

January 31, 2020

Dear Shareholders:

I am pleased to report the fiscal year-end 2019 financial results for First Sound Bank ("the Bank").

For 2019 the Bank generated a modest net profit of \$40,000 compared to \$343,000 in 2018, and the balance sheet decreased to \$107 million at 12/31/2019 compared to \$132 million at 12/31/2018. What is not yet reflected in these numbers is the fact that in 2019 we successfully accomplished a complete restructure of the Bank's business model, organization, and strategic direction.

Regarding the numbers:

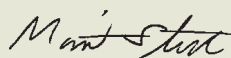
- Overall loans decreased by \$12.3 million, due to our deliberate decision to exit the equipment finance ("EFA") business. This resulted in EFA loans declining by \$14.0 million during 2019; however it is significant to note that non-EFA loans actually increased by \$1.7 million during the year. This represented the Bank's first year of organic core loan growth since 2007.
- Deposits decreased by \$25.1 million, which was solely the result of the Bank reducing its reliance on wholesale and non-relationship deposits. As of 12/31/2019 the Bank had zero brokered deposits, a major accomplishment for us, and only \$2.7 million of internet deposits.
- Net interest income declined to \$4.0 million in 2019 vs. \$4.5 million in 2018, driven solely by the decrease in EFA loans and the decline in market interest rates during 2019.
- Operating expenses were tightly controlled in 2019, decreasing to \$4.4 million in 2019 compared to \$4.6 million in 2018. Underlying these expense numbers is the fact that we completely reorganized the Bank, adding an entire new sales team and increasing our loan production support staff; we replaced overhead expenses with loan production expenses.

Regarding our current situation and strategic plan:

- With our new sales team in place, we are actively marketing the Bank and our visibility in the Seattle/Bellevue business community is increasingly high
- We are once again a market leader in SBA lending, and this will drive revenues going forward
- Our liquidity and capital ratios are very strong, providing room for significant growth
- Asset quality is excellent, with only two non-performing assets on our balance sheet
- During the second half of 2019 and continuing into 2020, our non-EFA loan production is averaging over \$3 million per month which is more than double the rate in prior years
- Staff turnover is now minimal and the teamwork and staff morale at the Bank are exceptionally high. The employees are working together as a team to grow earnings and shareholder value.

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 & Chief Executive Officer



**First Sound Bank**

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**First Sound Bank**



**Quarterly  
Report**

**December 2019**

## Statement of Condition

(In 000's) Unaudited

|   | As of December 31, |                  |
|---|--------------------|------------------|
|   | 2019               | 2018             |
| <b>ASSETS</b>                           |                    |                  |
| Cash and Cash Equivalents               | \$ 663             | \$ 783           |
| Fed Funds and Interest-bearing Deposits | 13,116             | 27,188           |
| Investment Securities                   | 3,187              | 1,593            |
| Loans on Accrual                        | 86,824             | 99,003           |
| Loans on Nonaccrual                     | 1,893              | 1,984            |
| Total Loans, Gross                      | 88,717             | 100,987          |
| Allowance for Loan Losses               | (1,485)            | (1,456)          |
| Total Loans, Net                        | 87,232             | 99,531           |
| Premises and Equipment                  | 179                | 182              |
| Other Real Estate Owned                 | 1,769              | 1,769            |
| Other Assets                            | 759                | 877              |
| Total Assets                            | <b>\$106,905</b>   | <b>\$131,923</b> |
| <b>LIABILITIES</b>                      |                    |                  |
| Noninterest-bearing Deposits            | \$ 26,600          | \$ 31,228        |
| Interest-bearing Deposits               | 66,254             | 86,680           |
| Other Liabilities                       | 465                | 461              |
| Total Liabilities                       | <b>93,319</b>      | <b>118,369</b>   |
| <b>SHAREHOLDERS' EQUITY</b>             |                    |                  |
| Common Stock and Related Surplus        | 59,741             | 60,041           |
| Accumulated Deficit                     | (46,155)           | (46,487)         |
| Total Shareholders' Equity              | 13,586             | 13,554           |
| Total Liabilities and Equity            | <b>\$106,905</b>   | <b>\$131,923</b> |

## Statement of Operations

(In 000's) Unaudited

|   | For the Quarter Ended<br>December 31, |               | For the Twelve Months Ended<br>December 31, |               |
|---|---------------------------------------|---------------|---|---------------|
|   | 2019                                  | 2018          | 2019  | 2018          |
| <b>INTEREST INCOME</b>                  |                                       |               |   |               |
| Loans                                   | \$ 877                                | \$ 846        | \$3,425                                     | \$3,608       |
| Equipment Finance                       | 134                                   | 252           | 705   | 1,294         |
| Fed Funds and Interest-bearing Deposits | 72                                    | 165           | 331   | 384           |
| Investment Securities                   | 36                                    | 10            | 99  | 41            |
| Total Interest Income                   | 1,119                                 | 1,273         | 4,560                                       | 5,327         |
| <b>INTEREST EXPENSE</b>                 |                                       |               |   |               |
| Deposits/Borrowings                     | 149                                   | 206           | 595   | 875           |
| Net Interest Income Before Provision    | 970                                   | 1,067         | 3,965                                       | 4,452         |
| <b>PROVISION FOR LOAN LOSSES</b>        |                                       |               |   |               |
| Net Interest Income After Provision     | 970                                   | 1,067         | 3,965                                       | 4,452         |
| <b>NON INTEREST INCOME</b>              |                                       |               |   |               |
|   | 105                                   | 110           | 430   | 475           |
| <b>NON INTEREST EXPENSE</b>             |                                       |               |   |               |
| Salaries and Benefits                   | 694                                   | 639           | 2,263                                       | 2,339         |
| Occupancy Expenses                      | 179                                   | 189           | 728   | 765           |
| Other Expenses                          | 227                                   | 242           | 1,364                                       | 1,480         |
| Total Noninterest Expense               | 1,100                                 | 1,070         | 4,355                                       | 4,584         |
| <b>INCOME TAXES</b>                     |                                       |               |   |               |
|   | —                                     | —             | —   | —             |
| <b>NET INCOME</b>                       | <b>\$ (25)</b>                        | <b>\$ 107</b> | <b>\$ 40</b>                                | <b>\$ 343</b> |