

November 9, 2018

Dear Shareholders:

The Year-over-year comparison continues to reflect the Banks's improved deposit composition and liquidity and capital position.

Total deposits at 9/30/2018 were \$118.4MM compared to \$127.6MM at 9/30/2017. However, our core customer deposits increased \$5.6MM from \$97.6MM at 9/30/2017 to \$103.2MM at 9/30/2018. This permitted the Bank to reduce wholesale deposits from \$26.8MM at 9/30/2017 to \$12.2MM at 9/30/2018, a \$14.6MM decrease. This is consistent and in line with our strategic objective of building core deposits and reducing our reliance on more expensive and volatile wholesale deposits. Our Primary Liquidity Ratio (Cash on hand & unpledged investments/Average assets) increased from 12.6% at 9/30/2017 to 24.0% at 9/30/2018 and our Wholesale Funding Ratio (Internet CD's, Brokered deposits, Public Funds, Other Borrowings/Average Assets) improved from 21.2% to 11.5% at 9/30/2018. The Bank's Tier 1 Leverage Ratio continues to strengthen, as well. At 9/30/2017 it was 8.54% and at 9/30/2018 it improved to 10.13%, which is a function of our \$1MM capital raise in Q 4 of 2017, year-to-date earnings and a planned decrease in quarterly average assets. This ratio continues to be significantly above the minimum required regulatory ratio for a well-capitalized bank.

At 9/30/2018, total loans were \$97.4MM compared to \$120.0MM at 9/30/2017 reflecting our strategic decision to discontinue our equipment finance business in early 2018, which accounted for \$16.2MM of the decrease. The \$6.4MM remainder of the decrease was primarily attributed to reductions in our Construction and Owner Occupied commercial real estate portfolio. The Bank's loan portfolio remains well balanced as evidenced by 43.7% in Commercial & Industrial Loans, 41.8% in Commercial Real Estate Loans, 9.7% in Consumer Loans and 4.8% in Government Guaranteed Loans.

Year-to-date income totals \$236MM as of 9/30/2018 compared to \$395M at 9/30/2017, which included \$600M in loan loss recoveries from our Eastside Commercial Bank acquisition in 2015. Year-to-date income continues to comfortably exceed our budget as we focus on consistent core operating earnings while maintaining tight non-interest expense control.

As we move in to the fourth quarter, we will continue to strengthen our Balance Sheet by increasing our core deposits and core earnings; thus positioning our Bank for future growth in 2019 and beyond. As always, we would welcome business referrals that will be addressed promptly with a very high level of expertise from our talented team.

Sincerely,



Jon C. Shelton
President & Chief Executive Officer



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Quarterly Report

September 2018

Statement of Condition

(In 000's) Unaudited

	As of September 30,	
	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 983	\$ 1,812
Fed Funds & Interest-bearing Deposits	30,668	16,064
Investment Securities	1,810	689
Loans on Accrual	95,584	119,903
Loans on Nonaccrual	1,824	152
Total Loans, Gross	97,408	120,055
Allowance for Loan Losses	(1,393)	(1,399)
Total Loans, Net	96,015	118,656
Premises & Equipment	141	162
Other Real Estate Owned	1,769	2,112
Other Assets	1,010	1,142
TOTAL ASSETS	\$ 132,396	\$ 140,637
LIABILITIES		
Noninterest-bearing Deposits	\$ 29,925	\$ 30,161
Interest-bearing Deposits	88,509	97,464
Other Liabilities	506	779
Total Liabilities	118,940	128,404
SHAREHOLDERS' EQUITY		
Common Stock & Related Surplus	59,943	60,267
Accumulated Deficit	(46,487)	(48,034)
Total Shareholders' Equity	13,456	12,233
TOTAL LIABILITIES & EQUITY	\$ 132,396	\$ 140,637

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Loans	\$ 888	\$ 921	\$ 2,762	\$ 2,689
Equipment Finance	297	449	1,042	1,393
Fed Funds & Interest-bearing Deposits	109	48	219	104
Investment Securities	14	4	31	13
Total Interest Income	1,308	1,422	4,054	4,199
INTEREST EXPENSE				
Deposits/Borrowings	210	205	669	578
Net Interest Income Before Provision	1,098	1,217	3,385	3,621
PROVISION FOR LOAN LOSSES	—	—	—	206
Net Interest Income after Provision	1,098	1,217	3,385	3,415
NONINTEREST INCOME	83	73	365	1,022
NONINTEREST EXPENSE				
Salaries & Benefits	516	689	1,700	1,949
Occupancy Expenses	185	215	576	766
Other Expenses	382	423	1,238	1,327
Total Noninterest Expense	1,083	1,327	3,514	4,042
INCOME TAXES	—	—	—	—
NET INCOME	\$ 98	\$ (37)	\$ 236	\$ 395