

Pacific Financial Corporation Reports Earnings in First Quarter

Local News

Posted by: David Haviland

Posted on : April 24, 2013 at 6:00 pm

ABERDEEN, Wash., April 24, 2013 (GLOBE NEWSWIRE) -- **Pacific Financial Corporation** (OTCQB:PFLC), the holding company for Bank of the Pacific, today reported net income of \$701,000, or \$0.07 per share, for the first quarter of 2013, driven by strong growth in deposits, increased loan demand and improved credit quality. Net income for the first quarter of 2012 was \$1.0 million, or \$0.10 per share. Fourth quarter 2012 net income was \$1.7 million, or \$0.16 per share, primarily as a result of recoveries that led to a \$1.5 million recapture of credit loss provision during the quarter. **First Quarter 2013 Highlights** (at or for the period ended March 31, 2013, except as noted) Announced in January 2013 an agreement to acquire three coastal branches from Sterling Financial Corporation. The company expects to close the transaction during the current quarter, which will expand banking operations to 17 branches in Washington and 3 in Oregon. Opened a second loan production office (LPO) in Vancouver, WA, adding to the LPO opened in Burlington, WA during 2012. Announced plans to open a full-service branch in Warrenton, Oregon, in the fourth quarter of 2013, further expanding our presence in the coastal communities of Washington and Oregon. Net income was \$701,000, or \$0.07 per share, for the first quarter of 2013. Total deposits increased 3% to \$569.2 million at March 31, 2013, from \$550.4 million a year prior, with non-interest demand deposits growing 31% to \$128.9 million from \$98.3 million at March 31, 2012. Growth in total loans increased 5% to \$471.2 million at quarter-end, from \$448.2 million at December 31, 2012 and 1% from \$468.1 million at March 31, 2012. Capital ratios continue to significantly exceed regulatory requirements for a well-capitalized financial institution, including a Tier 1 leverage ratio of 10.71% and total risk-based capital ratio of 15.60%. "We have been focused on growing our franchise for the last several quarters, and we are making solid progress. We opened our loan production office in Vancouver, WA during the first quarter, and we expect to complete the acquisition of the three branches from Sterling Bank by the end of June," said Dennis Long, President and Chief Executive Officer.

"We also hired two exceptional loan production executives to join our lending team and support our new Vancouver LPO. At the end of 2012, we hired two commercial banking officers in Pierce County," added Long. "All four professionals are well-respected in their local markets and highly experienced commercial lenders. We are delighted to have them on board and look forward to continuing to build our commercial and industrial and commercial real estate lending business."

Western Washington Economic Update Following a strong year of exports across the Port of Grays Harbor's docks, the first quarter of 2013 continued to be a busy time for waterfront workers. Thirty seven vessels and barges called at Grays Harbor, loading automobiles, grains, liquid bulks, logs and woodchips for export. According to data provided by the Port of Grays Harbor, the result was more than 45,000 hours worked by local longshore workers during January through March, which is the equivalent of 90 full-time jobs for the quarter. Grays Harbor is among the fastest growing export hubs on the west coast of the U.S., and is a recognized leader in auto exports while dry bulk cargo shipments have tripled in five years. The navigation channel is maintained annually by the US Army Corps of Engineers to accommodate the deep-water vessels. "We are excited about the level of employment we are seeing within the marine industrial area of Grays Harbor, which can only be good

news for our community and for Pacific Financial as we go forward and grow our franchise." said Long. "Further south in the coastal communities of Southern Washington and Northern Oregon, unemployment is gradually declining, although both regions remain above their state averages," continued Long. "Tourism and forest products are both showing signs of a gradual recovery, which is benefiting the small business owners in these communities." "We also operate five branches in Western Washington's two northern most counties, Whatcom and Skagit," Long noted. "Home sales volumes and prices increased moderately in these markets during the first few months of 2013 compared to year ago levels, according to data provided by the North West Multiple Listing Service April 4, 2013 Newsletter. "

Balance Sheet ReviewTotal assets increased 3% to \$664.3 million at March 31, 2013, compared to \$643.6 million at year-end 2012 and \$644.7 million at March 31, 2012. Net loans were \$461.8 million at March 31, 2013, up 5%, or \$23.0 million, from \$438.8 million at December 31, 2012, which represented an increase of 1%, or \$4.6 million, from \$457.2 million at March 31, 2012. "Loan demand has been improving, particularly in the commercial and industrial and commercial real estate sectors, and one to four-unit residential investment properties," noted Long. "We expect loan demand to continue to grow throughout the company, spurred in part by the opening of our LPOs in Burlington, Washington and, more recently in Vancouver, Washington." "The Bank of the Pacific's loan portfolio was well-diversified at the end of March 2013, with owner-occupied commercial real estate loans representing 23% of the portfolio; investor-owned commercial real estate loans at 23%; commercial and industrial loans representing 20%; residential real estate loans at 19%; construction and consumer loans, together totaling 8%; and farmland and installment loans representing 7% of the loan portfolio. Investment securities totaled \$80.4 million at March 31, 2013, compared to \$71.2 million at December 31, 2012 and \$59.7 million a year prior. Noninterest-bearing deposits increased 31% at March 31, 2013, from the year prior, while savings and interest-bearing demand deposits increased 1% over the same period. Total deposits were \$569.2 million at March 31, 2013, compared to \$550.4 million a year ago and \$548.1 at year-end 2012. Core deposits, which exclude certificates of deposits, accounted for 77% of total deposits at March 31, 2013. "Once we complete and integrate the acquisition of the three Sterling Bank branches, we expect an additional boost in core deposits," added Long. Shareholders' equity totaled \$67.3 million, or \$6.65 per share at March 31, 2013, compared to \$66.7 million, or \$6.59 per share at December 31, 2012, and \$64.3 million, or \$6.35 per share at the end of first quarter 2012. Tangible book value per share was \$5.41 at March 31, 2013, compared to \$5.35 per share at December 31, 2012, and \$5.11 per share at March 31, 2012.

Credit QualityNonperforming assets declined to \$17.3 million, or 2.61% of total assets at March 31, 2013, compared to \$19.8 million or 3.08% of total assets at year-end 2012, and \$20.0 million or 3.11% at March 31, 2012. Nonperforming loans declined to \$13.2 million at March 31, 2013, compared to \$15.1 million at December 31, 2012, and \$12.1 million at March 31, 2012. Of the \$13.2 million in outstanding nonperforming loans at the close of first quarter 2013, \$4.0 million is guaranteed by the United States Department of Agriculture. Other real estate owned (OREO), which primarily consists of properties obtained upon foreclosure, totaled \$4.1 million at the end of the first quarter of 2013, down from \$8.0 million at the end of the first quarter of 2012. "As we secure title to these foreclosed properties we begin actively marketing them. We feel confident about moving these properties in a reasonable amount of time, as over the past six months there has been a resurgence of buying, particularly by home builders," Long said. Performing restructured loans were \$2.6 million at March 31, 2013, compared to \$444,000 at the end of fourth quarter 2012. There were no performing restructured loans at the end of the first quarter a year ago. The allowance for loan losses was 70.98% of nonperforming loans at March 31, 2013, compared to 61.92% three months prior, and 90.06% a year earlier. The allowance for loan losses was \$9.3 million, or 1.98% of total loans, at March 31, 2013, compared to \$9.4 million, or 2.09% of total loans at the end of the preceding quarter and \$10.9 million, or 2.32% of total loans, at the end of the first quarter a year ago.

Review of OperationsTotal revenue (net interest income plus noninterest income) for the first quarter was \$8.2

million, compared to \$8.6 million in the fourth quarter of 2012 and \$7.9 million in the like quarter a year ago, as the low interest rate environment and slow economic recovery continued to put pressure on revenue generation. First quarter 2013 net interest income declined 8% to \$5.6 million compared to \$6.1 million in the first quarter of 2012. Net interest income was \$5.9 million for fourth quarter 2012. Non-interest income was \$2.6 million in the first quarter of 2013, compared to \$1.8 million in the first quarter a year ago and \$2.7 million in the fourth quarter of 2012. Gain on sales of loans, the largest component of non-interest income, was \$1.5 million during the first quarter compared to \$0.8 million one year ago and \$1.6 million in the last quarter of 2012. Refinance activity continues to be strong, driven by the low rate environment and improving market conditions. The net interest margin was 3.84% for the first quarter of 2013, compared to 4.24% in the first quarter of 2012 and 4.20% for the fourth quarter of 2012. "The decline in our net interest margin and net interest income has been largely due to lower yields from the growing investment portfolio and reinvestment of principal payments in securities at near historically low interest rates," said Denise Portmann, Chief Financial Officer. "Net interest margin compression remains one of the primary headwinds for the banking industry, and we are no exception. However, we have a healthy mix of deposit balances, and as we begin to deploy lower yielding securities into higher yielding loans, our net interest margin should offset overall declines in yields and gradually begin to improve." First quarter non-interest expense totaled \$7.4 million, compared to \$6.6 million in the like period a year ago and \$7.8 million in the fourth quarter of 2012. "Operating expenses were down in the first quarter as a result of lower OREO write-downs and related OREO operating costs," commented Portmann. "Because credit quality continues to improve, as evidenced by a decrease in classified loans and minimal net loan charge-offs in the first quarter, it was not necessary to set aside a provision for loan losses in the first quarter of 2013," Portmann added. The loan loss provision was \$100,000 in the first quarter of 2012.

Annual Meeting of Shareholders Pacific Financial Corporation will hold its Annual Meeting of Shareholders at its Company's administrative headquarters at 1101 Boone Street, Aberdeen, WA 98520 on April 24, at 7:00 p.m. (PDT). **About Financial Corporation** Pacific Financial Corporation of Aberdeen, Washington, is the bank holding company for Bank of the Pacific, a state chartered and federally insured commercial bank. Bank of the Pacific offers banking products and services to small-to-medium sized businesses and professionals in Washington and Oregon. As of March 31, 2013, the Company has assets of \$664.3 million and operated 16 branches in the communities of Grays Harbor, Pacific, Whatcom, Skagit and Wahkiakum counties in the State of Washington, and one branch in Clatsop County, Oregon. The Company also operates loan production offices in the communities of Vancouver and Burlington in Washington. Visit the Company's website at www.bankofthepacific.com.

Cautions Concerning Forward-Looking Statements *This press release contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other laws, including all statements in this release that are not historical facts or that relate to future plans or events or projected results of Pacific Financial Corporation ("Company") and its wholly-owned subsidiary, Bank of the Pacific ("Bank"). These forward-looking statements are subject to risks and uncertainties that could cause actual events or results to differ materially from those projected, anticipated or implied. These risks and uncertainties include various risks associated with growing the Bank and expanding the services it provides, successfully completing and integrating the acquisition of new branches and development of new business lines and markets, competition in the marketplace, general economic conditions, extensive and evolving regulation of the banking industry, and many other risks described in the Company's filings with the Securities and Exchange Commission. The most significant of these uncertainties are described in the Company's Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q, which any reader of this release is encouraged to study (including all amendments and exhibits to those reports). We undertake no obligation to update or revise any forward-looking statement. Readers of this release are cautioned not to put undue reliance on forward-looking*

Provision for Taxes 88583181-85%-51%
 Effective Tax Rate (%) 11.15% 25.77% 15.10%-57%-26%

Net Income \$ 701 \$ 1,679 \$ 1,018-58%-31%

Basic earnings per share (\$) 0.070.160.10
 Diluted earnings per share (\$) 0.070.160.10
 Average basic shares 10,121,853 10,121,853 10,121,853
 Average diluted shares 10,162,075 10,138,450 10,121,861

Balance Sheet Quarter Ended: Sequential Year over
(Dollars in Thousands, unaudited) **March 31, December 31, March 31, Quarter Year**
2013 2012 2012 % Change % Change

Assets:

Cash and Due from Banks \$ 11,088 \$ 14,168 \$ 11,905-22%-7%
 Interest Bearing Deposits in Banks 35,820 42,687 39,341-16%-9%
 Certificates of Deposits held for Investment 2,235 2,985 ---25%0%
 Cash and Cash Equivalents 49,143 59,840 51,246-18%-4%

Investment Securities Available for Sale 70,372 61,106 49,515 15% 42%
 Investment Securities Held to Maturity 6,919 6,937 6,997 0%-1%
 Federal Home Loan Bank Stock 3,098 3,126 3,182-1%-3%
 Total Investments 80,389 71,169 59,694 13% 35%

Loans Held for Sale 11,937 12,950 11,581-8% 3%

Loans Held for Investments 471,171 448,196 468,102 5% 1%
 Allowance for Credit Losses 9,348 9,358 10,863 0%-14%
Total Net Loans 461,823 438,838 457,239 5% 1%

Goodwill 11,282 11,282 11,282 0% 0%
 Other Intangible Assets 1,268 1,268 1,268 0% 0%
 Total Intangible Assets 12,550 12,550 12,550 0% 0%

Other Real Estate Owned 4,148 4,679 7,956-11%-48%
 Premises and Equipment 15,133 14,593 14,754 4% 3%
 Accrued Interest Receivable 2,358 2,079 2,407 13%-2%
 Cash Surrender Value of Life Insurance 17,905 17,784 17,406 1% 3%
 Other Assets 8,883 9,112 9,842-3%-10%
 Total Other Assets 48,427 48,247 52,365 0%-8%

Total Assets \$ 664,269 \$ 643,594 \$ 644,675 3% 3%

Liabilities and Shareholders' Equity:

Deposits:

Demand, Non-Interest Bearing \$ 128,867 \$ 115,138 \$ 98,286 12% 31%

Savings and Interest Bearing Demand 307,291 295,100 302,835 4% 1%
 Time, Interest Bearing 133,037 138,005 149,298 4% 11%
 Total Deposits 569,195 548,243 550,419 4% 3%

FHLB Borrowings 10,000 10,500 10,500 5% 5%
 Secured Borrowings -- -- 7270% 100%
 Junior subordinated debentures 13,403 13,403 13,403 0% 0%
 Total Borrowings 23,403 23,903 24,630 2% 5%

Accrued Interest Payable 205 213 1,548 4% 87%
 Total Other Liabilities 4,128 4,514 3,794 9% 9%
 Total Liabilities 596,931 576,873 580,391 3% 3%

Shareholders' Equity:

Common Stock 10,122 10,122 10,122 0% 0%
 Additional Paid-in Capital 41,383 41,366 41,346 0% 0%
 Retained Earnings 15,513 14,812 13,069 5% 19%
 Accumulated Other Comprehensive Income (Loss) 320 421 (253) -24% -226%
Total Shareholders' Equity 67,338 66,721 64,284 1% 5%

Total Liabilities and Shareholders' Equity \$ 664,269 \$ 643,594 \$ 644,675 3% 3%

Asset Quality and Capital Adequacy Period Ended

(Dollars in thousands, except per share data) **March 31, December 31, March 31,**
(Unaudited) **2013 2012 2012**

Asset Quality

Loans 90 days past due & still accruing interest \$ -- \$ -- \$ 270
 Nonaccrual loans (1) 13,170 15,112 11,792
 Total nonperforming loans 13,170 15,112 12,062
 OREO and repossessed assets, net 4,148 4,679 7,956
Total Nonperforming Assets \$ 17,318 \$ 19,791 \$ 20,018

Performing restructured loans on accrual status \$ 2,576 \$ 444 \$ --
 Nonperforming loans to portfolio loans 2.80% 3.37% 2.57%
 Nonperforming assets to total assets 2.61% 3.08% 3.11%
 Allowance for loan losses to total loans 1.98% 2.09% 2.32%
 Allowance for loan losses to nonperforming loans 70.98% 61.92% 90.06%

(1) Includes \$4.0 million in loans guaranteed by the United States Department of Agriculture.

Capital Data (at quarter end)

Book value per share \$ 6.65 \$ 6.59 \$ 6.35
 Tangible book value per share \$ 5.41 \$ 5.35 \$ 5.11
 Tangible common equity to tangible assets 8.36% 8.52% 8.22%
 Shares outstanding 10,121,853 10,121,853 10,121,853

Profitability Ratios (year-to-date)

Net interest margin 3.84% 4.20% 4.24%

Efficiency ratio 90.39% 85.08% 83.55%

Return on average assets 0.43% 0.75% 0.64%

Return on average equity 4.17% 7.28% 6.35%

Capital Adequacy

Tier 1 leverage ratio 10.71% 10.69% 10.68%

Tier 1 risk-based capital ratio 14.34% 14.96% 14.29%

Total risk-based capital ratio 15.60% 16.22% 15.55%