



To our Shareholders,

I am pleased with the progress we've made to restore the Bank to a healthy financial condition, and I'm excited about our 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 so far this year, and we end the quarter on very solid financial footing.

Let me briefly address each of these elements.

Our capital has grown by \$1.4 million since the beginning of the year, and at quarter-end our tier 1 leverage capital ratio is 11.09% of average assets. This level 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) have all improved significantly since the first of the year. 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, 1.89% of loans.

In terms of liquidity, we have \$14.4 million of liquid assets on our balance sheet, and we have an additional \$7.3 million in established, unused available lines of credit. This provides readily available funds for future loan growth.

Earnings is the area in which we have the most potential for significant improvement. While we did generate \$31 thousand of net income this quarter with no benefit from negative provision for loan loss, we accomplished this with no growth in our total loans, which is the primary driver of earnings. We expect earnings to improve significantly once loan growth kicks in, which is our highest strategic priority in the near term.

Thank you for your ongoing support. Please don't hesitate to email me at sgray@bankpacificwest.com with questions, comments, or most importantly, referrals.

Steve Gray
President and CEO



STATEMENTS OF OPERATIONS

(in thousands) (unaudited)

	<u>Three Months Ended</u>	
	<u>9/30/15</u>	<u>9/30/14</u>
Interest and fee income	\$ 576	\$ 550
Interest expense	61	63
Net interest income	515	487
Provision for loan losses	-	(179)
Net interest income after provision	515	666
Noninterest income	29	29
Salaries and employee benefits	297	289
Occupancy	85	81
Other noninterest expense	129	197
Total noninterest expense	511	567
Income before income taxes	33	128
Income tax expense	2	-
Net income	<u>\$ 31</u>	<u>\$ 128</u>

BALANCE SHEETS

(in thousands) (unaudited)

	<u>9/30/15</u>	<u>12/31/14</u>
Cash and due from banks	\$ 2,253	\$ 2,183
Overnight funds	12,226	6,260
Investments	2,734	2,236
Loans, net of deferred fees	37,638	38,490
Allowance for loan losses	(712)	(768)
Premises and equipment, net	2,522	2,563
Other real estate owned	-	-
Other assets	249	666
Total assets	<u>\$ 56,910</u>	<u>\$ 51,630</u>
Deposits	\$ 50,812	\$ 46,903
Borrowed funds	-	-
Other liabilities	142	162
Total liabilities	50,954	47,065
Shareholders' equity	5,956	4,565
Total liabilities and shareholders' equity	<u>\$ 56,910</u>	<u>\$ 51,630</u>

	<u>Nine Months Ended</u>	
	<u>9/30/15</u>	<u>6/30/14</u>
Interest and fee income	\$ 1,649	\$ 1,648
Interest expense	184	190
Net interest income	1,465	1,458
Provision for loan losses	(61)	(260)
Net interest income after provision	1,526	1,718
Noninterest income	84	85
Salaries and employee benefits	908	905
Occupancy	264	252
Other noninterest expense	394	488
Total noninterest expense	1,566	1,645
Income before income taxes	44	158
Income tax expense	2	-
Net income	<u>\$ 42</u>	<u>\$ 158</u>

SUPPLEMENTAL INFORMATION

	<u>9/30/15</u>	<u>12/31/14</u>
Allowance for loan loss as a percentage of loans	1.89%	2.00%
Past due loans, accruing (in thousands)	-	12
Nonaccrual loans (in thousands)	44	526
Tier 1 capital to average assets	11.09%	8.84%
Shares outstanding	6,902,544	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.