

April 26, 2016

Dear First Sound Shareholders,

For the 1st Quarter of 2016, we recorded a profit of \$107 thousand compared with a loss of \$56 thousand for the same period of last year. The results reflect a higher level of earning assets and improved credit quality, which helped to offset some one-time non-recurring expenses.

Some of the highlights for 2016 vs. 2015 were:

- Total assets up 26%
- Loans on Accrual up 18%
- Total deposits up 30%
- Non-interest bearing deposits up 23%
- Shareholders' equity up 21%
- Net interest income up 29%

Non-interest income was down from a year ago due to the "gain-on-sale" of a guaranteed loan a year ago. Non-interest expense was up 13% for the year primarily due to costs associated with the increased business volume and transaction costs related to the acquisition of Eastside Commercial Bank in the 2nd Quarter of last year. Loans on non-accrual and "other real estate owned" (foreclosed properties) increased solely due to some problem assets acquired with Eastside that are carried on our balance sheet at their fair market value.

Details for the Quarter ended March 31, 2016 compared to the Quarter ended March 31, 2015 can be found in the Statement of Operations included in this report.

I am pleased to report that Jon C. Shelton, who has served as EVP & Chief Credit Officer, and who played a key role in restoring the Bank to health, has been promoted to President & Chief Operating Officer and will assume a broader role in the overall operations of the Bank. I will remain as Chairman & CEO.

My thanks to the vast majority of our shareholders who returned their proxies for our annual shareholders and saved us the trouble and cost of solicitation to achieve a quorum. Your support is much appreciated.

Sincerely,

Patrick M. Fahey
Chairman & CEO



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Experienced. Innovative. Sound.



Quarterly Report

March 2016

Statement of Condition

(In 000's) Unaudited

	As of March 31,	
	2016	2015
ASSETS		
Cash & Due From Banks	\$ 549	\$ 1,438
Fed Funds & Int Bearing Dep	14,669	5,347
Investment Securities	657	—
Loans on Accrual	106,888	90,625
Loans on Non Accrual	584	315
Total Loans	107,472	90,940
Less Allowance for Loan Losses	(1,079)	(1,321)
Net Loans	106,393	89,619
Bank Premises & Equipment	79	97
Other Real Estate Owned	2,725	2,069
Other Assets	1,641	2,027
TOTAL ASSETS	\$ 126,713	\$ 100,597
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non IB Demand Deposits	\$ 33,704	\$ 27,430
Interest Bearing Deposits	80,172	59,994
Other Liabilities	1,097	3,468
Total Liabilities	114,973	90,892
Shareholders' Equity		
Common Stock & Related Surplus	60,294	59,327
Accumulated Surplus (Deficit)	(48,554)	(49,622)
Total Shareholders' Equity	11,740	9,705
TOTAL LIABILITIES & EQUITY	\$ 126,713	\$ 100,597

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended	
	March 31, 2016	March 31, 2015
INTEREST INCOME		
Loans	\$ 802	\$ 522
Equipment Financing	448	468
Fed Funds & Int Bearing Dep	14	4
Investment Securities	14	—
Total Interest Income	1,278	994
INTEREST EXPENSE		
Deposits/Borrowings	129	104
NET INTEREST INCOME	1,149	890
Less Provisions for Loan Losses	(160)	—
Net Interest Income After Provision for Loan Losses	1,309	890
NON INTEREST INCOME	191	292
NON INTEREST EXPENSE		
Salaries & Benefits	687	518
Occupancy & Equipment	228	205
Other Expenses	478	515
Total Non Interest Expense	1,393	1,238
Income Taxes	—	—
NET INCOME (LOSS)	\$ 107	\$ (56)