

**FEDERAL DEPOSIT INSURANCE CORPORATION**

550 17<sup>th</sup> Street, N.W. Washington, D.C. 20429

**FORM 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTER ENDED MARCH 31, 2007

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

**FDIC Certificate Number: 20164**

**SUNWEST BANK**

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

**CALIFORNIA**

(State or other jurisdiction of  
Incorporation or organization)

**95-2630202**

(IRS Employer  
Identification No.)

**17542 East 17<sup>th</sup> Street Ste 200 Tustin, California**

(Address of principal executive offices)

**92780-1960**

(Zip Code)

**(714) 730-4400**

(Issuer's telephone number)

**N/A**

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

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

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

Number of shares outstanding of each of the issuer's classes of common equity as of April 25, 2007: 17,263

Transitional Small Business Disclosure Format. Yes  No

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

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

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Cash and due from banks .....	\$ 11,754	\$ 15,846
Fed funds sold, mutual funds and interest bearing deposits .....	58,726	71,964
Total cash and cash equivalents .....	70,480	87,810
Securities, available for sale ("AFS"), at fair value .....	77,574	64,343
Loans, net of deferred fees .....	136,598	138,201
Allowance for loan losses .....	(2,351)	(2,351)
Net loans .....	134,247	135,850
Investment in Federal Home Loan Bank ("FHLB") stock .....	1,121	1,105
Premises and equipment, net .....	915	1,016
Bank-owned life insurance .....	8,929	8,832
Other assets .....	1,938	2,025
Total Assets .....	<u>\$ 295,204</u>	<u>\$ 300,981</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Demand deposits .....	\$ 146,629	\$ 154,398
Money market and savings accounts .....	90,549	89,271
Time deposits .....	13,606	13,203
Total deposits .....	250,784	256,872
FHLB advances .....	5,375	5,375
Accounts payable and other liabilities .....	2,976	3,080
Total Liabilities .....	259,135	265,327
Commitments and contingencies .....	-	-
Shareholder's Equity		
Preferred stock, no par value: 5,000,000 shares authorized, no shares issued and outstanding at March 31, 2007 or December 31, 2006 .....	-	-
Common stock, no par value: 30,000,000 shares authorized, 17,263 and 17,263 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively .....	27,772	27,739
Retained earnings since November 30, 2002 .....	8,089	7,745
Accumulated other comprehensive income, net of tax .....	208	170
Total Shareholders' Equity .....	36,069	35,654
Total Liabilities and Shareholders' Equity .....	<u>\$ 295,204</u>	<u>\$ 300,981</u>

(See accompanying notes to consolidated financial statements)

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

	For the Quarter Ended March 31,	
	2007	2006
Interest income		
Loans .....	\$ 2,788	\$ 3,156
Securities, AFS and trading .....	887	675
Fed funds sold and mutual funds .....	928	810
Total interest income .....	4,603	4,641
Interest expense		
Deposits .....	588	270
Borrowings .....	59	59
Total interest expense .....	647	329
Net interest income .....	3,956	4,312
Provision for loan losses .....	-	-
Net interest income after provision for loan losses .....	3,956	4,312
Noninterest income:		
Deposit charges .....	112	135
Net loss from sales of securities .....	-	(398)
Other income .....	121	26
Total noninterest income .....	233	(237)
Noninterest expense:		
Compensation and benefits .....	1,578	1,635
Occupancy and depreciation .....	503	534
Customer service .....	828	883
Professional services .....	218	137
Other expenses .....	551	476
Total noninterest expense .....	3,678	3,665
Income before taxes .....	511	410
Income taxes .....	167	148
Net income .....	\$ 344	\$ 262
Net income per share:		
Basic .....	\$ 19.95	\$ 15.21
Diluted .....	\$ 19.89	\$ 15.13
Shares used to compute:		
Basic net income per share .....	17,243	17,221
Diluted net income per share .....	17,291	17,316

(See accompanying notes to consolidated financial statements)

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders' Equity
	Shares	Amount			
Balance, December 31, 2005 .....	17,221	\$ 27,159	\$ 5,696	\$ (10)	\$ 32,845
Net income.....	-	-	262	-	262
Other comprehensive income, net of tax .....	-	-	-	25	25
Stock-based compensation.....	-	135	-	-	135
Balance March 31, 2006.....	<u>17,221</u>	<u>\$ 27,294</u>	<u>\$ 5,958</u>	<u>\$ 15</u>	<u>\$ 33,267</u>
Balance, December 31, 2006 .....	17,263	\$ 27,739	\$ 7,745	\$ 170	\$ 35,654
Net income.....	-	-	344	-	344
Other comprehensive income, net of tax .....	-	-	-	38	38
Stock-based compensation.....	-	33	-	-	33
Common stock issued.....	-	-	-	-	-
Balance, March 31, 2007.....	<u>17,263</u>	<u>\$ 27,772</u>	<u>\$ 8,089</u>	<u>\$ 208</u>	<u>\$ 36,069</u>

(See accompanying notes to consolidated financial statements)

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

	For the Three Months Ended March 31,	
	2007	2006
<b><u>Cash Flows from Operating Activities</u></b>		
Net income .....	\$ 344	\$ 262
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	101	108
Income accreted on bank-owned life insurance .....	(97)	-
Deferred income taxes.....	272	149
Net loss on sales of securities.....	-	398
Amortization and accretion of AFS securities.....	10	7
Dividends of FHLB Stock.....	(16)	(17)
Stock-based compensation expense .....	33	135
(Increase) decrease in other assets .....	(211)	250
Decrease in other liabilities.....	(81)	(114)
Net cash provided by operating activities .....	355	1,178
<b><u>Cash Flows from Investing Activities</u></b>		
Proceeds from maturities and repayments of securities .....	3,226	649
Purchases of AFS securities .....	(16,403)	-
Proceeds from sale of AFS securities .....	-	14,946
Net decrease in loans.....	1,603	10,718
Purchases of premises and equipment.....	-	(320)
Net cash (used) provided by investing activities.....	(11,574)	25,993
<b><u>Cash Flows from Financing Activities</u></b>		
(Decrease) increase in deposits .....	(6,088)	5,657
Payments for fractional shares relating to 2004 stock split.....	(23)	(116)
Net cash (used) provided by financing activities .....	(6,111)	5,541
(Decrease) increase in cash and cash equivalents .....	(17,330)	32,712
Cash and cash equivalents at beginning of period .....	87,810	77,744
Cash and cash equivalents at end of period.....	\$ 70,480	\$ 110,456
<b><u>Supplemental disclosures of cash flow information:</u></b>		
Cash paid during the period for:		
Interest .....	\$ 546	\$ 264
Income taxes .....	137	35

(See accompanying notes to consolidated financial statements)

SUNWEST BANK AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 2007  
(Unaudited)

**Basis of Presentation**

The consolidated financial statements include the accounts of Sunwest Bank and its wholly owned subsidiaries, Sunwest Leasing Corp, North Orange County Bancorp and WCV, Inc. All significant intercompany balances have been eliminated. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2007 interim period are not necessarily indicative of the results expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB and the rules and regulations of the Federal Deposit Insurance Corporation and include all information and footnotes required for interim financial statement presentation. The financial information provided herein, including the information under the heading Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report on Form 10-KSB which contains the latest available audited consolidated financial statements and notes thereto, as of December 31, 2006 together with the MD&A as of such date.

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

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the 2007 presentation.

**Earnings Per Share**

The following table provides information used to calculate earnings per share as of the periods indicated (dollars in thousands except per share amounts):

	For the Quarter Ended March 31,	
	2007	2006
Net income .....	\$ 344	\$ 262
Weighted average number of common shares outstanding:		
Basic shares .....	17,243	17,221
Dilutive effect of restrictive stock grants.....	24	64
Dilutive effect of stock options .....	24	31
Dilutive .....	17,291	17,316
Net income per share:		
Basic .....	\$ 19.95	\$ 15.21
Diluted.....	19.89	15.13

The Bank has 656 stock options outstanding at March 31, 2007 that could potentially dilute EPS in future periods that were excluded from the above computations because the impact of including them was antidilutive.

### 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. The plan also provides for accelerated vesting should a change in control occur. Option prices are the fair market value of the underlying stock as of the grant date. The Bank recognized stock-based compensation cost of \$0.1 million during the first quarter of 2006. The amount recognized for the first quarter of 2007 was immaterial as was the income tax benefits for both first quarters of 2007 and 2006.

The following table summarizes the activity in the Plan as of March 31, 2007:

	Options Granted	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value in Thousands
Balance: January 1, 2007.....	809	\$ 4,102.99		
Options granted.....	-	-		
Options exercised.....	(3)	1,772.25		
Options forfeited.....	(63)	2,995.28		
Balance: March 31, 2007.....	<u>743</u>	<u>\$ 4,206.38</u>	<u>8.77</u>	<u>\$ -</u>
Options exercisable.....	<u>630</u>	<u>\$ 4,362.66</u>	<u>8.71</u>	<u>\$ -</u>

The following table summarizes the activity in the Plan as of March 31, 2006:

	Options Granted	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value in Thousands
Balance: January 1, 2006.....	790	\$ 4,068.04		
Options granted.....	-	-		
Options exercised.....	(2)	1,723.63		
Options forfeited.....	-	-		
Balance: March 31, 2006.....	<u>788</u>	<u>\$ 4,073.86</u>	<u>8.64</u>	<u>\$ -</u>
Options exercisable.....	<u>619</u>	<u>\$ 4,417.14</u>	<u>8.78</u>	<u>\$ -</u>

As of March 31, 2007 and 2006, there was \$0.2 million and \$0.5 million of total unrecognized compensation cost related to the outstanding stock options that will be recognized through April 20, 2011.

The following is a summary of the status of the Bank's nonvested shares as of March 31, 2007:

Nonvested Shares	Shares	Weighted Average Grant- Date Fair Value
Nonvested: January 1, 2007 .....	54	\$ 3,672.22
Granted.....	-	-
Vested .....	-	-
Forfeited.....	-	-
Nonvested: March 31, 2007 .....	<u>54</u>	<u>\$ 3,672.22</u>

The following is a summary of the status of the Bank's nonvested shares as of March 31, 2006:

Nonvested Shares	Shares	Weighted Average Grant- Date Fair Value
Nonvested: January 1, 2006 .....	64	\$ 3,664.84
Granted.....	-	-
Vested .....	-	-
Forfeited.....	-	-
Nonvested: March 31, 2006 .....	<u>64</u>	<u>\$ 3,664.84</u>

As of March 31, 2007 and 2006, there was \$0.1 million and \$0.2 million of total unrecognized compensation cost related to the nonvested share-based compensation arrangements that will be recognized through September 2009.

### Recent Accounting Developments

The Bank adopted on January 1, 2007 Interpretation 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS 109" ("FIN 48"). FIN 48, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, "Accounting for Income Taxes" and also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Bank has reviewed historical information for its open income tax returns and has analyzed and compared the amounts of tax benefits taken and has determined that the criteria for financial statement recognition of its tax position currently does not create an uncertain tax position. Therefore, the adoption of FIN48 did not have a material impact on the financial condition of the Bank.

In September 2006, the FASB issued SFAS 157 "Fair Value Measurements" ("SFAS 157"), which provides a revised definition of fair value, guidance on the methods used to measure fair value and also expands financial statement disclosure requirements for fair value information. SFAS 157 establishes a fair value hierarchy that distinguishes between assumptions based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). The fair value hierarchy in SFAS 157 prioritizes inputs within three levels. Quoted prices in active markets have the highest priority (Level 1) followed by observable inputs other than quoted prices (Level 2) and unobservable inputs having the lowest priority (Level 3). The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application allowed for entities that have not issued financial statements in the fiscal year of adoption. We are currently assessing the impact that the adoption of SFAS 157 will have on our consolidated financial statements.

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

### **Cautionary Statement Regarding Forward-Looking Statements**

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

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

### **CRITICAL ACCOUNTING POLICIES**

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

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

### **CHANGES IN FINANCIAL CONDITION**

*Overview:* Sunwest Bank's financial condition has not changed significantly over the past few years. We fund our interest earning assets, (loans and investment securities), primarily with low cost deposits. Our only borrowing is a \$5.4 million FHLB advance. We continue to maintain high levels of liquidity as we invest our available funds in short-term investments (federal funds, certificates of deposits and money market mutual funds) or in securities. Since December 31, 2006, our loan portfolio has decreased as payoffs and paydowns have exceeded internally generated loan originations. While deposit balances have decreased since December 31, 2006, our deposit base is growing, as evidenced by the increase in our average deposit balances during the first quarter of 2007 over average deposits in December 2006, as we continue to focus our marketing efforts on core deposit growth. Our capital position is strong as our current regulatory capital levels are well in excess of the minimum levels required to be considered a "well capitalized" institution.

*Cash and cash equivalents and securities:* Between December 31, 2006 and March 31, 2007, cash and cash equivalents decreased \$17.3 million as a result of our purchase of \$11.9 million of US Treasury securities and \$4.5 of tax-free municipal bonds with a weighted average yield of 4.53%.

*Loans:* The following table provides a breakdown of our loan portfolio as of the dates indicated (dollars in thousands):

	March 31, 2007	December 31, 2006
Commercial .....	\$ 52,224	\$ 50,648
Real estate – other.....	54,302	53,365
Real estate – construction .....	28,472	32,278
Personal loans .....	1,685	2,071
Total loans .....	136,683	138,362
Allowance for estimated loan losses.....	(2,351)	(2,351)
Deferred loan fees and expenses.....	(85)	(161)
Total loans, net .....	<u>\$ 134,247</u>	<u>\$ 135,850</u>

At March 31, 2007, total loans had decreased \$1.7 million from total loans at December 31, 2006 as a result of \$8.7 million of payoffs and collections of principal, net of advances, on existing loans, offset in part by \$7.0 million of fundings of new loans.

*Deposits:* Deposits as of March 31, 2007 were \$6.1 million lower than December 31, 2006. This was the primary result of the overall decrease in non-interest bearing demand deposit accounts created by large balance fluctuations in certain of current and existing business customers accounts. During the first three months of 2007 average deposits decreased \$3.4 million compared to the same period in the prior year.

*Borrowings:* As of March 31, 2007, our only borrowing consisted of a \$5.4 million FHLB advance, which matures in June of 2009. While we have the ability to borrow additional funds from the FHLB and other sources, we do not anticipate utilizing any additional borrowings in the near future due to our high level of liquidity.

## RESULTS OF OPERATIONS

### Overview

The following table provides selected financial information related to our results of operations for the periods indicated (dollars in thousands):

	For the Quarter Ended March 31,	
	2007	2006
Income before taxes .....	\$ 511	\$ 410
Net income .....	344	262
Ratio of net income to: (annualized)		
Average shareholders equity .....	3.84 %	3.19 %
Average total assets.....	0.46 %	0.35 %
Net income per share:		
Basic.....	\$ 19.95	\$ 15.21
Basic.....	19.89	15.13

Our income before taxes for the quarter ended March 31, 2007, increased \$0.1 million or 25% compared to the same period in 2006 reflecting an increase in non-interest income, which was offset by a decline in net interest income between periods. Our net interest income during the quarter ended March 31, 2007 decreased \$0.4 million over the corresponding period in 2006 as a result of the overall market rate increase in deposit rates. However this increase was offset by higher non-interest income, mostly due to the results of sales activities in the securities portfolio in 2006, which resulted in a \$0.04 million loss during the quarter ended March 31, 2006.

## Net Interest Income

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

	For the Quarter Ended March 31,					
	2007			2006		
	Average Balance	Interest	Average Yield /Cost	Average Balance	Interest	Average Yield /Cost
<b>Interest earning assets:</b>						
Loans .....	\$ 135,532	\$ 2,788	8.27 %	\$ 156,028	\$ 3,156	8.13 %
Securities, AFS .....	70,319	871	5.02	57,520	658	4.64
Fed funds sold / mutual funds...	71,935	928	5.23	75,210	810	4.37
FHLB Stock .....	1,112	16	5.84	1,387	17	4.97
Total interest earning assets .....	278,898	4,603	6.66	290,145	4,641	6.43
Noninterest earning assets .....	22,799			12,701		
Total assets .....	<u>\$ 301,697</u>			<u>\$ 302,846</u>		
<b>Interest bearing liabilities:</b>						
Deposits:						
Interest bearing demand .....	\$ 25,695	33	0.52	\$ 28,074	12	0.17
Money market .....	84,555	430	2.06	68,496	142	0.84
Time and savings .....	15,816	125	3.21	19,990	116	2.35
Total deposits .....	126,066	588	1.89	116,560	270	0.94
Borrowings .....	5,375	59	4.45	5,375	59	4.45
Total interest bearing liabilities .....	131,441	647	1.99	121,935	329	1.09
Noninterest bearing deposits .....	131,297			144,292		
Other noninterest bearing liabilities .....	3,007			3,231		
Shareholders' equity .....	35,952			33,388		
Total liabilities and equity .....	<u>\$ 301,697</u>			<u>\$ 302,846</u>		
Net interest earning assets .....	<u>\$ 147,457</u>			<u>\$ 168,210</u>		
Net interest income / interest rate spread .....		<u>\$ 3,956</u>	<u>4.67 %</u>		<u>\$ 4,312</u>	<u>5.34 %</u>
Net interest margin .....			<u>5.75 %</u>			<u>6.03 %</u>

*Interest income:* Our yield on average interest earning assets increased 23 basis points in the first quarter of 2007 compared to corresponding periods in 2006.

While the average yield on our loans increased 14 basis points to 8.27% during the first quarter of 2007 from 8.13% in the corresponding period in 2006, average loans decreased \$20.5 million resulting in an overall decline in loan interest income of \$0.4 million for the quarterly period ended March 31, 2007 from the quarterly period ended March 31, 2006. During the first quarter of 2007, the yield on our real estate and commercial loan portfolios increased 9 and 15 basis points, respectively, when compared to the corresponding period in 2006 primarily as a result of increases by the Federal Reserve Board during 2006. The decrease in average loans is due primarily to decreases in our real estate loan portfolio, as significant payoffs in construction loans have been higher than our new originations over the past 12 months.

The yield on fed funds sold and mutual funds increased during the quarter ended March 31, 2007 as compared to the corresponding periods in 2006, as a result of the increase in short term interest rates in the overall market over the last 12 months. The increase in yield on the primarily fixed rate available for sale securities portfolio for the quarter ended March 31, 2007 as compared to the corresponding periods in 2006, is due primarily to the sale of lower yielding securities and the purchase of higher yielding securities over the last 12 months. The opportunity to purchase higher yielding securities was the result of the increases in short-term interest rates in the overall market.

*Interest expense:* Sunwest Bank has a high proportion of noninterest bearing deposit accounts and very limited levels of borrowing which allow us to fund our operations at a relatively low interest cost. At March 31, 2007, the proportion of noninterest bearing deposit balances to total deposits was 58.4% and our borrowings were only 2.0% of our total liabilities. The cost of interest bearing liabilities for the first quarter of 2007 was 1.99% compared to 1.09% during the first quarter of 2006. For the quarter ended March 31, 2007 interest expense increased \$0.3 million when compared to the corresponding periods in 2006 as a result of increases in the cost of interest bearing deposits.

The cost of interest bearing deposits increased to 1.89% the quarter ended March 31, 2007 as compared to 0.94% for the same period in 2006. The increase in costs is the result of the increases in short-term interest rates in the overall market over the last 12 months. As a result of these increases in interest rates, interest expense on deposits increased to \$0.6 million for the quarter ended March 31, 2007 compared to \$0.3 million in the same period of 2006.

The Bank has an outstanding note in the amount of \$5.4 million due to the Federal Home Loan Bank, which matures in June 2009 and carries a fixed rate of 4.38%.

*Net interest income / net interest margin:* As a result of the increases in short term interest rates in the overall market over the last 12 months and other changes in our financial position discussed above, our net interest income decreased \$0.4 million during the first quarter of 2007 compared to the same corresponding period in 2006. Our net interest margin decreased to 5.75% for the quarter ended March 31, 2007 as compared to 6.03% for the corresponding period in 2006.

### Rate/Volume Analysis

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

	For the Quarters Ended March 31, 2007 and 2006			
	Increase (Decrease) Due to			Net Increase (Decrease)
	Rate	Volume	Rate / Volume	
<b>Interest earning assets:</b>				
Loans.....	\$ 55	\$ (417)	\$ (6)	\$ (368)
Securities AFS .....	55	148	10	213
Fed funds sold / mutual funds .....	162	(36)	(8)	118
FHLB Stock .....	3	(3)	(1)	(1)
Change in interest income.....	<u>275</u>	<u>(308)</u>	<u>(5)</u>	<u>(38)</u>
<b>Interest bearing liabilities:</b>				
<b>Deposits:</b>				
Interest bearing demand .....	25	(1)	(3)	21
Money market .....	209	34	45	288
Time and savings.....	43	(25)	(9)	9
Total deposits .....	<u>277</u>	<u>8</u>	<u>33</u>	<u>318</u>
Borrowings.....	-	-	-	-
Change in interest expense.....	<u>277</u>	<u>8</u>	<u>33</u>	<u>318</u>
Change in net interest income.....	<u>\$ (2)</u>	<u>\$ (316)</u>	<u>\$ (38)</u>	<u>\$ (356)</u>

## Noninterest Income

Noninterest income increased to \$0.2 million for the three months ended March 31, 2007 as compared to (\$0.2) million for the three months ended March 31, 2006. The \$0.5 million increase in noninterest income for the three months ended March 31, 2007 was the result of differences in gains and losses realized from the sale of investment securities. From time to time, we may decide to sell investments and the resulting gain or loss is recognized at the time of sale. Losses on sales of securities of \$0.4 million were realized during the first three months of 2006. The Bank did not recognize any gains or losses on the sale of investment securities during the first quarter of 2007.

## Noninterest Expense

Noninterest expense totaled \$3.6 million for the first quarter of 2007 and did not materially change when compared to the same period in 2006. However, professional services increased \$0.1 million due to the payment of higher employee recruitment fees. This increase is in part offset by lower compensation as the costs related to the initial application of FASB 123R are lower in 2007 than in 2006 and lower customer service expenses resulting from decreased eligible third party costs associated with the analysis earnings credits paid on behalf of certain of our business customers.

## Income Taxes

Our effective income tax rate for the three months ended March 31, 2007 was 32.6% as compared to 36.1% for the corresponding period in 2006. During the three months ended March 31, 2007, interest income from tax-free municipal securities was a larger percentage of income before taxes than for the corresponding period in 2006, resulting in a lower effective tax rate. As a result of the merger of West Coast Bancorp with and into Sunwest Bank in 2001, as of January 1, 2007, Sunwest Bank has \$1.6 million of tax benefits available to offset future taxable income relating to the net operating tax loss carryforward of West Coast Bancorp, subject to annual limitations of \$0.9 million.

## Nonperforming Assets and Provision for Credit Losses

At March 31, 2007 and December 31, 2006, we did not have any loans on nonaccrual status. Total delinquent loans or loans up to 90 days delinquent as to interest or principal totaled \$1.9 million, representing 1.44% of total loans outstanding at March 31, 2007. There were no delinquent loans at December 31, 2006.

The following table summarizes the activity in our allowance for loan losses for the periods indicated (dollars in thousands):

	For the Quarter Ended March 31,	
	2007	2006
Balance: beginning of period .....	\$ 2,351	\$ 2,351
Provision for credit losses .....	-	-
Recoveries of amounts previously charged off ...	-	-
Balance: end of period .....	<u>\$ 2,351</u>	<u>\$ 2,351</u>
Allowance for loan losses as a % of total loans ..	1.72%	1.59%

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

Management considers the following qualitative environmental factors in determining the allocated loss factors when analyzing the allowance for loan losses: the levels of and trends in past due, nonaccrual and impaired loans; levels of and trends in charge-offs and recoveries; the trend in volume and terms of loans; the effects of changes in credit concentrations; the effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and

practices; the experience, ability and depth of management and other relevant staff; national and local economic trends and conditions; and industry conditions.

Management believes that its allowance for loan losses at March 31, 2007 was adequate. Nevertheless, there can be no assurance that additions to such allowance will not be necessary in future periods. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our valuation allowance. These agencies may require increases to the allowance based on their judgments of the information available to them at the time of their examination.

## Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to maintain cash flows that are adequate to fund our operations and meet our debt obligations and other commitments on a timely and cost-effective basis. Our liquidity management is both a daily and long-term function of funds management. Liquid assets are generally invested in short-term investments such as federal funds sold and certificates of deposit. 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 focuses on our 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. We monitor our liquidity in accordance with guidelines established by our Board of Directors and applicable regulatory requirements. Our need for liquidity is affected by our loan activity, net changes in deposit levels and the scheduled maturities of its borrowings. The principal sources of our liquidity consist of deposits, loan interest and principal payments and prepayments, FHLB advances and proceeds from the sale of securities.

Our liquid asset ratio (the sum of cash, investments available-for-sale, excluding pledged amounts, and Federal funds sold, divided by total assets) was 47.79% at March 31, 2007. At March 31, 2007, Sunwest Bank had available borrowing capacity totaling \$96.5 million. Management believes the Bank has sufficient liquidity to support its operations.

## Capital Resources and Dividends

The following table reflects our actual levels of regulatory capital as of March 31, 2007 and the applicable minimum regulatory capital requirements as well as the regulatory capital requirements that apply to be deemed "Well Capitalized" pursuant to the prompt corrective action requirements (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 March 31, 2007</u>						
Tier 1 leverage ratio..... \$	35,686	11.84%	\$ 12,297	4.00%	\$ 15,371	5.00%
Tier 1 risk-based capital ratio .	35,686	17.28	8,298	4.00	12,446	6.00
Total risk based capital ratio...	38,229	18.51	16,595	8.00	20,744	10.00
<u>As of December 31, 2006</u>						
Tier 1 leverage ratio..... \$	35,234	11.46%	\$ 12,294	4.00%	\$ 15,367	5.00%
Tier 1 risk-based capital ratio .	35,234	16.49	8,545	4.00	12,818	6.00
Total risk based capital ratio...	37,777	17.68	17,090	8.00	21,363	10.00

We are classified as a "Well Capitalized" depository institution for regulatory purposes.

We have no material commitments for capital expenditures as of March 31, 2007. We have not paid dividends in 2007 and have no plans to pay dividends.

In the first quarter of 2007, the Bank entered into a subleasing agreement, which will enable the Bank to sublease a portion of its premises of its Corporate Head Quarters effective May 1, 2007.

### Off-Balance Sheet Arrangements

The following table provides the off-balance sheet arrangements of Sunwest Bank as of March 31, 2007 (dollars in thousands):

Commitments to fund loans .....	\$	54,490
Commitments under letters of credit.....		654

Of the commitments to fund loans, \$13.6 million are for construction loans. The remainder relates primarily to revolving lines of credit or other commercial loans, and many of these commitments are expected to expire without being drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements.

### ITEM 3. Controls and Procedures

- (a) Based on their evaluation of Sunwest Bank's disclosure controls and procedures as of the end of the period covered by this report on Form 10-QSB, Sunwest Bank's principal executive officer and principal financial officer have concluded that Sunwest Bank's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2007 are effective.
- (b) There has been no change in Sunwest Bank's internal controls over financial reporting that occurred during the last fiscal quarter that has materially affected or is reasonably likely to materially affect Sunwest Bank's internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

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

None

### Item 5. Other Information

None

### Item 6. Exhibits

<u>Number</u>	<u>Description</u>
31.1	Section 302 Certification for Glenn E. Gray
31.2	Section 302 Certification for Milton Flores
32.1	Section 906 Certification for Glenn E. Gray and Milton Flores

**SIGNATURES**

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

SUNWEST BANK

\_\_\_\_\_  
Registrant

Date: May 1, 2007

\_\_\_\_\_  
/s/ Glenn E. Gray

\_\_\_\_\_  
Glenn E. Gray, Chief Executive Officer

Date: May 1, 2007

\_\_\_\_\_  
/s/ Milton Flores

\_\_\_\_\_  
Milton Flores, Controller (Principal Financial Officer)

## CERTIFICATIONS

I, Glenn E. Gray, certify that:

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

Date: May 1, 2007

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

## CERTIFICATIONS

I, Milton Flores, certify that:

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

Date: May 1, 2007

/s/ Milton Flores  
Milton Flores, Controller  
(Principal Financial Officer)

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

In connection with the Quarterly Report of Sunwest Bank (the "Company") on Form 10-QSB for the periods ending March 31, 2007 as filed with the Federal Deposit Insurance Corporation (the "Report"), we, Glenn E. Gray, Chief Executive Officer of the Company, and Milton Flores, Controller (Principal Financial Officer) of the Company, each certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge, based on a review of the Report of the Company, and except as corrected or supplemented in a subsequent report:

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

	SUNWEST BANK
	_____ Registrant
Date: _____	/s/ Glenn E. Gray
	_____ Glenn E. Gray, Chief Executive Officer
Date: _____	/s/ Milton Flores
	_____ Milton Flores, Controller (Principal Financial Officer)