



*Building Relationships  
Building Your Success*

19917 7th Ave NE, Suite 101  
Poulsbo, WA 98370  
360.779.4567  
[libertybanknw.com](http://libertybanknw.com)

November 4<sup>th</sup>, 2020

To our Shareholders of Liberty Northwest Bancorp:

I am excited to report that on October 1, 2020, shareholders approved the formation of a new bank holding company, Liberty Northwest Bancorp, Inc. The Board of Directors of Liberty Bank will serve as the Board of Directors for Liberty Northwest Bancorp. Establishing a bank holding company has been under consideration for some time. We intend to use the bank holding company structure to increase shareholder value and provide access to capital markets.

This has been quite a year. Despite a global pandemic and its impact on people's wellbeing and the economy, Liberty Bank has continued to make significant progress in growth, quality, and market expansion for the 9-month period ending September 30, 2020. We have hit many milestones as we serve our valued Kitsap County community and attract new customers across Puget Sound in the Bellevue and Eastside markets. Here are some of the key milestones:

- Total Assets were \$176.3 million on September 30, 2020, compared to \$128.2 million on December 31, 2019. This was **an increase of \$48.1 million or 37.5% during this 9-month period**. If we factor out the impact of Paycheck Protection Program (PPP) lending, assets on September 30, 2020, were \$141.7 million, **an increase of \$13.5 million or 10.6% during this 9-month period**.
- Total Loans were \$137.1 million on September 30, 2020, compared to \$81.8 million on December 31, 2019, **a \$55.3 million increase or 67.6% during this 9-month period**. If we exclude PPP loans of \$45.9 million, **our period-to-date loan growth would be \$9.4 million or 11.5%**.
- Starting with the first round of the Small Business Administration's (SBA) PPP funding in April, Liberty Bank **processed more than 350 applications** for existing and new clients totaling approximately **\$45.9 million**. In October, Liberty Bank began the SBA forgiveness process with our portfolio of SBA PPP loans.
- On September 30, 2020, the bank had **zero non-performing loans** and no loans with payments past due more than 30 days. This is something we are very proud of during these challenging economic times. While our credit quality performance continues to outperform our peers, Liberty Bank set aside additional loan loss reserves of \$278,000 during this 9-month period as a prudent measure during this time of economic stress.

- Net Interest Income (excluding PPP fees) **increased \$264,000 or 8.6%** despite the reduction in the Fed Funds rate during this 9-month period. This increase is primarily due to an increase in loan volume and lower deposit rates reflective of the reduction in market interest rates. Our Net Interest Margin for the 9-month period is 3.91%.
- Net Income for Q3 ending September 30, 2020, was \$148,000, with period-to-date net income of \$415,000, compared to \$137,000 in 2019. This was an increase of \$278,000 compared to the same period in 2019.
- Liberty Northwest Bancorp’s book value per share increased to \$7.61 for Q3 from \$7.18 one year earlier.

I am also happy to report other important news from this 9-month period:

- We opened a new office in Bellevue (at Bellevue Place), led by **Alan Fulp, President and Chief Lending Officer of Liberty Bank**.
- We officially changed our name to Liberty Bank.
- We had **tremendous community impact** by jumping right into the PPP lending program helping many businesses and non-profit organizations that were neglected by the bigger banks.
- We hired several **talented employees** in Poulsbo and Bellevue.
- We **appointed community leaders Susan Preston and Michelle Connor** to our Board of Directors.
- We **received positive recognition** in the form of many news stories about our successful PPP efforts and our new Bellevue office in news outlets including *The Puget Sound Business Journal*, *425 Business magazine*, the *Kitsap Sun* and *KING-TV*.

On behalf of the Board of Directors, and all Liberty Bank employees, we appreciate your continued support.

Sincerely,



Richard C. Darrow  
Chief Executive Officer of Liberty Bank  
President and Chief Executive Officer of Liberty Northwest Bancorp, Inc.

**Liberty Bank**  
**Third Quarter 2020**

CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Quarterly				
	2020 3rd Qtr	2020 2nd Qtr	2019 3rd Qtr	2020 YTD	2019 YTD
(\$ in thousands except per share data)					
<b>EARNINGS</b>					
Net interest income	\$ 1,549	1,759	1,004	4,361	3,083
Provision for loan losses	\$ 105	120	3	278	9
Net interest income after provision for loan losses	\$ 1,444	1,639	1,001	4,083	3,074
NonInterest income	\$ 112	39	10	275	102
NonInterest expense	\$ 1,369	1,342	987	3,833	3,002
Pre-tax Net income	\$ 187	336	24	525	174
Provision for income taxes (benefit)	\$ 39	71	5	110	36
Net income	\$ 148	266	19	415	137
Earnings per share	\$ 0.09	0.17	0.01	0.26	0.09
Average shares outstanding	1,602	1,602	1,602	1,602	1,568
Total revenue	\$ 1,661	1,798	1,014	4,636	3,184
<b>PERFORMANCE RATIOS</b>					
Return on average assets	0.33%	0.64%	0.07%	0.36%	0.16%
Return on average equity	4.89%	8.92%	0.70%	4.66%	1.67%
Net interest margin	3.58%	4.43%	3.52%	3.91%	3.78%
Efficiency ratio	73.8%	96.4%	91.9%	83.1%	93.0%
<b>CAPITAL</b>					
Tier 1 leverage ratio	8.09%	8.07%	9.33%		
Tier 1 risk-based capital ratio	14.00%	13.55%	14.77%		
Total risk based capital ratio	15.21%	14.71%	15.83%		
<b>ASSET QUALITY</b>					
Net loan charge-offs (recoveries)	\$ 0	0	0		
Allowance for loan losses	\$ 1,074	969	782		
Allowance for losses to total loans	0.78%	0.71%	0.96%		
Nonperforming loans	\$ 0	0	638		
Other real estate owned	\$ 0	0	0		
Nonperforming assets to total assets	0.00%	0.00%	0.51%		

**Liberty Bank**  
**Third Quarter 2020**

CONSOLIDATED FINANCIAL HIGHLIGHTS  
(Unaudited)

	Quarterly		
	2020 3rd Qtr	2020 2nd Qtr	2019 3rd Qtr
(\$ in thousands except per share data)			
<b>BALANCE SHEET</b>			
Cash and Due From Banks	\$ 4,718	3,957	2,972
Short Term Investments	\$ 23,685	28,020	16,690
Investments	\$ 8,629	8,088	13,195
Permanent real estate loans	\$ 71,936	70,388	61,077
Construction & land loans	\$ 4,170	4,736	7,584
Commercial loans	\$ 51,954	52,333	7,072
Home Equity loans	\$ 4,848	5,077	4,783
Consumer loans	\$ 3,928	3,339	308
Agricultural Non RE	\$ 234	375	462
Total Loans	\$ 137,071	136,247	81,287
Allowance for Loan Losses	\$ (1,074)	(969)	(782)
Net Loans	\$ 135,996	135,278	80,505
Premises & Equipment	\$ 1,138	2,342	1,505
Goodwill/Core Deposit Intangible	140	151	194
Other Assets	\$ 2,006	1,988	1,788
Total Assets	\$ 176,312	179,824	116,850
Non-interest bearing Demand	\$ 49,019	50,555	27,285
Interest Bearing Demand	\$ 17,398	17,194	13,014
Money Market and Savings	\$ 48,533	50,965	45,302
Certificates of Deposit	\$ 8,687	9,555	11,344
Total Deposits	\$ 123,636	128,268	96,944
Borrowed Funds	\$ 40,057	39,057	8,000
Other Liabilities	\$ 431	465	394
Total Equity	\$ 12,187	12,033	11,511
Total Liabilities and Equity	\$ 176,312	179,824	116,850
Tangible book value per share	\$ 7.29	7.15	6.78
Book value per share	\$ 7.61	7.51	7.18