10/29/20

Dear Shareholders,

Pacific West Bank continues to position itself as Portland's premier business bank through its client-focused service model. Loans and deposits both continued to grow as the Bank delivered exceptional service to business clients who participated in the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). The Bank originated 314 PPP loans totaling $60.7 million for businesses located in the Portland area. Through our clients, we provided payroll assistance to roughly 5,500 Portland area families. We are now working hand-in-hand with these clients to navigate through the PPP loan forgiveness process to get these loans forgiven. As part of our client-focused business model, we are not using a third party to collect the necessary information to apply for forgiveness and this has allowed us to move very quickly in this process. To date, we have received 139 applications for forgiveness, submitted 113 applications to the SBA, and received payoffs for 15 loans. The relationships we have built with local businesses will contribute to the growth of the Bank for years to come.

Third Quarter 2020 Highlights:

- New loan commitments of $20.6 million during the quarter yielded $17.3 million in new principal advances at origination.
- Core loan growth net of PPP for the quarter was $15.3 million. When annualized represents $61.2 million in potential growth opportunity.
- Credit metrics were consistent with no loans greater than 30 days past due and one $54 thousand non-accrual loan.
- Total deposits grew by $8.7 million or 5.8% during the second quarter.
- Capital levels as of September 30, 2020, remain strong with a leverage ratio of 16.65%.
- Interest income of $4.3 million for the nine months ending September 30, 2020, increased by $1.3 million or 42.8% when compared to the same period in 2019.

Assets

At the end of the third quarter, assets totaled $197.1 million. Shortly after the end of the quarter, the Bank surpassed $200 million in total assets. During the last 12 months, assets have increased by $92.9 million or 89.1% as the result of the hard work of our seasoned Bankers. Including, their dedicated response to the SBA's PPP loan program. During the third quarter assets increased $8.3 million or 4.4%.

We are very proud of our prudent loan production during the third quarter with new commitments totaling $20.6 million, resulting in $17.3 million in principal advances at origination. During the quarter, the Bank had $2.1 million in loans payoff. Resulting in net loan growth during the third quarter of $16.1 million, including activity on lines-of-credit. Core net loan growth net of PPP loan production totaled $15.3 million. This represents annualized loan growth of $61.2 million. Our lending pipeline remains strong due to our experienced Bankers continuing to find quality lending opportunities in the market.

The Bank stayed focused on improving asset mix by converting low yielding cash into higher-earning assets. During the third quarter, the Bank reduced cash by $10.0 million, which was primarily deployed into loans. The Bank continued to make investments during the quarter including $2.0 million in securities and $1.0 million in Bank Owned Life Insurance ("BOLI"). As of September 30, 2020, the Bank had an unrealized gain on its available for sale security portfolio totaling $291 thousand.

Asset Quality

In the wake of the COVID-19 pandemic, the Bank enhanced the already existing diligent monitoring of the Bank's loan portfolio. In accordance with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") the Bank offered loan modifications to borrowers for 180 days. Initially, 27 borrowers totaling $19.8 million in loans were modified for payment deferral. Of these loans, 18 borrowers or $14.5 million have resumed making their payments. Only 2 borrowers have requested an additional period of payment deferral and the rest are expected to resume payments as scheduled in October and November.

During the quarter, the Bank restructured one lending relationship with a borrower that was a Troubled-Debt-Restructured loan ("TDR"). The $1.3 million lending relationship was current on all payments and was well secured by collateral. The Bank has one non-accrual TDR loan totaling $54 thousand as of September 30, 2020.

During the third quarter, the Bank added $200 thousand to the Bank's allowance for loan losses. The additional provision was driven by loan growth during the quarter. The allowance for loan losses to total loans ratio, net of PPP, was consistent with prior quarter-end at 1.46% as of September 30, 2020, and 1.49% as of June 30, 2020. As of September 30, 2020, the allowance for loan loss totaled $1.4 million. The allowance for loan loss has been bolstered from the beginning of the year due to general economic uncertainty. The allowance stood at 1.18% at the beginning of the year.

Deposits

Deposits totaled $160.5 million as of September 30th, 2020, an $8.7 million increase or 5.8% when compared to total deposits as of June 30th, 2020. The Bank is obtaining full deposit relationships from the production of PPP loans to non-clients. Roughly 50% of PPP loans were to non-clients and the Bank has been working with these new clients to bring their entire banking relationship to the Bank.

As of September 30, 2020, non-interest-bearing deposits of $68.8 million were 43% of total deposits which is consistent when compared to June 30, 2020, when non-interest-bearing deposits were $68.3 or 45% of total deposits. These non-interest-bearing deposits, plus lower market deposit interest rates, have reduced the Bank's cost of funds to 31 basis points for the third quarter of 2020. This represents a 15-basis point reduction in cost when compared to the cost of funds in second quarter of 46 basis points.

Earnings

Loan interest income for the nine months ended September 30, 2020, totaled $3.6 million, which was an increase of $1.3 million or 55.5%, when compared to $2.3 million for the same period in 2019. This was driven by both core loan growth and the origination of PPP loans. PPP loans also increase loan fee income, which was $458 thousand for the nine months ending September 30, 2020, up $330 thousand or 256.2%, when compared to $129 thousand for the same period in 2019. The Bank generated net loan fees of $1.6 million for the PPP loan program. This income will be recognized as loans pay down over time and as they pay off when the loans are forgiven.

Interest expense has steadily declined in 2020, driven by decreased market rates. During the third quarter interest expense was $159 thousand, which was a $36 thousand or 18.5% decrease from the second quarter. It was also a $59 thousand or 27% decrease when compared to interest expense of $218 thousand for the first quarter. The Bank has reduced interest expense while growing the deposit portfolio through the growth of non-interest-bearing deposits and reducing deposit offering rates to match market rates.

The Bank's net interest margin for the third quarter of 3.13% increased 14 basis points when compared to 2.99% in the second quarter. This improvement was due to a 15-basis point reduction in cost of funds from the second to the third quarter. The yield on earning assets remains consistent when comparing third quarter to second quarter at 3.44% and 3.45%, respectively. The yield on earning assets was affected by the $60.7 million in PPP loans and their mandated rate of 1.0%. Loan yield when calculated net of PPP for the third quarter was 5.23%, 11 basis points lower when compared to second quarter's loan yield of 5.34%.

The Bank's non-interest expense for the third quarter was $1.6 million, an increase of $231 thousand when compared to $1.4 million for the second quarter. The increase was driven by two factors, the first occurred during the second quarter when the Bank deferred $100 thousand in compensation costs related to the production of PPP loans. The second factor was a one-time expense related to the purchase of a bank-owned life insurance policy (“BOLI”).

Losses before taxes and provision for the third quarter were ($162) thousand, an increased loss of $69 thousand compared to ($93) thousand for the second quarter. The increase was attributable to the deferred costs related to PPP in the second quarter which reduced expenses and the one-time expense in the third quarter related to the purchase of BOLI.

Closing

We continue to grow the Bank and strengthen the brand as Portland’s premier business Bank through exceptional client-focused service. While the environment has changed significantly from a year ago, we have a team that has proven a steady hand in changing times to adapt and execute on the plan to grow the 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

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

	September 2020	September 2019	% Change 2020 vs. 2019	June 30, 2020	% Change Quarter
ASSETS					
Cash & due from banks	$ 12,146	$ 19,505	-37.7%	$ 22,050	-44.9%
Investments - CD	2,685	8,734	-69.3%	2,685	0.0%
Investments - Debt Securities	15,388	6,851	124.6%	14,514	6.0%
Gross loans net of fees	156,324	65,410	139.0%	140,051	11.6%
Allowance for loan losses	(1,400)	(800)	75.0%	(1,200)	16.7%
Net loans	154,924	64,610	139.8%	138,851	11.6%
Premises and equipment, net	4,999	2,615	91.1%	5,081	-1.6%
Deferred tax asset, net	1,766	1,430	23.5%	1,680	5.1%
BOLI	3,934	-	N/A	3,000	31.1%
Other assets	1,235	460	168.4%	888	39.0%
Total Assets	$ 197,077	$ 104,206	89.1%	$ 188,749	4.4%
LIABILITIES					
Deposits	$ 160,472	$ 69,470	131.0%	$ 151,741	5.8%
Borrowed funds	-	-	-	-	
Other liabilities	3,156	413	664.2%	3,328	-5.2%
Total Liabilities	163,628	69,883	134.1%	155,069	5.5%
STOCKHOLDERS' EQUITY	33,449	34,323	-2.5%	33,680	-0.7%
Total Liabilities and Stockholders' Equity	$ 197,077	$ 104,206	89.1%	$ 188,749	4.4%
Shares outstanding at end-of-period	2,654,504	2,650,472		2,654,504	
Book value per share	$ 12.60	$ 12.95		$ 12.69	
Allowance for loan losses to total loans	0.90%	1.22%		0.86%	
Non-performing assets (non-accrual loans & OREO)	$ 54	$ -		$ 55	
Leverage Ratio	16.65%	33.68%		18.06%	

Third Quarter, 2020

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

	Three Months Ended 9/30/2020	Three Months Ended 6/30/2020	% Change	Nine Months Ended 9/30/2020	Nine Months Ended 9/30/2019	% Change
INTEREST INCOME						
Loans Interest Income	$ 1,282	$ 1,224	4.7%	$ 3,599	$ 2,314	55.5%
Investments & due from banks	58	62	-6.2%	295	605	-51.2%
Loan fee income	236	187	25.9%	458	129	256.2%
Total interest income	1,576	1,473	7.0%	4,352	3,047	42.8%
INTEREST EXPENSE	159	195	-18.5%	572	333	71.8%
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	1,418	1,279	10.9%	3,780	2,714	39.3%
PROVISION FOR LOAN LOSSES	200	87	129.7%	502	130	286.2%
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	1,218	1,192	2.2%	3,278	2,584	26.9%
NON-INTEREST INCOME	57	35	62.8%	126	79	59.7%
NON-INTEREST EXPENSE	1,637	1,407	16.4%	4,538	3,446	31.7%
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(362)	(180)	101.2%	(1,133)	(783)	44.7%
PROVISION (BENEFIT) FOR INCOME TAXES	(84)	(40)	110.6%	(277)	(205)	35.1%
NET INCOME (LOSS)	$ (278)	$ (140)	98.5%	$ (856)	$ (578)	48.1%
Earnings per share - Basic	$ (0.10)	$ (0.05)		$ (0.32)	$ (0.22)	
Earnings per share - Diluted	$ (0.10)	$ (0.05)		$ (0.32)	$ (0.21)	
Return on average equity	-3.28%	-1.66%		-3.30%	-2.25%	
Return on average assets	-0.58%	-0.32%		-1.14%	-0.85%	
Net interest margin	3.13%	2.99%		3.18%	3.83%	
Efficiency ratio	124%	107%		121%	123%	