



1/28/21

Dear Shareholders,

2020 presented both unique challenges and unprecedented opportunity. As the economic devastation from the pandemic took hold, our entire Bank team responded in a passionate way to show our communities that “local banking matters when it matters most.” Pacific West was recognized as the number one Bank in Oregon for PPP loans to total assets and number one in deposit growth percentages. Our work continues with Round 2 of the U.S. Small Business Administration’s (“SBA”) Paycheck Protection Program (“PPP”). The Bank is well on its way to surpass the \$60.7 million in PPP loans we originated in 2020. The relationships developed with prospective clients and referral sources will pay dividends long into the future.

Pacific West’s 68.8% asset growth during 2020 demonstrated both the effectiveness of our community focus and the demand for our concierge business banking model.

Fourth Quarter and Full-Year Highlights for 2020:

- Fourth-quarter earnings per share of \$0.09;
- Net income of \$237 thousand for the fourth quarter;
- Pre-tax Pre-ALLL provision income of \$644 thousand for the fourth quarter and \$10 thousand for the full year of 2020;
- Origination of \$36.1 million in core loan commitments (excluding PPP loans) during the fourth quarter;
- Core loan growth (excluding PPP loans) of \$25.2 million during the fourth quarter;
- Credit metrics were consistent with no loans greater than 30 days past due and one well secured \$54 thousand non-accrual loan;
- Asset growth of \$86.2 million or 68.8% for the full year of 2020; and
- Capital levels as of December 31, 2020, remain strong with a leverage ratio of 15.86%.

Fourth Quarter and Full Year of 2020

Assets

Accelerated asset growth continues to be our strategic focus. The Bank reached the milestone of \$200 million in total assets during the fourth quarter of 2020. As of December 31, 2020, total assets were \$211.8 million. This strategic focus will continue into 2021 as the Bank works to prudently deploy the capital raised in 2018. We have proven the Bank's ability to grow assets in the Portland marketplace as local businesses appreciate our steady hand and proactive leadership during these uncertain times.

Through active community engagement, we were able to create robust loan demand in the fourth quarter, demonstrated by the Bank booking \$36.1 million in new core loan commitments and funding \$25.2 million in new core loans. For the entire year, core loans grew by \$41.8 million. This core loan growth excludes PPP loans. Total gross core loans as of December 31, 2020, were \$119.6 million. Our loan and deposit pipeline momentum is strong and continues into the first quarter of 2021.

In 2020, the Bank originated 314 PPP loans for \$60.7 million to businesses located in the Portland area. Through these loans, we aided local businesses in providing payroll for roughly 5,500 families in our communities. We have worked together with our clients to get 172 loans for \$29.7 million in balances forgiven, equating to roughly 50% of the total PPP Loans produced. We are proud to be participating in the second round of this program in 2021 and expect to exceed the level of participation we had in 2020.

As the balance sheet grows, the Bank continues to build the investment portfolio. In the fourth quarter, the Bank added \$6.5 million in securities. As of December 31, 2020, the Bank's securities available for sale security portfolio had an unrealized gain of \$359 thousand.

Asset Quality

As of December 31, 2020, the traditional metrics of Loan quality remain strong with no loans greater than 30 days past due and no credit losses during the fourth quarter. The Bank had two relationships designated as troubled debt restructured loans ("TDR") totaling \$726 thousand. These loans are well secured by collateral and payments continuing to be paid as agreed. The Bank has one well-secured loan in non-accrual status totaling \$51 thousand.

In 2020, 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, 23 borrowers or \$11.7 million have resumed making their payments. Only 4 borrowers have requested an additional period of payment deferral, of which 2 are under Oregon house bill 4204 as they are secured by 1-4 family real estate as collateral. The Bank expects all the loans to return to making full payments by April 2021.

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The Bank added \$275 thousand to its allowance for loan losses, driven by loan growth. Additionally, the Bank added \$35 thousand to the allowance for losses on unfunded commitments. The total amount of expense related to provision for funded and unfunded loans losses during 2020 was \$812 thousand. The allowance for loan loss as of December 31, 2020, was \$1.675 million which was 1.12% of total loans and 1.40% of core loans excluding PPP loans.

Liabilities

The Pacific West deposit team continued to win full banking relationships in the fourth quarter capping off a strong year of deposit growth. The team grew deposits of \$81.6 million or 92% during 2020, primarily in non-maturity deposits. The Bank has built a commercial deposit platform that includes positive pay, on-line ACH and wires, as well as mobile deposits, allowing the Bank to continue to service our clients remotely during the pandemic. This product set along with the Bank's client-focused service model allows the Bank to grow throughout the Portland MSA without adding additional branch locations.

As of December 31, 2020, non-interest-bearing deposits totaled \$82.2 million, which was an increase of \$13.4 million or 20% during the fourth quarter and \$55.0 million or 201.8% for the full year of 2020. The increase of non-interest-bearing deposits and the low market interest rates have allowed the Bank to maintain a low cost of funds which was 30 basis points for the fourth quarter and 42 basis points for the full year of 2020.

With our continuing deposit success, the Bank diligently monitors deposit concentrations and potentially volatile deposits. Any deposit considered to be temporary is swept off the balance sheet in a one-way deposit through the Bank's deposit placement program. As of this writing, we have roughly \$10 million in off balance sheet one-way deposits.

During the quarter, the Bank funded a local housing and economic development project and borrowed \$5 million from the Federal Home Loan Bank at a discounted interest rate. This is another example of providing leadership and support to our community.

Earnings

Net income for the fourth quarter was \$237 thousand or \$0.09 per share. Before the effects of taxes and the allowance for loan loss of \$812 thousand, the Bank had an adjusted net income of \$644 thousand for the fourth quarter and \$10 thousand for the full year of 2020.

Loan interest income for 2020 of \$4.99 million increased by \$1.7 million or 51.7% when compared to the prior year. Interest income generated from investments and cash for 2020 of \$385 thousand, was down \$415 thousand compared to the prior year. The decrease was driven by lower market yields on both cash and investments. Loan fee income totaled \$1.2 million for 2020, which was a \$1.0 million increase over 2019 primarily driven by the Bank's participation in the SBA's PPP loan program. In 2020, the Bank

Fourth Quarter and Full Year of 2020

generated net PPP loan fees of \$1.6 million. Approximately, \$1.0 million in fees were recognized during 2020 while the remaining balance of fees will be recognized during 2021 as the loans pay off or continue to be forgiven. Anticipated fee income from the 2021 PPP activity will also be meaningful.

Interest expense of \$142 thousand for the fourth quarter, a \$17 thousand decrease from the prior quarter. However, total interest expense for 2020 of \$714 thousand was \$183 thousand higher than interest expense during 2019, primarily due to significantly higher average deposit balances for the year.

The Bank's net interest margin for the fourth quarter was 4.21%, up 1.08% from 3.13% when compared to the third quarter. The increase was related to the recognition of deferred fees as loans were forgiven in the PPP loan program. The yield on earning assets of 4.51% for the fourth quarter was up 1.07% compared to the third quarter of 3.44%. Loan yields, when calculated net of the impacts of PPP loans, were 5.08% for the fourth quarter, a decrease of 15 basis points from the prior quarter.

Non-interest expense for the fourth quarter was \$1.5 million, down (\$134) thousand or (8.2%) when compared to the third quarter. This decrease was primarily driven by a one-time third quarter expense related to the purchase of a bank-owned life insurance policy investment ("BOLI") and fourth-quarter adjustments made to compensation expense. The non-interest expense for 2020 was \$6.0 million which was up \$1.2 million when compared to \$4.8 million during 2019. The year-over-year increase was related to a full year of lease expense for the Bank's new downtown Portland office and the addition of new team members in 2020.

Closing

2020 presented both unique challenges and unprecedented opportunity. Pacific West Bank emerged as a trusted banking partner for Portland businesses, as evidenced by our record growth. Our momentum continues into 2021. Thank you for your continued commitment and support of our vision. The best is yet to come.

Best Regards,



Terry A. Peterson
CEO



Edwin J. Kawasaki
Chairman

Fourth Quarter and Full Year of 2020



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

	December		% Change 2020 vs. 2019	September30, 2020	% Change Quarter
	2020	2019			
ASSETS					
Cash & due from banks	\$ 26,904	\$ 22,098	21.7%	\$ 12,146	121.5%
Investments - CD	2,685	8,734	-69.3%	2,685	0.0%
Investments - Debt Securities	21,866	10,439	109.5%	15,388	42.1%
Investments - Correspondent Stock	851	111	666.7%	151	463.6%
Gross loans net of fees	149,536	77,702	92.4%	156,324	-4.3%
Allowance for loan losses	(1,675)	(920)	82.1%	(1,400)	19.6%
Net loans	147,861	76,782	92.6%	154,924	-4.6%
Premises and equipment, net	4,904	5,240	-6.4%	4,999	-1.9%
Deferred tax asset, net	1,661	1,547	7.4%	1,766	-5.9%
BOLI	3,968	-	N/A	3,934	0.9%
Other assets	1,084	548	97.8%	1,235	-12.2%
Total Assets	\$ 211,784	\$ 125,499	68.8%	\$ 197,228	7.4%
LIABILITIES					
Deposits	\$ 170,095	\$ 88,516	92.2%	\$ 160,472	6.0%
Borrowed funds	5,000	-	-	-	-
Other liabilities	2,914	2,842	2.5%	3,156	-7.7%
Total Liabilities	178,009	91,358	94.8%	163,628	8.8%
STOCKHOLDERS' EQUITY					
	33,775	34,030	-0.7%	33,449	1.0%
Total Liabilities and Stockholders' Equity	\$ 211,784	\$ 125,388	68.9%	\$ 197,077	7.5%
Shares outstanding at end-of-period	2,657,254	2,652,856		2,654,504	
Book value per share	\$ 12.71	\$ 12.83		\$ 12.60	
Allowance for loan losses to total loans	1.12%	1.18%		0.90%	
Non-performing assets (non-accrual loans & OREO)	\$ 51	\$ 59		\$ 54	
Leverage Ratio	15.86%	27.85%		16.65%	

Fourth Quarter and Full Year of 2020



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

	Three Months Ended			Twelve Months Ended		
	12/31/2020	9/30/2020	% Change	12/31/2020	12/31/2019	% Change
INTEREST INCOME						
Loans Interest Income	\$ 1,394	\$ 1,282	8.7%	\$ 4,993	\$ 3,291	51.7%
Investments & due from banks	93	58	59.4%	385	800	-51.9%
Loan fee income	707	236	199.7%	1,165	168	593.5%
Total interest income	2,194	1,576	39.2%	6,543	4,259	53.6%
INTEREST EXPENSE	142	159	-10.6%	714	531	34.5%
NET INTEREST INCOME BEFORE LOAN LOSS PROVISION	2,052	1,418	44.7%	5,829	3,728	56.4%
PROVISION FOR LOAN LOSSES	275	200	37.5%	777	250	210.8%
NET INTEREST INCOME AFTER LOAN LOSS PROVISION	1,777	1,218	45.9%	5,052	3,478	45.3%
NON-INTEREST INCOME	60	57	5.0%	186	107	73.8%
NON-INTEREST EXPENSE	1,503	1,637	-8.2%	6,041	4,801	25.8%
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	334	(362)	192.3%	(802)	(1,216)	34.0%
PROVISION (BENEFIT) FOR INCOME TAXES	97	(84)	215.5%	(180)	(306)	41.2%
NET INCOME (LOSS)	\$ 237	\$ (278)	185.3%	\$ (622)	\$ (910)	31.6%
Earnings per share - Basic	\$ 0.09	\$ (0.10)		\$ (0.23)	\$ (0.34)	
Earnings per share - Diluted	\$ 0.09	\$ (0.10)		\$ (0.23)	\$ (0.34)	
Return on average equity	2.79%	-3.28%		-1.88%	-2.64%	
Return on average assets	0.46%	-0.58%		-0.35%	-0.91%	
Net interest margin	4.21%	3.13%		3.47%	3.71%	
Efficiency ratio	71.2%	124%		103%	125%	
INCOME (LOSS) BEFORE PROVISION FOR TAXES & LOAN LOSS	\$ 644	\$ (162)	497.8%	\$ 10	\$ (966)	101.0%

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.