

February 28, 2019

Dear Shareholders:

I am pleased to report the financial results for the fourth quarter and full year of 2018 for First Sound Bank ("the Bank"). In 2018 we had two primary objectives. First, to restructure the Bank's balance sheet to increase core deposits thereby reducing our reliance on wholesale funding; and second, to improve the core profitability of the Bank. Both of these objectives were accomplished:

- During 2018 core deposits grew by \$11.4 million or 12.3%, while our wholesale deposits declined by \$14.1 million. We also were able to pay off all of our Federal Home Loan Bank borrowings during the year; therefore at year-end 2018 the Bank's overall dependence on wholesale funding was down to just 10.1% of total assets. This trend is continuing, and will result in more stable and lower cost funding for the Bank as we grow in 2019 and beyond.
- Core profitability improved dramatically in 2018. The Bank reported net income of \$344,000 in 2018 vs. \$309,000 for 2017, however the 2017 number included a one-time gain of \$600,000 in loan loss recoveries from our 2015 Eastside Commercial Bank acquisition. The key drivers of 2018's improved profitability were increased interest income on new loans, increased interest income on our liquid assets, and very tight expense control.

For 2019 our primary objective is to grow the Bank, both loans and deposits, while continuing to maintain tight control over operating expenses, resulting in improved profitability and valuation of the Bank. Loan growth will be a major focus of our efforts, as we replace our declining equipment finance portfolio with new commercial and consumer loans to both existing and new customers. As always, we welcome business referrals that will be addressed promptly with a high level of expertise from our talented team.

On a personal note, I was notified late last year that our President & CEO, Jon Shelton, intended to retire in early 2019. I want to thank Jon for his years of service with our Bank; under his leadership our Bank's balance sheet and operating performance have been materially strengthened.

On January 15, 2019 an announcement was made that Martin (Marty) A. Steele has agreed to join our Bank as President and CEO in the first quarter of 2019, pending regulatory approval of the sale of The Bank of Washington where Marty has served as President and CEO since 2013. Previously, Marty was President & CEO of Charter Bank in Bellevue from 2010 until that bank's sale in 2013. I am extremely pleased to have Marty join us soon. A copy of the Press Release announcing Marty's appointment can be found on our website.

Sincerely,



Steven J. Schwartz, Chairman



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First Sound Bank

Experienced. Innovative. Sound.



Quarterly
Report

December 2018

Statement of Condition

(In 000's) Unaudited

	As of December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 783	\$ 755
Fed funds and interest-bearing deposits	27,188	17,606
Investment securities	1,593	955
Loans on accrual	99,022	117,546
Loans on nonaccrual	1,965	5,441
Total loans, gross	100,987	122,987
Allowance for loan losses	(1,456)	(1,406)
Total loans, net	99,531	121,581
Premises and equipment	182	154
Other real estate owned	1,769	1,912
Other assets	877	1,395
TOTAL ASSETS	\$ 131,923	\$ 144,358
LIABILITIES		
Noninterest-bearing deposits	\$ 31,228	\$ 28,333
Interest-bearing deposits	86,680	92,200
Total deposits	117,908	120,533
Other liabilities	461	10,623
Total liabilities	118,369	131,156
SHAREHOLDERS' EQUITY		
Common stock and related surplus	60,041	61,315
Accumulated deficit	(46,487)	(48,113)
Total shareholders' equity	13,554	13,202
TOTAL LIABILITIES & EQUITY	\$ 131,923	\$ 144,358

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended		For the Twelve Months Ended	
	2018	2017	2018	2017
INTEREST INCOME				
Loans	\$ 845	\$ 829	\$ 3,608	\$ 3,506
Equipment finance	252	392	1,294	1,797
Fed funds and interest-bearing deposits	165	8	384	147
Investment securities	11	39	41	17
Total interest income	1,273	1,268	5,327	5,467
INTEREST EXPENSE				
Deposits/borrowings	206	211	874	789
Net interest income before provision	1,067	1,057	4,453	4,678
PROVISION FOR LOAN LOSSES	—	—	—	206
Net interest income after provision	1,067	1,057	4,453	4,472
NONINTEREST INCOME	109	104	475	1,314
NONINTEREST EXPENSE				
Salaries and benefits	474	619	2,175	2,567
Occupancy expenses	189	142	765	799
Other expenses	406	485	1,644	2,111
Total noninterest expense	1,069	1,246	4,584	5,477
INCOME TAXES	—	—	—	—
NET INCOME	\$ 107	\$ (85)	\$ 344	\$ 309