

# GREATER PACIFIC BANCSHARES



## **Annual Management's Letter** **End of the Year 2014 - Issued June 15, 2015** *Twelfth-Year Anniversary of RF Banking at Bank of Whittier*

### **To Our Shareholders and Customers:**

This is the twelfth – 12 - anniversary of the Bank of Whittier's management since it started on July 10, 2003. We thank God for helping us in achieving our goals and realizing our vision. We pray that He'll give us health and life to achieve the rest of our far reaching and ambitious vision of offering an alternative banking and financing discipline; the RF<sup>1</sup> discipline.

During these twelve years we have seen unprecedented market declines and a major financial system meltdown. Your Bank has weathered all these challenges and had better fortunes compared to the hundreds of small banks that were closed and major banks that either failed or merged to avoid their collapse. During these twelve years, your bank staff, management and Board of Directors have accumulated profits totaling approx. \$2.96 million added to the bank's capital. The bank's capital stood at almost \$3 million when we started in 2003. Today, it is approximately \$9.46 million. The bank started RF mortgage financing in 2003 and today mortgage financing and refinancing is an important contributor to the bank's profit. We started with four professionals. Today, we have 26 professionals who are all trained to be the socially and financially responsible RF bankers who apply our unique RF discipline. The RF Discipline is based on the principle of NOT RENTING MONEY. It is based on investing in our clients<sup>2</sup>. Our loan portfolio is solid. We have financed many small businesses like franchises of bagel shops, fried chicken outlets, ice cream outlets, and convenience stores. We also financed many non-profit schools, places of worship, community centers, medical clinics and commercial buildings. Our full service branch in Richardson (Dallas), Texas is a major contributor to profits since it opened in June 2011.

Despite market challenges stemming from the slow recovery in California and the US as a whole, we are pleased to report that the bank holding company; Greater Pacific Bancshares (GPB) has registered a net profit of approximately \$244 thousand in 2014 which represents a decline of approximately 40% of the profit recorded last year. The decline has been mainly due to the maturity of the home mortgage refinance market and the decline in the value of the Mortgage Servicing Rights (MSR) in the financial markets. Our assets declined slightly, as we planned, from \$58 million in 2013 to \$55 million in 2014 due to bank's policy of keeping rates on CD's low. Our loan portfolio decreased by approximately 12% compared to 2013 due to the diminishing commercial financing opportunities in the market, especially in California. The bank's Return on Average Assets ("ROA") decreased from 0.73% in 2013 to 0.45% in 2014. This is compared to average ROA of 0.71% for FFIEC<sup>3</sup> Peer Group 10, which consisted of 313 commercial banks having assets between \$50 million and \$100 million. The bank's Return on Average Equity (ROE) decreased from 4.72% in 2013 to 2.82% in 2014, which is in line with the FFIEC Peer Group 10's average ROE of 3.03%.

The year 2014 saw other notable achievements at the Bank of Whittier, N.A.:

- Book value increased from \$2.70 in 2003 to \$5.27 in 2014.
- The Texas branch has achieved higher rates of loan growth.
- We have added over 100 new relationships to our client base.
- Asset quality remains strong.
- Average assets per bank employee decreased to \$2.87 million in 2014 from \$3.33 million in 2013.

We wish to thank our customers, staff, Board of Directors, and shareholders for their continued trust and support.

Sincerely and Respectfully,

Dr. Magda Abdul-Rahman  
Chairman of Board  
Greater Pacific Bancshares  
Member of the Board  
Bank of Whittier, N.A.

Dr. Yahia Abdul-Rahman  
Chairman / Chief Executive Officer  
Bank of Whittier, N.A.  
Member of the Board,  
Greater Pacific Bancshares

Mike Abdelaaty  
Secretary / Chief Credit Officer  
Bank of Whittier, N.A.  
Secretary of the Board,  
Greater Pacific Bancshares

<sup>1</sup> RF is a new and alternative brand of banking discipline. It stands for Responsible Finance, Ribit / Riba Free Finance

<sup>2</sup> Our Motto is "**WE DO NOT RENT MONEY; WE INVEST IN YOU**".

<sup>3</sup> Federal Financial Institutions Examination Council





## *An Uncommon Approach to Community & Business Banking*

Almost twelve years ago, the new Board of Directors and Senior Management of Bank of Whittier, N.A. recognized several trends taking place in the banking industry that led to the need for a new banking and financing discipline to be developed and put in place; i.e., RF Banking, to avoid the prevailing culture of excessive lending and speculation. This need created a unique and historic opportunity to establish a community-oriented alternative banking approach to serve families, accomplished professionals, and small to mid-size businesses. We focus on entrepreneurs who exhibit a promising bright future and on the under-served faith-based communities residing in the greater Los Angeles County and Orange County and in the Dallas-Fort Worth Metroplex. Our unique and proprietary RF banking discipline has allowed us to notice, as early as 2005, a growing economic and real estate bubble that continued in 2006 and 2007. In reaction to this speculative bubble, management implemented a very conservative and prudent policy in order to protect our depositors, customers and our shareholders. We are happy to report that we helped many customers avoid participating in that bubble. The RF banking discipline was the secret of Bank of Whittier's ability to weather this most serious economic storm, not seen since the depression of the 1930's.

In our unique socially responsible, ethical and faith-based RF Finance & Banking platform, we take hard and well thought out steps before we commit to financing whether for a car, a house, a school, a place of worship or a business in order to test the transaction's economic viability to the customer and the bank. We train our credit officers and our private bankers to be thorough, prudent and to pay attention to the client and their family's needs. We evaluate our staff's efforts and achievements not on the number and volume of loans produced but on the quality of these loans and the prudence exercised.

We also recognized that traditional business banking products had become commoditized and are based on renting money at a price called interest rate. Bigger banks had given up on their traditional role as trusted financial advisors and had become "product-of-the-month" sales organizations. They have used the money they were entrusted with by depositors in speculative instruments like commodity speculations,

"swaps" and "Derivatives". Unfortunately many of these practices continue to this today! Because of this environment, Bank of Whittier has made significant changes in the way it does business. Here are some aspects of the RF discipline & business model:

- **We Follow the RF Banking Discipline that uses the Principle of: "We Do Not Rent Money. We Invest In Our Customers"** – We believe that our role as our customers' trusted community bank is NOT to RENT money at a rental price/rate called "interest rate". We believe that we are in business to invest our time, our experience and financial wisdom in our customers before we invest our money and the community's money. Our aim is to see our customers and their businesses grow and flourish. This, we believe, will create job opportunities and prosperity in our community. Our customers' success, growth and profitability are our prime passions.
- **We Are Socially Responsible** – We screen our customers and financing facilities in order to ensure that the Bank's money; which is the community's money, comes from socially responsible sources and is circulated back in our communities to be invested in projects and purposes that are socially responsible. For example, we do not service nor finance – to the best of our abilities - liquor stores, bars, night clubs, casinos, check cashing operations, or socially irresponsible organizations.

The following are the components of our RF Operating Discipline:

- Exercise, to the best of our abilities, utmost care, prudence and thorough analysis to assemble a conservative loan portfolio to minimize loan losses.
- Determine the appropriate optimum size of deposits needed for the bank to serve its clients while reducing the cost of retaining expensive-to-keep deposits. In doing so, we have to reduce deposits until the increase in the loan portfolio warrants additional deposits for investing in the

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portfolio. This step has improved profitability and Bank operating ratios.

- Employ highly qualified and educated employees and train a new generation of bankers. Training is conducted through a well thought out training program offered by the “*Bank of Whittier Open University*”.
- Employ accomplished top college graduates preferably from neighborhood universities around the Los Angeles County, Orange County and the Dallas Fort Worth metropolitan areas.
- Focus on continually growing and improving the quality of the loan portfolio.
- Continue to improve the Bank’s facilities to 21<sup>st</sup> century standards and to further secure its operations using the latest Internet Banking services.
- Offer new banking products and services.
- Improve the Bank’s website and introduce efficient and up-to-date Internet Banking, bill-pay as well as mobile banking services.
- Provide exceptional banking services through the splitting of the traditional “Loan Officer” functions into two functions: the “RF Private Banker” function and the “RF Credit Analyst” function.
- Provide the Board, management and staff with the best training available through: in-house training programs conducted by expert bank executives and senior managers, video training programs, web-based seminars and training programs, and live training presentations by experts, operations auditors and reviewers at the unique *Bank of Whittier Open University* training forum conducted at least once a year.
- Develop, implement and continually update Bank policies for all aspects of Bank operations

as well as procedures and operations manual in order to assure compliance with the laws and regulations.

- Offer integrated banking services on both the asset and liability sides of the customers’ ledger.

We are humbled and are thankful to God and everyone involved in our operation for the wonderful results we achieved at the Bank of Whittier. The Bank survived and grew despite the continued severe economic conditions not seen since the Great Depression almost 80 years ago.

In almost 12 years, between 2003 and 2014, the Bank of Whittier, N.A. has **increased**:

- Its assets from \$29.5 million to \$54.5 million;
- Its capital from around \$2.95 million to \$9.5 million; and
- Its loan portfolio from a meager \$7 million approx. to approx. \$22 million.

The bank’s return on average assets reached approximately +0.45% in 2014 compared to its FFIEC Peer Group 10’s average of +0.71%. The decline was mainly due to the end of the mortgage refinance activities resulting a decline of volume of mortgage finance by 50%. As a result, the bank’s return on equity in 2014 reached approximately +2.82% in line with its FFIEC Peer Group 10’s average of +3.03%. We are also thankful to report that the book value per share increased approximately 1.95 times from \$2.70 in 2003 to \$5.27 in 2014 despite the brutal market conditions for bank shares on Wall Street.



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## Greater Pacific Bancshares *Financial Highlights* 2003 to 2014

FOR THE YEAR ENDED	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Earnings	(\$3,000)	(\$31,000)	\$156,000	\$310,000	\$348,000	\$208,000	\$341,000	\$221,000	\$85,000	\$300,557	\$407,706	\$244,308
Return on Average Equity	-1.00%	-1.00%	4.28%	7.56%	6.77%	3.19%	4.62%	2.83%	1.11%	3.70%	4.72%	2.82%
Basic Earnings Per Share	-	(\$0.20)	\$0.12	\$0.23	\$0.20	\$0.12	\$0.19	\$0.12	\$0.05	\$0.17	\$0.23	\$0.14
<b>AT YEAR END</b>												
Total Assets	\$29,456,000	\$24,967,000	\$33,613,000	\$36,855,000	\$47,489,000	\$44,452,000	\$56,332,769	\$52,691,907	\$49,301,609	\$53,156,582	\$58,233,030	\$54,527,929
Net Loans	\$6,982,000	\$10,854,000	\$16,118,000	\$19,211,000	\$23,210,000	\$31,114,000	\$28,489,836	\$24,621,806	\$22,936,493	\$25,409,211	\$24,128,642	\$21,130,682
Invest. Sec. & Fed Funds Sold	\$1,687,000	\$977,000	\$759,000	\$453,000	\$412,000	\$368,000	\$319,489	\$181,469	\$157,459	\$78,378	\$62,671	\$46,110
Other Invest. & CD's w/Other Banks	\$20,787,000	\$13,136,000	\$16,736,000	\$17,191,000	\$23,867,000	\$12,970,000	\$27,523,444	\$27,888,632	\$26,207,657	\$27,668,993	\$34,041,717	\$33,351,137
Total Deposits	\$26,074,000	\$21,294,000	\$29,740,000	\$30,504,000	\$39,937,000	\$36,850,000	\$47,871,805	\$43,952,735	\$40,505,907	\$43,633,899	\$48,287,206	\$44,346,666
Shareholder's Equity	\$3,053,000	\$3,542,000	\$3,697,000	\$6,017,000	\$7,281,000	\$7,489,000	\$7,830,000	\$8,411,000	\$8,499,000	\$8,802,449	\$9,213,442	\$9,461,601
Book Value Per Share*	\$2.70	\$3.00	\$2.90	\$3.71	\$4.17	\$4.29	\$4.48	\$4.69	\$4.73	\$4.90	\$5.13	\$5.27

\*Based on Total Shareholders' Equity divided by year-end shares (not including Allowances for Loan Leases Losses (ALLL), Unfunded Commitment Reserve & Mortgage Recourse Reserve)

\*NOTE: Other Investment & CD's with Other Banks are the difference of Total Assets minus Net Loans and Investment Security & Fed Funds Sold. For details, please refer to the 2014 Audited Consolidated Financial Statements.



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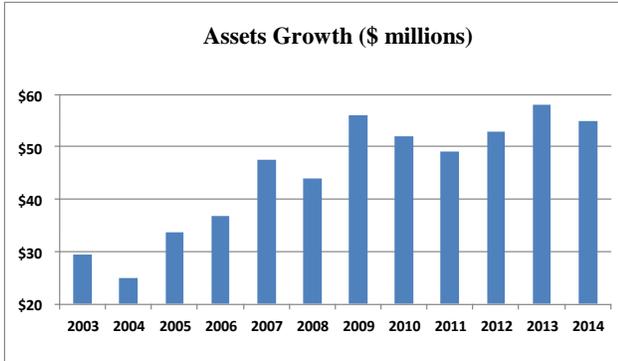
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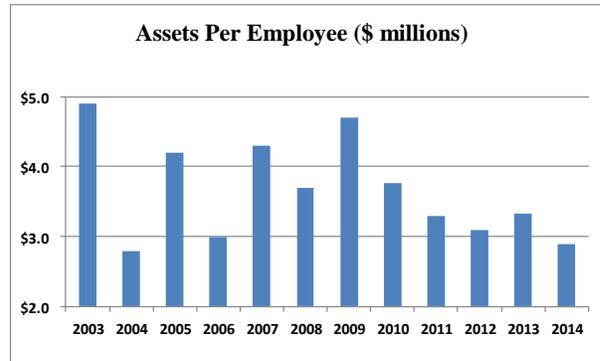
# GREATER PACIFIC BANCSHARES



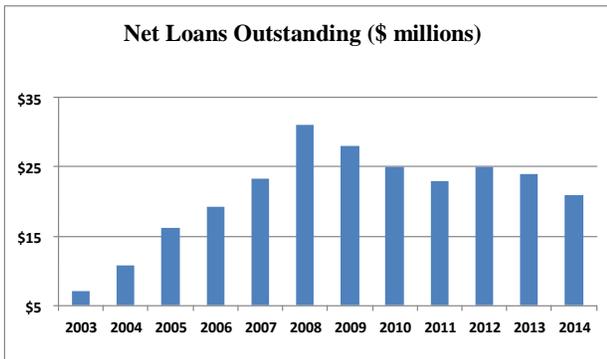
## Analysis of Operating Results



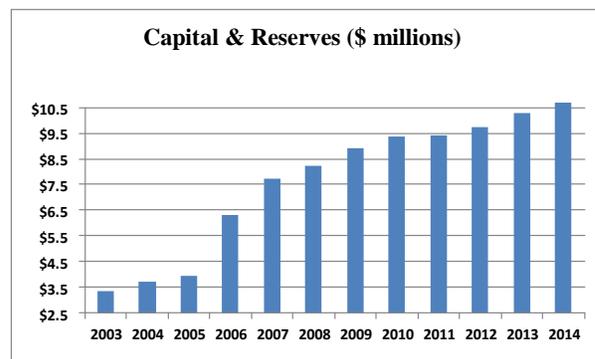
Bank of Whittier, N.A. has enjoyed steady assets growth and deposit retention over the past years. More importantly, our percentage return on average assets is 0.45% as compared to FFIEC Peer Group 10 of 0.71%. At FY 2014, our total assets were \$54.5 million, a decrease of approx. \$3.71 million or 6.36% from YE 2013.



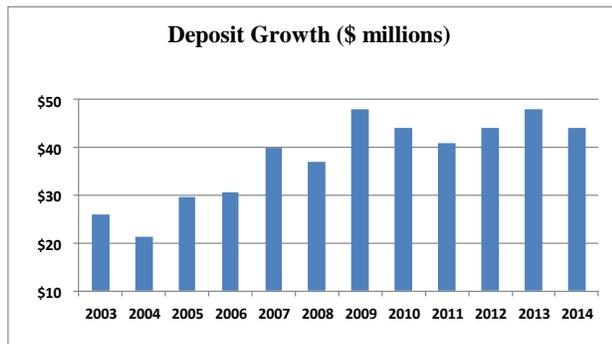
As a measurement of our efficiency, Bank of Whittier's assets per employee is \$2.87 million in 2014. This is a result of the quality of hard working and dedicated bank professionals who were hand-picked to join our family of bank professionals and who are trained by our exemplary training program at the Bank of Whittier Open University.



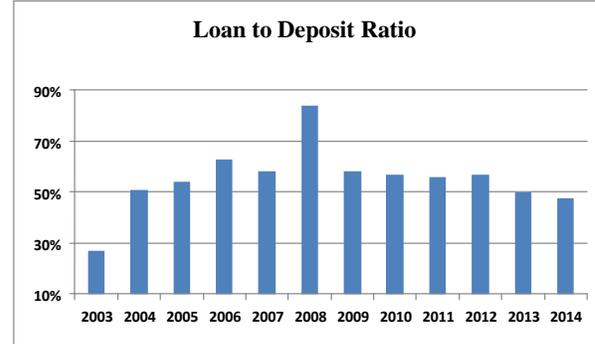
Bank of Whittier, N.A. remained one of the few banks in the U.S. that has consistently supplied credit to existing and new credit worthy customers throughout the credit crunch resulting in superior performance. The loan portfolio decreased slightly due to the solid financial opportunities available in the Dallas-Fort Worth Metroplex market.



True to our commitment, Bank of Whittier, N.A. retains its "well capitalized" designation and has one of the better percentage "rate of return" on average equity capital reaching 2.82% in 2014 as compared to FFIEC Peer Group 10 which realized an average return of 3.03%.



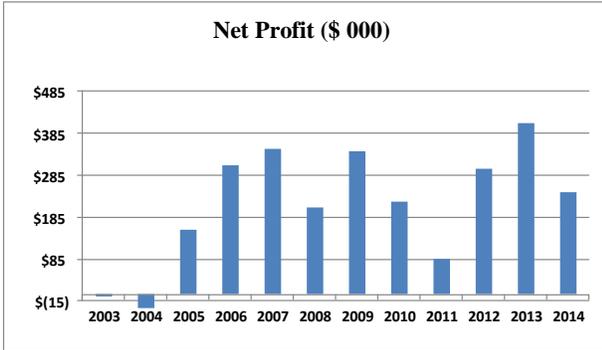
Given its customer and community relationship orientation, Bank of Whittier, N.A. has been able to attract a growing number of community members and families who value our brand and style of banking especially with the community discovering the solid performance, conservative posture and long standing of the Bank.



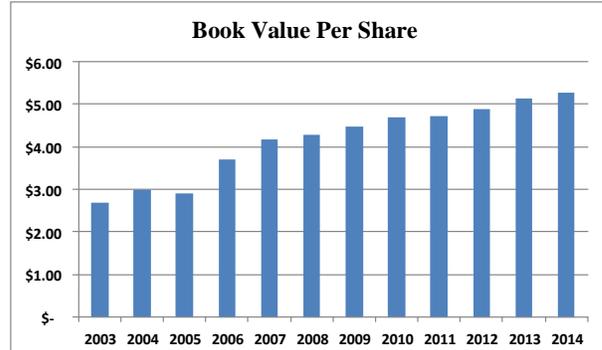
Bank of Whittier's loan to deposit ratio increased from approx. 27% in 2003 to 48% in 2014. The decline in 2009 over 2008 was due to the accelerated growth of deposits by approximately \$10 million. These deposits came after the run on IndyMac and other shaky banks in the area at that time.



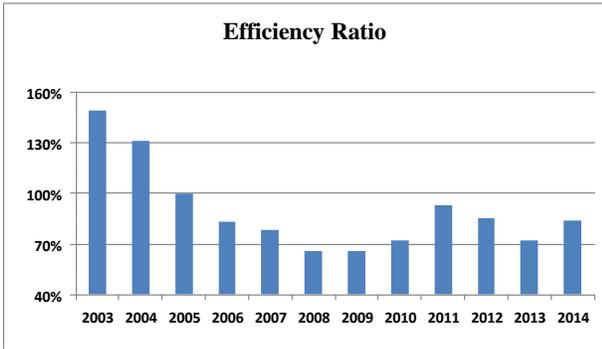
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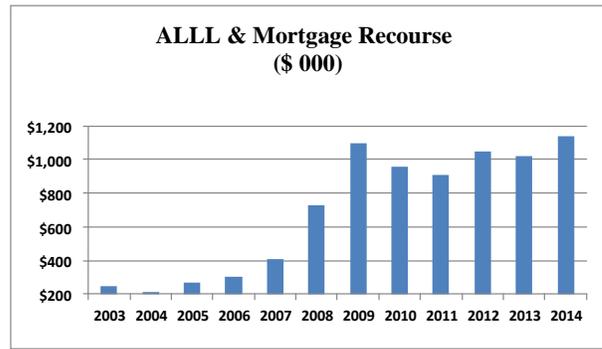
Bank of Whittier, N.A. continued to strengthen its financial performance despite the severe U.S. recession, the Bank has continued to be profitable. Net income for 2014 was \$244 thousand, a decrease of approx. \$163 or 40.08% as compared to 2013 due to the maturity of the home mortgage refinance market.



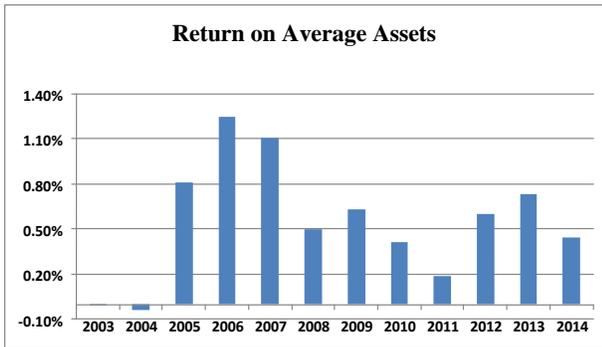
Bank of Whittier's Value Per Share DOUBLED from \$2.70 in 2003 to \$5.57 in 2014.



Bank of Whittier, N.A. has enjoyed stable non-interest expenses compared to net interest income thereby improving efficiency. Our ratio declined from 149% to 84% in 2014 as compared to FFIEC Peer Group 10 of 78%. Please note that the lower the ratio, the better and more efficient is the bank.



Allowance for Loan and Lease Losses ("ALLL") and Mortgage Recourse have increased from \$248 thousands in 2003 to \$1.14 million in 2014, which is in line with the increase in the loan portfolio and mortgage servicing portfolio. The Bank uses a pioneering risk-based methodology to calculate ALLL and Mortgage Recourse. For the YE 2014, the percentage of ALLL (not including mortgage recourse) of total loan portfolio was 4.30% as compared to FFIEC Peer Group 10 of 1.63%.



Bank of Whittier's percentage return on average assets has increased from -0.01% in 2003 to 0.45% in 2014 as compared to FFIEC Peer Group 10 with a return on average assets of 0.71%.



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## Balance Sheet

(Audited Financial Statement by Richardson & Company)

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash and due from banks	\$ 934,796	\$ 729,754	\$ 1,266,252
Federal funds sold			
Total cash and cash equivalents	<u>934,796</u>	<u>729,754</u>	<u>1,266,252</u>
Interest-bearing deposits in other banks	29,647,751	30,348,758	23,849,681
Securities held-to-maturity (fair value of \$80,681 at 2012 and \$164,054 at 2011, respectively)	46,110	62,671	78,378
Mortgages held for sale	746,400	417,000	475,300
Loans, net	21,130,682	24,128,642	25,409,211
Premises and equipment, net	171,567	204,824	253,581
Federal Reserve stock, restricted, at cost	184,790	184,790	184,790
Accrued interest receivable and other assets	159,591	519,829	357,773
Foreclosed real estate	-	124,153	-
Mortgage servicing rights, at fair value	1,506,242	1,512,609	1,281,616
<b>TOTAL ASSETS</b>	<u><u>54,527,929</u></u>	<u><u>58,233,030</u></u>	<u><u>53,156,582</u></u>
<b>LIABILITIES</b>			
Deposits			
Noninterest-bearing demand	\$ 9,938,954	\$ 8,806,565	\$ 10,206,493
NOW, money market and savings	9,730,069	10,376,935	8,133,681
Time deposits of \$100,000 or more	18,203,248	21,129,112	17,011,068
Other time deposits	<u>6,474,395</u>	<u>7,974,594</u>	<u>8,282,657</u>
Total Deposits	44,346,666	48,287,206	43,633,899
Accrued interest and other liabilities	719,662	732,382	720,234
<b>TOTAL LIABILITIES</b>	<u><u>45,066,328</u></u>	<u><u>49,019,588</u></u>	<u><u>44,354,133</u></u>
<b>SHAREHOLDERS' EQUITY</b>			
Common stock, no par value; 50,000,000 share authorized; 1,795,286 shares at December 31, 2013, 2012 and 2011, issued and outstanding	6,505,450	6,501,599	6,498,312
Retained earnings	<u>2,956,151</u>	<u>2,711,843</u>	<u>2,304,137</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u><u>9,461,601</u></u>	<u><u>9,213,442</u></u>	<u><u>8,802,449</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>54,527,929</u></u>	<u><u>58,233,030</u></u>	<u><u>53,156,582</u></u>

**For A Complete Copy of the 2014 Audited Consolidated Financial Statements,  
Please contact us at (562) 945-7553: Mr. Elbeleidy ext. 117, Mr. Abdelaaty at ext.123 or  
Dr. Abdul-Rahman at ext. 120**



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## Management's Discussion of Results

*The year 2014 was  
A Challenging Year Because of the Nationwide Decline in Mortgage Refinance Business Yet We Continued  
to be Profitable*

Please consider revising the above statement  
We are committed to a Strong Balance Sheet and to Focus on  
Bank Strength and Stability in the Years Ahead

### Significant Performance Data

	2014 over 2013	2013 over 2012	2012 over 2011	2011 over 2010	2010 over 2009	2009 over 2008	2008 over 2007	2007 over 2006
Return on Average Assets	0.45%	0.73%	0.60%	0.19%	0.41%	0.63%	0.50%	1.11%
Return on Average Equity	2.82%	4.72%	3.70%	1.11%	2.83%	4.62%	3.19%	6.77%
Capital & Reserves	3.88%	6.19%	3.10%	0.42%	5.62%	4.55%	2.86%	21.67%
Efficiency Ratio	84.18%	72.05%	85.42%	93.44%	71.96%	65.64%	66.18%	79.00%
Loan Portfolio	-12.50%	-4.95%	11.00%	-6.77%	-13.70%	-8.43%	36.46%	21.05%

### Credit Portfolio

Bank of Whittier, N.A. loan portfolio declined by approximately 13% in 2014 as compared to 2013 due to the decline in mortgage refinancing business and the diminishing commercial financial opportunities in the market, especially in California. The portfolio reflected evenly distributed concentrations in commercial real estate loans (office building), commercial loans (franchise), commercial loans to individuals, and commercial real estate loans to non-profit / faith-based entities and schools. We are pleased to report that we finished the year with \$984 thousand in ALLL (not including reserve for unfunded commitment and mortgage recourse), which is 4.30% of total loan portfolio) on a stellar loan portfolio.

### Deposits

As a result of our reputation for safety and soundness, our commitment to the community and our unique personalized service style, total deposits have declined by \$3.94 million or 8% from 2013 to \$44.35 million in 2014.

### Capital

Bank of Whittier, N.A. continues to maintain a good Tier 1 Risk-Based Capital to Risk-Weighted Assets at 19.01% in line with FFIEC Peer Group 10 of 18.27%. Bank's capital has increased progressively from approximately \$3.0 million in 2003 to approximately \$9.5 million in 2014.

### Earnings

Bank of Whittier, N.A. reported positive earnings of approximately \$244 thousand. This earnings achievement, despite the decline in mortgage refinancing business by over 50% in bank and nationwide, is another testimony to our superior, dedicated and committed staff, experienced management and wise Board of Directors' in navigating the Bank during one of the worst economic and financial environment since the Great Depression.