

October 24, 2017

Dear First Sound Shareholders,

For the nine months ended September 30, 2017, the Bank had net income of \$396,000 versus \$65,000 for the comparable period in 2016. During the period, the Bank added \$206,000 to the loan loss reserve versus a reverse provision (or credit) in 2016, a swing of \$306,000. For the quarter, we incurred a slight loss due to an unanticipated delay in receiving the gains on sale of SBA loans, which will be realized in the current quarter. Our pipeline of loan prospects 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 3rd Quarter and the nine months ended September 30, 2017 compared with the prior year can be found in the Statements of Condition & Operations included in this report. Some items of note are:

- Loans on accrual were up 9% net of pay-downs.
- Loans on non-accrual have dropped dramatically over the past few years and declined further by 44%.
- Other Real Estate Owned is down 9%.
- Deposits increased by 8%.
- Interest Income for the Quarter was up 15% with Net Interest Income up 11%.
- Non-Interest Expense was essentially flat for the Quarter and the nine months ended September 30.

We have a strong team in place, and hope our shareholders will be alert for referrals. You can be confident that they will receive responsive, experienced and personalized service along with the significant benefit of local decisions on loans and other services.

Sincerely,



Patrick M. Fahey
Executive Chairman



Jon C. Shelton
President & Chief Executive Officer



First Sound Bank

www.firstsoundbank.com

925 Fourth Ave.
Suite 2350
Seattle, WA 98104
main 206.515.2004
fax 206.515.2005

MEMBER
FDIC



First Sound Bank

Experienced. Innovative. Sound.



Quarterly
Report

September 2017

Statement of Condition

(In 000's) Unaudited

	As of September 30,	
	2017	2016
ASSETS		
Cash & Due From Banks	\$ 1,812	\$ 1,127
Fed Funds Sold	16,064	16,239
Investment Securities	689	825
Loans on Accrual	119,972	109,788
Loans on Non Accrual	83	273
Total Loans	120,055	110,061
Less Allowance for Loan Losses	(1,399)	(1,149)
Net Loans	118,656	108,913
Bank Premises & Equipment	162	75
Other Real Estate Owned	2,112	2,385
Other Assets	1,141	1,442
TOTAL ASSETS	\$ 140,637	\$ 131,007
LIABILITIES		
Non IB Demand Deposits	\$ 30,161	\$ 33,555
Interest Bearing Deposits	97,464	84,990
Other Liabilities	779	737
Total Liabilities	128,404	119,283
EQUITY		
Common Stock & Related Surplus	60,267	60,215
Accumulated Surplus (Deficit)	(48,034)	(48,491)
Total Shareholders' Equity	12,233	11,724
TOTAL LIABILITIES & EQUITY	\$ 140,637	\$ 131,007

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans	\$ 908	\$ 813	\$ 2,652	\$ 2,433
Equipment Finance	462	405	1,430	1,261
Fed Funds & Int Bearing Dep	48	36	104	48
Investment Securities	4	(17)	13	10
Total Interest Income	1,422	1,237	4,199	3,752
INTEREST EXPENSE				
Deposits/Borrowings	205	145	578	414
NET INTEREST INCOME	1,217	1,092	3,621	3,338
Less Provision for Loan Losses	—	60	206	(100)
Net Interest Income after Provision for Loan Losses	1,217	1,032	3,415	3,438
NON INTEREST INCOME	73	183	1,022	638
NON INTEREST EXPENSE				
Salaries & Benefits	689	582	1,949	1,782
Occupancy & Equipment	215	310	766	901
Other Expenses	423	438	1,327	1,328
Total Noninterest Expense	1,327	1,330	4,042	4,011
INCOME TAXES	—	—	—	—
NET INCOME	\$ (37)	\$ (115)	\$ 395	\$ 65