



To our Shareholders,

Once again, I am pleased to report continuing strong progress that we've made at the Bank. 2015 was a transformative year for us in many ways, as we returned in full to a healthy financial condition, and made great strides to heightened prospects for prosperity going forward.

The primary elements that measure the health of a financial institution are capital, asset quality, liquidity, and earnings. In each of these areas we've made significant progress and we end the year on very solid financial footing.

Let me briefly address each of these elements.

Our capital grew by \$1.6 million in 2015, and at year-end our tier 1 leverage capital ratio is 11.22% of average assets. This level far exceeds the regulatory threshold for "well capitalized" of 5.00%, and exceeds the elevated capital requirement contained in our consent order of 10.00%.

Indicators of asset quality in the loan portfolio (such as past due loans, nonaccrual loans and loan risk ratings) all improved significantly during 2015. It's worth noting that we've not taken a loan charge-off since the first quarter of 2013. In addition, we have a very robust allowance for loan loss of \$712 thousand, 1.72% of loans.

In terms of liquidity, we have \$7.8 million of liquid assets on our balance sheet, and we have an additional \$15.3 million in established, unused available lines of credit. This liquidity provides readily available funds for future loan growth.

We gained significant traction in improving earnings over the second half of the year, having earned \$40 thousand net income in the fourth quarter after having posted \$31 thousand in the third quarter, both without benefit of negative provision for loan loss. Loan growth, which is the primary driver of earnings growth for us, has been strong, with loans having increased by \$3.7 million (nearly 10%) in the fourth quarter alone. With continuing loan growth anticipated, we expect earnings to continue the trend of improvement.

Thank you once again for your ongoing support. Please don't hesitate to email me with questions, comments, or referrals at [sgray@bankpacificwest.com](mailto:sgray@bankpacificwest.com).

Steve Gray  
President and CEO



**STATEMENTS OF OPERATIONS**

(in thousands) (unaudited)

	<u>Three Months Ended</u>	
	<u>12/31/15</u>	<u>12/31/14</u>
Interest and fee income	\$ 591	\$ 555
Interest expense	<u>60</u>	<u>63</u>
Net interest income	531	492
Provision for loan losses	<u>-</u>	<u>(28)</u>
Net interest income after provision	<u>531</u>	<u>520</u>
Noninterest income	<u>31</u>	<u>26</u>
Salaries and employee benefits	300	280
Occupancy	88	94
Other noninterest expense	<u>134</u>	<u>145</u>
Total noninterest expense	<u>522</u>	<u>519</u>
Income before income taxes	40	27
Income tax expense	<u>-</u>	<u>-</u>
Net income	<u>\$ 40</u>	<u>\$ 27</u>

**BALANCE SHEETS**

(in thousands) (unaudited)

	<u>12/31/15</u>	<u>12/31/14</u>
Cash and due from banks	\$ 1,079	\$ 2,183
Overnight funds	6,895	6,260
Investments	2,734	2,236
Loans, net of deferred fees	41,332	38,490
Allowance for loan losses	(712)	(768)
Premises and equipment, net	2,502	2,563
Other real estate owned	-	-
Other assets	<u>295</u>	<u>666</u>
Total assets	<u>\$ 54,125</u>	<u>\$ 51,630</u>
Deposits	\$ 47,822	\$ 46,903
Borrowed funds	-	-
Other liabilities	<u>160</u>	<u>162</u>
Total liabilities	47,982	47,065
Shareholders' equity	<u>6,143</u>	<u>4,565</u>
Total liabilities and shareholders' equity	<u>\$ 54,125</u>	<u>\$ 51,630</u>

	<u>Year Ended</u>	
	<u>12/31/15</u>	<u>12/31/14</u>
Interest and fee income	\$ 2,240	\$ 2,203
Interest expense	<u>244</u>	<u>253</u>
Net interest income	1,996	1,950
Provision for loan losses	<u>(61)</u>	<u>(288)</u>
Net interest income after provision	<u>2,057</u>	<u>2,238</u>
Noninterest income	<u>115</u>	<u>111</u>
Salaries and employee benefits	1,208	1,185
Occupancy	352	346
Other noninterest expense	<u>528</u>	<u>633</u>
Total noninterest expense	<u>2,088</u>	<u>2,164</u>
Income before income taxes	84	185
Income tax expense	<u>2</u>	<u>-</u>
Net income	<u>\$ 82</u>	<u>\$ 185</u>

**SUPPLEMENTAL INFORMATION**

	<u>12/31/15</u>	<u>12/31/14</u>
Allowance for loan loss as a percentage of loans	1.72%	2.00%
Past due loans, accruing (in thousands)	-	12
Nonaccrual loans (in thousands)	29	526
Tier 1 capital to average assets	11.22%	8.84%
Shares outstanding	7,064,544	5,394,842

*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.*