agencies. See "Prompt Corrective Action" and "Safety and Soundness Standards."

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses accounting oversight and corporate governance matters, including:

- the prohibition of accounting firms from providing various types of consulting services to public clients and requiring accounting firms to rotate partners among public client assignments every five years;
- increased penalties for financial crimes and forfeiture of executive bonuses in certain circumstances;
- required executive certification of financial presentations;
- increased requirements for board audit committees and their members;
- enhanced disclosure of controls and procedures and internal control over financial reporting;
- enhanced controls on, and reporting of, insider trading; and
- statutory separations between investment bankers and analysts.

The new legislation and its implementing regulations will result in increased costs of compliance, including certain outside professional costs. To date these costs have not had a material impact on our operations.

Under the Sarbanes-Oxley Act of 2002, the Bank is considered a non-accelerated filer. On September 21, 2005, the compliance dates for non-accelerated filers was extended for the sections of the Sarbanes-Oxley Act of 2002 that require companies to include in their annual reports a report of management on the company's internal control over financial reporting, and to evaluate, as of the end of each fiscal period, any change in the company's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting. A company that is a non-accelerated filer must begin to comply with these requirements for its first fiscal year ending on or after July 15, 2007.

USA PATRIOT Act

The USA PATRIOT Act of 2001 and its implementing regulations significantly expanded the anti-money laundering and financial transparency laws. Under the USA PATRIOT Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as additional enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions, foreign customers and private banking customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transaction;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

Under the USA PATRIOT Act, financial institutions are required to establish and maintain anti-money laundering program which include:

- the establishment of a customer identification program;
- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

The Bank has adopted comprehensive policies and procedures to address the requirements of the USA PATRIOT Act. Material deficiencies in anti-money laundering compliance can result in public enforcement actions by the banking agencies, including the imposition of civil money penalties and supervisory restrictions on growth and expansion. Such actions could have serious reputation consequences for the Bank.

Consumer Protection Laws and Regulations

Examination and enforcement by the bank regulatory agencies for non-compliance with consumer protection laws and their implementing regulations have become more intense in nature. The Bank is subject to many federal consumer protection statutes and regulations, some of which are discussed below.

The Home Ownership and Equal Protection Act of 1994, or HOEPA, requires extra disclosures and consumer protections to borrowers for certain lending practices. The term “predatory lending,” much like the terms “safety and soundness” and “unfair and deceptive practices,” is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition. Typically predatory lending involves at least one, and perhaps all three, of the following elements:

- making unaffordable loans based on the assets of the borrower rather than on the borrower’s ability to repay an obligation (“asset-based lending”);
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (“loan flipping”); and/or
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

Federal Reserve regulations and the Office of the Controller of the Currency (“OCC”) guidelines aimed at curbing predatory lending significantly widen the pool of high cost home secured loans covered by HOEPA. In addition, the regulations bar certain refinances within a year with another loan subject to HOEPA by the same lender or loan servicer. Lenders also will be presumed to have violated the law—which says loans should not be made to people unable to repay them—unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid. We do not expect these rules and potential state action in this area to have a material impact on our financial condition or results of operation.

Privacy policies are required by federal banking regulations which limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. Pursuant to those rules, financial institutions must provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- annual notices of their privacy policies to current customers; and
- a reasonable method for customers to “opt out” of disclosures to nonaffiliated third parties.

These privacy protections affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

In addition, state laws may impose more restrictive limitations on the ability of financial institution to disclose such information. California has adopted such a privacy law that among other things generally provides that customers must “opt in” before information may be disclosed to certain nonaffiliated third parties.

The Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act, or FACT Act, requires financial firms to help deter identity theft, including developing appropriate fraud response programs, and gives consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices. In connection with FACT Act, financial institution regulatory agencies proposed rules that would prohibit an institution from using certain information about a consumer it received from an affiliate to make a solicitation to the consumer, unless the consumer has been notified and given a chance to opt out of such solicitations. A consumer’s election to opt out would be applicable for at least five years.

The Check Clearing for the 21st Century Act, or Check 21, facilitates check truncation and electronic check exchange by authorizing a new negotiable instrument called a “substitute check,” which is the legal equivalent of an original check. Check 21 does not require banks to create substitute checks or accept checks electronically; however, it does require banks to accept a legally equivalent substitute check in place of an original. In addition to its issuance of regulations governing substitute checks, the Federal Reserve has issued final rules governing the treatment of remotely created checks (sometimes referred to as “demand drafts”) and electronic check conversion transactions (involving checks that are converted to electronic transactions by merchants and other payees).

The Equal Credit Opportunity Act, or ECOA, generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

The Truth in Lending Act, or TILA, is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of the TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

The Fair Housing Act, or FH Act, regulates many practices, including making it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be, or may be considered, illegal under the FH Act, including some that are not specifically mentioned in the FH Act itself.

The Community Reinvestment Act, or CRA, is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal regulatory agencies, in examining insured depository institutions, to assess a bank’s record of helping meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, mergers or acquisitions, or holding company formations. The agencies use the CRA assessment factors in order to provide a rating to the financial institution. The ratings range from a high of “outstanding” to a low of “substantial noncompliance.” In its last examination for CRA compliance, as of April 21, 2004, the Bank was rated “satisfactory.” Subsequent to the last examination, the Bank’s classification has changed from a “small institution” to an “intermediate small institution” under the revised CRA guidelines which became effective in September 2005. As such, the Bank’s compliance requirements will increase. In 2006, the Bank will adopt and implement a revised CRA policy to address these increased requirements.

The Home Mortgage Disclosure Act, or HMDA, grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a “fair lending” aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. The Federal Reserve Board amended regulations issued under HMDA to require the reporting for 2004 of certain pricing data with respect to higher priced mortgage loans. The expanded 2004 HMDA data is being reviewed by federal banking agencies and others from a fair lending perspective. We do not expect that the HMDA data reported by the Bank for 2005 will raise material issues regarding the Bank’s compliance with the fair lending laws.

The Real Estate Settlement Procedures Act, or RESPA, requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. Also, RESPA prohibits certain abusive practices, such as kickbacks, and places limitations on the amount of escrow accounts. Penalties under the above laws may include fines, reimbursements and other penalties.

Due to heightened regulatory concern related to compliance with HOEPA, FACT, ECOA, TILA, FH Act, CRA, HMDA and RESPA generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of San Francisco (“FHLB – SF”). Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the Board of Directors of the individual FHLB. As a FHLB member, we are required to own a certain amount of capital stock in the FHLB – SF. At December 31, 2005, the Bank owned \$1.4 million of FHLB capital stock and was in compliance with the stock requirements.

Federal Reserve System

The Federal Reserve Bank (“FRB”) requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At December 31, 2005, the Bank was in compliance with these requirements.

Nonbank Subsidiaries

Nonbank subsidiaries of the Bank are subject to the laws and regulations of both the federal government and the various states in which they conduct business.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB), issued SFAS No. 123 (revised 2004), “Share—Based Payment”. This Statement requires that compensation costs related to share-based payment transactions be recognized in the financial statements. Measurement of the cost of employee service will be based on the grant-date fair value of the equity or liability instruments issued. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Additionally, liability awards will be re-measured each reporting period. Statement 123R replaces SFAS No. 123, “Accounting for Stock-Based Compensation” and supercedes APB Opinion No. 25, “Accounting for Stock Issued to Employees”. This Statement is effective for annual periods beginning after June 15, 2005 and requires adoption using a modified prospective application or a modified retrospective application. However, on April 14, 2005, the SEC issued rule 2005-57, which allows companies to delay implementation of the Statement to the beginning of the next fiscal year.

The Bank will adopt this Statement in 2006 for all new stock option awards as well as any existing awards that are modified, repurchased or cancelled. In addition, the unvested portion of previously awarded options will also be recognized as expense. The Bank is unable to estimate the impact of this Statement on its financial condition and results of operations as the decision to grant option awards is made annually on a case-by-case basis. For stock options outstanding as of December 31, 2005, the compensation expense related to shares vesting in 2006 and 2007 will be approximately \$0.4 million and \$0.1 million, respectively, disregarding any forfeitures.

SELECTED STATISTICAL INFORMATION

The following tables and data set forth, for the respective periods, selected statistical information relating to the Bank. The tables and data should be read in conjunction with the other financial information appearing elsewhere in this report.

Investment Securities

The Bank maintains a portion of its assets in investment securities to provide liquidity, generate a reasonable rate of return, meet pledging requirements, and minimize risk. As of the dates presented below, the Bank's investment securities were classified as available-for-sale except for the \$10.1 million of bond mutual funds, at December 31, 2004 which were classified as trading securities. Investment securities classified as available-for-sale and trading securities are stated at market value. The following table is a summary of investment securities as of December 31 (dollars in thousands):

	2005	2004	2003	2002	2001
US Treasury securities.....	\$ 24,497	\$ 18,871	\$ 18,891	\$ -	\$ -
Tax-free municipal bonds....	16,094	13,152	13,168	12,380	-
Collateralized debt obligations	4,000	3,975	4,307	1,000	-
Collateralized mortgage obligations	5,030	8,360	12,358	53,882	28,734
Mortgage backed securities .	3,751	7,412	12,521	19,950	2,439
Taxable municipal bonds.....	2,233	2,451	4,083	4,682	5,858
Corporate bonds	1,624	1,628	2,038	4,038	7,361
Trust preferred securities.....	1,000	1,156	2,682	4,997	5,734
Bond mutual funds	-	10,148	29,926	-	-
Total	<u>\$ 58,229</u>	<u>\$ 67,153</u>	<u>\$ 99,974</u>	<u>\$ 100,929</u>	<u>\$ 50,126</u>

The following table discloses the maturity dates and average yields of the Bank's investment securities as of December 31, 2005 (dollars in thousands):

	Due Within 1 Year		Due after 1 Year but Within 5 Years		Due after 5 Years but Within 10 Years		Due After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
US Treasury securities	\$ -	-%	\$ 24,497	3.59%	\$ -	-%	\$ -	-%
Tax-free municipal bonds ...	-	-	787	3.57	5,652	5.30	9,655	6.01
Collateralized debt obligations.....	-	-	-	-	-	-	4,000	4.89
Collateralized mortgage obligations and mortgage-backed securities	2,758	6.13	3,521	6.13	1,431	6.13	1,071	6.13
Taxable municipal bonds	-	-	2,233	6.86	-	-	-	-
Corporate bonds	-	-	1,015	6.88	-	-	609	6.43
Trust preferred securities	-	-	-	-	-	-	1,000	10.75
Total.....	<u>\$ 2,758</u>	<u>6.13%</u>	<u>\$ 32,053</u>	<u>4.23%</u>	<u>\$ 7,083</u>	<u>5.47%</u>	<u>\$ 16,335</u>	<u>6.05%</u>

Collateralized mortgage obligations and mortgage-backed securities and are classified in accordance with their estimated lives. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations. Tax free municipal securities show yields with equivalent tax effect. Trust Preferred securities are classified in accordance to their actual maturities.

The Bank's investment securities available-for-sale are marked to market each month with any unrealized gain or loss recognized as an adjustment to shareholders' equity, net of deferred tax effects. Generally accepted accounting principles require that any decline in the value of a security be assessed to determine if the decline is other than temporary. If the decline in the value of a security is determined to be other than temporary, the security must be written down and treated as a realized loss. Management believes that it is premature to identify the decline in market value of any of its securities as other than temporary at this time.

Loans

The following table is a summary of the Bank's loans by type as of December 31 (dollars in thousands):

	2005	2004	2003	2002	2001
Commercial	\$ 55,396	\$ 52,639	\$ 51,688	\$ 54,016	\$ 41,669
Real estate mortgage.....	57,892	59,322	75,082	80,065	94,798
Real estate construction.....	40,456	59,651	10,896	13,407	3,095
Personal	4,893	4,032	5,190	5,975	3,478
Deferred fees and expenses .	(301)	(456)	(355)	(403)	(268)
Total	<u>\$ 158,336</u>	<u>\$ 175,188</u>	<u>\$ 142,501</u>	<u>\$ 153,060</u>	<u>\$ 142,772</u>

Commercial loans are generally loans to local community businesses and may be unsecured or secured by assets of the business and/or guaranteed by its principals. Real estate mortgage loans are loans to purchase or refinance owner-occupied and investor commercial real estate, are secured by deeds of trust on the underlying properties and may be guaranteed by the principal borrowers. Real estate construction loans are loans to construct commercial real estate and residential properties, are secured by deeds of trust on the underlying properties and may be guaranteed by the principal borrowers. Personal loans are loans to provide overdraft protection or establish a line of credit to individuals that are generally unsecured.

The Bank primarily funds loans based on the creditworthiness of the borrower and are supported by a minimum of two identified sources of repayment. Advance rates on collateral provided in support of the sources of repayment generally range from 60% to 80% of collateral value.

Real estate mortgage and construction lending contain potential risks, which are not inherent in other types of commercial loans. These potential risks include declines in market values of underlying collateral and, with respect to construction lending, delays or cost overruns, which could expose the Bank to loss. In addition, risks in commercial real estate lending include declines in commercial real estate values, general economic conditions surrounding the commercial real estate properties, and vacancy rates. A decline in the general economic conditions or real estate values within the Bank's market area could have a negative impact on the performance of the loan portfolio or value of the collateral. Because the Bank lends primarily within its market areas, the real property collateral for its loans is similarly concentrated, rather than diversified over a broader geographic area. The Bank could therefore be adversely affected by a decline in real estate values in Orange County and the surrounding counties even if real estate values elsewhere in California generally remain stable or increased.

The risks in the Bank's loan portfolio stem from the individual credits that are contained therein. The risks of a particular credit arise from the interplay of various factors, including the underwriting criteria applied to originate the credit, the creditworthiness of the borrower, the controls placed on the disbursement of funds, the procedures employed to monitor the credit, the interest rate charged, market interest rate increases for variable rate loans and the external economic conditions that may affect the creditor's ability to repay or the value of the underlying collateral. Further, with respect to secured credits, certain additional factors include the nature of the appraisals obtained with respect to the underlying collateral and the loan-to-value ratio. Assuming all other things are equal, certain credits have characteristics that present a higher degree of risk than others: a secured credit is less risky than an unsecured credit; a credit with liquid collateral is less risky than a credit secured by collateral for which there is only a limited market; a credit with a lower interest rate is less risky than one with a higher rate; a credit with a lower loan-to-value ratio is less risky than a credit with a higher ratio; and a credit that is underwritten pursuant to rigorous underwriting criteria and a careful review of the borrower's creditworthiness is less risky than a credit originated pursuant to less rigorous standards. The Bank considers these characteristics, among others, during the underwriting process in an attempt to originate loans with an acceptable level of risk.

Approximately 62.1% of the Bank's loans were secured by real estate at December 31, 2005. The Bank had no foreign loans during the periods reported. At December 31, 2005, the Bank had no significant loan type concentrations other than those identified above.

Rate Sensitivity

Financial institutions are susceptible to fluctuations in interest rates. To the degree that the average yield on assets responds differently to a change in interest rates than does the average cost of funds sources, earnings will be sensitive to interest rate changes.

The following table sets forth the maturities for commercial, real estate mortgage and real estate construction loans at December 31, 2005 and the related classification as fixed or adjustable rate loans (dollars in thousands):

	<u>Within 1 year</u>	<u>After 1 Year but Within 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
Commercial.....	\$ 22,597	\$ 14,898	\$ 17,901	\$ 55,396
Real estate mortgage.....	2,749	14,527	40,616	57,892
Real estate construction	37,367	3,089	-	40,456
Total.....	<u>\$ 62,713</u>	<u>\$ 32,514</u>	<u>\$ 58,517</u>	<u>\$ 153,744</u>
Fixed rates.....	\$ 3,627	\$ 14,216	\$ 23,816	\$ 41,659
Adjustable rates	59,086	18,298	34,701	112,085
Total.....	<u>\$ 62,713</u>	<u>\$ 32,514</u>	<u>\$ 58,517</u>	<u>\$ 153,744</u>

Allowance for Loan Losses

The activity in the allowance for loan losses is as follows for the years ended December 31 (dollars in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Balance: January 1.....	\$ 2,218	\$ 2,557	\$ 1,977	\$ 1,756	\$ 2,554
Chargeoffs	-	-	(135)	(358)	(1,007)
Recoveries	34	130	996	80	59
Net (chargeoffs) recoveries ..	34	130	861	(278)	(948)
Provision (benefit) for loan losses	99	469	(281)	499	276
Transfer to reserve for unfunded commitments	-	-	-	-	(126)
Balance: December 31	<u>\$ 2,351</u>	<u>\$ 2,218</u>	<u>\$ 2,557</u>	<u>\$ 1,977</u>	<u>\$ 1,756</u>

Selected ratios related to the allowance for loan losses is as follows as of and for the years ended December 31 (dollars in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Allowance for loan losses as a percentage of:					
Average loans.....	1.37 %	1.26 %	1.73 %	1.38 %	1.28 %
Loans at end of period..	1.48	1.27	1.79	1.29	1.23
Nonaccrual loans	-	-	-	189.73	147.32
Net (chargeoffs) recoveries as a % of average loans	0.02	0.07	0.58	(0.19)	(0.69)

The allowance for loan losses is established by a provision for loan losses charged against current period income. Loan losses are charged against the allowance when, in management's judgment, the loan, or a portion of the loan, is considered uncollectible or of such little value that its continuance as an asset is unwarranted. The allowance is the amount that management believes is adequate to absorb losses inherent in existing loans. Management's evaluation takes into consideration several factors, including economic conditions and their effects on particular industries and specific borrowers, borrowers' financial data, regulatory examinations and requirements, and continuous monitoring and review of the loan portfolio for changes in overall quality and specific loan problems. The allowance is available for all credit losses.

The allowance for loan losses is determined by establishing specific allocations, general allocations and supplemental allocations. Specific allocations are established by analyzing individual credits, specifically loans classified as "substandard". The general allocations are determined based upon quantitative historical loss experience of loans. The supplemental allocations are additional reserves that are based on economic conditions, trends in delinquency, restructured and nonperforming loans, and are otherwise deemed necessary and prudent by management.

The Bank also maintains a reserve for unfunded commitments. This reserve is determined in a manner consistent with the determination of general allocations for the allowance for loan losses. At December 31, 2005 the reserve for unfunded commitments was \$0.2 million and is included on other liabilities on the Bank's consolidated statements of financial condition.

The Bank's allowance for loan losses allocated by loan type is as follows as of December 31 (dollars in thousands):

	2005	2004	2003	2002	2001
<i>Amounts</i>					
Commercial	\$ 1,021	\$ 684	\$ 1,279	\$ 749	\$ 594
Real estate mortgage.....	578	1,297	1,063	1,050	1,076
Real estate construction.....	613	167	54	67	15
Personal	139	70	161	111	71
Total	<u>\$ 2,351</u>	<u>\$ 2,218</u>	<u>\$ 2,557</u>	<u>\$ 1,977</u>	<u>\$ 1,756</u>

<i>As a % of related loan balances</i>					
Commercial	1.84 %	1.30 %	2.47 %	1.39 %	1.43 %
Real estate mortgage.....	1.00	2.19	1.42	1.31	1.14
Real estate construction.....	1.52	0.28	0.50	0.50	0.48
Personal	2.84	1.74	3.10	1.86	2.04
Total	1.48	1.26	1.79	1.29	1.23

Management believes that the allowance for credit losses at December 31, 2005 is adequate to absorb known and inherent risks in the loan and investment portfolios.

Nonperforming Loans

Loans for which the accrual of interest has been discontinued are designated nonaccrual loans. Accrual of interest on such loans is discontinued when reasonable doubt exists as to the full and timely collection of either principal or interest or generally when a loan becomes contractually 90 days past due with respect to principal or interest. Under certain circumstances, interest accruals are continued on loans past due 90 days which in Management's judgment, are considered fully collectible, well secured and in the process of collection. Restructured loans are those on which the terms have been modified in favor of the borrower as a result of the borrower's inability to meet the original terms.

On December 31, 2005, 2004 and 2003, the Bank did not have any nonaccrual loans or other loans over 90 days past due. As of December 31, 2005, 2004, 2003, 2002 and 2001, the Bank did not have any restructured loans. Nonaccrual loans totaled \$1.1 million and \$1.2 million on December 31, 2002 and December 31, 2001, respectively. As a percentage of total loans, nonaccrual loans were 0.68% and 0.84% of total loans and 0.38% and 0.48% of total assets as of December 31, 2002 and December 31, 2001, respectively

Classified Loans

The policy of the Bank is to review the loans in the portfolio to identify problem credits and classify them based on a loan grading system. The loan grading system includes two classifications for problem loans: "substandard" and "loss". A substandard loan is inadequately protected by the current sound net worth and paying capacity of the borrower or by the pledged collateral, if any. A substandard loan has one or more well defined weaknesses that jeopardize the liquidation of the debt. A loan or a portion of a loan classified as loss is considered uncollectible or of such little value that its continuance as an asset is unwarranted. Another category designated as "special mention" is maintained for loans which are marginally acceptable but currently protected by the current sound net worth and paying capacity of the borrower or by the pledged collateral, if any. A special mention loan is potentially weak, as the borrower is exhibiting deteriorating trends which, if not corrected, could jeopardize the repayment of the debt and result in a substandard classification.

Loans classified as substandard or special mention are as follows as of December 31 (dollars in thousands):

	2005	2004	2003	2002	2001
<i>Amounts</i>					
Substandard	\$ 1,923	\$ 168	\$ 4,139	\$ 1,331	\$ 1,313
Special mention	7,698	1,443	1,520	530	2,143
<i>As a % of total loans</i>					
Substandard	1.21 %	0.10 %	2.90 %	0.87 %	0.92 %
Special mention	4.86	0.82	1.07	0.35	1.50

There were no loans classified as loss for any of the periods presented. Except for the loans classified as substandard, management is not aware of any loans at December 31, 2005, where the known credit problems of the borrower would cause the Bank to have serious doubts as to the ability of such borrowers to comply with their present loan repayment terms and which would result in such loans becoming nonperforming loans at some future date. Management cannot, however, predict the extent to which the current economic environment may deteriorate, or the full impact such environment may have on the Bank's loan portfolio. Furthermore, the Bank's loan portfolio is subject to review by federal and state regulators as part of their routine, periodic examination and such regulators' assessment of specific credits may affect the level of the Bank's nonperforming loans and allowance for credit losses. Accordingly, there can be no assurance that other loans will not become nonperforming in the future.

Real Estate Owned

Other real estate owned (OREO) represents the collateral acquired through foreclosure in full or partial satisfaction of the related loan. OREO is recorded at the fair value less estimated selling costs at the date of foreclosure. The recognition of gains and losses on sales of real estate is dependent upon various factors relating to the nature of the property sold and the terms of the sale. Once real estate is acquired and periodically thereafter, management obtains a valuation of the real estate and a valuation allowance for estimated losses is provided against income if the carrying value of real estate exceeds estimated fair value less selling costs. Legal fees and direct costs, including foreclosure, appraisal and other related costs, are expensed as incurred. While management uses currently available information to provide for losses on real estate, future additions to the valuation allowance may be necessary based on future economic conditions. In addition, the regulatory agencies periodically review the valuation allowance and such agencies may require the Bank to recognize additions to the valuation allowance based on information and factors available to them at the time of their examinations. Accordingly, no assurance can be given that the Bank will not recognize additional losses with respect to its REO. The net cost of operation of REO includes write-downs of REO, gains and losses on disposition and REO operating expenses, net of related income. The Bank did not have any REO with any recorded value at December 31, 2005.

Deposits

Deposits are the Bank's primary source of funds. The following table summarizes the average balance of deposits and the weighted average rates paid thereon for the years ended December 31 (dollars in thousands):

	2005	2004	2003	2002	2001
<i>Amounts</i>					
Demand deposits:					
Noninterest bearing	\$ 133,587	\$ 122,487	\$ 111,053	\$ 103,660	\$ 74,306
Interest bearing	100,667	105,463	104,654	99,164	71,230
Savings deposits	3,964	3,935	4,812	4,284	3,993
Certificates of deposit	14,847	27,976	31,442	37,094	44,219
Total	<u>\$ 253,065</u>	<u>\$ 259,861</u>	<u>\$ 251,961</u>	<u>\$ 244,202</u>	<u>\$ 193,748</u>

	<i>Weighted Average Rate</i>				
Demand deposits:					
Noninterest bearing	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Interest bearing	0.57	0.52	0.62	0.99	2.10
Savings deposits	0.25	0.25	0.35	0.51	0.95
Certificates of deposit	2.05	1.08	1.22	2.19	4.75
Total	0.35 %	0.33 %	0.42 %	0.75 %	1.87 %

The maturities of the CDs of \$100,000 or more and the ratio of such deposits to total deposits were as follows at December 31, 2005 (dollars in thousands):

<i>Maturity</i>	Amount	As a Percentage of Total Deposits
0 to 3 months	\$ 3,657	1.43 %
3 to 6 months	1,941	0.76
6 to 12 months	1,007	0.40
Over 12 months	763	0.30
Total	<u>\$ 7,368</u>	<u>2.89 %</u>

Generally, the holders of these deposits are highly sensitive to changes in interest rates thereby increasing the competition for such deposits as well as the interest rates paid thereon. Time deposits are sometimes acquired from deposit brokers. Brokered deposits at December 31, 2005 were \$0.2 million.

Selected Financial Ratios

The following table presents selected financial ratios for the year ended December 31:

	2005	2004	2003	2002	2001
Ratio of net income to:					
Average total assets	0.73 %	1.00 %	1.19 %	1.00 %	1.43 %
Average equity	6.66	8.93	11.50	9.39	13.63
Ratio of average equity to average total assets	10.92	11.13	10.36	10.64	10.49

The Bank has not declared or paid any cash dividends during the periods presented.

Business Considerations and Certain Factors That May Affect Future Results of Operations and Stock Price

In addition to other information contained in this report, the following is a summary of some of the important factors which could adversely affect our future results of operations and/or our stock price and should be considered carefully.

An Economic Slowdown in California Could Hurt our Business

Our operations are located in Southern California and concentrated primarily in Orange County. As a result of the geographic concentration, our results depend largely upon economic conditions in this area. A deterioration or economic slowdown in Southern California, or a natural or manmade disaster, could have the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase; and
- Demand for our products and services may decrease.

Changes in Interest Rates May Adversely Affect Our Profitability

Our earnings are impacted by changing interest rates. Changes in interest rates impact the demand for new loans, the rates received on loans and securities and the rates paid on deposits and other borrowings. The relationship between the rates received on earning assets and the rates paid on interest-bearing liabilities is known as interest rate spread. In general, the wider the spread, the more we earn. Given our current volume and mix of interest-bearing liabilities and interest-earning assets, our interest rate spread could be expected to increase during times of rising interest rates and conversely, to decline during times of falling interest rates. When market rates of interest change, the interest we receive on our assets and the interests we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our business, financial condition and results of operations.

Significant Changes in Government Regulations Could Adversely Affect Our Business

The banking industry is subject to extensive regulation. Significant new laws or changes in, or repeals of, existing laws may cause our results to differ materially. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects our credit conditions, primarily through open market operations in United States government securities, the discount rate for bank borrowing and bank reserve requirements. A material change in these conditions would likely have a material impact on our business, financial condition and results of operations.

We Face Strong Competition That Can Hurt Our Business

The banking and financial services business in our market areas is highly competitive. The increasingly competitive environment is a result of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. Increasing levels of competition in the banking and financial services business may reduce our market share or cause the prices we charge for our services to fall.

If a Significant Number of Borrowers, Guarantors and Related Parties Fail to Perform as Required by the Terms of Their Loans, We Will Sustain Losses.

A significant source of risk arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the allowance for credit losses, that Management believes are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results.

The Bank's Affiliates Control the Bank Which Allow the Affiliates to Control the Bank's Policies and Prevent the Bank From Being Acquired by a Third Party Without the Affiliates' Consent

Affiliates of the Bank own approximately 66% of the Bank's common stock. As such, the affiliates have voting control of the Bank, and are able to elect a majority of the Board of Directors, adopt amendments to the Bank's Articles of Incorporation and Bylaws, effect a merger, sale of assets, or other fundamental corporate transactions without the approval of other nonaffiliated stockholders. It is also impossible for a third party to obtain control of the Bank through purchases of common stock not beneficially owned or controlled by the Bank's affiliates, which could have a negative impact on our stock price.

Your Ability to Sell Your Shares of the Bank's Common Stock at Times and in the Amounts You Want is Limited

The Bank's stock is traded on the Over-the-Counter Bulletin Board. There were 17,211 shares of the Bank's common stock outstanding, of which only 5,829 were held by non-affiliates at March 22, 2006. Because of the concentration in ownership of shares held by affiliates of the Bank, as well as the number of shares actually outstanding and the relatively high price our stock trades at, the trading market for our common stock is limited and you may not be able to sell your the Bank's stock at the times or in the amounts you would otherwise like to.

ITEM 2. DESCRIPTION OF PROPERTIES

All of the Bank's offices are located in California in the cities of Tustin, Newport Beach, Laguna Hills and Anaheim. The Bank occupies these offices under operating leases expiring at various dates through 2010. In addition, the Bank leases executive suites in El Segundo and Pleasant Hill under short-term leases. The Bank's total occupancy expense, net of sublease income for 2005 and 2004 was \$1.2 million and \$1.4 million, respectively. The condition of these leased properties is good.

Future minimum lease commitments under all non-cancelable leases at December 31, 2005 are approximately \$6.5 million.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Bank may become a party to various legal proceedings, none of which individually or in the aggregate are considered by management, based in part upon opinions of counsel, to be material to its financial condition or results of operations.

In 1992, WCV, Inc., which became a subsidiary of the Bank after the merger with West Coast Bancorp, was named a "responsible party" under state and federal environmental laws with respect to the contamination of certain real property located in San Bernardino, California. Beginning in 1996, WCV, Inc. filed claims with the California Underground Storage Tank Cleanup Fund ("USTF") and was reimbursed for "eligible" cleanup costs associated with the contaminated property. WCV, Inc. has been reimbursed a total of \$0.8 million through December 31, 2005. WCV, Inc. expects that future cleanup costs will total less than \$0.1 million and that these costs will qualify as eligible costs for reimbursement by USTF.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Securities Market Information

Following the 1 for 30 reverse stock split, in December 2004 the Bank's stock began trading on the OTC Bulletin Board under the symbol "SWBC." The following chart shows the quarterly high and low stock trade information of the Bank for 2005 and 2004. The prices prior to December 31, 2004 were restated to show the effects of the reverse stock split.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
March 31, 2004	\$ 2,940	\$ 2,715
June 31, 2004	3,030	2,888
September 30, 2004.....	3,000	2,805
December 31, 2004	3,030	2,820
March 31, 2005	\$ 3,000	\$ 2,877
June 31, 2005	3,850	3,000
September 30, 2005.....	3,800	3,550
December 31, 2005	3,700	3,500

The Bank has not paid and has no present intention of paying cash dividends on its common stock. Any determination in the future to pay dividends will depend upon our financial condition, capital requirements, results of operations, internal conditions, legal restrictions, and any other factors our board of directors deems relevant.

Holdings of Record

As of March 22, 2006, there were approximately 909 holders of record of the Bank's common stock and 17,221 shares of common stock outstanding.

Equity Compensation Plan Information

The following table provides information relating to the Bank's securities authorized for issuance under equity compensation plans as of December 31, 2005:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options</u>	<u>Weighted average exercise price of outstanding options</u>	<u>Number of securities remaining available for future issuance under equity security compensation plans</u>
Equity compensation plans approved by security holders.....	790	\$4,068.04	2,420
Equity compensation plans not approved by security holders.....	64	-	-

The 40 shares under plans not approved by security holders represent restricted stock to be issued to 2 officers of the Bank under written employment agreements.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis 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 the 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.

The following presents the Bank's management's discussion and analysis for the years ended December 31, 2005 and 2004. This information is intended to facilitate the understanding and assessment of significant changes and trends related to the financial condition of the Bank and the results of operations. This discussion and analysis should be read in conjunction with the Bank's consolidated financial statements and the accompanying notes presented elsewhere herein.

Critical Accounting Policies

Our significant accounting policies and practices are described in Note 1 to the consolidated financial statements. We believe that the estimates and assumptions are most important to the portrayal of the Bank's financial condition and results of operations. They require management's most subjective judgments to form the basis for the accounting policies that were established by the Bank. These critical accounting policies primarily involve the allowance for loan losses.

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:

The 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. During 2005, our loan portfolio decreased as payoffs and paydowns have exceeded internally generated loan originations. Since December 31, 2003, our deposit base has grown from \$246.5 million to \$254.9 million, even though our brokered deposits have decreased from \$16.5 million to \$0.2 million at December 31, 2005. During 2005, there was a \$7.8 million decrease in deposits as a result of the maturity of \$16.3 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, which was offset by \$20.2 million increase in other deposits. Our capital position is strong as our current regulatory capital levels exceed the minimum levels required to be categorized a well capitalized institution.

Cash and cash equivalents and securities:

As a result of decreases in our loan portfolio, increases in our deposits and decreases in our investment portfolio, cash and cash equivalents increased from \$34.2 million at December 31, 2003 to \$59.2 million at December 31, 2004 and then again to \$77.7 million at December 31, 2005. The following sets forth a summary of our securities portfolio at December 31 (dollars in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
US Treasury securities.....	\$ 24,497	\$ 18,871	\$ 18,891
Tax-free municipal bonds.....	16,094	13,152	13,168
Collateralized mortgage obligations and mortgage backed securities.....	8,781	15,772	24,879
Other securities.....	8,857	9,210	13,110
Bond mutual funds	-	10,148	29,926
Total	<u>\$ 58,229</u>	<u>\$ 67,153</u>	<u>\$ 99,974</u>

During 2005, we purchased \$20.9 million of US Treasury and tax-free municipal securities and sold \$11.9 million of treasury securities and \$10.1 million of bond mutual funds. At December 31, 2004, the \$10.1 million of bond mutual funds were classified as trading securities. During 2004, we purchased \$7.8 million of U.S. Treasury securities and sold \$8.2 million of mortgage-backed securities and \$19.5 million of bond mutual funds. The decreases in collateralized mortgage obligations, mortgage backed securities and other securities are due to principal paydowns on these securities. A net gain of \$0.1 million was realized from the sale of securities in 2005 and a net loss of \$ 0.3 million was realized from the sale of securities in 2004, including trading activities.

Loans:

The following table provides a breakdown of our loan portfolio as of December 31 (dollars in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Commercial.....	\$ 55,396	\$ 52,639	\$ 51,688
Real estate mortgage	57,892	59,322	75,082
Real estate construction	40,456	59,651	10,896
Personal	4,893	4,032	5,190
Deferred fees and expenses.....	(301)	(456)	(355)
Total	<u>\$ 158,336</u>	<u>\$ 175,188</u>	<u>\$ 142,501</u>

During 2005, total loans decreased \$17.0 million as a result of \$11.3 million of payoffs and collections of principal, net of advances, on existing loans, offset by \$14.9 million of fundings of new loans. During 2004, total loans increased \$32.7 million primarily as a result of the purchase of \$29.3 million of loans.

Deposits:

The following table provides a breakdown of our deposits as of December 31 (dollars in thousands):

	2005	2004	2003
Demand deposits.....	\$ 165,000	\$ 159,423	\$ 136,713
Money market and savings	76,238	77,257	79,483
Certificates of deposits			
Brokered	164	16,570	16,746
Other	13,531	9,472	13,577
Total	<u>\$ 254,933</u>	<u>\$ 262,722</u>	<u>\$ 246,519</u>

The \$7.8 million decrease in the Bank's deposits at December 31, 2005 when compared to December 31, 2004 and the \$16.2 million increase in deposits at December 31, 2004 when compared to December 31, 2003 were impacted by:

- The Bank's decision to no longer hold high cost broker deposits resulting in a \$16.3 million decrease in brokered deposits at December 31, 2005.
- The deposit of \$11.5 million of proceeds from the sales of real estate by a Bank customer in December 2004 which was subsequently withdrawn in January 2005.
- Excluding the impact of the short term \$11.5 million deposit noted above, the growth in demand deposits of \$17.1 million and \$11.2 million at December 31, 2005 and December 31, 2004, respectively, resulting from the Bank's marketing efforts.

Borrowings:

As of December 31, 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

The following table provides selected financial information related to our results of operations for the years ended December 31 (dollars in thousands):

	2005	2004
Income before taxes.....	\$ 3,382	\$ 4,735
Net income.....	2,140	2,967
Ratio of net income to:		
Average shareholders equity	6.66 %	8.93 %
Average total assets	0.73	1.00

While net interest income, the most significant source of revenue for the Bank, increased \$0.7 million in 2005 as compared to 2004 and \$1.1 million in 2004 as compared to 2003, income before taxes decreased \$1.4 million and \$1.0 million in 2005 and 2004, respectively. The decrease in 2005 as compared to 2004 was primarily due to increases in analysis earnings credited to certain of our business customers and increases in certain noninterest expenses offset by higher net interest income, 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). The decrease in 2004 was primarily due to higher compensation and benefit expenses and other noninterest expenses. The decrease was due primarily to the recoveries in 2003 of previously charged off investment securities and uncollected interest, legal fees and other fees on a previously charged off loan. There were no such recoveries in 2005.

Net Interest Income

The Bank's earnings depend largely upon the difference between the interest received from its loan portfolio and investment securities and the interest paid on its liabilities, including interest paid on deposits. This difference is "net interest income." Interest income, expressed as a percentage of average total interest-earning assets, less interest expense, expressed as a percentage of average total interest-bearing liabilities, is referred to as "interest spread." The Bank's net interest income is affected by changes in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest income is also affected by changes in yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are in turn affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the FRB.

Information concerning average interest-earning assets and interest-bearing liabilities, along with the interest earned or paid thereon and the average interest rates earned and paid thereon, is set forth in the following tables for the years ended December 31 (dollars in thousands):

	2005			2004		
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
Interest earning assets:						
Loans	\$ 171,415	\$ 12,739	7.37 %	\$ 176,821	\$ 12,427	6.94 %
Securities, AFS	54,956	2,649	4.82	66,016	2,971	4.49
Trading securities.....	4,988	168	3.37	18,366	459	2.49
Fed funds sold / mutual funds...	48,153	1,358	2.78	21,393	311	1.43
FHLB Stock	1,414	52	3.68	1,270	49	3.85
Total interest earning assets	280,926	16,966	5.99	283,866	16,217	5.65
Noninterest earning assets.....	13,124			14,098		
Total assets.....	<u>\$ 294,050</u>			<u>\$ 297,964</u>		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand.....	\$ 27,541	44	0.16	\$ 26,003	40	0.15
Money market.....	73,126	526	0.72	79,460	505	0.63
Time and savings	18,811	315	1.67	31,911	313	0.98
Total deposits.....	119,478	885	0.74	137,374	858	0.62
Borrowings	5,375	239	4.44	3,449	135	3.91
Total interest bearing liabilities....	124,855	1,124	0.90	140,823	993	0.70
Noninterest bearing deposits	133,587			122,487		
Other noninterest bearing liabilities	3,488			1,423		
Shareholders' equity	32,120			33,231		
Total liabilities and equity	<u>\$ 294,050</u>			<u>\$ 297,964</u>		
Net interest earning assets.....	<u>\$ 156,071</u>			<u>\$ 143,043</u>		
Net interest income / interest rate spread		<u>\$ 15,842</u>	<u>5.09 %</u>		<u>\$ 15,224</u>	<u>4.95 %</u>
Net interest margin.....			<u>5.64 %</u>			<u>5.36 %</u>

Averages were computed based on daily balances. Interest income includes loan fees, net of deferred costs, of \$0.7 million and \$1.4 million for the years ended December 31, 2005 and 2004, respectively. Loans, net of unearned loan fees, deferred costs and discounts, include loans placed on nonaccrual status.

Although our average interest bearing assets in 2005 of \$280.9 million decreased \$2.9 million over the comparable period of 2004, interest income increased by \$0.7 million, primarily due to the increase of 34 basis points in the weighted average yield on interest earning assets.

The average yield on our loans increased 43 basis points to 7.37% in 2005 from 6.94% in 2004 while average loans decreased \$5.4 million. The increase in yield was primarily the result of an 88 basis point increase in yield on non real estate loans and a 21 basis point increase in yield on real estate loans created by the overall increase in short term market rates and the related impact on the Bank's adjustable rate loan portfolio. 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 decrease in average loans is due to the high level of payoffs experienced by the Bank over the last 18 months, which was only partially offset by new loan originations.

The yield on our other interest bearing assets including securities, fed funds and mutual funds also increased in 2005 as investments that have matured or been sold have been replaced with investments at current higher market rates than those available in 2004.

While our average interest-bearing deposits decreased \$17.9 million in 2005 as compared to 2004 due primarily to the maturity of \$13.8 million of brokered certificates of deposit and a decrease of \$6.3 million in money market accounts, the Bank has maintained and continues to enjoy a high proportion of noninterest bearing deposit accounts and very limited levels of borrowings, which allows us to fund our operations at a relatively low interest cost despite the increases in short-term market rates. The increase in the cost of our interest bearing liabilities to 0.90% in 2005 as compared to 0.70% in 2004 reflects the general increase in short-term interest rates which resulted in higher rates paid on certificate of deposit accounts and money market accounts. At December 31, 2005, the proportion of noninterest bearing deposit accounts to total deposits was 64.7% and our borrowings were 2.0% of our total liabilities. As a result our total interest costs as a percentage of average total liabilities were only 0.43% and 0.36% for 2005 and 2004, respectively. This benefit is partially offset by the analysis earnings we credit and provide to certain of 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.

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%.

Rate/Volume Analysis

The following tables set 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 (dollars in thousands):

The Year Ended December 31, 2005 as Compared to the Year Ended December 31, 2004

	Increase (Decrease) Due to			Net Increase (Decrease)
	Rate	Volume	Rate / Volume	
Interest earning assets:				
Loans.....	\$ 748	\$ (375)	\$ (61)	\$ 312
Securities AFS	219	(496)	(45)	(322)
Trading securities.....	161	(333)	(119)	(291)
Fed funds sold / mutual funds.....	289	383	375	1,047
FHLB Stock	(2)	6	(1)	3
Change in interest income.....	<u>1,415</u>	<u>(815)</u>	<u>149</u>	<u>749</u>
Interest bearing liabilities:				
Deposits:				
Interest bearing demand	2	2	-	4
Money market	68	(40)	(7)	21
Time and savings	<u>222</u>	<u>(128)</u>	<u>(92)</u>	<u>2</u>
Total deposits	292	(166)	(99)	27
Borrowings.....	<u>18</u>	<u>75</u>	<u>11</u>	<u>104</u>
Change in interest expense	310	(91)	(88)	131
Change in net interest income.....	<u>\$ 1,105</u>	<u>\$ (724)</u>	<u>\$ 237</u>	<u>\$ 618</u>

The Year Ended December 31, 2004 as Compared to the Year Ended December 31, 2003

	Increase (Decrease) Due to			Net Increase (Decrease)
	Rate	Volume	Rate / Volume	
Interest earning assets:				
Loans.....	\$ (160)	\$ 2,017	\$ 116	\$ 1,973
Securities AFS	487	(899)	(167)	(579)
Trading securities.....	(448)	(103)	50	(501)
Fed funds sold / mutual funds.....	224	(2)	(41)	181
FHLB Stock	(6)	10	(1)	3
Change in interest income.....	<u>97</u>	<u>1,023</u>	<u>(43)</u>	<u>1,077</u>
Interest bearing liabilities:				
Deposits:				
Interest bearing demand	(11)	4	(2)	(9)
Money market	(85)	(8)	4	(89)
Time and savings	<u>(44)</u>	<u>(48)</u>	<u>3</u>	<u>(89)</u>
Total deposits	(140)	(52)	5	(187)
Borrowings.....	<u>283</u>	<u>(76)</u>	<u>(187)</u>	<u>20</u>
Change in interest expense	143	(128)	(182)	(167)
Change in net interest income.....	<u>\$ (46)</u>	<u>\$ 1,151</u>	<u>\$ 139</u>	<u>\$ 1,244</u>

Provision for Credit Losses

The provision for credit losses is charged to earnings to bring the total allowance for credit losses to a level management deems appropriate based on such factors as historical experience, the volume and type of lending conducted by the Bank, the amount of nonperforming loans, generally accepted accounting principles, economic conditions, and other factors related to the collectibility of loans in the Bank's loan portfolio.

Management has maintained the Bank's allowance for credit losses as a percentage of loans at a level, which reflects the result of a comprehensive risk assessment system to identify and quantify risk in the portfolio. The provision for loan losses was \$0.1 million in 2005 as compared to a benefit of \$0.5 million in 2004. Management believes that the allowance for loan losses at December 31, 2005 is adequate to absorb known and inherent risks in the Bank's credit portfolio.

General economic conditions and the real estate market in California affect the collection of a substantial portion of the Bank's loans, as well as the Bank's financial condition. California has experienced, and may continue to experience, volatile economic conditions. These conditions could adversely affect certain borrowers' ability to repay loans. Deterioration in economic conditions could result in deterioration in the quality of the loan portfolio and high levels of nonperforming assets, classified assets and charge-offs, which would require increased provisions for credit losses and would adversely affect the financial condition and results of operations of the Bank.

Noninterest Income

The changes in noninterest income in 2005 as compared to 2004 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. Gains on sales of securities and trading activities for 2005 were \$0.1 million as compared to a loss \$0.3 million in 2004. Deposit charges for 2005, decreased \$0.3 million when compared to the prior year. While we are prohibited by Federal regulations from paying interest on our checking accounts, certain of 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 2005 was approximately three times greater than the similar rates used during 2004, resulting in lower deposit charges.

Noninterest income decreased to \$0.7 million for 2004 from \$1.5 million in 2003. The decrease was due primarily to the recoveries in 2003 of previously charged off investment securities and uncollected interest, legal fees and other fees on a previously charged off loan. There were no such recoveries in 2004.

Noninterest Expense

Noninterest expense increased \$1.6 million during 2005 as compared to 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 2005 as compared to 2004 because of the increase in the overall interest rate market, resulting in \$2.0 million of higher customer service costs in 2005. The increase in professional services in 2005 when compared to 2004 was due to \$0.3 million of legal costs incurred related to the proposed restructuring of the 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 73 in 2004 to 66 in 2005.

Noninterest expense increased by \$1.5 million in 2004 as compared to 2003 due to increases in salaries and employee benefits of \$1.0 million and \$0.1 million increases in professional services, customer service and marketing. Salaries and employee benefits were higher in 2004 as a result of the increase in average number of full time equivalent employees from 70 in 2003 to 73 in 2004, as well as higher severance payments, bonuses, insurance benefits and commissions in 2004.

Income Taxes

Our effective income tax rate in 2005 was 36.7% as compared to 37.3% in 2004. As a result of the merger of West Coast Bancorp with and into Sunwest Bank in 2001, as of January 1, 2005, the 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. During 2005 and 2004, the Bank recognized current tax benefits relating to these operating losses of \$0.3 million.

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 the 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. The Bank monitors its liquidity in accordance with guidelines established by its Board of Directors and applicable regulatory requirements. The 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.

The 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% at December 31, 2005 and 29% at December 31, 2004. At December 31, 2005 the Bank had unused loan commitments to customers of \$59.3 million and standby and commercial letters of credit to customers totaling \$0.6 million. At December 31, 2005, the Bank had available borrowing capacity totaling approximately \$93.6 million. Management believes the Bank has sufficient liquidity to support its operations.

Capital Resources and Dividends

As of December 31, 2005 and 2004, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the last notification that management believes have changed the institution's category. The Bank's actual capital amounts and ratios are also presented in the following table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2005</u>						
Tier 1 leverage ratio	\$ 32,189	10.73%	\$ 12,003	4.00%	\$ 15,004	5.00%
Tier 1 risk-based capital ratio ...	32,189	15.62	8,242	4.00	12,363	6.00
Total risk based capital ratio	34,720	16.85	16,484	8.00	20,605	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

In 2005 and 2004, the Bank issued 34 and 46 new shares as a result of options exercised. As of March 22, 2006, the Bank had 17,221 shares outstanding.

On November 29, 2004, the Bank shareholders approved a 1 for 30 reverse stock split of the Bank's common stock. The reverse stock split was effective as of December 21, 2004. Under the terms of the stock split, fractional shares will not be issued after the effective date of the split. As a result, approximately \$3.2 million will be paid out to shareholders otherwise entitled to fractional shares.

On November 30, 2002, the Bank effected a quasi-reorganization of its capital accounts. At December 31, 2001, the Bank had retained earnings of \$3.7 million. However, as a result of the reorganization of West Coast Bancorp and the Bank, pursuant to which West Coast Bancorp merged with and into the Bank, the Bank absorbed West Coast's deficit retained earnings. At November 30, 2002, the Bank had deficit-retained earnings of \$2.4 million. With the approval of the California Commissioner of Financial Institutions and the Bank's shareholders, the Bank effected the quasi-reorganization pursuant to which the Bank eliminated its deficit-retained earnings and charged the corresponding amount to its common stock.

On February 26, 2002, the board of directors of the Bank authorized the repurchase of its common stock, up to \$2.1 million, over a period of one year that ended April 17, 2003. This period was subsequently extended through April 17, 2005. Under this program, the Bank repurchased a total of 995 shares, none of which were purchased in 2005.

The Bank had commitments for capital expenditures for leasehold improvements related to the relocation of its Newport Beach branch of \$0.2 million as of December 31, 2005.

The Bank did not pay any cash dividends in 2005 and there is currently no intention to pay any cash dividends in 2006.

Asset and Liability Management

Management of assets and liabilities in terms of rate, maturity and quality has an important effect on liquidity and net interest margin, and rate sensitivity is of particular importance. Rate sensitivity is determined by calculating the ratio of rate sensitive assets to rate sensitive liabilities. Rate sensitivity ratios that are close to one-to-one tend to stabilize earnings and provide a bank with flexibility in managing liquidity. Rate sensitivity ratios in which rate sensitive assets exceed rate sensitive liabilities tend to produce an expanded net yield on interest-earning assets in rising interest rate environments and a reduced net yield on interest-earning assets in declining interest rate environments. Conversely, when rate sensitive liabilities exceed rate sensitive assets, the net yield on interest-earning assets generally declines in rising interest rate environments and increases in declining interest rate environments. However, because interest rates for different asset and liability products offered by depository institutions respond differently to changes in the interest rate environment, the interest sensitivity table set forth below is only a general indicator of interest rate sensitivity.

The Bank had a net asset sensitivity of \$186.1 million at December 31, 2005. Consequently, our interest rate spread could be expected to increase during times of rising interest rates and conversely, to decline during times of falling interest rates. Interest rates increased in 2005 with the Federal funds rate increasing 200 basis points due to actions taken by the Federal Reserve Bank.

The following table sets forth the interest-earning assets and interest-bearing liabilities of the Bank on the basis of when they reprice or mature and sets forth the rate sensitivity positions as of December 31, 2005 (dollars in thousands):

	Up to 90 days	91 days to 180 days	181 days to 365 days	Over 1 Year to 5 Years	Over 5 Years	Total
Interest earnings assets						
Cash equivalents	\$ 33,845	\$ 4,000	\$ 19,000	\$ -	\$ -	\$ 56,845
Securities	8,032	-	-	28,583	29,646	66,261
Loans	116,843	2,416	729	14,532	23,816	158,336
Total	<u>158,720</u>	<u>6,416</u>	<u>19,729</u>	<u>43,115</u>	<u>53,462</u>	<u>281,442</u>
Interest bearing liabilities						
Certificates of deposit....	2,071	5,891	4,193	1,540	-	13,695
Other deposits.....	76,238	-	-	-	-	76,238
Borrowings	-	-	-	5,375	-	5,375
Total.....	<u>78,309</u>	<u>5,891</u>	<u>4,193</u>	<u>6,915</u>	<u>-</u>	<u>95,308</u>
Rate sensitive gap						
Current.....	<u>\$ 80,411</u>	<u>\$ 525</u>	<u>\$ 15,536</u>	<u>\$ 36,200</u>	<u>\$ 53,462</u>	<u>\$ 186,134</u>
Cumulative	<u>\$ 80,411</u>	<u>\$ 80,936</u>	<u>\$ 96,472</u>	<u>\$ 132,672</u>	<u>\$ 186,134</u>	<u>\$ 186,134</u>
Cumulative ratio of assets over liabilities	202.68%	196.12%	209.14%	239.20%	295.30%	295.30%

Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of the Bank as of December 31, 2005 (dollars in thousands):

	Amount
Commitments to fund loans	\$ 59,288
Commitments under letters of credit.....	560

Of these commitments, \$9.5 million are to provide funds 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.

Quantitative and Qualitative Disclosure About Market Risk

Market Risk

The market values of assets or liabilities on which the interest rate is fixed will increase or decrease with changes in market interest rates. If the Bank invests funds in a fixed rate long-term security and then interest rates rise, the security is worth less than a comparable security just issued because the older security pays less interest than the newly issued security. If the older security had to be sold, the Bank would have to recognize a loss. Correspondingly, if interest rates decline after a fixed rate security is purchased, its value increases. Therefore, while the value of the fixed rate investment changes regardless of which direction interest rates move, the adverse exposure to "market risk" is primarily due to rising interest rates. This exposure is lessened by managing the amount of fixed rate assets and by keeping maturities relatively short. However, this strategy must be balanced against the need for adequate interest income because variable rate and shorter fixed rate securities generally earn less interest than longer term fixed rate securities.

There is market risk relating to the Bank's fixed rate or term liabilities as well as its assets. For liabilities, the response to adverse exposure to market risk is to lower rates since the Bank must continue to pay the higher rate until the end of the term.

Mismatch Risk

Another interest-related risk arises when interest rates change, the changes do not occur equally for the rates of interest earned and paid because of differences in contractual terms of the assets and liabilities held. The Bank has a large portion of its loan portfolio tied to the prime interest rate. If the prime rate is lowered because of general market conditions, (e.g., other banks are lowering their lending rates) these loans will be repriced. If the Bank were at the same time to have a large portion of its deposits in long-term fixed rate certificates, net interest income would decrease immediately. Interest earned on loans would decline while interest expense would remain at higher levels for a period of time because of the higher rate still being paid on deposits.

A decrease in net interest income could also occur with rising interest rates if the Bank had a large portfolio of fixed rate loans and securities funded by deposit accounts on which the rate is steadily rising. This exposure to "mismatch risk" is managed by matching the maturities and repricing opportunities of assets and liabilities. This is done by varying the terms and conditions of the products that are offered to depositors and borrowers. For example, if many depositors want longer-term certificates while most borrowers are requesting loans with floating interest rates, the Bank will adjust the interest rates on the certificates and loans to try to match up demand. The Bank can then partially fill in mismatches by purchasing securities with the appropriate maturity or repricing characteristics.

One of the means of monitoring this matching process is the use of a "shock" table. This table shows the extent to which the maturities or repricing opportunities of the major categories of assets and liabilities are matched based upon specific interest rate shifts of up to +/-300 basis points.

The following tables show the estimated impact to the Bank's net interest income for an instantaneous shift in various interest rates for the periods indicated (the dollar change in net interest income represents the estimated change for the next 12 months, dollars in thousands):

<u>Change in Interest Rates</u>	<u>Estimated Impact Increase (Decrease)</u>
Plus 300 basis points.....	\$ 2,413
Plus 200 basis points.....	1,618
Plus 100 basis points.....	812
Minus 100 basis points.....	(929)
Minus 200 basis points.....	(2,324)
Minus 300 basis points.....	(3,803)

The Bank believes it has adequate capital to absorb any potential losses as a result of a decrease in interest rates. Periods of more than one year are not estimated because steps can be taken to mitigate the adverse effects of interest rate changes.

Basis Risk

A third interest-related risk arises from the fact that interest rates rarely change in a parallel or equal manner. The interest rates associated with the various assets and liabilities differ in how often they change, the extent to which they change, and whether they change sooner or later than other interest rates. For example, while the repricing of a specific asset and a specific liability may fall in the same period of a gap report, the interest rate on the asset may rise 100 basis points, while market conditions dictate that the liability increases only 50 basis points. While evenly matched in the gap report, the Bank would experience an increase in net interest income. This exposure to “basis risk” is the type of interest risk least able to be managed, but is also the least dramatic. Avoiding concentration in only a few types of assets or liabilities is the best insurance that the average interest received and paid will move in tandem, because the wider diversification means that many different rates, each with their own volatility characteristics, will come into play. The Bank has made an effort to minimize concentrations in certain types of assets and liabilities.

ITEM 7. FINANCIAL STATEMENTS

See “ITEM 13. EXHIBITS” below for consolidated financial statements filed as a part of this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On April 14, 2005, the Audit Committee of the Board of Directors decided to dismiss Moss Adams LLP as the principal independent accountant of the Bank. The principal accountant’s reports issued by Moss Adams, LLP on the financial statements for the years ended December 31, 2004 and 2003 did not contain any adverse opinions or disclaimers of opinion, nor were they modified as to uncertainty, audit scope or accounting principles. There were no disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which would have caused Moss Adams, LLP to make reference to the subject matter of the disagreement in connection with its reports.

Effective April 15, 2005 Vavrinek, Trine, Day & Co. LLP has been engaged by the Audit Committee of the Bank as the principal accountant to audit the financial statements of the Bank for the year ended December 31, 2005.

ITEM 8a. CONTROLS AND PROCEDURES

(a) Based on their evaluation of the Bank’s disclosure controls and procedures as of the end of the period covered by this report on Form 10-KSB, the Bank’s principal executive officer and principal financial officer have concluded that the 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 the Bank’s internal control over financial reporting that occurred during the last quarter that has materially affected or is reasonably likely to materially affect, the Bank’s internal control over financial reporting.

ITEM 8b. OTHER INFORMATION

NONE.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors and executive officers of the Bank is incorporated by reference from the section entitled "DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT" of the registrant's Proxy information statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2005.

Sunwest Bank has adopted a Code of Business Conduct and Ethics that applies to its Directors and all of its employees. The Code of Business Conduct and Ethics is available to any person without charge upon request in writing to Sunwest Bank's Corporate Secretary at Sunwest Bank, 17542 East 17th Street, Tustin, California 92780.

ITEM 10. EXECUTIVE COMPENSATION

Information concerning management remuneration and transactions is incorporated by reference from the section entitled "EXECUTIVE COMPENSATION" of the registrant's Proxy information statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2005.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management is incorporated by reference from the section entitled "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS" of the registrant's Proxy information statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2005.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning relationships with affiliates and related transactions is incorporated by reference from the section entitled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" of the registrant's Proxy information statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2005.

ITEM 13. EXHIBITS

(a) Documents filed as part of this report.

Consolidated Financial Statements. Reference is made to the Index to Consolidated Financial Statements at page F-1 for a list of financial statements filed as part of this report.

Financial Statement Schedules. No financial statement schedules are included in this report on the basis that they are either inapplicable or the information required to be set forth therein is contained in the financial statements filed herewith.

Exhibits. Reference is made to the Index of Exhibits at page F-24 for a list of the exhibits filed as part of this report.

Executive Compensation Plans and Arrangements. Reference is made to the Index of Exhibits at page F-24 for a list of the exhibits filed as part of this report.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated by reference from the section entitled "PRINCIPAL ACCOUNTANT FEES AND SERVICES" of the registrant's Proxy information statement to be filed pursuant to Regulation 14A within 120 days after the end of the fiscal year ended December 31, 2005.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 29th day of March 2006.

SUNWEST BANK
(Registrant)

By /s/ Glenn E. Gray
Glenn E. Gray
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

/s/ Glenn E. Gray Chief Executive Officer April 5, 2006
Glenn E. Gray (Principal Executive Officer)

/s/ John Michel Chief Financial Officer April 5, 2006
John Michel (Principal Financial and Accounting Officer)

/s/ Tara O. Balfour Director April 5, 2006
Tara O. Balfour

/s/ Sergio D. Bechara Director April 5, 2006
Sergio D. Bechara

/s/ Irving R. Beimler Director April 5, 2006
Irving R. Beimler

/s/ Michael A. Cohen Director April 5, 2006
Michael A. Cohen

/s/ Karen D. Conlon Director April 5, 2006
Karen D. Conlon

/s/ Eric D. Hovde Director April 5, 2006
Eric D. Hovde

/s/ Russell E. Wertz Director April 5, 2006
Russell E. Wertz

/s/ Steven P. William Director April 5, 2006
Steven P. Williams

ITEMS 7, 13(a)(1) and 13(a)(2)

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

	December 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	\$ 12,867	\$ 12,516
Fed funds sold, mutual funds and interest bearing deposits	64,877	46,731
Total cash and cash equivalents	77,744	59,247
Securities, available for sale ("AFS"), at fair value	58,229	57,005
Trading securities	-	10,148
Loans, net of deferred fees	158,336	175,188
Allowance for loan losses	(2,351)	(2,218)
Net loans	155,985	172,970
Investment in Federal Home Loan Bank ("FHLB") stock	1,384	1,434
Premises and equipment, net	1,080	1,426
Other assets	2,081	2,017
Total Assets	\$ 296,503	\$ 304,247
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits	\$ 165,000	\$ 159,423
Money market and savings accounts	76,238	77,257
Time deposits	13,695	26,042
Total deposits	254,933	262,722
FHLB advances	5,375	5,375
Accounts payable and other liabilities	3,350	5,005
Total Liabilities	263,658	273,102
Commitments and contingencies	-	-
Shareholder's Equity		
Preferred stock, no par value: 5,000,000 shares authorized, no shares issued and outstanding at December 31, 2005 or December 31, 2004	-	-
Common stock, no par value: 30,000,000 shares authorized, 17,221 and 17,187 shares issued and outstanding at December 31, 2005 and December 31, 2004, respectively	27,159	27,063
Retained earnings since November 30, 2002	5,696	3,556
Accumulated other comprehensive income, net of tax	(10)	526
Total Shareholders' Equity	32,845	31,145
Total Liabilities and Shareholders' Equity	\$ 296,503	\$ 304,247

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2005	2004
Interest income		
Loans	\$ 12,739	\$ 12,427
Securities, AFS and trading	2,577	3,430
Fed funds sold, mutual funds and interest bearing deposits	1,650	360
Total interest income	16,966	16,217
Interest expense		
Deposits	885	858
Borrowings	239	135
Total interest expense	1,124	993
Net interest income	15,842	15,224
Provision (benefit) for loan losses	99	(469)
Net interest income after provision (benefit) for loan losses	15,743	15,693
Noninterest income:		
Deposit charges	606	892
Net gain (loss) from sales of securities and trading activities	121	(251)
Other income	131	46
Total noninterest income	858	687
Noninterest expense:		
Compensation and benefits	5,608	6,364
Occupancy and depreciation	2,118	1,902
Customer service	2,424	409
Professional services	897	604
Other expenses	2,172	2,366
Total noninterest expense	13,219	11,645
Income before taxes	3,382	4,735
Income taxes	1,242	1,768
Net income	\$ 2,140	\$ 2,967
Net income per share:		
Basic	\$ 124.43	\$ 162.12
Diluted	124.11	161.71
Shares used to compute:		
Basic net income per share	17,199	18,301
Diluted net income per share	17,243	18,348

See Notes to Consolidated Financial Statements

SUNWEST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31,	
	2005	2004
Net income	\$ 2,140	\$ 2,967
Other comprehensive income, net of tax:		
Reclassification adjustment for realized gains and losses on AFS securities, net of \$35 and \$107, respectively, of income taxes	(50)	151
Losses realized on reclassification of AFS securities to trading securities, net of \$73 of income taxes	-	104
Unrealized loss on AFS securities arising during year, net of \$339 and \$283, respectively, of income taxes	(486)	(405)
Total other comprehensive income, net of tax	(536)	(150)
Comprehensive income	\$ 1,604	\$ 2,817

See Notes to Consolidated Financial Statements

SUNWEST BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
(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.....	-	-	2,967	-	2,967
Other comprehensive income, net of tax	-	-	-	(150)	(150)
1 for 30 split fractional stock payout.....	(1,118)		(3,242)		(3,242)
Common stock issued	46	131	-	-	131
Common stock repurchased.....	(137)	(412)	-	-	(412)
Balance, December 31, 2004	17,187	27,063	3,556	526	31,145
Net income.....	-	-	2,140	-	2,140
Other comprehensive income, net of tax	-	-	-	(536)	(536)
Restricted stock grant compensation expense	-	11	-	-	11
Common stock issued	34	85	-	-	85
Balance, December 31, 2005	17,221	\$ 27,159	\$ 5,696	\$ (10)	\$ 32,845

See Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2005	2004
<u>Cash Flows from Operating Activities</u>		
Net income	\$ 2,140	\$ 2,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	511	429
Provision (benefit) for loan losses	99	(469)
Deferred income taxes	143	660
Gain on sale of other real estate owned	(100)	-
Net (gain) loss on sales securities and trading activities	(121)	251
Amortization and accretion of AFS securities	185	312
Dividends of FHLB Stock	(64)	(49)
Stock grant expense	11	-
Proceeds from sales of trading securities	10,088	-
Decrease (increase) in other assets	166	(49)
Increase in other liabilities	643	1,114
Net cash provided by operating activities	<u>13,701</u>	<u>5,166</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from maturities and repayments of securities	6,705	12,192
Purchases of AFS securities	(20,900)	(7,848)
Proceeds from sale of securities AFS	12,058	27,660
Proceeds from sale of other real estate owned	100	-
Sales of FHLB Stock	114	586
Purchase of loans	-	(29,300)
Net decrease (increase) in loans, net of purchases	16,886	(3,257)
Purchases of premises and equipment	(165)	(399)
Net cash provided by (used in) investing activities	<u>14,798</u>	<u>(366)</u>
<u>Cash Flows from Financing Activities</u>		
(Decrease) increase in deposits	(7,789)	16,203
Advances from Federal Home Loan Bank	200	147,173
Repayments of advances from Federal Home Loan Bank	(200)	(142,798)
Payments for fractional shares relating to 2004 stock split	(2,298)	-
Common stock repurchased	-	(412)
Common stock options exercised	85	131
Net cash (used in) provided by financing activities	<u>(10,002)</u>	<u>20,297</u>
Increase in cash and cash equivalents	18,497	25,097
Cash and cash equivalents at beginning of year	59,247	34,150
Cash and cash equivalents at end of year	<u>\$ 77,744</u>	<u>\$ 59,247</u>
<u>Supplemental disclosures of cash flow information:</u>		
Cash paid during the period for:		
Interest	\$ 1,112	\$ 994
Income taxes	1,171	253

See Notes to Consolidated Financial Statements

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Sunwest Bank (the "Bank") commenced operations as a California state-chartered bank in 1970 and currently operates primarily in Orange County, California. At December 31, 2005, the Bank had total consolidated assets of \$296.5 million, total deposits of \$254.9 million, total loans of \$158.3 million and consolidated shareholders' equity of \$32.8 million.

The Bank presently has four banking offices within Orange County, California. The main office is located in Tustin, California at 17542 East 17th Street, Suite 200 Tustin, California 92780. The Bank's other branch offices are located in Newport Beach, Anaheim and Laguna Hills, California.

Through its network of banking offices, the Bank emphasizes personalized service combined with services primarily directed to small and medium sized businesses and professionals. Although the Bank focuses its marketing of services to businesses and professionals, a wide range of consumer banking services are made available to its customers.

The Bank offers a wide range of deposit instruments. These include personal and business checking and savings accounts, including interest-bearing negotiable order of withdrawal ("NOW") accounts, Super NOW account, money market accounts, time certificates of deposit ("CD") accounts and individual retirement accounts ("IRA").

The Bank also engages in a full complement of lending activities, including commercial, consumer installment, and real estate loans. Commercial loans are loans to local community businesses and may be unsecured or secured by assets of the business and/or its principals. Consumer installment loans include loans for automobiles, home improvements, debt consolidation and other personal needs. Real estate loans include secured short-term mini permanent real estate loans and construction loans. In addition, the Bank originates loans that are guaranteed under the Small Business Investments Act. The Bank currently retains SBA loans in its portfolio.

The Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include ATMs, ACH originations, on-line banking for business customers, touch-tone federal and state tax payment processing, lockbox services, travelers' checks, safe deposit, MasterCard and Visa merchant credit card services, ATM cards, Visa debit cards and business sweep accounts.

The Bank is subject to continued examination by the Federal Deposit Insurance Corporation and the California Department of Financial Institutions.

At December 31, 2005, the Bank employed 66 full-time equivalent employees.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries, Sunwest Leasing Corp, North Orange County Bancorp and WCV, Inc. All inter-company balances and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

MUTUAL FUNDS

The Bank's money market mutual fund investments are included in cash and cash equivalents. Excess liquidity may be invested in money market mutual funds. Interest income from mutual funds is recorded on a monthly basis.

INVESTMENT SECURITIES

Investment securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Investments not classified as trading securities nor as held to maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

Declines in the fair value of individual held-to-maturity and 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 are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers; the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

FEDERAL HOME LOAN BANK STOCK

As a member of the Federal Home Loan Bank (FHLB), the Bank is required to purchase FHLB stock in accordance with its advances, securities and deposit agreement. The stock is substantially restricted and may be redeemed at par value, however only in connection with the Bank surrendering its FHLB membership. This investment is carried at cost plus accumulated stock dividends as of December 31, 2005 and 2004.

INTEREST ON LOANS

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is discontinued when reasonable doubt exists as to the full, timely collection of interest or principal and, generally, when a loan becomes contractually past due for ninety days or more with respect to principal or interest. The accrual of interest may be continued on a well-secured loan contractually past due ninety days or more with respect to principal or interest if the loan is in the process of collection or collection of the principal and interest is deemed probable.

When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period income. Interest on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Accrual of interest is resumed on loans only when, in the judgment of management, the loan is estimated to be fully collectible.

The Bank continues to accrue interest on restructured loans since full payment of principal and interest is expected and such loans are performing or less than ninety days delinquent and therefore do not meet the criteria for nonaccrual status. Restructured loans that have been placed on non-accrual status are returned to accrual status when the remaining loan balance, net of any charge-offs related to the restructure, is estimated to be fully collectible by management and performing in accordance with the applicable loan terms.

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

LOAN ORIGINATION FEES AND COSTS

Net loan origination fees and direct costs associated with lending are deferred and amortized to interest income as an adjustment to yield over the respective lives of the loans using the interest method. The amortization of deferred fees and costs is discontinued on loans that are placed on nonaccrual status. When a loan is paid off, any unamortized net loan origination fees are recognized in interest income.

ALLOWANCE FOR LOAN LOSSES

Provisions for loan losses are charged to operations based on management's evaluation of the estimated losses in its loan portfolio. The major factors considered in evaluating losses are historical charge-off experience, delinquency rates, local and national economic conditions, the borrower's ability to repay the loan and timing of repayments, and the value of any related collateral. Management's estimate of fair value of the collateral considers current and anticipated future real estate market conditions, thereby causing these estimates to be particularly susceptible to changes that could result in a material adjustment to results of operations in the future. Recovery of the carrying value of such loans and related real estate is dependent, to a great extent, on economic, operating and other conditions that may be beyond the Bank's control. In addition, the regulatory agencies periodically review the allowance for loan losses and such agencies may require the Bank to recognize additions to the allowance based on information and factors available to them at the time of their examinations. Accordingly, no assurance can be given that the Bank will not recognize additional provisions for loan losses with respect to its loan portfolio.

The Bank considers a loan to be impaired when, based upon current information and events, it believes it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank bases the measurement of loan impairment using either the present value of the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the loan's collateral properties. Impairment losses are included in the allowance for loan losses through a charge to provision for loan losses. Adjustments to impairment losses due to changes in the fair value of impaired loans' collateral properties are included in the provision for loan losses.

Loans collectively reviewed for impairment include all single-family loans excluding loans which are individually reviewed based on specific criteria, such as delinquency, debt coverage, adequacy of collateral and condition of collateral property. The Bank's impaired loans include nonaccrual loans (excluding those collectively reviewed for impairment), certain restructured loans and certain performing loans less than ninety days delinquent ("other impaired loans") that the Bank believes will likely not be collected in accordance with contractual terms of the loans.

OTHER REAL ESTATE OWNED

Other real estate owned (OREO) represents the collateral acquired through foreclosure in full or partial satisfaction of the related loan. OREO is recorded at the fair value less estimated selling costs at the date of foreclosure. Any write-down at the date of transfer is charged to the allowance for loan losses. The recognition of gains or losses on sales of OREO is dependent upon various factors relating to the nature of the property being sold and the terms of sale. OREO values are reviewed on an ongoing basis and any decline in value is recognized as foreclosed asset expense in the current period. The net operating results from these assets are included in the current period in noninterest expense as foreclosed asset expense (income). The Bank owned one OREO property, which had no carrying value in the consolidated financial statements of the Bank, as of December 31, 2005.

SUNWEST BANK AND SUBSIDIARIES
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PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization, which is charged to expense on a straight-line basis over the estimated useful, lives of 3 to 10 years. Premises under leasehold improvements are amortized on a straight-line basis over the term of the lease or the estimated useful life of the improvements whichever is shorter. Expenditures for major renewals and betterments of premises and equipment are capitalized and those for maintenance and repairs are charged to expense as incurred. A valuation allowance is established for any impaired long-lived assets. The Bank did not have impaired long-lived assets as of December 31, 2005 or 2004.

INCOME TAXES

The Bank accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized.

CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, investment securities with original maturities of less than ninety days, money market mutual funds and Federal funds sold.

The Bank is required to maintain non-interest-bearing cash reserves at the Federal Reserve Bank of San Francisco. Reserves totaling \$1.9 million and \$0.4 million were required by the Bank for the periods ending December 31, 2005 and 2004, respectively.

At times, the Bank maintains cash at major financial institutions in excess of FDIC insured limits. However, as the Bank places these deposits with major financial institutions and monitors the financial condition of these institutions, management believes the risk of loss to be minimal.

STOCK OPTION PLAN

The Bank has a stock-based employee compensation plan, which is described more fully in Note 13. the Bank accounts for this plan under the recognition and measurement principles of 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 (fair value is computed using an option pricing model). The estimated compensation cost and proforma effect on earnings is immaterial based on the option-pricing model.

EARNINGS PER SHARE ("EPS")

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate solely to outstanding stock options, and are determined using the treasury stock method.

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

SUNWEST BANK AND SUBSIDIARIES
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The following is a reconciliation of basic EPS to diluted EPS for the years ended December 31 (dollars in thousands, except per share amounts):

	2005	2004
Net income	\$ 2,140	\$ 2,967
Weighted average number of common shares outstanding:		
Basic	17,199	18,301
Dilutive effect of common stock equivalents: stock options...	44	47
Dilutive	17,243	18,348
Net income per share:		
Basic	\$ 124.43	\$ 162.12
Diluted.....	124.41	161.71

The Bank has 595 stock options outstanding that could potentially dilute EPS in future periods that were excluded from the above computations because the impact of including them was antidilutive.

RECLASSIFICATIONS

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform to the 2005 presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB), issued SFAS No. 123 (revised 2004), "Share—Based Payment." This Statement requires that compensation costs related to share-based payment transactions be recognized in the financial statements. Measurement of the cost of employee service will be based on the grant-date fair value of the equity or liability instruments issued. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Additionally, liability awards will be re-measured each reporting period. Statement 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This Statement is effective for annual periods beginning after June 15, 2005 and requires adoption using a modified prospective application or a modified retrospective application. However, on April 14, 2005, the SEC issued rule 2005-57, which allows companies to delay implementation of the Statement to the beginning of the next fiscal year.

The Bank will adopt this Statement in 2006 for all new stock option awards as well as any existing awards that are modified, repurchased or cancelled. In addition, the unvested portion of previously awarded options will also be recognized as expense. The Bank is unable to estimate the impact of this Statement on its financial condition and results of operations as the decision to grant option awards is made annually on a case-by-case basis. However, for stock options outstanding and grants issued as of December 31, 2005, the compensation expense related to shares vesting in 2006 and 2007 will be approximately \$0.4 million and \$0.1 million, respectively, disregarding any forfeitures. The weighted average per option fair value of stock options granted in 2005 and 2004 was \$896 and \$1,050, respectively. The fair value of each option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: risk free rates ranging from 3.25% to 5.18%; expected lives ranging from five and one-half years to seven and one-half years; no dividends and a stock price volatility of 25%.

SUNWEST BANK AND SUBSIDIARIES
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NOTE 2: INVESTMENT SECURITIES

The following tables provide a summary of the Bank's available for sale investment portfolio as of the dates indicated (dollars in thousands):

<u>As of December 31, 2005</u>	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
US Treasury securities	\$ 24,776	\$ -	\$ (279)	\$ 24,497
Tax-free municipal bonds	15,994	185	(85)	16,094
Collateralized debt obligations	4,000	-	-	4,000
Collateralized mortgage obligations	5,180	12	(162)	5,030
Mortgage backed securities	3,636	115	-	3,751
Taxable municipal bonds	2,124	109	-	2,233
Corporate bonds	1,535	89	-	1,624
Trust preferred securities	1,000	-	-	1,000
Total	<u>\$ 58,245</u>	<u>\$ 510</u>	<u>\$ (526)</u>	<u>\$ 58,229</u>

<u>As of December 31, 2004</u>	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
US Treasury securities	\$ 18,831	\$ 101	\$ (61)	\$ 18,871
Tax-free municipal bonds	12,872	305	(25)	13,152
Collateralized debt obligations	4,000	6	(31)	3,975
Collateralized mortgage obligations	8,488	25	(153)	8,360
Mortgage backed securities	7,127	285	-	7,412
Taxable municipal bonds	2,259	192	-	2,451
Corporate bonds	1,534	94	-	1,628
Trust preferred securities	1,000	156	-	1,156
Total	<u>\$ 56,111</u>	<u>\$ 1,164</u>	<u>\$ (270)</u>	<u>\$ 57,005</u>

At December 31, 2004, the Bank held \$10.1 million of bond mutual funds as trading securities.

At December 31, 2005 and 2004, investment securities available-for-sale with a market value of \$19.1 million and \$38.4 million respectively, were pledged as collateral to secure public funds and for other purposes as required or permitted by law.

Proceeds from sales of investment securities during 2005 and 2004 were \$12.1 million and \$27.7 million respectively. These sales resulted in realized gains of \$213,000 and \$238,000 for 2005 and 2004, respectively and realized losses of \$32,000 and \$489,000 for 2005 and 2004, respectively. Purchases of investment securities during 2005 and 2004 amounted to \$20.9 million and \$7.8 million, respectively.

During 2004, the Bank changed the classification of the bond mutual funds from investment securities available-for-sale to trading securities. Trading securities are carried at fair value and any change in fair value is recognized as a gain or loss. The Bank recognized \$60,000 and \$177,000 in losses on these securities during 2005 and 2004, respectively.

SUNWEST BANK AND SUBSIDIARIES
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The amortized cost and estimated fair value of securities at December 31, 2005, by contractual maturity, are shown below. Mortgage-backed securities and collateralized mortgage obligations are classified in accordance with their estimated lives. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations. Trust preferred securities are classified in excess of ten years (dollars in thousands).

	Amortized Cost	Estimated Fair Value
Within one year	\$ 2,770	\$ 2,758
After one year through five years	32,225	32,053
After five years through ten years	7,037	7,083
After ten years	16,213	16,335
Total	<u>\$ 58,245</u>	<u>\$ 58,229</u>

The following is a summary of investment securities that have unrealized losses as of the dates indicated (dollars in thousands):

	Less than 12 months		12 months or More	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
<i>As of December 31, 2005</i>				
US Treasury securities	\$ 17,713	\$ (95)	\$ 6,784	\$ (184)
Tax-free municipal bonds	3,946	(61)	1,326	(24)
Collateralized mortgage obligations	-		4,492	(162)
Total	<u>\$ 21,659</u>	<u>\$ (156)</u>	<u>\$ 12,602</u>	<u>\$ (370)</u>
<i>As of December 31, 2004</i>				
US Treasury securities	\$ 9,866	\$ (61)	\$ -	\$ -
Tax-free municipal bonds	-	-	1,330	(25)
Collateralized debt obligations	-	-	969	(31)
Collateralized mortgage obligations	1,915	(35)	5,141	(118)
Total	<u>\$ 11,781</u>	<u>\$ (96)</u>	<u>\$ 7,440</u>	<u>\$ (174)</u>

At December 31, 2005, 29 debt securities with unrealized losses have depreciated 1.5% from their amortized cost basis. The Bank has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any company or industry specific event. The Bank anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable interest rate environment.

NOTE 3: RELATED-PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain directors, officers and employees, and the companies with which they are associated. All such loans were made under terms consistent with the Bank's normal lending policies. As of December 31, 2005 and 2004, loans to employees amounted to \$13,000 and \$25,000, respectively. During 2005 and 2004, collections of principal on these loans were \$9,000 for both periods. There were no loans to directors, officers and employees funded in 2005.

Deposits from related parties and affiliates held by the Bank at December 31, 2005 and 2004 amounted to \$3.1 million and \$2.8 million, respectively.

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During 2005 and 2004, the CEO of the Bank was paid as an employee of an affiliate who owns a controlling interest in the Bank. The Bank reimbursed the affiliate \$77,000 and \$47,000 for a significant portion of the compensation and benefits paid to the CEO by the affiliate during 2005 and 2004, respectively.

NOTE 4: LOANS

A summary of loans is as follows at December 31 (dollars in thousands):

	2005	2004
Commercial loans not secured by real estate.....	\$ 55,396	\$ 52,639
Real estate mortgage loans	57,892	59,322
Real estate construction loans.....	40,456	59,651
Personal loans not secured by real estate.....	4,893	4,032
Unearned income, premiums, discounts and fees.....	(301)	(456)
Total	\$ 158,336	\$ 175,188

There were no nonaccrual loans or impaired loans during the years ended December 31, 2005 and 2004.

At December 31, 2005, the Bank serviced loans for others totaling \$4.4 million. All of these loans are the portion of participation loans sold to others. At December 31, 2004 the Bank serviced loans for others totaling \$11.9 million, of which \$1.9 million are the portion of participation loans sold to others. These loans are not included in the accompanying consolidated balance sheets.

Loans totaling \$2.8 million and \$4.5 million at December 31, 2005 and 2004, respectively, were pledged as collateral with the Federal Reserve Bank to secure purchases of Federal funds.

Loans totaling \$18.6 million and \$16.2 million at December 31, 2005 and 2004, respectively, were pledged as collateral with the Federal Home Loan Bank of San Francisco to secure term and overnight advances.

NOTE 5: ALLOWANCE FOR LOAN LOSSES

A summary of activity in the allowance for loan losses is as follows for the years ended December 31 (dollars in thousands):

	2005	2004
Balance: beginning of period.....	\$ 2,218	\$ 2,557
Loans charged off	-	-
Recoveries of loans previously charged off.....	34	130
Provision (benefit) for loan losses	99	(469)
Balance: end of period.....	\$ 2,351	\$ 2,218

There was no allowance for loan losses related to impaired loans at December 31, 2005 and 2004.

SUNWEST BANK AND SUBSIDIARIES
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NOTE 6: PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows at December 31 (dollars in thousands):

	2005	2004
Furniture, fixtures and equipment	\$ 4,412	\$ 4,340
Leasehold improvements	1,231	1,231
Construction-in-progress	98	4
Total	5,741	5,575
Accumulated depreciation and amortization	(4,661)	(4,149)
Net	\$ 1,080	\$ 1,426

NOTE 7: DEPOSITS

The following table summarizes the average outstanding balance of deposits and average rates paid thereon for the periods indicated (dollars in thousands):

	As of December 31, 2005		As of December 31, 2004	
	Average Balance	Weighted Average Rate	Average Balance	Weighted Average Rate
Demand deposits				
Noninterest-bearing	\$ 133,587	0.00 %	\$ 122,487	0.00 %
Interest bearing	100,667	0.57	105,463	0.52
Savings deposits.....	3,964	0.25	3,935	0.25
Time deposits.....	14,847	2.05	27,976	1.08
Total.....	\$ 253,065	0.35 %	\$ 259,861	0.33 %

At December 31, 2005, the Bank had \$13.6 million in domestic interest bearing time deposits of which \$7.4 million exceeded \$100,000. Maturity information for all domestic interest bearing time deposits is summarized below for the dates indicated (dollars in thousands):

	As of December 31, 2005		As of December 31, 2004	
	Under \$100	Over \$100	Under \$100	Over \$100
1 to 90 days.....	\$ 2,068	\$ 3,657	\$ 4,279	\$ 15,691
91 to 180 days.....	1,948	1,941	2,097	560
181 days to one year	1,808	1,007	1,905	841
Over 1 year to 5 years.....	503	763	551	118
Total.....	\$ 6,327	\$ 7,368	\$ 8,832	\$ 17,210

NOTE 8: FHLB ADVANCES AND OTHER BORROWINGS

At December 31, 2005 and 2004, the Bank had \$5.4 million in FHLB advances outstanding which bears a fixed interest rate of 4.38% and matures on June 17, 2009. The Bank had available lines of credit totaling \$93.6 million and \$40.8 million at December 31, 2005 and 2004 with the FHLB, Federal Reserve Bank ("FRB") and other institutions. The FHLB advances are collateralized by commercial mortgage loans, qualifying investment securities and FHLB stock. Average balances and the maximum amount of FHLB Advances outstanding at any month-end during 2004 were \$1.3 million and \$15.3 million, respectively.

SUNWEST BANK AND SUBSIDIARIES
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NOTE 9: SHAREHOLDERS' EQUITY

On February 26, 2002, the board of directors of the Bank authorized the repurchase of its common stock, up to \$2.1 million over a period of one year that ended April 17, 2003. This period was subsequently extended through April 17, 2005. The Bank repurchased a total of 995 shares under this program.

On November 29, 2004, the Bank shareholders approved a one for thirty reverse stock split of the Bank's common stock. Under the terms of the stock split, fractional shares will not be issued after the effective date of the split. As a result, approximately \$3.2 million will be paid out to shareholders with fractional shares. At December 31, 2005 \$0.9 million was still outstanding for payment of fractional shares.

NOTE 10: INCOME TAXES

The current and deferred taxes for the Bank are as follows for the years ended December 31 (dollars in thousands):

	2005	2004
Current taxes		
Federal.....	\$ 680	\$ 759
State.....	419	349
Total	1,099	1,108
Deferred taxes.....	143	660
Income taxes.....	\$ 1,242	\$ 1,768

In connection with a merger in 2002, the Bank acquired \$6.0 million of Federal net operating loss carryforwards generated by its former parent company, which resulted in \$2.0 million of tax benefits. The net operating loss carryforwards begin expiring in 2005 and expire through 2019. Management believes it is more likely than not the Bank will utilize 100% of the carryforwards. Utilization of the losses is limited to approximately \$0.9 million per year. As of December 31, 2005, \$2.5 million of net operating loss carryforwards remained. During 2005 and 2004, the Bank recognized current tax benefits of \$0.3 million related to these net-operating losses.

The actual income tax expense differed from the expected Federal statutory rate as follows for the years ended December 31, (dollars in thousands):

	2005		2004	
	Amount	%	Amount	%
Expected tax expenses at 34%	\$ 1,150	34.0 %	\$ 1,610	34.0 %
Net state franchise tax.....	242	7.2	307	6.5
Tax-free interest income	(193)	(5.7)	(183)	(3.9)
Other	43	1.2	34	0.7
Total.....	\$ 1,242	36.7 %	\$ 1,768	37.3 %

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows at December 31 (dollars in thousands):

	2005	2004
Deferred Tax Assets		
Net operating loss carryforwards.....	\$ 851	\$ 1,151
Expense accruals and other	243	215
Deferred state income taxes	142	142
Total gross deferred tax assets	1,236	1,508
 Deferred tax liabilities		
Loans, allowance for loan losses, deferred fees and costs.....	(797)	(900)
Expenses and other.....	(158)	(190)
Unrealized gains on AFS securities.....	(955)	(368)
Total gross deferred tax liabilities.....	(955)	(1,458)
 Net deferred tax assets.....	\$ 281	\$ 50

NOTE 11: DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments for both assets and liabilities are made at a discrete point in time based on relevant market information and information about the financial instruments. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, prepayment assumptions, future expected loss experience and other such factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Bank intends to hold the majority of its assets and liabilities to their stated maturities. Thus, management does not believe that the bulk sale concepts applied to certain problem loans for purposes of measuring the impact of credit risk on fair values of said assets is reasonable to the operations of the Bank and does not fairly present the values realizable over the long term on assets that will be retained by the Bank. Therefore, the Bank does not intend to realize any significant differences between carrying balance and fair value disclosures through sale or other disposition. No attempt should be made to adjust shareholders' equity to reflect the following fair value disclosures, as management believes them to be inconsistent with the philosophies and operations of the Bank.

In addition, the fair value estimates are based on existing on-and-off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include the branch network, deferred tax assets and premises and equipment.

Fair value estimates, methods, and assumptions are set forth below:

CASH, INTEREST-BEARING DEPOSITS WITH FINANCIAL INSTITUTIONS AND FEDERAL FUNDS: The carrying values approximate fair value because of the short-term maturity of these instruments.

INVESTMENT SECURITIES: For investment securities, fair value is based on quoted market prices.

LOANS: For loans, fair value is estimated using quoted market prices for similar loans. For loans for which no quoted market price is readily available, fair value is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same maturities.

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DEPOSIT LIABILITIES: The fair value of demand, savings and money market deposits is the amount payable on demand at the reporting date. The fair value of time certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

OTHER INTEREST-BEARING LIABILITIES: Other interest-bearing liabilities include other borrowed funds and Federal Home Loan Bank borrowings. The fair value of other interest-bearing liabilities is estimated using market rates for instruments with similar characteristics.

COMMITMENTS TO EXTEND CREDIT: The fair value of commitments to extend credit cannot be readily determined.

The estimated fair values of financial instruments are as follows (dollars in thousands):

	As of December 31, 2005		As of December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 77,744	\$ 77,744	\$ 59,247	\$ 59,247
FHLB Stock.....	1,384	1,384	1,434	1,434
Investment securities	58,229	58,229	67,153	67,153
Net loans	155,985	154,714	172,970	172,939
Financial Liabilities:				
Deposits	254,933	254,865	262,722	262,554
FHLB Advances	5,375	5,375	5,375	5,375

NOTE 12: 401(k) PROFIT SHARING PLAN

The Bank's employees participate in the Bank 401(k) profit sharing plan (the "401k Plan") that covers all employees eighteen years of age or older who have completed three months of employment. Each employee eligible to participate in the 401k Plan may contribute up to 100% of his or her compensation, subject to certain statutory limitations. Eligible employees have the option on a quarterly basis to change the status of their enrollment and/or the amount of their deferral. The Bank will match 50% of the participant's contribution until the participant's contribution equals 6% of his or her compensation subject to the plan's vesting schedule. The Bank's contributions of \$83,000 and \$99,000 were included in salaries and employee benefits in 2005 and 2004, respectively. The Bank may also make an additional profit sharing contribution on behalf of eligible employees. No profit sharing contributions were made during 2005 and 2004.

SUNWEST BANK AND SUBSIDIARIES
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NOTE 13: STOCK OPTION PLAN

In 2001, the Board of Directors of the Bank approved a stock option plan ("the Plan"). The Plan provides for future grants of options to employees and directors of the Bank for the purchase of up to 3,333 shares of the Bank's common stock. The options, when granted, vest ratably over five years from the grant date and expire after ten years if not exercised. Option prices are the fair market value of the underlying stock as of the grant date. The following table summarizes the activity in the Plan during 2005 and 2004:

	Options Granted	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Balance: January 1, 2004	310	\$ 1,794.65		
Options granted.....	133	2,917.5		
Options exercised.....	(46)	1,770.76		
Options forfeited.....	(145)	2,253.80		
Balance: December 31, 2004....	252	2,066.18	64	\$ 1,681.36
Options granted.....	711	4,370.22		
Options exercised.....	(38)	1,823.28		
Options forfeited.....	(135)	2,620.11		
Balance: December 31, 2005	790	4,068.04	58	\$ 1,872.91

The following table summarizes information about stock options outstanding at December 31, 2005:

Options Outstanding					Options Exercisable		
Range of Exercise Prices		Number of Options	Remaining Contractual Life	Exercise Price	Number of Options	Exercise Price	
\$ 1,500.00	\$ 1,600.00	54	6 years	\$ 1,564.50	33	\$ 1,564.50	
	2,000.00	43	7 years	1,980.00	17	1,980.00	
	3,000.00	40	8 years	2,917.50	8	2,917.50	
	3,100.00	58	9 years	3,100.00	-	3,100.00	
	3,500.00	56	10 years	3,500.00	-	3,500.00	
	4,800.00	539	10 years	4,734.00	-	4,734.00	
Total / Weighted Average		790		4,068.04	58	1,872.91	

The Bank has contractual obligations to issue 64 shares of stock to officers of the Company under employment agreements. The issuance of these shares is subject to approval by the DFI.

NOTE 14: COMMITMENTS AND CONTINGENCIES

LEASES

The Bank leases certain facilities for corporate offices and branch operations and leases equipment under non-cancelable long-term operating leases. Gross facility lease expense for the years ended December 31, 2005 and 2004 was \$1.2 million for each year.

Under the lease agreement for the Tustin facility, the Bank has obtained a letter of credit from the FHLB for the benefit of the lessor in the amount of \$0.2 million as a security deposit.

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Future minimum lease commitments under all non-cancelable operating leases at December 31, 2005 are as follows (dollars in thousands):

Year Ending December 31,		
2006.....	\$	1,138
2007.....		1,174
2008.....		1,209
2009.....		1,246
2010.....		1,201
Thereafter		567
Total minimum lease payments.....	<u>\$</u>	<u>6,535</u>

In the third quarter of 2005, the Bank entered into a new leasing agreement, which enabled the relocation of its existing branch in Newport Beach to new facilities effective March 1, 2006.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of customers and to reduce exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby and commercial letters of credit. At December 31, 2005 and 2004, the Bank had standby and commercial letters of credit of \$0.6 million and \$0.4 million outstanding and commitments to extend credit, totaling \$59.3 million and \$69.0 million, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby and commercial letters of credit and financial guarantees written are conditional commitments issued by the Bank to guaranty the performance of a customer to a third party. 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 credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include deposits, accounts receivable, inventory, property, plant and equipment, motor vehicles and real estate.

LITIGATION

From time to time, the Bank may become party to various lawsuits, which have arisen in the course of business. While it is not possible to predict with certainty the outcome of such litigation, it is the opinion of management, based in part upon opinions of counsel, that the liability, if any, arising from such lawsuits would not have a material adverse effect on the Bank's financial position or results of operations.

NOTE 15: REGULATORY MATTERS

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

SUNWEST BANK AND SUBSIDIARIES
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Years Ended December 31, 2005 and 2004

Quantitative measures established by the regulators to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005 and 2004 that the Bank met all capital adequacy requirements.

As of December 31, 2005 and 2004, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the last notification that management believes have changed the institution's category. The Bank's actual capital amounts and ratios are also presented in the following table (dollars in thousands):

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>As of December 31, 2005</u>						
Tier 1 leverage ratio	\$ 32,189	10.73%	\$ 12,003	4.00%	\$ 15,004	5.00%
Tier 1 risk-based capital ratio....	32,189	15.62	8,242	4.00	12,363	6.00
Total risk based capital ratio	34,720	16.85	16,484	8.00	20,605	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

DIVIDEND RESTRICTIONS

Various laws and regulations limit the amount of dividends that a bank can pay without obtaining prior approval from bank regulators. During the year ended December 31, 2005, the Bank did not pay any dividends. At December 31, 2005, the Bank may pay dividends of \$5.7 million without prior regulatory approval.

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004



Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
Sunwest Bank

We have audited the accompanying statement of financial condition of Sunwest Bank and Subsidiaries as of December 31, 2005, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides 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 Sunwest Bank and Subsidiaries as of December 31, 2005, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 1, 2006

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FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Directors of
Sunwest Bank

We have audited the accompanying consolidated statement of financial condition of Sunwest Bank and subsidiaries (the “Company”) as of December 31, 2004 and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sunwest Bank and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Stockton, California
February 14, 2005

SUNWEST BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

EXHIBITS

Number	Description
2.1	Plan of Reorganization and Agreement of Merger by and among Sunwest Bank, Sunwest Bancorp and Sunwest Acquisition Corporation dated October 29, 2004. Incorporated by reference to Form 8-K filed by Sunwest Bank on December 20, 2001.
3.1	Amended and Restated Articles of Incorporation of Sunwest Bank and further Amendment. Incorporated by reference to Exhibit 3.1 filed by Sunwest Bank on its Form 10-KSB on April 15, 2005.
3.2	Amended and Restated Bylaws of Sunwest Bank. Incorporated by reference to Exhibit 2.02 filed by Sunwest Bank on its Form 10-SB on July 16, 2001.
10.1	Sunwest Bank 401(k) Profit Sharing Plan Document, Trust and Summary Plan Description. Incorporated by reference to Exhibit 6.02 filed by Sunwest Bank on its Form 10-SB on July 16, 2001.
10.2	Sunwest Bank Stock Appreciation Rights Plan and Form Agreement. Incorporated by reference to Exhibit 10.1 and 10.2 filed by Sunwest Bank on its Form 10-QSB on November 10, 2004.
10.3	Sunwest Bank 2001 Stock Option Plan, including form of stock option agreement. Incorporated by reference to Exhibit 10.5 filed by Sunwest Bank on its Form 10-KSB on March 25, 2002.
10.4	Lease Agreement dated March 2, 2001 by and between Sunwest Bank and AMG Realty Partners, LP for Main Office location at 17542 East 17 th Street, Suite 200 Tustin, California 92780. Incorporated by reference to Exhibit 6.05 filed by Sunwest Bank on its Form 10-SB on July 16, 2001.
10.5	Lease Agreement dated January 23, 2003 by and between Sunwest Bank and CA-OAKBROOK PLAZA LIMITED PARTNERSHIP for Laguna Hills Office location at 24422 Avenida de la Carlota, Suite 110 Laguna Hills, California 92653. Incorporated by reference to Exhibit 10.5 filed by Sunwest Bank on its Form 10-KSB on March 29, 2004.
10.6	Lease Agreement dated December 29, 2003 by and between Sunwest Bank and the Irvine Company for the Airport Branch located at 4770 Campus Drive, Suite 125 Newport Beach, California 92660. Incorporated by reference to Exhibit 10.8 filed by Sunwest Bank on its Form 10-KSB on March 29, 2004.
10.7	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.
10.8	Employment Agreement effective September 1, 1996 by and between Sunwest Bank and Frank E. Smith. Incorporated by reference to Exhibit 6.04 filed by Sunwest Bank on its Form 10-SB on July 16, 2001.
10.9	Change in Control Agreement effective June 30, 2003 by and between Sunwest Bank and John D. Sherman. Incorporated by reference to Exhibit 10.10 filed by Sunwest Bank on its Form 10-KSB on April 15, 2005.
10.10	Employment Agreement effective April 25, 2005 by and between Sunwest Bank and Lyle C. Lodwick. Incorporated by reference to Exhibit 10.1 filed by Sunwest Bank on Form 8-K on May 11, 2005.
10.11	Employment Agreement effective November 28, 2005, by and between Sunwest Bank and Glenn E. Gray. Incorporated by reference to Exhibit 10.1 filed by Sunwest Bank on Form 8-K on December 1, 2005.
10.12	Consulting Agreement between Sunwest Bank and Tara Balfour dated July 25, 2005, as amended on August 2, 2005 and as further amended on October 1, 2005. Incorporated by reference to Exhibit 10.14 filed by Sunwest Bank on Form 10-QSB on November 11, 2005.
10.13	Outside Directors Compensation
10.14	Base Salaries of Named Executive Officers of the Registrant
21.1	Subsidiaries of Sunwest Bank. Incorporated by reference to Exhibit 21.1 filed by Sunwest Bank on its Form 10-KSB on March 25, 2002.
31.1	Section 302 Certification for Glenn E. Gray
31.2	Section 302 Certification for John Michel
32.1	Section 906 Certification for Glenn E. Gray
32.2	Section 906 Certification for John M. Michel