

April 19, 2023

Dear Shareholder:

Western Capital Corporation is pleased to provide our financial performance for the twelve months ending December 31, 2022. Net Income for the period was \$15.6 million and Book Value per Share increased by \$1.61 cents to \$20.53.

Financial results for the year showed strong profitability, liquidity, and capital levels. Select financial performance information for the twelve months ending December 31, 2022, are as follows:

- Net Income of \$15.6 million was \$1.1 million higher than in fiscal year 2021, as Net Interest Margin improved by 0.78% to 4.29% due to the higher interest rate environment during 2022.
- As a result of higher Net Income, Return on Average Assets (1.43%) and Return on Average Equity (12.68%) were 0.06% and 0.07% higher, respectively, than in 2021.
- Net Interest Margin improved to 4.29% from 3.51% in 2021.
- Total Loans increased by \$73.0 million to \$699.9 million.
- Total Assets increased by \$48.0 million to \$1,145.9 million, while Total Deposits increased by \$23.8 million to \$930.5 million.
- 2022's cost of interest-bearing deposits was 1.40%, as compared to 0.51% in 2021, as deposit rates and market competition increased during the year.
- Liquidity remained strong as of December 31, 2022, with a 43.0% Liquidity Ratio.
- Total Equity remained very strong with a Tier 1 Leverage Ratio of 11.86%.
- Efficiency Ratio of 51.60% reflects a strong emphasis on prudently controlling expenses.
- Asset Quality was good with ratios of Non-performing Assets to Total Assets of 0.34% and 0.56% of Total Loans and the Allowance for Loan Losses was strong at 1.48% of Total Loans.
- Book Value per Share was \$22.14, an increase of \$1.61 cents from year-end 2021 following an increase of \$2.07 during 2021.

In March of 2023, the US Banking sector experienced its most volatile period since the 2008 Global Financial Crisis. To some, this was a surprise given the economy's strength and the 50-year lows in the unemployment rate.

This recent period was brought on by the same dynamics that have caused other disruptions in US Banking over the last 100 years. Simply put, some banks elected to use short term deposits to purchase long duration assets, including long dated US Treasuries and government guaranteed Mortgage Back Securities.

Since Northwest Bank's (NB, Bank) inception over 15 years ago, we have taken a very conservative approach to interest rate risk management. At times, specifically over the past three years, said strategy has impacted our earnings as we elected not to reach for yield through longer duration assets, instead patiently waiting for better balanced risk adjusted returns in future periods.

Further, we have also taken an equally conservative approach to liquidity management. In June of 2022, management began a strategy to increase overall liquidity including cash and short-term US Treasuries, establishing a target liquidity level of 25.65% of total assets, more than 3.2 times the Bank's peer group median. Our concerns in June of 2022 were not of "bank runs" and subsequent bank failures, it was instead what the effect would be on bank deposit levels by the Federal Reserve's continued monetary policy tightening through increase to the Federal Funds Rate. We observed as yields for short term Treasuries increased, this would provide "risk free" alternatives for bank depositors. Our disciplined strategy, at Q1 of 2023, has resulted in reaching our target of 25% of total assets in cash and short-term US Treasuries. Current liquidity including cash and short-term securities total \$300 million against a balance sheet of \$1.2 billion. Bank management's strategy of carrying higher levels of excess liquidity does come with higher interest expense and marginal impacts to income, but we felt to err on the conservative side in these uncertain times.

As of this letter, the last month has quickly brought on "credit tightening" in the community and regional bank space. Security holders including banks, have been selling rated bonds at very compelling yields, which Bank management has selectively added to the Bank's securities portfolio with short duration less than 3-year. Further, in the last quarter, Bank management has seen a significant increase in loan opportunities as competitors have had to curtail lending due to both balance sheet and liquidity pressures. Today, we are very comfortable with our strong financial positioning. Given the attractive lending opportunities, we are expecting another solid year at Northwest Bank. As such, we will pay, as we did in 2022, a \$0.15 dividend per share in May of this year. Further, we will continue our share buyback plan.

We expect a moderate recession in 2023 and continuing into 2024, with a risk of a more severe outcome as a growing possibility. Although our asset quality remains strong, we expect manageable "bumps" in the road ahead.

Recently, in conjunction with increased scrutiny of banks, there has been greater attention placed on Commercial Real Estate (CRE) exposures. Given Bank management's extensive direct experience in real estate, we have always been conservative in this area of lending. With a conservative bias, our current exposure of CRE is well managed and represents 185% of Risk-Based Capital and Construction, land development, and other land loans represents 49% of Risk-Based Capital. Both ratios are under the Bank's peer group median and well within supervisory criteria with capacity to grow in this asset class. Given our moderate current exposure levels, we expect to capitalize on attractive opportunities in this area for the balance of 2023 and 2024.

We have enclosed summary data for peer banks in NB markets with assets between \$500 million and \$5 billion for comparison to our metrics at Northwest Bank.

We close with a note of thanks to both our employees and our shareholders. To our employees, their dedication and perseverance to achieve strong results and provide outstanding customer service is what sets NB apart from other financial institutions. Know that as we meet challenges and adversities, it is the people of NB that find solutions that make our Bank successful. To our shareholders, we appreciate your support, entrusting Bank management with your capital and in many cases your deposits. With “top of market” deposit rates and our ability to customize deposit solution for our customers, we provide a compelling place to safely keep your deposits in these uncertain times.

If we can be of any service to you, friends, family, or business associates, we would welcome the opportunity to help with banking needs.

Thank you for your continued support of Western Capital Corporation and Northwest Bank.

Sincerely,



Jeff Gow
Chairman, Chief Executive Officer, Northwest Bank
Chairman, Western Capital Corporation

Enclosure

This communication contains comments or information that constitutes forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are based on current expectations that involve a number of risks and uncertainties. Actual results may differ materially from the results expressed in forward-looking statements. Factors that might cause such a difference include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking regulation; changes in tax laws; changes in prices; levies and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; changes in the national and local economy and other factors. Western Capital Corporation undertakes no obligation to update or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

	Northwest Bank	Peer Group Median
(in thousands)	12/31/2022	12/31/2022
Balance Sheet		
Total Assets	1,138,686	1,180,322
Total Loans	692,823	756,253
Total Deposits	955,046	1,068,364
Non-Int Dep/Deposits (%)	36.60	33.45
Loans/Deposits (%)	72.54	77.11
Tier 1 Leverage Ratio (%)	10.73	10.21
Income Statement - YTD		
Net Income	14,985	14,472
ROAA (%)	1.38	1.18
ROAE (%)	12.73	12.83
Net Interest Margin (%)	4.15	3.58
Efficiency Ratio (%)	52.23	59.05
Asset Quality Indicators		
ALLL/Loans (%)	1.41	1.29
NPLs/Loans	0.57	0.31
NPA+Lns 90+PD/ TCE Equity+LLR (%)	2.97	2.61
CRE Concentration %	184.75	225.84
Construction Loan Concentration (%)	48.89	53.82
Other Information		
Total Securities	228,297	300,246
AOCI	(4,954)	(20,011)
Cash + 1 Yr Sec Maturities/Total Assets	25.65	7.99