

Olympic Bancorp

Statement of Condition

March 31, 2019

To Our Shareholders, Customers, and Employees,

I am pleased to report that Olympic Bancorp continues to grow earnings, as execution of our strategic initiatives positively impacts our financial results. With loan growth of 8.2% over the prior year, income on loans has increased 18.2%, benefitted by both higher loan volume and the higher rate environment versus one year ago. This increase in loan interest income was tempered by lower investment earnings, as we've moved those balances from lower yielding investments into higher yielding loans. Also offsetting the increase were higher interest costs, as the increased rate environment and strong competition for deposits impacted our rate offerings.

While credit quality remains very high, we have nonetheless increased our credit loss provision as the loan portfolio grows, and prudent financial management dictates setting aside loss reserves for any potential turn in the credit cycle.

We continue to invest in our people and technology, which increased non-interest expense 9.8% over last year. We take the long view on these costs, and expect them to improve operating efficiencies and further grow capacity to serve current and new customers with newer and better product offerings.

Recent technology upgrades have yielded enhanced services to our clients, as we have deployed ITS (Interactive Teller Service) at eight branch locations to date. These units are replacing an aging ATM fleet with live teller service capabilities during banking hours, while also functioning as a 24 hour ATM. We will soon extend ITS hours to 8am to 6pm weekdays, further increasing personalized service for our customers.

This quarter marks our first quarter as a C corporation for tax purposes, and while we are paying current estimated taxes to the IRS, our conversion from an S corporation warrants recording a deferred tax benefit for GAAP purposes. This one-time entry had a material impact on our net income and will continue to impact comparability of net income for the balance of 2019. However, pre-tax net income increased \$200,000 or 5.8% over the prior year.

The 2018 Annual Report is provided in digital format, allowing unlimited access to viewers. This tool not only serves as a means of reporting our financial performance for the year, but it also allows us to share meaningful stories about our employees, clients, and the communities we serve. We invite you to visit our website at www.kitsapbank.com/annual-report-2018 to view the 2018 Annual Report.

Kitsap Bank remains strong and well-positioned for the future. We look ahead with enthusiasm and confidence as we continue to implement our strategic plan and objectives. I want to thank our great employees for your commitment and hard work; our customers for your trust; and our shareholders for your continued confidence and support.

Sincerely,



Steve Politakis
President and Chief Executive Officer

Interest Income:	2019	2018
Loans	\$ 9,931	\$ 8,400
Federal funds sold and deposits in banks	119	58
Securities available for sale and held to maturity		
Taxable	1,572	1,477
Tax-exempt	581	955
Other interest income	3	2
Total Interest Income	12,206	10,892
Interest Expense:		
Deposits	328	125
Borrowings	1	12
Total interest expense	329	137
Net interest income	11,877	10,755
Provision for credit losses	150	120
Net interest income after provision for credit losses	11,727	10,635
Non-interest Income:		
Service charges on deposit accounts	655	706
Merchant and interchange income	781	758
Income from investments in life insurance	247	161
Net gains from sales of securities available for sale	33	45
Other non-interest income	539	552
Total non-interest income	2,255	2,222
Non-interest Expense:		
Salaries and employee benefits	6,762	6,226
Occupancy and equipment	826	786
Data Processing expenses	940	855
Merchant and interchange expenses	214	224
State and local taxes	167	170
Other non-interest expense	1,414	1,137
Total non-interest expense	10,323	9,398
Income before income taxes	3,659	3,459
Federal Income Tax Expense (Benefit)	(1,693)	-
Net Income	\$ 5,352	\$ 3,459

Assets	2019	2018
Cash and due from banks	\$ 22,172	\$ 20,488
Interest bearing deposits in banks	34,953	32,904
Securities available for sale	283,168	341,849
Securities held to maturity	2,884	3,261
Federal Home Loan Bank stock	1,364	1,365
Loans and leases	745,095	688,416
Less: allowance for credit losses	(8,075)	(7,524)
Net loans and leases	737,020	680,892
Premises and fixed assets	23,470	19,524
Other real estate owned	-	87
Goodwill	17,105	17,105
Core deposit intangible	613	817
Accrued interest receivable	3,906	4,126
Bank owned life insurance	24,310	23,784
Other assets	3,967	1,955
Total Assets	\$1,154,932	\$1,148,157
Liabilities and Shareholders' Equity		
Deposits		
Non-interest bearing	\$ 335,736	\$ 346,349
Savings and interest bearing demand	605,716	582,977
Time	68,284	79,545
Total deposits	1,009,736	1,008,871
Accrued interest payable	73	43
Other liabilities	18,995	18,075
Total liabilities	1,028,804	1,026,989
Shareholders' Equity		
Common stock	20,132	20,132
Retained earnings	104,921	102,753
Accumulated other comprehensive income (loss)	1,075	(1,717)
Total shareholders' equity	126,128	121,168
Total liabilities and shareholders' equity	\$1,154,932	\$1,148,157