

President's message...

We've closed the books on a great year at Partners Bank of California! I'm very pleased to report the bank finished the year on a strong note, continuing a streak of strong growth. We are also very excited that the strength of our performance last year has propelled us into 2019 with fantastic momentum. The following highlights some of the bank's key financial achievements in 2018.

During 2018, Partners Bank continued with its strategic growth plan by increasing assets, loans, and core deposits, while maintaining a favorable capital position. Our total loans increased substantially by \$58.4 million, or 37.5% over the previous year. Total assets increased by \$59.7 million, which was a 30.1% growth over 2017. Noninterest-bearing deposits were \$102.2 million, representing 52% of total deposits, and up 17.3% from \$87.1 million a year earlier. Despite the significant growth achieved in 2018, the bank's tier 1 leverage ratio increased during the year to 12.1% from 11.0% at year-end 2017 due to a \$4.5 million increase in equity as a result of a \$2.75 million mid-year capital raise coupled with earnings retention.

Our balance sheet growth led to an increase in net interest income of \$1.92 million, or 26% when comparing net interest income of \$9.28 million for the year ended December 31, 2018 to \$7.36 million recorded in the year ended December 31, 2017. This net interest income growth was substantially offset by an intentional increase in operating costs associated with increased staffing levels in 2018, which have already provided us expanded capabilities to do more for more clients.

Net income of \$1.43 million for 2018 significantly exceeded the \$700,000 recorded a year earlier. The increase was driven primarily by the previously mentioned loan growth and the normalization of income tax accruals in 2018. Federal tax law changes enacted in late 2017 had the effect of significantly increasing the bank's tax expense in 2017 (due to the write down of deferred tax assets) while reducing income tax expense in 2018 that resulted from a significant reduction in corporate income tax rates. These factors helped increase the bank's return on average assets from 0.36% in 2017 to 0.67% in 2018.

In March 2019, Partners Bank of California will open our first banking branch office outside of Orange County. Our Beverly Hills office will provide full-service business and private banking as well as provide a full array of commercial lending solutions to clients in the greater Los Angeles area. This extension of the Partners Bank branch footprint and presence in Los Angeles county will further enhance our bank's growth and service capabilities, making it easier and more convenient for our LA clients to access relationship managers and for the bank to provide our unique relationship based banking services. We're very excited about this expansion, the importance to our bank and most importantly the positive impact to our clients.

Our Beverly Hills office will be led by Tom Calahan, Los Angeles Regional Manager. Tom has been an integral member of our business development team at Partners since 2016 and has already established a firm presence for us in the LA market. If you're in the greater Los Angeles area, and seeking unique commercial banking and lending solutions with outstanding service, give Tom a call. Tom Calahan can be reached directly at (949) 421-8768 or by email at tcalahan@pbofca.com.

As always, my thanks goes to our outstanding team of banking professionals here at Partners who work tirelessly every day to ensure that we're operating prudently and serving our clients efficiently and with the utmost care and service. Additionally, where would we be without our loyal and steadfast clients and shareholders? As we say every chance we get...your success is our success. At Partners Bank we're passionate about your success.

Thank you for choosing Partners Bank of California!



Chris Walsh
President/CEO



Chris Walsh
President/CEO
Partners Bank of California

Partners Bank of California
Statements of Condition - 4th Quarter 2018
December 31, 2018
(Unaudited, dollars in thousands)

	December 31, 2018	December 31, 2017	Variance	
			\$	%
Assets:				
Cash and cash equivalents	\$ 34,554	\$ 29,705	\$ 4,849	16.3%
Investment securities available for sale	9,016	12,099	(3,083)	-25.5%
Loans held for investment	214,252	155,805	58,447	37.5%
Allowance for loan losses	<u>(3,214)</u>	<u>(2,756)</u>	<u>(458)</u>	16.6%
Loans, net	211,038	153,049	57,989	37.9%
Other assets	<u>3,270</u>	<u>3,289</u>	<u>(19)</u>	-0.6%
Total assets	\$ 257,878	\$ 198,142	\$ 59,736	30.1%
Liabilities:				
Deposits				
Noninterest-bearing deposits	\$ 102,185	\$ 87,127	\$ 15,058	17.3%
Savings, NOW and money market accounts	73,448	54,814	18,634	34.0%
Certificates of deposit	<u>22,593</u>	<u>32,351</u>	<u>(9,758)</u>	-30.2%
Total deposits	198,226	174,292	23,934	13.7%
FHLB advances and other borrowings	31,000	-	31,000	*nm
Other liabilities	<u>938</u>	<u>678</u>	<u>260</u>	38.3%
Total liabilities	230,164	174,970	55,194	31.5%
Stockholders' Equity:				
Common stock	29,513	26,501	3,012	11.4%
Additional paid-in capital	1,661	1,510	151	10.0%
Accumulated deficit	<u>(3,390)</u>	<u>(4,816)</u>	<u>1,426</u>	-29.6%
	27,784	23,195	4,589	19.8%
Accumulated other comprehensive income (loss)	<u>(70)</u>	<u>(23)</u>	<u>(47)</u>	*nm
Total stockholders' equity	27,714	23,172	4,542	19.6%
Total liabilities and stockholders' equity	\$ 257,878	\$ 198,142	\$ 59,736	30.1%

Partners Bank of California
Statements of Income
(unaudited, dollars in thousands)

	For the Twelve Months Ended		Variance	
	December 31, 2018	December 31, 2017	\$	%
Interest income	\$ 10,264	\$ 8,185	\$ 2,079	25.4%
Interest expense	<u>989</u>	<u>825</u>	<u>164</u>	19.9%
Net interest income before provision for loan losses	9,275	7,360	1,915	26.0%
Provision for loan losses	<u>434</u>	<u>45</u>	<u>389</u>	864.4%
Net interest income after provision for loan losses	8,841	7,315	1,526	20.9%
Noninterest income	274	385	(111)	-28.8%
Noninterest expense	<u>7,034</u>	<u>5,274</u>	<u>1,760</u>	33.4%
Income before income tax provision	2,081	2,426	(345)	-14.2%
Income tax provision	<u>655</u>	<u>1,726</u>	<u>(1,071)</u>	-62.1%
Net income	\$ 1,426	\$ 700	\$ 726	103.7%

*nm - not meaningful

