



February 1, 2010

Dear Shareholders and Customers of First Sound Bank:

Our purpose for writing to you today is to review our financial results from 2009 and to provide an update on the "state of First Sound Bank."

On January 29th, First Sound Bank announced a \$6.5 million loss for the quarter ended December 31, 2009 and a \$17.0 million loss for the year ended December 31, 2009. Results for the fourth quarter reflect continued real estate and lease related loan losses. As of December 31, 2009, the provision for loan losses totaled \$13.0 million, or 7.36% of our total loans, held in reserve for potential future losses. Bank management anticipates such losses will decrease in 2010.

The Bank's Tier 1 Capital at year end stood at 3.58% down from 6.27% at September 30, 2009. The Bank's Total Risk-based Capital at year end was 5.73% down from 8.11% at the end of the prior quarter. Because of its declining ratios and loan losses, the Bank is under closer scrutiny from its regulatory agencies and management is working to address those concerns.

The Bank's net interest margin for the quarter increased to 5.07%; up from 4.53% in the prior quarter. This improvement is the result of the contributions of the asset based lending and leasing divisions along with additional yields from the liquidation of a real estate project.

Total assets ended the year at \$198.6 million down from \$259.0 million at December 31, 2008. Loans ended the year at \$176.0 million with the portfolio evenly distributed between the primary asset categories: real estate, leasing and commercial and industrial loans. This reduction of assets is a strategic objective to improve capital ratios. Deposits ended the year at \$182.2 million, down from \$204.2 million at December 31, 2008. Twenty percent of the Bank's deposits are held in non-interest bearing checking accounts.

At year end, non-performing loans represent 23% of average assets, or \$45.5 million, which is a reflection of the deteriorating real estate environment particularly in construction and land development. Past due loans (30-89 days) in the bank portfolio are nominal and management is optimistic that credit quality is improving. Past dues in the leasing portfolio were greater than expected but improvement is anticipated as the economy recovers.

First Sound continues to pursue the litigation against LARASCO, Inc., the successor of Puget Sound Leasing Co., Inc. and its former owners (jointly "LARASCO"), and defend against counterclaims brought by LARASCO. In addition, several banks that purchased leasing portfolios from LARASCO and/or the Bank have filed claims against LARASCO and the Bank. Several of the bank claims against First Sound have been resolved, but some remain. First Sound Bank's complaint alleges the defendants violated federal and state securities laws by misrepresenting the extent to which leases were delinquent and failed to disclose accounting irregularities that inflated LARASCO, Inc.'s prior performance. The court granted a motion by First Sound Bank for a writ of attachment and

authorized the Bank to attach more than \$3.6 million worth of defendant's property. Since the LARASCO transaction closed on March 1, 2008, the Bank has incurred over \$24 million in losses attributable to the misrepresentations and credit issues from the leasing division, \$6.0 million of those losses were realized in 2009. Trial in Federal District Court on this matter, if not resolved prior, is scheduled for May 5, 2010.

Over the past 18 months significant expenses have been reduced in response to our financial challenges. Total staff has been reduced by more than 50 percent and now stands at 54 with salaries frozen for all. The Bank has ceased the matching contribution to the employee 401K plans and all staff have taken 5 furlough days in lieu of pay in 2009 and 2010. In addition, the Executives and the Board have taken a 20% cut in pay effective in early 2009.

As we move forward into 2010 we fully expect to see a reduction in non-performing loans, a diminished need for additional loan and lease loss reserves and a positive resolution to current matters under litigation. We have a highly skilled, dedicated staff demonstrating their continued support to the organization in both the bank and leasing divisions. With this commitment we feel confident the Bank can affect a return to profitability.

In summary, the Bank has been through a difficult period. The Bank has aggressively reserved for potential future loan and lease losses and we feel an improvement in overall credit quality for 2010 is likely. We also believe the litigation which has been a drag on our resources will be resolved in 2010. Once we can see beyond these issues, we anticipate raising additional capital and hope our shareholders will support that effort. We recognize the financial service needs of small to medium sized businesses in this market and see great opportunity for First Sound Bank in the future as the local economy rebounds.

We sincerely hope that this report has been helpful. As progress continues we will keep you posted but welcome your questions at any time. We would also like to remind our shareholders that First Sound Bank will be holding its annual meeting in the fall. Watch for further details on the specific meeting date and venue.

We appreciate your continued confidence in the Bank. Thank you for your support.

Sincerely,

Don L. Hirtzel
Chairman and CEO
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Steven M. Shaughnessy
President and COO
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Certain statements in this letter, including statements regarding the anticipated development and expansion of First Sound Bank's business, and the intent, belief or current expectations of the company, its directors or its officers, are "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements.