

*Fourth Quarter, 2019*



1/29/2019

Dear Shareholders,

In October 2018, just over a year ago, I joined the Bank as CEO with ambitious plans to raise capital, expand our presence to downtown Portland, Oregon, recruit experienced local bankers to join an already capable banking team, and to begin growing Pacific West Bank into the “bank of choice” for local businesses. Since then, we successfully oversubscribed the capital offering during a turbulent market in December 2018. In November 2019, we reached the milestone of doubling the size of the Bank, reaching \$125.0 million in assets. In December 2019, we opened our Portland office which has been warmly received by the Portland business community. And very recently, in January 2020, we announced Robert “Bob” C. Harding as our new President. Successfully executing on these key initiatives provides the foundation for our future. With oversight from our Board of Directors, we are positioned to accelerate our progress into 2020 and beyond.

Bob Harding is a long-time Portland business leader and banker who brings over 25 years of experience to Pacific West Bank. Bob’s past experience as market president in both Portland and Seattle, his sterling reputation, deep client relationships and market knowledge is significant to our future growth prospects.

During 2019, we invested in product enhancements, technological advances, quality staffing additions, and a Portland “nerve center” that will serve as the foundation for the future growth of the Bank. The technology and product enhancements will allow the Bank to serve sophisticated middle-market companies and meet their treasury needs while also providing additional fraud and theft prevention tools for both the Bank and our clients.

The investment in the downtown Portland office marks our commitment to our state’s largest city and market and the businesses we serve. We have held several private events and have received remarkable feedback from clients and prospects. The office is set to be a place where the Bank can hold co-branded events with clients and prospects and can hold up to 60 attendees. These events are designed to attract local business and non-profit leaders into our space and allow them to get acquainted with the Bank.

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### **Fourth Quarter and Full Year Highlights:**

- Net deposit growth of \$19.0 million or 27.4% for 4Q19.
- Originated \$19.6 million in loan commitments and funded \$15.9 million of those commitments during 4Q19.
- Net loan growth of \$12.3 million or 18.8% during 4Q19.
- Credit quality remained consistent with no loans greater than 30 days past due and only one \$59,000 non-accrual loan.
- Loan growth necessitated a provision for loan loss of \$120,000 during the quarter.
- Full year interest income of \$4.3 million, up \$1.2 million or 38.4% compared to \$3.1 million during 2018.
- Full year deposit growth of \$31.4 million or 54.9%, including \$8.0 million in non-interest-bearing deposits.

### **Assets**

Total assets as of December 31, 2019, were \$125.4 million, increasing \$21.2 million or 20.3% during the fourth quarter. Total asset growth during the full year was \$33.0 million or 35.7%. The majority of asset growth was in loans, which ended the year at \$77.7 million and grew \$12.3 million or 18.8% in the fourth quarter.

During the quarter the Bank originated \$19.6 million in loan commitments and funded \$15.9 million of those commitments. Loan yields were 5.28% for the fourth quarter as compared to 5.42% in the third-quarter 2019. Contributing to loan yield compression were loans tied to prime that were above their contractual floor; the prime rate decreased 50 basis points in the third quarter and 25 basis points in the fourth quarter.

Investments totaled \$19.2 million as of December 31, 2019, which grew \$16.4 million during 2019. The Bank continues to improve its asset mix by investing excess cash into longer term and higher-yielding investments. The flat yield curve which persisted during the second half of 2019 impeded the Bank's ability to benefit from investing in long term assets. Liquidity remains sufficient as the Bank holds \$41.3 million in cash and investments, which was 32.9% of total assets.

Credit quality remains stable and consistent with prior quarters, with no loans past due and one non-accrual loan totaling \$59,000. Due to loan growth, there was a \$120,000 provision to the allowance for loan loss in the fourth quarter. The total provision for loan loss due to loan growth in 2019 was \$250,000 as the Bank experienced no charge-offs or recoveries. The allowance for loan loss was 1.18% of total loans outstanding as of year-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.

### **Deposits**

At December 31, 2019, deposits totaled \$88.5 million, which represents \$31.4 million or 54.9% growth during the full year. Deposit growth for the fourth quarter was \$19.0 million or 27.4%. The Bank continues to focus on

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growing non-interest-bearing accounts which grew \$8.0 million or 43.5% during 2019. We continue to maintain our certificate of deposit portfolio at current levels as these deposits represent our highest cost of funds. Certificates of deposits grew \$300,000 or 1.8% during the year and as of December 31, 2019, represented 21% of total deposits, compared to 32% of total deposits as of December 31, 2018.

The Bank's cost of funds increased to 69 basis points for the fourth quarter, which was a 15-basis point increase from the third quarter of 2019. The Bank was primarily funded by local depositors with continuing market pressure on deposit rates; hence, the Bank continues to heavily focus on non-interest-bearing operational accounts.

### **Earnings**

Net interest income for 2019 was \$3.7 million, up \$1.0 million or 36.2% compared to \$2.7 million in 2018. Contributing to the increase was loan interest income, which was \$3.3 million for 2019, a \$555,000 or 20.3% increase compared to \$2.7 million in 2018. Loan growth during the fourth quarter contributed to loan interest income of \$977,000, up \$116,000 compared to \$861,000 during the third quarter. Interest income on cash and investments also increased, up \$12,000 or 6.4% despite the Fed cutting overnight funds during the fourth quarter. The additional investment income resulted from the purchase of additional investments to recover some of this lost yield.

Net interest margin for 2019 was 3.71%, down 59 basis points from 4.30% in 2018. This decrease was due in part to the capital that was raised at the end of 2018 and then held in lower-yielding cash for most of 2019. Other factors contributing to the decrease in net interest margin included a flattened yield curve and declining short-term interest rates. As our liquidity is deployed into loans our net interest margin will recover.

Non-interest expense increased \$190,000 during the quarter primarily related to the addition of lease expense for the Portland office. Planned personnel expense increases related to the addition of a seasoned loan officer.

Net losses before the effect of taxes and provision for loan loss totaled (\$966,000) in 2019 compared to (\$435,000) in 2018. As previously mentioned, the planned increase in losses were related to investments in product enhancements, technological advances, quality staffing additions, building a Portland "nerve center" and expanding the Bank's footprint. We are confident that the Bank's planned investments will provide ample returns as we execute our growth plans.

### **Closing**

The investments we have made in 2019 will lead to increased growth in 2020. Each quarter, our momentum continues to build as we execute on our business plans while hiring experienced bankers. Both loan and deposit pipelines continue to be robust and position the Bank for growth in 2020. While growth is one of the measurements of our success, the quality of the loan portfolio and deposit mix are equally important measures. In 2019, we grew our loan portfolio without jeopardizing our credit quality. We also grew our deposits with a focus on quality operating accounts and non-maturity deposits. In 2018, we plotted the trajectory of Pacific West Bank. During 2019, we laid the foundation and began the growth of the Bank. We look forward to 2020, building on that foundation with our quality team of bankers to continue the momentum.

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

Best Regards,

A handwritten signature in black ink, appearing to read "Terry Peterson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Terry A. Peterson  
CEO

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

	December 31,		% Change 2019 vs. 2018	September 30,	% Change Quarter
	2019	2018		2019	
<b>ASSETS</b>					
Cash & due from banks	\$ 22,098	\$ 35,170	-37.2%	\$ 19,505	13.3%
Investments - CD	8,734	2,734	219.5%	8,734	0.0%
Investments - MBS	10,439	-	-	6,851	52.4%
Gross loans	77,702	51,240	51.6%	65,410	18.8%
Allowance for loan losses	(920)	(670)	37.3%	(800)	15.0%
Net loans	76,782	50,570	51.8%	64,610	18.8%
Premises and equipment, net	5,240	2,298	128.0%	2,615	100.4%
Deferred tax asset, net	1,548	1,241	24.7%	1,430	8.2%
Other assets	547	367	49.0%	460	18.9%
<b>Total Assets</b>	<b>\$ 125,388</b>	<b>\$ 92,380</b>	<b>35.7%</b>	<b>\$ 104,206</b>	<b>20.3%</b>
<b>LIABILITIES</b>					
Deposits	\$ 88,516	\$ 57,155	54.9%	\$ 69,470	27.4%
Borrowed funds	-	-	-	-	-
Other liabilities	2,842	462	515.2%	413	588.1%
<b>Total Liabilities</b>	<b>91,358</b>	<b>57,617</b>	<b>58.6%</b>	<b>69,883</b>	<b>30.7%</b>
<b>STOCKHOLDERS' EQUITY</b>					
	<b>34,030</b>	<b>34,763</b>	<b>-2.1%</b>	<b>34,323</b>	<b>-0.9%</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 125,388</b>	<b>\$ 92,380</b>	<b>35.7%</b>	<b>\$ 104,206</b>	<b>20.3%</b>
Shares outstanding at end-of-period	2,652,856	2,648,855		2,650,472	
Book value per share	\$ 12.83	\$ 13.12		\$ 12.95	
Tangible book value per share	\$ 12.83	\$ 12.66		\$ 12.95	
Allowance for loan losses to total loans	1.18%	1.31%		1.22%	
Non-performing assets (non-accrual loans & OREO)	\$ 59	\$ 81		\$ 63	
Bank Tier 1 leverage ratio	27.85%	49.80%		33.98%	
Bank Tier 1 risk-based capital ratio	35.54%	64.27%		43.89%	
Bank Total risk-based capital ratio	36.57%	65.52%		44.98%	

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

	Three Months Ended			Twelve Months Ended		
	12/31/2019	9/30/2019	% Change	12/31/2019	12/31/2018	% Change
<b>INTEREST INCOME</b>						
Loans Interest Income	\$ 977	\$ 861	13.5%	\$ 3,291	\$ 2,736	20.3%
Investments & due from banks	195	183	6.4%	800	211	279.1%
Loan Fee Income	40	24	69.6%	168	130	29.2%
<b>Total interest income</b>	<b>1,212</b>	<b>1,068</b>	<b>13.5%</b>	<b>4,259</b>	<b>3,077</b>	<b>38.4%</b>
<b>INTEREST EXPENSE</b>	<b>197</b>	<b>132</b>	<b>49.2%</b>	<b>531</b>	<b>339</b>	<b>56.6%</b>
<b>NET INTEREST INCOME BEFORE LOAN LOSS PROVISION</b>	<b>1,015</b>	<b>936</b>	<b>8.5%</b>	<b>3,728</b>	<b>2,738</b>	<b>36.2%</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>120</b>	<b>100</b>	<b>20.0%</b>	<b>250</b>	<b>-</b>	<b>N/A</b>
<b>NET INTEREST INCOME AFTER LOAN LOSS PROVISION</b>	<b>895</b>	<b>836</b>	<b>7.1%</b>	<b>3,478</b>	<b>2,738</b>	<b>27.0%</b>
<b>NON-INTEREST INCOME</b>	<b>28</b>	<b>26</b>	<b>7.7%</b>	<b>107</b>	<b>127</b>	<b>-15.7%</b>
<b>NON-INTEREST EXPENSE</b>	<b>1,356</b>	<b>1,166</b>	<b>16.3%</b>	<b>4,801</b>	<b>3,300</b>	<b>45.5%</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>(433)</b>	<b>(304)</b>	<b>42.3%</b>	<b>(1,216)</b>	<b>(435)</b>	<b>179.5%</b>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	<b>(101)</b>	<b>(80)</b>	<b>26.3%</b>	<b>(306)</b>	<b>566</b>	<b>-154.1%</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (332)</b>	<b>\$ (224)</b>	<b>48.0%</b>	<b>\$ (910)</b>	<b>\$ (1,001)</b>	<b>9.1%</b>
Earnings per share - Basic	\$ (0.12)	\$ (0.08)		\$ (0.34)	\$ (1.30)	
Earnings per share - Diluted	\$ (0.12)	\$ (0.08)		\$ (0.34)	\$ (1.28)	
Return on average equity	-3.84%	-2.58%		-2.64%	-2.23%	
Return on average assets	-1.11%	-0.90%		-0.91%	-1.51%	
Net interest margin	3.46%	3.80%		3.71%	4.30%	
Efficiency ratio	129.9%	121.3%		125.19%	115.2%	

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.