

# Olympic Bancorp

## Statement of Condition

September 30, 2018

To Our Shareholders, Customers, and Employees,

I am pleased to announce that Olympic Bancorp reported strong financial performance in the third quarter. Kitsap Bank's steady growth in loans and sound, stable core deposit base continues to deliver anticipated results, as we ended the quarter with net income of \$10,724,000, an increase of \$1,043,000 or 10.8% over last year. Total loans have increased over \$95 million from third quarter last year, a 15% increase. The healthy local economy continues to provide quality lending opportunities for the bank. While total deposits have modestly decreased \$17,799,000, or 1.7% from last year, this is primarily due to normal fluctuations in transaction account balances and increased rate sensitivity, as some banks begin to pay up for deposits. Despite this, we continue to grow deposit relationships. Certainly, with interest rates rising, deposit customers are evaluating all of their options for excess liquidity and our deposit products remain competitively priced as safe and convenient choices.

While the rise in interest rates from last year has negatively impacted the available for sale adjustment on our investment portfolio, the growth in earnings has added to our already strong capital base, as we ended the quarter with over \$123 million in total shareholders' equity on total assets of \$1,147,697,000.

During the third quarter, we completed our rebranding project and added to our investments in new technologies and skills training for our employees. All of these investments were part of our planned spending in 2018, so while non-interest expense is up \$2,359,000 or 8.8% over last year, this is in line with our budgeted expectations. These investments are yielding our expected return, as growth in net income, return on assets and return on equity has exceeded growth in non-interest expenses.

At a Special Shareholders Meeting held on November 20, 2018, the shareholders approved the proposal for voluntary revocation and termination of the company's election to be taxed as a corporation under the Subchapter S of the Internal Revenue Code. The board believes this is in the best interests of the company and its shareholders, due to recent changes in corporate and individual tax rates and the ability to eliminate certain restrictions and requirements necessary for S corporations. Effective January 1, 2019, Olympic Bancorp will be taxed for federal and state income tax purposes as a corporation under Subchapter C of the Code. I encourage shareholders to consult with their individual tax advisors concerning any tax-related questions resulting from this change.

In our 110<sup>th</sup> year, Kitsap Bank remains strong and well-positioned for the future. I want to thank our great employees for their consistent hard work and dedication; our customers for their trust; and our shareholders for your confidence and support.

Sincerely,



Steve Politakis  
President and Chief Executive Officer

Interest Income:	2018	2017
Loans	\$ 26,788	\$ 23,330
Federal funds sold and deposits in banks	200	362
Securities available for sale and held to maturity		
Taxable	4,294	4,065
Tax-exempt	2,764	3,226
Other interest income	7	4
<b>Total Interest Income</b>	<b>34,053</b>	<b>30,987</b>
Interest Expense:	2018	2017
<b>Deposits</b>	<b>544</b>	<b>448</b>
Interest on advances and other borrowed money	22	-
<b>Total interest expense</b>	<b>566</b>	<b>448</b>
<b>Net interest income</b>	<b>33,487</b>	<b>30,539</b>
<b>Provision for credit losses</b>	<b>360</b>	<b>270</b>
<b>Net interest income after provision for credit losses</b>	<b>33,127</b>	<b>30,269</b>
Non-interest Income:	2018	2017
Service charges on deposit accounts	2,113	2,007
Merchant and interchange income	2,601	2,443
Income from investments in life insurance	541	483
Net gains on the sale of loans	-	29
Other noninterest income	1,395	1,144
<b>Total non-interest income</b>	<b>6,650</b>	<b>6,106</b>
Non-interest Expense:	2018	2017
Salaries and employee benefits	18,934	17,669
Occupancy and equipment	2,328	2,310
Data Processing expenses	2,610	2,250
Merchant and interchange expenses	728	707
State and local taxes	522	449
Net losses/(gains) from sales of securities available for sale	42	(132)
Other noninterest expense	3,889	3,441
<b>Total non-interest expense</b>	<b>29,053</b>	<b>26,694</b>
Net Income	\$ 10,724	\$ 9,681

Assets	2018	2017
Cash and due From banks	\$ 19,707	\$ 19,888
Interest bearing deposits in banks	12,236	48,574
<b>Securities available for sale</b>	<b>321,193</b>	<b>397,668</b>
Securities held to maturity	3,177	2,125
Federal Home Loan Bank stock	1,365	1,357
<b>Loans and leases</b>	<b>730,254</b>	<b>634,796</b>
Less: allowance for credit losses	(7,983)	(7,111)
<b>Net loans and leases</b>	<b>722,271</b>	<b>627,685</b>
Premises and fixed assets	19,480	18,428
Other real estate owned	22	571
Goodwill	17,105	17,105
Core deposit intangible	715	919
Accrued interest receivable	4,137	4,369
Bank owned life insurance	24,122	23,418
Trading assets	346	87
Other assets	1,821	1,878
<b>Total Assets</b>	<b>\$1,147,697</b>	<b>\$1,164,072</b>
Liabilities and Shareholders' Equity		
<b>Deposits</b>		
Non-interest bearing	\$ 346,690	\$ 346,155
Savings and interest bearing demand	585,483	591,444
Time	74,495	86,868
<b>Total deposits</b>	<b>1,006,668</b>	<b>1,024,467</b>
Accrued interest payable	62	43
Trading liabilities	346	87
Other liabilities	17,472	16,544
<b>Total liabilities</b>	<b>1,024,548</b>	<b>1,041,141</b>
<b>Shareholders' Equity</b>		
Common stock	20,132	20,132
Retained earnings	108,058	98,063
Accumulated other comprehensive income	(5,041)	4,736
<b>Total shareholders' equity</b>	<b>123,149</b>	<b>122,931</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,147,697</b>	<b>\$1,164,072</b>