

October 21, 2016

Dear First Sound Shareholders,

While we saw continuing progress in a number of areas, the 3rd Quarter was a challenging one. Our operating results for the quarter and year-to-date were impacted by the lack of premium income from the sale of SBA loans due to a process change at the SBA which caused some delays. We expect this income will materialize in the current quarter and we are encouraged by the continued growth of our pipeline of loans in process. We are also experiencing a strong quarter in equipment financing. A comparison of the year-to-date result in 2016 with the first nine months of the prior year is not very meaningful due to the significant one-time benefits derived from the acquisition of Eastside Commercial Bank in 2015.

Details for the 3rd Quarter ended September 30, 2016, and the year-to-date can be found in the Statements of Condition and Operations included in this report. Some items of note were:

- Loans on accrual were up a net 2.4% after pay-downs;
- Loans on non-accrual were reduced by 52%;
- Other Real Estate Owned (foreclosed property) is down 12.5%, with only two properties left;
- Total liabilities were down due to reduced borrowings and internet CDs;
- Shareholders' equity was up 4.9% from a year ago;
- Non-interest income, while up for the quarter, was down significantly year-to-date, absent the non-recurring income items associated with the Eastside Commercial Bank acquisition in 2015;
- Non-interest expense, up slightly for the quarter, was down 2.5% for the year-to-date.

We expect to complete the rollout of our refurbished website and the introduction of mobile banking for our clients this month. Recent additions have strengthened our team in sales and operations, and we will be increasing our advertising in local business publications. As always, we are thankful for the support of our customers and shareholders, and we very much appreciate the business referrals we receive.

Sincerely,



Patrick M. Fahey
Chairman & CEO



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Quarterly Report

September 2016

Statement of Condition

(In 000s) Unaudited

	As of September 30,	
	2016	2015
ASSETS		
Cash & Due From Banks	\$ 1,127	\$ 1,151
Fed. Funds & Interest-Bearing Deposits	16,239	19,046
Investment Securities	825	901
Loans on Accrual	109,789	107,559
Loans on Non-Accrual	273	569
Total Loans	110,062	108,128
Less Allowance for Loan Losses	(1,149)	(1,329)
Net Loans	108,913	106,799
Bank Premises & Equipment	75	81
Other Real Estate Owned	2,382	2,725
Other Assets	1,442	1,607
TOTAL ASSETS	\$ 131,007	\$ 132,310
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non-Interest-Bearing Demand Deposits	\$ 33,555	\$ 34,606
Interest-Bearing Deposits	84,990	83,831
Other Liabilities	737	2,694
Total Liabilities	119,283	121,131
Shareholders' Equity		
Common Stock & Related Surplus	60,278	60,156
Accumulated Surplus (Deficit)	(48,554)	(48,978)
Total Shareholders' Equity	11,724	11,179
TOTAL LIABILITIES & EQUITY	\$ 131,007	\$ 132,310

Statement of Operations

(In 000s) Unaudited

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST INCOME				
Loans	\$ 819	\$ 824	\$ 2,412	\$ 2,124
Equipment Financing	394	453	1,267	1,388
Fed. Funds & Interest-Bearing Deposits	20	13	50	27
Investment Securities	4	—	23	—
Total Interest Income	1,237	1,290	3,752	3,539
INTEREST EXPENSE				
Deposits/Borrowings	145	133	414	364
NET INTEREST INCOME	1,092	1,157	3,338	3,175
Less Provisions for Loan Losses	60	(65)	(100)	(165)
Net Interest Income After Provision for Loan Losses	1,032	1,222	3,438	3,340
NON-INTEREST INCOME				
Non-Interest Expense	183	153	638	1,371
Salaries & Benefits	582	523	1,783	1,688
Occupancy & Equipment	310	305	845	802
Other Expenses	438	487	1,383	1,623
Total Non-Interest Expense	1,330	1,315	4,011	4,113
INCOME TAXES	0	0	0	10
NET INCOME (LOSS)	\$ (115)	\$ 60	\$ 65	\$ 588