

We started this journey for you.

2014 ANNUAL REPORT



Liberty
Bay
Bank



Richard Darrow

PRESIDENT &
CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

Eric Anderson

Director & Founder

Richard Darrow

President &
Chief Executive Officer

James Ferris

Director & Founder

Marie Gallagher

Director & Founder

Klaus Golombek

Director & Founder

Clif McKenzie

Director & Founder

Joseph Michelsen

Director & Founder

William Parnell

Chairman & Founder

Jefferey Uberuaga

Director & Founder

Dear Shareholders, Clients and Employees,

As I reflect upon the last year, I must also look to Liberty Bay Bank's remarkable history to date and toward its vibrant future.

Founded in 2009 with the vision and commitment of regional business leaders who believed a different breed of community bank was needed, Liberty Bay Bank has today achieved impressive growth built on several guiding principles: *innovation, determination, collaboration* – and I daresay, *inspiration*.

Liberty Bay Bank is, indeed, growing into the community bank we envisioned it becoming.

Vision and determined action have combined to bring us to a proud fifth year of results reporting where a number of vital achievements can be celebrated. The bank's financial performance is illustrated inside this report, and there are key milestones we also need to acknowledge.

- First-time positive annual net earnings for the bank in fiscal year 2014. Liberty Bay Bank earned \$187,000 in 2014 and was profitable for the last six consecutive quarters.
- Continued strong loan and deposit growth. Year-over-year loans increased \$8.5 million, or 18%; deposits increased \$9.0 million, or 16%. Our non-interest bearing deposits increased by \$ 4.1 million or 41%.
- Liberty Bay Bank is ranked # 1 for deposit market share in Poulsbo out of all regional and community banks, and ranked #3 in percentage loan growth in the State of Washington for banks under \$300 million in total assets.
- Excellent credit quality management, with zero past due and non-performing loans, and the vast majority of loans kept and carefully managed in-house.

The enhanced momentum, market presence, and bottom-line performance we have experienced in 2014 and particularly in the last three years are the result of our hard-working team of intelligent professional bankers and our tireless staff, who keep their promise of building relationships with each and every client.

While Liberty Bay Bank's strengths may lie in offering progressive business banking solutions, our expanding client base includes loyal and satisfied commercial ventures and individuals stretching from Gig Harbor to Port Townsend to Seattle, as well as in our immediate Kitsap county communities. The confidence and trust our communities and our clients place in Liberty Bay Bank are certainly among one of its most essential assets.

Together, with continued innovation, determination, collaboration, and inspiration, we have brought a new look to community banking. It is reflected in our financial performance, in the spirit of our brand and new marketing campaign, and in our entire team's passion to engage with, invest in, and support the very fabric of the communities we serve.

We started this journey for you. Thank you for your confidence in our vision.

Liberty Bay Bank

BY THE NUMBERS

**NAMED ONE OF THE
SAFEST BANKS
IN AMERICA IN 2012**

by the Puget Sound Business Journal & MSN Money

#1

for deposit market
share in **Poulsbo**
*out of all regional and
community banks*

**ZERO
PAST-DUE**
and non-performing loans

**142
DOZEN**



cookies served
in our lobby, every year



Ranked in the
TOP 10
FASTEST GROWING BANKS
*on the west coast**

**3,341
POUNDS**

of supplies and food donated to
community food banks

468  **YEARS**
of combined banking expertise

76 **MILLION**
in assets
(up from \$65 in 2013)

*Based on FDIC industry database for WA, OR and CA banks with less than \$200 million in total assets as of 12/31/14.



Serious solutions for a growing venture.

As a growing Kitsap-based international company with a passion for supporting the regional economy, Watson needed financial resources that were nimble, top-notch, and cost-effective. Clif conducted extensive research and discovered what he needed at Liberty Bay Bank. He found the products and services were just as good as the big banks, yet more cost-effective. Maintaining a strong cash position and avoiding debt enables them to thrive in economic downturns and invest in cutting edge manufacturing techniques and responsible growth.

"My finances are important to me and I choose to work with bankers who take their role, and my money, seriously."

CLIF MCKENZIE

Director & Founder - Watson Furniture Group

Watson operates its company on a few core principles: *simplicity, dignity, & curiosity*. Banking with Liberty Bay Bank delivers the "roll-up-their-sleeves" hard work ethic, time and money saving technologies, and the personal service Clif and his team require. The bank is also well matched to Watson's corporate value for working with local people with a community reinvestment mindset.



Care where it counts.

When Craig and Bethany took a close look at the business solutions offered by Liberty Bay Bank, the choice was obvious. They found a bank that more than met their needs, and was a match for their commitment to building community relationships. Craig and Bethany were so impressed with the attentive and professional level of service they received for their expanding business, they then turned to Liberty Bay Bank to refinance their house and farm property, which is home to their three children, two horses, two donkeys, their boxer Copper, and assorted chickens, ducks, and pet rabbits.

In a service-intensive business and for a growing family, cultivating trusting relationships and managing with efficiency and accuracy are essential. Poulsbo Animal Clinic makes use of the many on-line banking conveniences Liberty Bay Bank provides, including the latest cash management tools, direct merchant deposit capture for checks, credit card processing, electronic funds transfer, and more. The Adams have the ability to "bank from anywhere" and to maintain a seamless relationship with their off-site bookkeeper. The busy clinic appreciates the reliability and efficiency of the courier service, too.

"Liberty Bay Bank keeps pace with our high standards for service excellence and, like us, their hearts and hands are genuinely invested in nurturing the community and enduring relationships."

DR. CRAIG ADAMS & DR. BETHANY ADAMS

Poulsbo Animal Clinic



National bank solutions, community bank attention.

Liberty Bay Bank offers all of the progressive business and personal banking solutions you'd expect at a much bigger bank, all backed by sound banking principles, exceptional personal service, and a promise to exceed your expectations of what a community bank can be.

Checking Accounts

An essential for business and personal banking, checking accounts at LBB can be integrated with the fee-free conveniences of on-line banking and e-statements, plus easy transfers between other accounts such as Savings and Money Markets. Student checking, Essential Plus checking for persons age 55+, and even interest-bearing Community checking for non-profits are among the many feature-rich options available.

Loans

Explore LBB's highly-competitive range of lending solutions to fulfill business or personal needs, including Small Business Solutions, Mortgages, Lines of Credit, and more.

- Commercial Real Estate Loans
- Commercial Term Loans
- SBA Guarantee Loans
- Lines of Credit
- Personal Loans
- Mortgages

Savings Accounts

Liberty Bay Bank offers a complete range of interest-bearing personal and business savings accounts, including Money Market accounts, Student Savings accounts, and Essential Plus programs for persons age 55+. Enjoy options that can include free on-line banking with bill pay, e-statements, waive of other domestic bank's ATM fees, and more.

Services

Power up business success and productivity with Liberty Bay Bank's progressive solutions.

- Remote Deposit Capture
- Cash Management
- Online Banking
- Merchant Card Processing
- Courier Service
- Credit/Debit Cards



Found only in the Northwest.

Innovation. Determination. Collaboration. Inspiration.

(Perhaps not what you'd expect from a bank, but that's just the point.)

Liberty Bay Bank continues to fulfill its resolve to be a different breed of bank: one that is truly invested in the success of each and every commercial and personal banking client, fiscally rock solid, and deeply engaged in the communities it serves.

While headquartered in Poulsbo, Liberty Bay Bank is a vibrant, dynamic institution that is thriving and serving hundreds of business and personal banking clients across the West Sound and Greater Puget Sound regions.

By delivering exceptional personalized service, offering time and money-saving technologies, and standing firm in our commitment to exceed the service expectations of each and every client, we are continually tracking in new waters and breaking fresh ground with innovative solutions to meet the challenges and opportunities in our landscape and in our communities.

A local bank with a big vision.

The secret to Liberty Bay Bank's success has been recruiting outstanding banking talent and working with diligence to provide extraordinary personal service at every turn and transaction, always balanced by fiscally sound banking principles. From innovative loan solutions, to merchant processing tools and on-line banking conveniences – even a door-to-door courier service – we're rooted in practical solutions that meet the needs of today's busy customers, while partnering in their success for tomorrow.

Liberty Bay Bank strives to be the community bank of choice for businesses, professionals, and individuals. We are ever mindful of the trust placed in us by our clients and shareholders.

Join us as we continue to grow and invest in the communities we serve.



"Liberty Bay Bank really cares about fostering our business success, helping the regional business community, and the communities where we live and work."

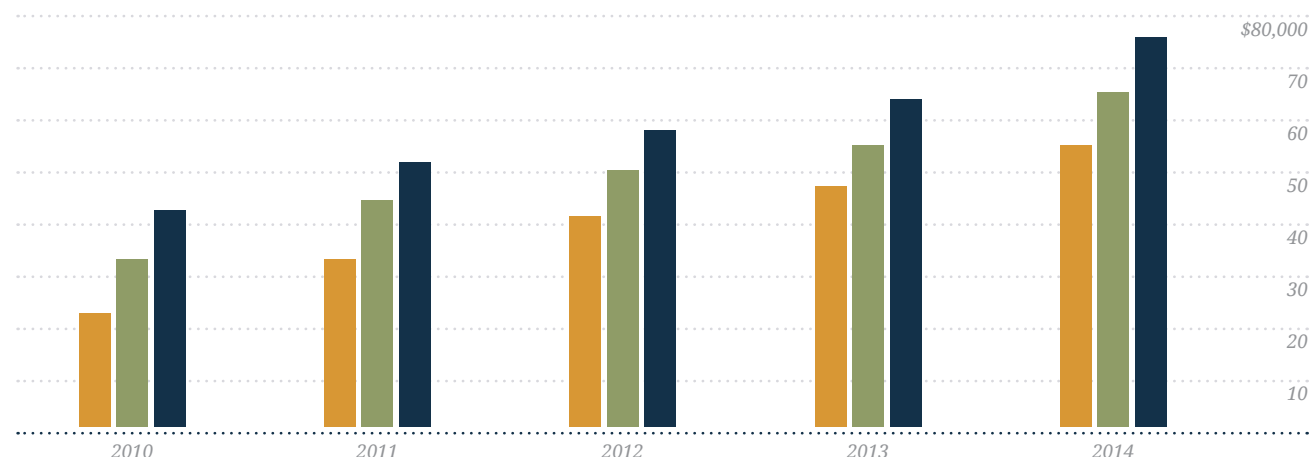
Morgan Hanley

VICE PRESIDENT,
HANLEY CONSTRUCTION, INC.

Financial Highlights (dollars in thousands except per share amounts)

UNAUDITED

Loans Deposits Assets



At December 31

	2010	2011	2012	2013	2014
Assets	\$41,614	\$52,202	\$58,086	\$64,657	\$76,045
Loans	23,565	33,740	41,752	47,203	55,718
Deposits	34,127	45,188	50,085	55,910	64,992
Stockholders' equity	7,235	6,763	7,817	7,514	7,838

For the year ended

	2010	2011	2012	2013	2014
Net interest income	\$741	\$1,757	\$2,112	\$2,333	\$2,830
Net income (loss)	(1,906)	(530)	(47)	(191)	187

Key Operating Ratios

	2010	2011	2012	2013	2014
Return on average equity	-23.20%	-7.60%	-0.70%	-2.50%	2.44%
Return on average assets	-5.81%	-0.93%	-0.09%	-0.31%	0.27%
Net interest margin	2.59%	3.33%	4.16%	3.93%	4.24%
Non-interest expense to average assets	7.22%	4.74%	4.62%	4.40%	4.13%
Ratio of non-performing loans to total assets	-	-	-	-	-
Net loan chargeoffs to average loans	-	-	-	-	-

Capital Ratios

	2010	2011	2012	2013	2014
Leverage	18.81%	11.98%	14.19%	11.98%	10.44%
Total risk-based	30.25%	22.05%	20.53%	17.22%	15.12%

Building Relationships That
Strengthen Our Community™



Liberty Bay Bank

(360) 779-4567

libertybaybank.com

Headquartered in Poulsbo and serving clients and communities throughout Puget Sound.

