First Sound Bank

Experienced. Innovative. Sound.

Dear Shareholders: December 16, 2022

I am pleased to report the third quarter 2022 financial results for First Sound Bank ("the Bank").

As previously reported, the Bank's earnings for the first and second quarters of 2022 were negatively impacted by our proposed merger with BM Technologies ("BMTX") due to out of pocket expenses and management time devoted to our FDIC application for the merger. Fortunately those expenses and distractions are behind us, and in the third quarter of 2022 our loan production and net profitability were back on track compared to last year. For the third quarter of 2022 the Bank generated net income of $198 thousand compared to $210 thousand in 2021, with the slight decrease due solely to legal expenses related to BMTX. For the nine-month period ending September 30, 2022 the Bank generated net income of $352 thousand compared to $709 thousand for the same period last year, reflecting our weak first two quarters. We anticipate continued improved earnings in the fourth quarter of this year. The key factors contributing to our improved earnings are a significant increase in loan growth, successful SBA loan closings, good deposit growth, and our bank-wide expenses leveling off. As will be outlined below, there are numerous trends occurring at the Bank which we believe will continue to grow our earnings as 2022 ends and we progress into 2023. We are continuing to execute our new strategic plan for the Bank, which has included building out a new lending team, restructuring both the asset and liability sides of our balance sheet, re-engineering our operating costs to improve efficiency, and most importantly, continuing to grow our earning assets.

Regarding the balance sheet at 9/30/2022:

- Total loans are up 9.8% from a year ago, however this number includes two non-recurring loan categories. First, our PPP loans were $15.9 million at this time last year and these are now being rapidly forgiven by the SBA and paying off as planned; our PPP loan balances at 9/30/2022 were down to $4.8 million. Second, we continue to purposefully exit the equipment finance ("EFA") business; between 9/30/2021 and 9/30/2022 our EFA loan balances declined by $1.2 million, and as of today the entire EFA loan portfolio is down to less than $300 thousand. Offsetting these non-recurring paydowns is our new core loan production which has been very robust; after backing out both the PPP and EFA loans, the Bank's core loan portfolio grew by an exceptionally strong 24% during the 12 months ending 9/30/2022 which far exceeded our budget and will position us for improved earnings in the months and quarters to come.

- Deposits were up slightly from a year ago, an increase of only 2%. There are several reasons for this lower than planned deposit growth: a) like most community banks, we experienced a surge in deposits during the PPP loan program; these funds are now gradually being spent by those customers, b) in anticipation of the proposed BMTX merger which would have created substantial excess liquidity for the Bank, we were purposefully not pursuing transactional deposits but rather only relationship deposits; and c) interest rates have risen dramatically and this has induced customers to seek yield through non-bank investment alternatives such as Treasury bills and bonds and d) as we recover from the pandemic we are seeing our customers use their cash to make more business and real estate investments. Our Bank's deposit mix continues to be favorable, with 35% of our deposits being non-interest bearing. Overall, the Bank's liquidity position continues to be favorable.

Regarding the income statement at 9/30/2022:

- Net income for the first six months of 2022 was below budget for the reasons outlined on the previous page of this letter. As mentioned, we are now seeing materially improved trends so far in Q3 and Q4 and are optimistic that our earnings performance will improve in future quarters.

- The Bank's net interest income before loan loss provision expense through 9/30/2022 was 6% higher than the same period in 2021 due to our strong loan growth and higher interest rates on both loans and our overnight cash at the Federal Reserve. As of today's date we once again have a large pipeline of new loans and we are expecting continued strong loan growth in Q4.

- Non-interest income was down from last year due to the timing of SBA loan closings. We expect this to improve in Q4 and future quarters as we successfully close the SBA loans we have in the pipeline. SBA lending continues to be one of the most important elements of our business plan.

- The Bank's operating expenses have increased by about 7% over the past 12 months. Backing out the one-time expenses related to BMTX, the expense increases are related to higher personnel, occupancy, and technology costs. We have made additions to our lending, credit, and operations teams, improved the competitiveness of our employee compensation to retain our key people, and invested in technology and marketing. We believe these investments will result in improved Bank performance in the near future. It is also important to note that as a percentage of our total assets, our operating expenses are actually flat from last year – on an annualized basis, our 2022 operating expenses as a percentage of assets is now 2.8% compared to the same 2.8% in 2021. Going forward, our board and management team continue to be very focused on expense control.

Our plan from this point forward is to continue to grow the Bank's core loan portfolio, grow deposits, run off the remaining EFA loans, control operating expenses, focus on SBA origination and sales, and work toward increasing the Bank's core profitability.

Regarding our proposed merger with BMTX. As previously disclosed, the Bank entered into an agreement and plan of reorganization and merger dated November 14, 2021 to merge with BMTX, under which BMTX would pay up to $7.22 in cash for each share of the Bank's outstanding common stock, or approximately $23 million. The completion of the transaction is subject to obtaining FDIC and other regulatory approvals and satisfying other closing conditions set forth in the merger agreement. Although applications were submitted to approve the transaction, the applications have not been approved by the regulators and have not been resubmitted, and the completion of the transaction after December 31, 2022 would require the parties to mutually agree to extend the termination date of the merger agreement. Any resubmission of regulatory applications would take an extended period of time for preparation and processing, and there could be no assurance of obtaining regulatory approvals. The merger agreement permits either party to terminate the agreement without liability for a termination fee, if the transaction is not completed by December 31, 2022.

Thank you for your continued support of the Bank. Please contact me at any time if you have questions, concerns, business referrals, or ideas.

Sincerely,

Marty Steele
President & CEO

First Sound Bank

Statement of Condition

(In 000's) Unaudited

	As of September 30, 2022	As of September 30, 2021
ASSETS		
Cash and cash equivalents	$ 1,011	$ 1,141
Fed funds and interest-bearing deposits	16,468	21,085
Investment Securities	7,993	10,474
Loans on accrual	130,904	118,913
Loans on nonaccrual	1,478	1,616
Total loans, gross	132,382	120,529
Allowance for Loan Losses	(1,480)	(1,491)
Total loans, net	130,902	119,038
Premises and equipment	89	110
Other real estate owned	0	0
Other assets	4,929	2,281
Total assets	$ 161,392	$ 154,129
LIABILITIES		
Noninterest-bearing deposits	$ 41,458	$ 40,620
Interest-bearing deposits	76,664	75,699
Other liabilities	28,542	23,874
Total liabilities	146,664	140,193
SHAREHOLDERS' EQUITY		
Common stock and related surplus	60,322	61,873
Accumulated deficit	(45,594)	(47,937)
Total Shareholders' Equity	14,728	13,936
TOTAL LIABILITIES & EQUITY	$ 161,392	$ 154,129

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended September 30, 2022	For the Quarter Ended September 30, 2021	For the Nine Months Ended September 30, 2022	For the Nine Months Ended September 30, 2021
INTEREST INCOME				
Loans	$ 1,463	$ 1,154	$ 3,839	$ 3,607
Equipment finance	(5)	46	43	161
Fed funds & interest-bearing deposits	58	8	88	18
Investment securities	47	22	119	63
Total interest income	1,563	1,230	4,089	3,849
INTEREST EXPENSE				
Deposits/Borrowings	246	147	540	506
Net interest income before provision	1,317	1,083	3,549	3,343
PROVISION FOR LOAN LOSSES	-	(29)	-	71
Net interest income after provision	1,317	1,112	3,549	3,272
NONINTERST INCOME	111	214	262	654
NONINTERSESET EXPENSE				
Salaries and benefits	709	580	1,901	1,716
Occupancy expenses	193	132	550	409
Other expenses	328	404	1,008	1,092
Total noninterest expense	1,230	1,116	3,459	3,217
INCOME TAXES	-	-	-	-
NET INCOME	$ 198	$ 210	$ 352	$ 709