

April 20, 2018

Dear First Sound Shareholders,

For the 1st Quarter of 2018, the Bank recorded net income of \$49,000 versus \$19,000 the prior year. During the quarter we made a strategic decision to exit the equipment finance business. While it served us well in the past, rates on these contracts have declined dramatically. We are redeploying the capital and deposits that support equipment finance to our mainline products and services in commercial and industrial loans and lines and commercial real estate loans in our local market. These products come with core deposit relationships and fee income, which the equipment finance contracts from throughout the country did not. They also entailed considerable operational infrastructure, which we have been able to reduce substantially as a result. The existing contracts will run off over the next few years.

We were pleased to add two very experienced and successful relationship managers to the team. Both have hit the ground running and show signs of producing good results. This anticipated production will be beneficial in offsetting the runoff in equipment finance contracts.

The receiver is making good progress on conditioning for sale the property involved in the large non-accrual loan discussed last quarter. We still expect recovery of default interest and expenses. This loan was originated in 2005. The credit quality of the remainder of the loan portfolio is strong.

Details for the 1st Quarter ended March 31, 2018 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 deposits were up 3%.
- Loans and assets were up a modest 1% due to the runoff and cessation of equipment financing.
- We raised ~\$1 million in new capital to ensure we can support anticipated loan growth.
- Total interest income grew by 6% over the prior year.
- The Bank's Tier 1 Capital Ratio stands at 9.5%, above the required minimum regulatory ratio for a well-capitalized bank.
- Non Interest income was down as last year had some SBA loan sale premium and recoveries related to the prior acquisition of Eastside Commercial Bank. We have some new SBA loan production underway.
- Non interest expense was down 4%.

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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Quarterly Report

March 2018

Statement of Condition

(In 000's) Unaudited

	As of March 31,	
	2018	2017
ASSETS		
Cash & Due From Banks	\$ 890	\$ 768
Fed Funds & Int Bearing Dep	15,976	13,073
Investment Securities	1,214	752
Loans on Accrual	113,117	119,604
Loans on Non Accrual	5,534	281
Total Loans	118,651	119,885
Less Allowance for Loan Losses	(1,345)	(1,278)
Net Loans	117,306	118,607
Bank Premises & Equipment	148	169
Other Real Estate Owned	1,912	2,385
Other Assets	1,245	1,589
TOTAL ASSETS	\$ 138,691	\$ 137,342
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non IB Demand Deposits	\$ 30,323	\$ 30,289
Interest Bearing Deposits	89,574	86,152
Other Liabilities	5,540	9,060
Total Liabilities	125,437	125,501
Shareholders' Equity		
Common Stock & Related Surplus	61,318	60,248
Accumulated Surplus (Deficit)	(48,064)	(48,407)
Total Shareholders' Equity	13,254	11,841
TOTAL LIABILITIES & EQUITY	\$ 138,691	\$ 137,342

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended March 31,	
	2018	2017
INTEREST INCOME		
Loans	\$ 977	\$ 853
Equipment Financing	399	476
Fed Funds & Int Bearing Dep	50	18
Investment Securities	6	2
Total Interest Income	\$ 1,432	\$ 1,349
INTEREST EXPENSE		
Deposits/Borrowings	232	174
NET INTEREST INCOME	1,200	1,175
Less Provision for Loan Losses	—	146
Net Interest Income After Provision for Loan Losses	1,200	1,029
NON INTEREST INCOME	141	337
NON INTEREST EXPENSE		
Salaries & Benefits	638	618
Occupancy & Equipment	224	280
Other Expenses	430	448
Total Noninterest Expense	1,292	1,347
Income Taxes	—	—
NET INCOME (LOSS)	\$ 49	\$ 19