



Dear Shareholders:

May 31, 2020

I am pleased to report the first quarter 2020 financial results for First Sound Bank ("the Bank").

Following our revision of the Bank's strategic direction in 2019, which involved building a new lending team and restructuring both the asset and liability sides of the balance sheet, our budget for Q1 of 2020 forecasted a small operating loss. This did in fact happen. For the first quarter of 2020 the Bank lost \$77,000 compared to net income of \$80,000 for the same period in 2019. Looking behind the numbers, there are numerous items that have materially changed during this one year period.

Regarding the balance sheet:

- Loans are relatively flat from a year ago; due to our decision to exit the equipment finance ("EFA") business, EFA loans declined by \$13.9 million from 3/31/2019 to 3/31/2020. This was offset by \$11.7 of net growth in our non-EFA loan portfolio, a net growth rate of 17%. This represented the Bank's highest rate of core loan growth since 2007.
- Deposits are also relatively flat from a year ago; however during this one year period the Bank ran off all of its brokered deposits, reduced its reliance on wholesale and non-relationship deposits, and gained new core relationship deposits. As of 3/31/2020 the Bank had zero brokered deposits, and only \$2.7 million of internet deposits.

Regarding the income statement:

- Interest income from core loans was up by \$105K from last year, while interest income from EFAs declined by \$205K. Interest income from cash & investments was down by \$67K, even though our liquid balances stayed relatively flat year over year. The key driver of this decline was the steep drop in interest rates during the period; the interest rates on our various earning assets are down about 1.75%, on average, across the yield curve from one year ago.
- Non-interest income more than doubled year over year because of the Bank's renewed focus on originating and selling SBA loans. This will continue to be a key focus for us in 2020.
- Operating expenses continue to be tightly controlled and in fact declined 10% from Q1 2019 to Q2 2020. However personnel expense increased by 29%, which was significant and intentional. At the end of first quarter 2019 the Bank had virtually no commercial lending capacity; as part of our new strategic plan, we built a completely new lending team including support personnel.

The plan from this point forward is to continue to grow the core non-EFA loan portfolio, run off the remaining EFA loans, control operating expenses, focus on SBA origination and sales, and work toward getting the Bank back to meaningful core profitability.

Thank you for your continued support of the Bank. Please contact me at any time if you have questions, concerns, business referrals, or ideas.

Sincerely,

Marty Steele
President & CEO



First Sound Bank

STATEMENT OF CONDITION (IN 000'S) Unaudited

	As of March 31,	
	2020	2019
ASSETS		
Cash & Due From Banks	\$ 727	\$ 1,544
Fed Funds & Int Bearing Dep	11,972	11,623
Investment Securities	3,161	2,496
Loans on Accrual	88,521	89,599
Loans on Non Accrual	1,850	2,034
Total Loans	90,371	91,633
Less Allowance for Loan Losses	(1,408)	(1,472)
Net Loans	88,963	90,161
Bank Premises & Equipment	166	185
Other Real Estate Owned	1,769	1,769
Other Assets	828	920
TOTAL ASSETS	\$ 107,586	\$ 108,698
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non IB Demand Deposits	\$ 30,240	\$ 30,570
Interest Bearing Deposits	60,574	64,084
Other Liabilities	3,250	403
Total Liabilities	94,064	95,057
Shareholders' Equity		
Common Stock & Related Surplus	13,599	13,561
Accumulated Surplus (Deficit)	(77)	80
Total Shareholders' Equity	13,522	13,641
TOTAL LIABILITIES & EQUITY	\$ 107,586	\$ 108,698

STATEMENT OF OPERATIONS (IN 000'S) Unaudited

	For the Quarter Ended	
	March 31, 2020	March 31, 2019
INTEREST INCOME		
Loans	\$ 876	\$ 771
Equipment Financing	99	304
Fed Funds & Int Bearing Dep	38	114
Investment Securities	21	12
Total Interest Income	1,034	1,201
INTEREST EXPENSE		
Deposits/Borrowings	148	175
NET INTEREST INCOME	886	1,026
Less Provision for Loan Losses	0	0
Net Interest Income After Provision for Loan Losses	886	1,026
NON INTEREST INCOME	129	57
NON INTEREST EXPENSE		
Salaries & Benefits	619	478
Occupancy & Equipment	239	252
Other Expenses	234	273
Total Noninterest Expense	1,092	1,003
Income taxes	0	0
NET INCOME (LOSS)	\$ (77)	\$ 80