

Grandpoint Bank

Year-End 2013

From the Chairman

During the second half of 2013, we continued to consolidate Grandpoint Capital's family of banks into Grandpoint Bank. In late September, San Diego-based Regents Bank was merged into Grandpoint Bank as a division. Like Bank of Tucson, our division in southern Arizona, Regents retains its name, which is well known and well respected in San Diego County, as well as in Vancouver, Wash. Under the leadership of President Steve Sefton, management authority will remain local and decision-making kept close to clients.

In late September, we also completed our acquisition of Gilmore Bank. It was a privilege to welcome a bank with such a rich legacy in Los Angeles to the Grandpoint family. We are pleased to carry on the tradition of community-focused banking that Gilmore exemplified throughout its 58-year history.

With the completion of the Regents and Gilmore mergers into Grandpoint Bank, total assets reached \$2.0 billion as of December 31, 2013, up from \$909.6 million at December 31, 2012. Core deposits continued to grow during the second half of the year, with demand deposits accounting for 40 percent of total deposits at the end of the fourth quarter 2013. Loans totaled \$1.5 billion at December 31, 2013, up from \$670.4 million at December 31, 2012, reflecting the mergers we completed this year as well as organic growth. Credit quality remained solid during the second half of 2013.

Grandpoint Bank reported pre-tax income of \$11.5 million for the year ended December 31, 2013, even after incurring \$9.5 million in non-recurring expenses related to the mergers with Bank of Tucson, Regents Bank and Gilmore Bank. This compared to \$5.4 million in pre-tax income for the comparable 12-month period in 2012.

Our capital ratios, which measure the Bank's capital strength, remained strong in the fourth quarter, exceeding the levels considered "well capitalized" by bank regulators. At the end of the fourth quarter 2013, our Tier 1 Leverage Ratio was 10.5 percent, Tier 1 Risk-Based Capital Ratio was 12.9 percent, and Total Risk-Based Capital Ratio was 13.7 percent.

In the third quarter, we were honored to receive a Five-Star Superior Rating for strength, stability and soundness by BauerFinancial. BauerFinancial is a highly regarded, independent rating and research firm that rates all U.S. chartered banks and federally insured credit unions with assets of at least \$1.5 million. BauerFinancial only awards five-star ratings to banks that are considered to be the strongest in the nation. It is gratifying to have our financial performance validated by such a respected organization.

As we move into 2014, we will look to our strong local leadership teams to guide our growth in their markets. We will leverage the strengths and experience each contributes to Grandpoint to build our financial strength and sustain our long-term growth.

Don M. Griffith
Chairman & CEO

Grandpoint.

 BANK of TUCSON  REGENTS BANK
DIVISIONS OF GRANDPOINT BANK

Grandpoint Bank

Balance Sheets (unaudited)

DOLLARS IN THOUSANDS

| | December 31, | |
|---------------------------------------------|---------------------|-------------------|
| | 2013 | 2012 |
| Assets | | |
| Cash and due from banks | \$ 24,780 | \$ 21,712 |
| Interest-bearing deposits in banks | 175,427 | 84,205 |
| Cash and cash equivalents | 200,207 | 105,917 |
| Investment securities | 175,353 | 83,681 |
| Loans, total | 1,507,323 | 670,377 |
| Deferred loan fees, costs and discounts | (14,642) | (2,349) |
| Allowance for loan losses | (11,276) | (5,848) |
| Net loans | 1,481,405 | 662,180 |
| Goodwill | 53,315 | 24,820 |
| Core deposit and other intangibles | 11,335 | 3,046 |
| Other assets | 54,317 | 29,984 |
| Total assets | <u>\$ 1,975,932</u> | <u>\$ 909,628</u> |
| Liabilities and shareholder's equity | | |
| <i>Liabilities</i> | | |
| Deposits | | |
| Demand | \$ 670,690 | \$ 294,897 |
| NOW | 126,187 | 29,693 |
| Money market | 602,575 | 360,413 |
| Savings | 35,298 | 7,468 |
| Time | 259,658 | 80,575 |
| Total deposits | 1,694,408 | 773,046 |
| Other liabilities | 12,453 | 7,085 |
| Total liabilities | 1,706,861 | 780,131 |
| Shareholder's equity | 269,071 | 129,497 |
| Total liabilities and shareholder's equity | <u>\$ 1,975,932</u> | <u>\$ 909,628</u> |

Capital ratios

Capital ratios considered
"Well Capitalized"
by bank regulators

| | | |
|-----------------------------------|-------|-----|
| Tier 1 Leverage Ratio | 10.5% | 5% |
| Tier 1 Risked-Based Capital Ratio | 12.9% | 6% |
| Total Risk-Based Capital Ratio | 13.7% | 10% |

Grandpoint Bank

Income Statements (unaudited)

DOLLARS IN THOUSANDS

| | Twelve months ended December 31, | |
|------------------------------------------------------|----------------------------------|-----------------|
| | 2013 | 2012 |
| Interest income | \$ 80,078 | \$ 36,910 |
| Interest expense | 2,872 | 1,711 |
| Net interest income | 77,206 | 35,199 |
| Provision for loan losses | 3,094 | 1,370 |
| Noninterest income | 5,709 | 5,124 |
| Noninterest expense: | | |
| Salaries and benefits | 37,292 | 21,954 |
| Occupancy | 4,500 | 2,534 |
| Furniture and equipment | 2,916 | 1,821 |
| Promotion | 1,745 | 725 |
| Data processing | 1,779 | 941 |
| Professional services | 3,768 | 1,828 |
| Merger, acquisition, conversion and restructuring | 9,493 | – |
| Office | 1,416 | 738 |
| Assessments and insurance | 1,704 | 1,119 |
| Other | 3,745 | 1,891 |
| Total noninterest expense | 68,358 | 33,551 |
| Income before income taxes | 11,463 | 5,402 |
| Income taxes | 4,641 | (3,300) |
| Net income | <u>\$ 6,822</u> | <u>\$ 8,702</u> |

Grandpoint.

BANK of TUCSON **REGENTS BANK**
DIVISIONS OF GRANDPOINT BANK



MEMBER
FDIC