

Second Quarter, 2020



7/28/20

Dear Shareholders,

2020 is now halfway over, and it will go down as one of the most unforgettable years of our lifetime. The COVID-19 pandemic has affected all aspects of the economy. In the face of this adversity, our team of seasoned bankers stepped-up and grew loans by \$62.3 million and deposits by \$63.2 million during the first half of 2020. We were poised and ready on March 27, 2020, when the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed. We were able to tactically maneuver our Bank into a position to best aid clients and prospects with the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). Our efforts were recognized in the Portland Business Journal. Please see link: <https://bizj.us/1q3f8m>

Second Quarter 2020 Highlights:

- Total loans grew by \$49.7 million or 54.9% during the second quarter.
- Total deposits grew by \$43.4 million or 40.0% during the second quarter.
- Interest income of \$2.8 million for the six months ending June 30, 2020, increased by \$796 thousand or 40.2% when compared to the same period in 2019.
- Credit metrics were consistent with no loans greater than 30 days past due and one \$55,000 non-accrual loan.
- Originated \$59.7 million in PPP Loans that helped 5,370+ families in the Portland metro area.
- Capital levels as of June 30, 2020, remain very strong with a leverage ratio of 18.06%.
- The dramatic drop in interest rates has extended our breakeven profitability projections for the core Bank.

Assets

Assets totaled \$188.7 million as of June 30, 2020, an increase of \$93.9 million or 99.0% when compared to June 30th, 2019. During the quarter, assets grew by \$43.8 million or 30.2%. Asset growth was primarily driven by PPP loans which totaled \$59.7 million. PPP loans also generated a net deferred loan fee amount of \$1.6 million which will be recognized as an adjustment to yield over the life of the loan.

The Bank's investment portfolio moved from short-term CD investments to longer-term Mortgage-Backed Securities ("MBS"), after the short end of the yield curve dropped significantly during the first quarter. During the quarter ended June 30, 2020, the Bank purchased \$5.0 million in MBS investments and \$3.0 million in bank-

Second Quarter, 2020

owned life insurance (BOLI). Both investments are longer-term assets that decrease the Bank's sensitivity to changes in market interest rates while improving returns.

Asset Quality

The Bank has taken measures to both support clients affected by the pandemic and maintain strong asset quality. The Bank's asset quality metrics remain consistent with the prior quarter with no past-due loans and one non-performing loan totaling \$55,000. The Bank had one charge-off during the quarter totaling \$22 thousand due to the death of a borrower. Through June 30, 2020, the Bank has worked with 27 borrowers to initiate COVID-19-related loan modifications of \$19.8 million. These modifications were to defer loan payments for 180 days and were conducted under a provision of the CARES act.

The allowance for loan losses to total loans ratio decreased to 0.86% when compared to 1.26% as of March 31, 2020. Excluding PPP loans, the allowance to total loans ratio increased to 1.49%. During the quarter, the Bank took an \$87 thousand provision for loan loss due to the potential negative economic impact of the COVID-19 pandemic. As of June 30, 2020, the allowance for loan loss totaled \$1.2 million.

Deposits

As of June 30, 2020, deposits totaled \$151.7 million, a \$43.8 million or 40.0% increase when compared to total deposits as of March 31, 2020. The increase was related to both the deposit of PPP loan proceeds as well as winning new banking relationships. The largest increase in deposits came from non-interest-bearing balances which increased \$28.0 million during the quarter to \$68.3 million. Money market account balances increased \$12.1 million during the quarter to \$43.3 million.

In response to the drop in market interest rates, the Bank worked with deposit clients to reduce the Bank's cost of deposits. The cost of funds decreased to 46 basis points for the second quarter of 2020 which is down 25 basis points when compared to 71 basis points for the first quarter of 2020.

Earnings

Interest income for the six months ended June 30, 2020, totaled \$2.8 million, which is a \$796 thousand or 40.2% increase when compared to the same period in 2019. The increase was driven by increased loans, including PPP loans and loan fee income. Loan interest income growth was offset by a reduction in interest income derived from investments and due from banks.

The improvement in interest expense can best be seen by comparing deposit metrics between the first and second quarters. Interest expense as of June 30, 2020, totaled \$195 thousand, down \$23 thousand or 10.6% when compared to the three months ending March 31, 2020, at \$218 thousand in spite of a \$43.8 million or 40.0% increase in deposits during the period.

The Bank's net interest margin for the three months ending June 30, 2020, was 2.99%, down 52 basis points when compared to 3.51% for the three months ending March 31, 2020. The decrease was specifically related to PPP loans that have a contractual interest rate of 1.00%. NIM compression was also related to the reduction of

Second Quarter, 2020

short-term interest rates which caused excess cash to earn less. Further, the Bank's mortgage-backed securities portfolio suffered yield compression due to falling interest rates.

The Bank's non-interest expense of \$1.4 million for the second quarter 2020 decreased \$87 thousand or (5.9%) when compared to \$1.5 million for the first quarter of 2020. The decrease was driven by deferred costs related to the production of PPP loans that reduced compensation expense.

Losses before the effects of taxes and provision for the second quarter 2020 were (\$93) thousand, a \$284 thousand improvement compared to the (\$377) thousand loss in the first quarter of 2020. The improvement in earnings was directly related to the ability of our team of seasoned bankers to execute on our strategic plan during a pandemic. We were able to provide PPP loans to both clients and prospects allowing the Bank to deepen relationships with these borrowers.

Closing

Our Bank is growing nicely in a very difficult economic environment while carefully managing our interest and non-interest expenses. Credit quality and capital levels are very strong. The Cares Act PPP loan process proved the importance of "local matters" and expanded our brand in the Portland business community. We are in an economic environment where experience and a steady hand matter more than ever. We will continue to take advantage of this economic disruption to carefully grow our Bank.

Thank you for your continued commitment and support for our vision. The best is yet to come.

Best Regards,



Terry A. Peterson
CEO



Edwin J. Kawasaki
Chairman

Second Quarter, 2020



Balance Sheets
(amounts in 000s, except per share data and ratios)

	June 30,		% Change 2020 vs. 2019	March 31,	% Change Quarter
	2020	2019		2020	
ASSETS					
Cash & due from banks	\$ 22,050	\$ 22,519	-2.1%	\$ 35,515	-37.9%
Investments - CD	2,685	7,734	-65.3%	2,685	0.0%
Investments - MBS	14,514	5,229	177.6%	10,153	43.0%
Gross loans	140,051	55,843	150.8%	90,387	54.9%
Allowance for loan losses	(1,200)	(700)	71.4%	(1,135)	5.7%
Net loans	138,851	55,143	151.8%	89,252	55.6%
Premises and equipment, net	5,081	2,393	112.3%	5,189	-2.1%
Deferred tax asset, net	1,680	1,357	23.8%	1,702	-1.3%
Other assets	3,888	461	743.4%	499	679.2%
Total Assets	\$ 188,749	\$ 94,836	99.0%	\$ 144,995	30.2%
LIABILITIES					
Deposits	\$ 151,741	\$ 59,998	152.9%	\$ 108,388	40.0%
Borrowed funds	-	-	-	-	-
Other liabilities	3,328	339	881.8%	2,850	16.8%
Total Liabilities	155,069	60,337	157.0%	111,238	39.4%
STOCKHOLDERS' EQUITY					
	33,680	34,499	-2.4%	33,757	-0.2%
Total Liabilities and Stockholders' Equity	\$ 188,749	\$ 94,836	99.0%	\$ 144,995	30.2%
Shares outstanding at end-of-period	2,654,504	2,650,472		2,652,856	
Book value per share	\$ 12.69	\$ 13.02		\$ 12.72	
Allowance for loan losses to total loans	0.86%	1.25%		1.26%	
Non-performing assets (non-accrual loans & OREO)	\$ 55	\$ 69		\$ 57	
Leverage Ratio	18.06%	35.98%		24.54%	

Second Quarter, 2020



Statements of Net Income
(amounts in 000s, except per share data and ratios)

	Three Months Ended			Six Months Ended		
	6/30/2020	3/31/2020	% Change	6/30/2020	6/30/2019	% Change
INTEREST INCOME						
Loans Interest Income	\$ 1,224	\$ 1,093	12.0%	\$ 2,317	\$ 1,453	59.4%
Investments & due from banks	62	174	-64.2%	236	421	-43.9%
Loan fee income	187	35	435.4%	222	105	111.6%
Total interest income	1,473	1,302	13.2%	2,775	1,979	40.2%
INTEREST EXPENSE	195	218	-10.6%	413	202	104.8%
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	1,279	1,083	18.1%	2,362	1,778	32.9%
PROVISION FOR LOAN LOSSES	87	215	-59.5%	302	30	907.0%
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	1,192	868	37.3%	2,060	1,748	17.9%
NON-INTEREST INCOME	35	34	3.3%	69	53	31.1%
NON-INTEREST EXPENSE	1,407	1,494	-5.9%	2,901	2,280	27.2%
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(180)	(592)	-69.6%	(771)	(480)	60.8%
PROVISION (BENEFIT) FOR INCOME TAXES	(40)	(153)	-73.9%	(193)	(126)	53.8%
NET INCOME (LOSS)	\$ (140)	\$ (439)	-68.1%	\$ (578)	\$ (354)	63.3%
Earnings per share - Basic	\$ (0.05)	\$ (0.17)		\$ (0.22)	\$ (0.13)	
Earnings per share - Diluted	\$ (0.05)	\$ (0.17)		\$ (0.22)	\$ (0.13)	
Return on average equity	-1.66%	-5.17%		-3.36%	-1.94%	
Return on average assets	-0.32%	-1.33%		-1.15%	-0.72%	
Net interest margin	2.99%	3.51%		3.83%	4.27%	
Efficiency ratio	107.1%	133.7%		129.50%	120.20%	

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.