

May 4, 2017

Dear First Sound Shareholders,

The 1st Quarter showed continued improvement in the fundamentals needed for improved performance, with the restoration effort essentially behind us. While slightly profitable, a comparison with last year shows a \$146,000 loan loss provision expense for this year in light of current and expected loan growth vs. a \$160,000 reverse provision (or credit) the prior year due to recoveries related to our previous acquisition of Eastside Commercial Bank. Thus, a \$306,000 swing in the provision expense from year-to-year, which we do not expect to recur. Our pipeline of loan prospects being processed continues to grow each month and our balance sheet remains asset sensitive, positioned to benefit from anticipated rate increases by the Federal Reserve should they materialize.

Details for the 1st Quarter ended March 31, 2017 can be found in the Statements of Condition and Operations included in this report. Some items of note were:

- Loans on accrual were up 12% net of pay-downs, the strongest growth since beginning the restoration of the bank to health;
- Loans on non-accrual have dropped dramatically over the past few years and declined further by 52% this quarter;
- Total assets grew by 8.4% from the prior year;
- Non-interest expenses were down 3.3% from the prior year despite significant costs in improvement of systems, equipment and staffing.

While we do not normally comment on events that occur subsequent to the Quarter-end, it is significant to note that more than \$400,000 in income related to two problem assets expected to be received in the 1st Quarter was delayed due to escrow closing delays. That income was received in the 1st week of the current quarter, and will be reflected in the 2nd Quarter results.

We are also pleased to have further strengthened our team during the Quarter with the addition of Geri Bullard as Executive Vice President and Chief Financial Officer and Debbie Webber as Senior Vice President and Relationship Manager. Debbie has been a top performer in SBA loan production throughout her career. Lisa Cleary, who has been a key member of our credit administration team, has joined the Executive Management Group as Executive Vice President and Chief Credit Officer. More information is available on our newly refurbished website.

In April of this year, we launched a private banking initiative including wealth management and financial planning. We are excited about the prospects for this initiative.

The continued support of our shareholders is very much appreciated, and we hope that you will remain alert for business referral opportunities among relatives and friends.

Sincerely,



Patrick M. Fahey
Executive Chairman



Jon C. Shelton
President & Chief Executive Officer



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Experienced. Innovative. Sound.



Quarterly Report

March 2017

Statement of Condition

(In 000's) Unaudited

	As of March 31,	
	2017	2016
ASSETS		
Cash & Due From Banks	\$ 768	\$ 549
Fed Funds & Int Bearing Dep	13,073	14,669
Investment Securities	752	657
Loans on Accrual	119,604	106,888
Loans on Non Accrual	281	584
Total Loans	119,885	107,472
Less Allowance for Loan Losses	(1,278)	(1,079)
Net Loans	118,607	106,393
Bank Premises & Equipment	169	79
Other Real Estate Owned	2,385	2,725
Other Assets	1,589	1,641
TOTAL ASSETS	\$ 137,342	\$ 126,713
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non IB Demand Deposits	\$ 30,289	\$ 33,704
Interest Bearing Deposits	86,152	80,172
Other Liabilities	9,060	1,097
Total Liabilities	125,501	114,973
Shareholders' Equity		
Common Stock & Related Surplus	60,248	60,191
Accumulated Surplus (Deficit)	(48,407)	(48,451)
Total Shareholders' Equity	11,841	11,740
TOTAL LIABILITIES & EQUITY	\$ 137,342	\$ 126,713

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended March 31,	
	2017	2016
INTEREST INCOME		
Loans	\$ 853	\$ 802
Equipment Financing	476	448
Fed Funds & Int Bearing Dep	18	14
Investment Securities	2	14
Total Interest Income	\$ 1,349	\$ 1,278
INTEREST EXPENSE		
Deposits/Borrowings	174	129
NET INTEREST INCOME	1,175	1,149
Less Provision for Loan Losses	146	(160)
Net Interest Income After Provision for Loan Losses	1,029	1,309
NON INTEREST INCOME	337	191
NON INTEREST EXPENSE		
Salaries & Benefits	618	687
Occupancy & Equipment	280	228
Other Expenses	448	478
Total Noninterest Expense	1,347	1,393
Income Taxes	—	—
NET INCOME (LOSS)	\$ 19	\$ 107