

Third Quarter, 2019



10/29/2019

Dear Shareholders,

Pacific West Bank continues to be well-positioned for growth in the Portland metropolitan market. Credit quality remains strong coupled with ample liquidity and capital to support additional growth while our Bankers continue to focus on long-term strategic growth through relationship development. We remain committed to deploying the capital that has been entrusted to us through prudent and efficient growth despite an increasingly volatile interest rate environment and continued local market disruption as a result of local banks being acquired by large regional banks.

Pacific West Bank continued the momentum built in the first half of 2019. Total loan commitments of \$15.7 million and \$12.2 million in loan funding resulted in net loan growth of \$9.5 million (or 17.1% for the third quarter) for a total of \$65.4 million. Net deposit growth matched net loan growth at \$9.5 million (or 15.8% for the third quarter) for a total of \$69.5 million. We are pleased with our balanced growth and will continue to grow the Bank with deposits funding loan demand. Additionally, the Bank broke through \$100 million in assets during the third quarter ending at \$104.2 million. Our momentum continued into the first three weeks of October with net loans growing an additional \$5.0 million.

Pacific West's downtown Portland production office will be completed in November and while the production team has been successful in working out of the temporary space during the third quarter, we look forward to leaving behind temporary signage and borrowed desks for a permanent location. The Portland office, much like our West Linn and Lake Oswego offices, will be used to integrate the Bank into the local non-profit and business community by hosting educational and networking events.

Technology enhancements remained a focus of the Bank, which will integrate products and services utilized by sophisticated middle-market businesses to meet their treasury and banking needs. During the third quarter, Pacific West rolled out account alerts, on-line wires, branded business mobile banking, and business mobile deposits. These additional technology tools will put our Bank on par with our regional and national competitors, as we have prospective clients awaiting these upgrades. Pacific West continues to invest in technology and will add additional treasury and account management tools in the fourth quarter and into 2020.

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Highlights from the third quarter:

- New gross loan commitments of \$15.7 million and funded \$12.2 million gross loans during the quarter.
- Net loan growth of \$9.5 million or 17.1% during the quarter.
- Net deposit growth of \$9.5 million of 15.8% during the quarter.
- Continued strong loan quality with no loans greater than 30 days past due and only one \$63,000 non-accrual loan which is paying as agreed.
- Due to loan growth, the Bank made a provision for loan loss of \$100,000 during the quarter.
- Loan interest income year-to-date 2019 was \$3.0 million, up \$761,000 or 33.3% from the same period in 2018 at \$2.3 million.
- Non-interest bearing deposits were the largest growth category representing 39% of total deposit growth for the quarter.

Assets

Pacific West ended the quarter at \$104.2 million in assets, growing \$9.4 million or 9.9% during the quarter. Year-over-year, the Bank grew \$38.9 million or 59.7%, which included the capital raise in December 2018. During the third quarter, the Bank converted \$2.6 million of cash into higher-yielding investments and will continue to evaluate investment opportunities to improve asset yield while continuing to provide liquidity. As of quarter-end, the Bank had an unrealized gain of \$62,500 on these investments.

Loans ended the third quarter at \$65.4 million, growing by 17.1% during the quarter. Loan yields were 5.42% for the third quarter, down 7 basis points during the quarter. Contributing to loan yield compression were loans tied to prime that are above their contractual floor, as prime rate decreased by 50 basis points during the quarter. As of quarter-end, roughly half the loans tied to prime were at their contractual floor and would not be affected by further reductions in prime rates.

Asset quality was strong and consistent with prior quarters, with no loans past due and one non-accrual loan performing as agreed. Loan growth during the quarter necessitated an additional \$100,000 provision to the allowance for loan loss. The allowance for loan loss was 1.22% of total loans outstanding as of quarter-end. As the loan portfolio continues to grow, we expect to make further provisions for loan loss strictly driven by loan growth and not due to credit quality deterioration.

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Deposits

Pacific West ended the third quarter with \$69.5 million in deposits, growing 15.8% over the previous quarter-end. We are executing on our strategy to grow core deposits as evidenced by the largest amount of growth coming from non-interest-bearing deposits at \$3.7 million, followed by \$2.0 million in growth from interest-bearing demand accounts, and \$1.8 million in growth from money market accounts. Non-maturity deposits made up \$8.4 million of the \$9.5 million in growth.

The Bank's average cost of funds for the third quarter was 54 basis points, a 6-basis point increase from 48 basis points for the second quarter of 2019. Market deposit rates continue to pressure the Bank's cost of funds, thus our focus on our drive for non-interest bearing deposits.

Earnings

Year-to-date interest income of \$3.0 million, grew \$761,000 (33.3%) when compared to \$2.3 million for the same period in 2018. Interest income for the third quarter of \$1.1 million only slightly increased from the second quarter despite loan interest income growth of \$107,000 for the quarter; this growth was offset by lower loan fees recognized and decreased earnings from cash and investments due rate reductions and lower cash balances.

Net interest margin for the first nine months of 2019 was 3.83%, which was down 34 basis points compared to 4.17% for the same period in 2018. The decrease in net interest margin was largely related to the capital raise in December 2018, due to the cash that was raised being invested in lower-yielding cash and investments. As of September 30, 2019, the Bank had \$35.1 million in cash and investments.

Non-interest expense remained consistent during the quarter with no new hires and the Bank continued to invest in technologies and business development. For the remainder of 2019 and into 2020, the Bank expects non-interest expense to increase as the Bank looks to fill the new Portland office with additional hires. New hiring announcements will be forthcoming in Q4 and Q1, 2020.

Net losses before the effect of taxes and provision for loan loss totaled (\$199,000) for the third quarter remained consistent with the second quarter pre-provision/tax loss of (\$198,000) in spite of the prior quarter's recognition of \$60,000 in non-recurring loan fee income. The Bank continues to invest in our growth plan focused on our people, technology, and building relationships with the communities we serve through sponsorships.

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Closing

Pacific West's momentum continues to grow, as our seasoned bankers win new relationships and increase our brand awareness. Our operations team is implementing new technology products demanded by middle-market clients. Key personnel additions will be announced in the coming months. Management and the Board remain devoted to long-term growth through patient and prudent development of entire banking relationships. Credit quality is key to our growth strategies.

Thank you for your continued commitment and support for our vision.

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)

	September 30,		% Change 2019 vs. 2018	June 30,		% Change Quarter
	2019	2018		2019		
ASSETS						
Cash & due from banks	\$ 19,505	\$ 7,482	160.7%	\$ 22,519		-13.4%
Investments - CD	8,734	2,734	219.5%	7,734		12.9%
Investments - MBS	6,851	-	-	5,229		31.0%
Gross loans	65,410	51,382	27.3%	55,843		17.1%
Allowance for loan losses	(800)	(670)	19.4%	(700)		14.3%
Net loans	64,610	50,712	27.4%	55,143		17.2%
Premises and equipment, net	2,615	2,294	14.0%	2,393		9.3%
Deferred tax asset, net	1,430	1,700	-15.9%	1,357		5.4%
Other assets	460	342	34.4%	461		-0.2%
Total Assets	\$ 104,206	\$ 65,264	59.7%	\$ 94,836		9.9%
LIABILITIES						
Deposits	\$ 69,470	\$ 55,734	24.6%	\$ 59,998		15.8%
Borrowed funds	\$ -	\$ -	-	\$ -		-
Other liabilities	413	137	201.5%	339		21.8%
Total Liabilities	69,883	55,871	25.1%	60,337		15.8%
STOCKHOLDERS' EQUITY						
	34,323	9,393	265.4%	34,499		-0.5%
Total Liabilities and Stockholders' Equity	\$ 104,206	\$ 65,264	59.7%	\$ 94,836		9.9%
Shares outstanding at end-of-period	2,650,472	706,467		2,650,472		
Book value per share	\$ 12.95	\$ 13.30		\$ 13.02		
Tangible book value per share	\$ 12.95	\$ 13.30		\$ 13.02		
Allowance for loan losses to total loans	1.22%	1.30%		1.25%		
Non-performing assets (non-accrual loans & OREO)	\$ 63	\$ -		\$ 69		
Bank Tier 1 leverage ratio	33.98%	12.19%		35.98%		
Bank Tier 1 risk-based capital ratio	43.89%	14.76%		52.27%		
Bank Total risk-based capital ratio	44.98%	16.01%		54.60%		

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

	Three Months Ended			Nine Months Ended		
	9/30/2019	6/30/2019	% Change	9/30/2019	9/30/2018	% Change
INTEREST INCOME						
Loans Interest Income	\$ 861	\$ 754	14.1%	\$ 2,314	\$ 2,044	13.2%
Investments & due from banks	183	212	-13.6%	605	135	347.9%
Loan Fee Income	24	88	-73.2%	129	108	19.6%
Total interest income	1,068	1,054	1.3%	3,047	2,287	33.3%
INTEREST EXPENSE	132	106	24.5%	333	246	35.4%
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	936	948	-1.3%	2,714	2,041	33.0%
PROVISION FOR LOAN LOSSES	100	30	233.3%	130	-	N/A
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	836	918	-9.0%	2,584	2,041	26.6%
NON-INTEREST INCOME	26	30	-13.3%	79	93	-15.2%
NON-INTEREST EXPENSE	1,166	1,176	-0.9%	3,446	1,732	99.0%
INCOME BEFORE PROVISION FOR INCOME TAXES	(304)	(228)	33.7%	(783)	402	-294.9%
PROVISION (BENEFIT) FOR INCOME TAXES	(80)	(60)	33.3%	(205)	105	-295.2%
NET INCOME (LOSS)	\$ (224)	\$ (168)	33.9%	\$ (578)	\$ 297	294.8%
Earnings per share - Basic	\$ (0.08)	\$ (0.06)		\$ (0.22)	\$ 0.42	
Earnings per share - Diluted	\$ (0.08)	\$ (0.06)		\$ (0.21)	\$ 0.42	
Return on average equity	-2.58%	-1.95%		-2.25%	4.23%	
Return on average assets	-0.90%	-0.72%		-0.85%	0.60%	
Net interest margin	3.80%	3.87%		3.83%	4.17%	
Efficiency ratio	121.3%	120.2%		123.41%	81.3%	

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.