

Second Quarter, 2019



7/25/2019

Dear Fellow Shareholders,

Pacific West Bank has been welcomed warmly into the downtown Portland business community and our profile as Portland's bank for business has continued to grow. Contributing to our visibility is a strategic partnership with the Portland Business Journal. Pacific West Bank is the exclusive bank partner for the monthly Power Breakfast series held by the Portland Business Journal and will be the featured Bank in the Journal's Business Strategies 2020, a practical guide to planning for success

We are pleased with the progress of the new Portland production office. The Portland team is operating efficiently and effectively out of temporary space within the same office building until the new office is finished. The design and construction documents have been formalized and we are on schedule to begin construction in August, with completion scheduled for November. The downtown Portland production office along with our branches in West Linn and Lake Oswego, allows us to scale the entire Portland MSA, with a renewed ability to attract both new team members and new clients.

During the second quarter of 2019, the Bank continued to execute on improvements to our technology platform. We have engaged our core provider and best of class vendors to add key services such as mobile deposits, on-line wires, fraud prevention tools, an electronic notification system and business analytics. These tools, which are necessary to handle larger and more sophisticated middle market business clients, are rolling out in the third quarter and throughout the balance of the year.

Highlights from the quarter:

- Loan growth of \$4.4 million or 8.6% during the quarter.
- Continued strong loan quality with no loans greater than 30 days past due and only one \$69,000 non-accrual loan which is paying as agreed.
- Improved asset yield from the purchase of \$5.2 million in securities.
- In the past 12 months, deposits grew \$7.8 million or 13.4%.
- Due to loan growth, the Bank made a provision for loan loss of \$30,000 during the quarter.
- Loan interest income for the quarter was \$754,000, up \$77,000 or 11.4% from the same period in 2018 at \$677,000.

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Assets

During the quarter, the Bank deployed \$7.5 million of excess cash into investments and loans, improving asset yield. Historically, the Bank has not invested in securities and implementation of security management software was required ahead of the \$5.2 million investment in securities. The Bank will continue to purchase investments to improve asset yield while providing liquidity as these securities are easily sold in the open market. As of quarter-end, the Bank had an unrealized gain of \$40,000 on these investments.

During the quarter, the Bank grew loans \$4.4 million or 8.6% to \$55.8 million and the quality of our loan portfolio remained strong. Loan yield for the first quarter of 2019 was 5.49%, up 15 basis points from the first quarter of 2018 of 5.34%. As of quarter-end, the Bank had a robust loan pipeline with a number of loans booking in the first part of third quarter. Our momentum is increasing and loan growth will be strong in the third quarter.

Deposits

Deposits in the past 12 months have grown \$7.1 million or 13.4% including \$2.3 million or 3.9% during the second quarter of 2019. The bank has also improved the deposit mix during that same period, increasing non-maturity deposits year over year \$8.4 million or 23.7% while decreasing higher costs certificate of deposits \$1.3 million or 7.7%. As discussed previously, the Bank is focused on delivering technology that will allow the Bank to service larger business depositors and provide them the tools necessary to move their operating accounts, further expanding the growth in non-maturity deposits. We are systematically repositioning the bank's deposit characteristics towards relationship banking and allowing "rate shoppers" to exit.

The Bank's cost of funds has remained consistent at 48 basis points for the second quarter of 2019 compared to the first quarter of 2019 at 45 basis points. The Bank continues to experience market pressure on deposits rates but is committed to its focus on relationships and allowing interest rate sensitive deposits to run off and therefore, our deposit success is not fully represented in our deposit growth rates.

Earnings

Interest income for the quarter at \$1.1 million, grew \$269,000 or 34.3%, compared to the same period in 2018 and \$129,000 or 13.9% compared to the first quarter of 2019. Increased earnings were a result of improved asset mix, through higher-yielding loans and investments. Loan fee income of \$88,000 was \$23,000 or 51.7% higher than the same period in 2018 due to collection of a loan prepayment penalty.

During the quarter, loan growth of \$4.4 million caused the Bank to increase the allowance for loan loss with a provision for loan loss of \$30,000. As the Bank continues to grow loans, earnings will continue to be impacted by additions to the provision for loan loss; however, these additions are one-time provisions at the time of origination while the increased loans will provide additional future earnings for the life of the loans.

Non-interest expense increased during the quarter related to hiring key staff, increased technology costs and business development costs. Management continues to recruit local banking talent that will provide value to the institution and has plans to continue making additional hires through year-end as we identify qualified candidates.

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Leadership

It is with deep gratitude that we celebrate Steve Gray's many years of service to the Bank, our Board, our shareholders, and especially our clients. At the April annual shareholder meeting, Steve, a founding Board Member, Chairman of the Board, and former President and CEO of the Bank announced that he had decided not to run for re-election for his Board seat. Following his departure, the Board elected Edwin Kawasaki as the new Board Chairman. Ed is a founding Director and Investor and has been a past Chairman of the Board at Pacific West Bank. His years of experience as a Board member, in addition to the fact that he is also an inactive CPA and has a J.D. from Northwestern School of Law makes Ed an ideal appointment for this very important role.

The Bank continues to evolve and grow, and we thank you for your continued commitment and support to our vision and your confidence in the team to execute; the best is still yet to come!

Best Regards,

A handwritten signature in black ink, appearing to read "Terry Peterson", written in a cursive style.

Terry A. Peterson
President & CEO

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Balance Sheets
(amounts in 000s, except per share data and ratios)

	June 30,		% Change 2019 vs. 2018	March 31, 2019	% Change Quarter
	2019	2018			
ASSETS					
Cash & due from banks	\$ 22,519	\$ 7,398	204.4%	\$ 29,969	-24.9%
Investments - CD	7,734	2,734	182.9%	7,734	0.0%
Investments - MBS	5,229	-	N/A	-	N/A
Gross loans	55,843	50,404	10.8%	51,437	8.6%
Allowance for loan losses	(700)	(670)	4.5%	(670)	4.5%
Net loans	55,143	49,734	10.9%	50,767	8.6%
Premises and equipment, net	2,393	2,310	3.6%	2,281	4.9%
Deferred tax asset, net	1,357	1,730	-21.6%	1,307	3.8%
Other assets	461	423	9.0%	440	4.8%
Total Assets	\$ 94,836	\$ 64,329	47.4%	\$ 92,498	2.5%
LIABILITIES					
Deposits	\$ 59,998	\$ 52,923	13.4%	\$ 57,728	3.9%
Borrowed funds	\$ -	\$ 2,000	-100.0%	-	-
Other liabilities	339	107	216.8%	163	108.0%
Total Liabilities	60,337	55,030	9.6%	57,891	4.2%
STOCKHOLDERS' EQUITY					
Total Liabilities and Stockholders' Equity	\$ 94,836	\$ 64,329	47.4%	\$ 92,498	2.5%
Shares outstanding at end-of-period	2,650,472	706,467		2,648,855	
Book value per share	\$ 13.02	\$ 13.16		\$ 13.06	
Tangible book value per share	\$ 13.02	\$ 13.16		\$ 13.06	
Allowance for loan losses to total loans	1.25%	1.33%		1.30%	
Non-performing assets (non-accrual loans & OREO)	\$ 69	\$ -		\$ 75	
Bank Tier 1 leverage ratio	35.98%	11.80%		49.80%	
Bank Tier 1 risk-based capital ratio	52.27%	14.62%		64.27%	
Bank Total risk-based capital ratio	53.39%	15.87%		65.52%	

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Statements of Net Income
(amounts in 000s, except per share data and ratios)

	Three Months Ended			Three Months Ended	
	6/30/2019	6/30/2018	% Change	3/31/2019	% Change
INTEREST INCOME					
Loans Interest Income	\$ 754	\$ 677	11.4%	\$ 699	7.9%
Investments & due from banks	212	50	324.0%	209	1.4%
Loan Fee Income	88	58	51.7%	17	417.6%
Total interest income	1,054	785	34.3%	925	13.9%
INTEREST EXPENSE	106	83	27.7%	96	10.4%
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	948	702	35.0%	829	14.4%
PROVISION FOR LOAN LOSSES	30	-	N/A	-	N/A
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	918	702	30.8%	829	10.7%
NON-INTEREST INCOME	30	31	-3.2%	23	30.4%
NON-INTEREST EXPENSE	1,176	583	101.7%	1,104	6.5%
INCOME BEFORE PROVISION FOR INCOME TAXES	(228)	150	-252.0%	(252)	-9.5%
PROVISION (BENEFIT) FOR INCOME TAXES	(60)	39	-253.8%	(66)	-9.1%
NET INCOME (LOSS)	\$ (168)	\$ 111	-251.4%	\$ (186)	9.7%
Earnings per share - Basic	\$ (0.06)	\$ 0.16		\$ (0.07)	
Earnings per share - Diluted	\$ (0.06)	\$ 0.16		\$ (0.07)	
Return on average equity	-1.95%	4.34%		-2.17%	
Return on average assets	-0.72%	0.60%		-0.83%	
Net interest margin	3.87%	4.48%		3.88%	
Efficiency ratio	120.2%	81.1%		129.5%	

Certain statements in this release may be deemed to be "forward-looking statements". Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement.