

January 30, 2018

Dear First Sound Shareholders,

For the year 2017, the Bank recorded net income of \$310,000 versus \$131,000 the prior year. The core earnings of the Bank were actually stronger compared to the prior year, however net income was impacted by non-recurring events related to two legacy assets in the 4th quarter. As a result, the Bank wrote down the value of a foreclosed property by \$200,000 to reflect its decreased value due to newly discovered issues with the property. We anticipate that the reduction of \$200,000 on the property will facilitate its sale. Additionally, two loans from a relationship that originated in 2005 were placed on non-accrual, resulting in a \$91,000 interest reversal. We repurchased the sold SBA guaranteed portion of one of the loans from the secondary market. This resulted in a significant increase in non-accrual loans. We are placing the property that supports the loan as collateral into receivership, and the SBA guarantee on the portion we repurchased remains in effect. We believe we have a solid plan in place to resolve the situation and we anticipate a substantial recovery of principal, unpaid interest and associated expenses upon the sale of the property.

Details for the 4th Quarter and the full year ended December 31, 2017 compared with the prior year can be found in the Statements of Condition and Operations included in this report. Some items of note are:

- Total assets were up 6.5%.
- Total deposits were up 8%.
- The Bank's Tier 1 Capital Ratio stands at 9.4%, well above the required minimum regulatory ratio for a well-capitalized bank.
- Total interest income grew by 8.6%.
- Non-interest income grew by 23%.
- Noninterest expense grew modestly at 1% year-over-year.

While the unfortunate incidents mentioned above were very disappointing, we are encouraged by the continued improvement in the fundamentals of the Bank's operation. We have a very strong and experienced team and hope that you will be alert for business referrals. You can be assured that they will be served with a high level of expertise and the responsiveness of local decision-making on loans and other services.

Sincerely,



**Patrick M. Fahey**  
Executive Chairman



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

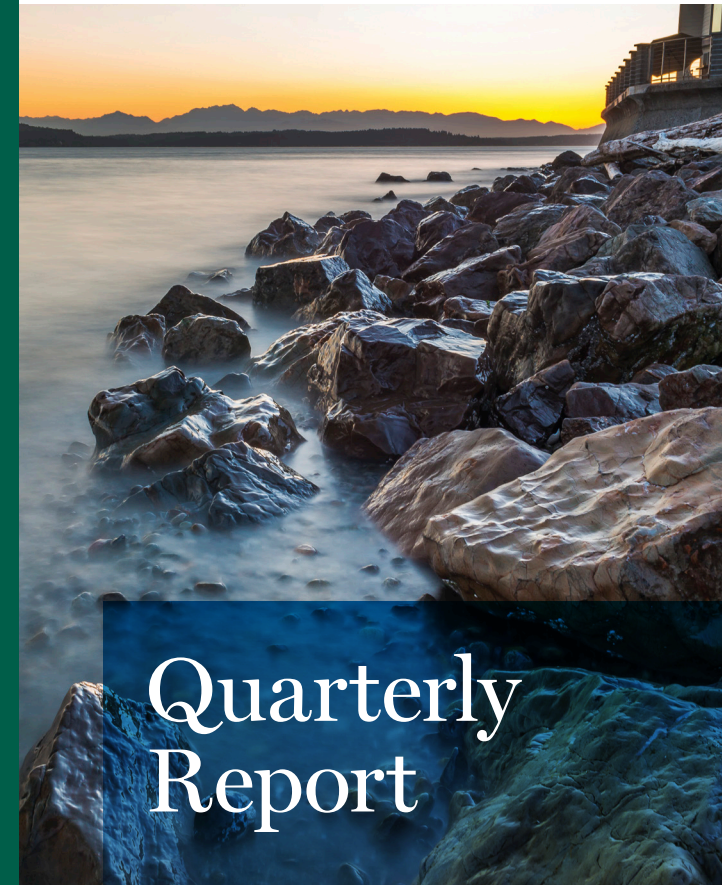


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Experienced. Innovative. Sound.



# Quarterly Report

**December 2017**

## Statement of Condition

(In 000's) Unaudited

	As of December 31,	
	2017	2016
<b>ASSETS</b>		
Cash & Due From Banks	\$ 755	\$ 1,275
Fed Funds Sold	17,606	11,371
Investment Securities	955	1,039
Loans on Accrual	117,546	118,364
Loans on Non Accrual	5,441	406
Total Loans	122,987	118,770
Less Allowance for Loan Losses	(1,406)	(1,278)
Net Loans	121,581	117,492
Bank Premises & Equipment	154	171
Other Real Estate Owned	1,912	2,385
Other Assets	1,395	1,879
<b>TOTAL ASSETS</b>	<b>\$ 144,358</b>	<b>\$ 135,613</b>
<b>LIABILITIES</b>		
Non IB Demand Deposits	\$ 28,333	\$ 32,394
Interest Bearing Deposits	92,200	79,250
Other Liabilities	10,623	12,157
<b>Total Liabilities</b>	<b>131,156</b>	<b>123,802</b>
<b>EQUITY</b>		
Common Stock & Related Surplus	61,315	60,239
Accumulated Surplus (Deficit)	(48,133)	(48,428)
<b>Total Shareholders' Equity</b>	<b>13,202</b>	<b>11,811</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 144,358</b>	<b>\$ 135,613</b>

## Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended December 31,		For the Twelve Months Ended December 31,	
	2017	2016	2017	2016
<b>INTEREST INCOME</b>				
Loans	\$ 829	\$ 852	\$ 3,616	\$ 3,264
Equipment Finance	392	412	1,687	1,679
Fed Funds & Int Bearing Dep	8	13	147	63
Investment Securities	39	3	17	26
Total Interest Income	1,268	1,280	5,467	5,032
<b>INTEREST EXPENSE</b>				
Deposits/Borrowings	210	147	789	561
<b>NET INTEREST INCOME</b>	<b>1,058</b>	<b>1,133</b>	<b>4,678</b>	<b>4,471</b>
Less Provision for Loan Losses	—	115	206	15
Net Interest Income after Provision for Loan Losses	1,058	1,018	4,472	4,456
<b>NON INTEREST INCOME</b>	<b>104</b>	<b>274</b>	<b>1,126</b>	<b>912</b>
<b>NON INTEREST EXPENSE</b>				
Salaries & Benefits	618	513	2,568	2,296
Occupancy & Equipment	224	301	990	1,146
Other Expenses	483	412	1,730	1,795
Total Noninterest Expense	1,325	1,226	5,288	5,237
<b>INCOME TAXES</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>NET INCOME</b>	<b>\$ (163)</b>	<b>\$ 66</b>	<b>\$ 310</b>	<b>\$ 131</b>