

August 23, 2018

Dear Shareholders:

The Year-over-year comparison reflects the Bank's improved deposit composition and improved liquidity and capital ratios.

Total deposits at 6/30/2018 decreased to \$121.4MM compared to \$130.1MM as of 6/30/2017. This reduction is the result of the Bank's strategic initiative to reduce high cost wholesale deposits while increasing core customer deposits; thus, decreasing our cost of funds. Year-over-year retail core deposits were up \$6.3MM, while wholesale deposits decreased \$15MM. Our Tier 1 Leverage Ratio increased Year-over-year to 9.78% at 6/30/2018 from 8.53% at 6/30/2017, which can be attributed to our \$1MM capital raise in Q4 of 2017, YTD earnings and a decrease in quarterly average assets. This ratio remains well above the minimum required regulatory ratio for a well-capitalized bank.

Total loans were down \$9.2MM Year-over-year due to our strategic decision to exit the equipment finance business in early 2018. The equipment finance portfolio was down \$13.5MM at 6/30/2018, while commercial loans were up \$4.3MM evidencing our redeployment of funds to higher earning business loans in our local market. The Bank's loan portfolio remains well-diversified at 45% commercial, 46% commercial real estate and 9% consumer.

Year-to-date income totals \$138M compared to prior year-to-date income of \$431.4M, which was comprised primarily of \$680M in loan recoveries from our Eastside Commercial Bank acquisition in 2015. Year-to-date income exceeds our budget as we continue to restructure our Balance Sheet and focus on core earnings.

As we move forward, we will continue to focus on improving our efficiency, increasing our core deposits and maintaining our stable loan portfolio to maximize returns. I am very proud of our team for their contributions and dedication. As always, we would welcome business referrals that will be addressed promptly and with a very high level of expertise.

In July, Pat Fahey elected to retire as a member of our Board of Directors. Pat faithfully served as our chairman, president and CEO from 2012 to 2016, and as chairman since January of 2012. We wish him well in his well-deserved retirement and sincerely appreciate his leadership and invaluable contribution to our team over the years.

Sincerely,

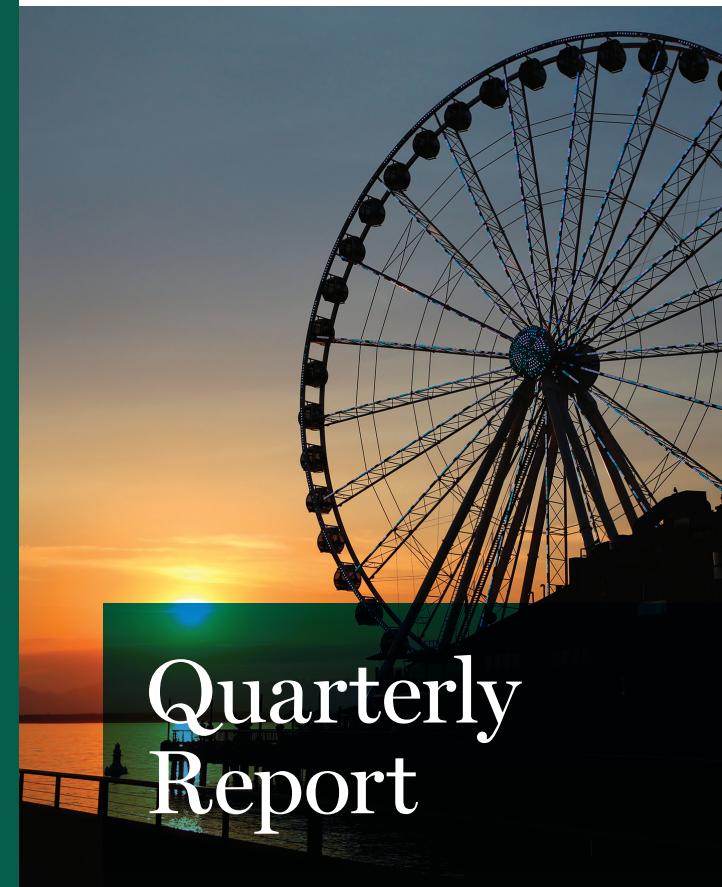


**Jon C. Shelton**  
President & Chief Executive Officer



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# Quarterly Report

June 2018

## Statement of Condition

(In 000's) Unaudited

	As of June 30,	
	2018	2017
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,562	\$ 1,258
Fed Funds and Interest Bearing Deposits	19,223	18,564
Investment Securities	1,836	723
Loans on Accrual	105,653	120,263
Loans on Non Accrual	5,394	24
Total Loans, Gross	111,047	120,287
Allowance for Loan Losses	(1,372)	(1,345)
Total Loans, Net	109,675	118,942
Premises and Equipment	144	171
Other Real Estate Owned	1,769	2,385
Other Assets	1,058	1,167
Total Assets	<b>\$ 135,267</b>	<b>\$ 143,210</b>
<b>LIABILITIES</b>		
Noninterest-bearing Deposits	\$ 32,287	\$ 35,896
Interest-bearing Deposits	89,103	94,251
Other Liabilities	525	803
Total Liabilities	121,915	130,950
<b>SHAREHOLDERS' EQUITY</b>		
Common Stock and Related Surplus	61,327	60,257
Accumulated Deficit	(47,975)	(47,997)
Total Shareholders' Equity	13,352	12,260
Total Liabilities and Equity	<b>\$ 135,267</b>	<b>\$ 143,210</b>

## Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
<b>INTEREST INCOME</b>				
Loans	\$ 896	\$ 946	\$ 1,873	\$ 1,799
Equipment Finance	345	438	744	913
Fed Funds and Interest-bearing Deposits	67	38	117	56
Investment Securities	4	6	10	9
Total Interest Income	1,312	1,428	2,744	2,777
<b>INTEREST EXPENSE</b>				
Deposits/Borrowings	225	199	457	373
Net Interest Income Before Provision	1,087	1,229	2,287	2,404
<b>PROVISION FOR LOAN LOSSES</b>				
	—	60	—	206
Net Interest Income After Provision	1,087	1,169	2,287	2,198
<b>NON INTEREST INCOME</b>				
	126	611	267	948
<b>NON INTEREST EXPENSE</b>				
Salaries and Benefits	546	641	1,184	1,259
Occupancy Expenses	167	271	391	551
Other Expenses	411	455	841	905
Total Noninterest Expense	1,124	1,367	2,416	2,715
<b>INCOME TAXES</b>				
	—	—	—	—
<b>NET INCOME</b>	<b>\$ 89</b>	<b>\$ 413</b>	<b>\$ 138</b>	<b>\$ 431</b>