First Sound Bank

Experienced. Innovative. Sound.

Dear Shareholders: January 11, 2023

I am pleased to report the fourth quarter and year-end 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 and fourth quarters of 2022 our loan production and net profitability were back on track compared to last year. For the fourth quarter of 2022 the Bank generated net income of $245 thousand which was the strongest quarter of core recurring income for the Bank since 2007. For the full year of 2022 the Bank generated net income of $597 thousand which reflects our weak first and second quarters and then our stronger third and fourth quarters. The Bank's net income for 2021 was $2.3 million, however 2021's income contained a one-time non-recurring gain of $1.8 million when we brought our deferred tax asset (tax loss carryforward) back onto the Bank's balance sheet. So the Bank's core earnings actually increased in the last two quarters of 2022 compared to 2021, and given the positive trend we experienced in Q4 of 2022 we anticipate continued improved earnings in 2023. 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. 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 12/31/2022:

- Total loans are up 22.4% from a year ago, however this number includes two non-recurring loan categories. First, our PPP loans continue to pay off as agreed and therefore our total PPP loans declined by $5.1 million during 2022. Second, we continue to purposefully exit the equipment finance ("EFA") business; during 2022 our EFA loans declined by $683 thousand. As of today the entire EFA portfolio is down to only $228 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 30.3% during the twelve months ending 12/31/2022 which far exceeded our budget and will position us for improved earnings in the months and quarters to come.

- Deposits are up 20.9% from a year ago, however this number includes a one-time nonrecurring deposit of $10 million which we expect will leave the Bank sometime in Q1 of 2023; backing out this large deposit, our deposit growth in 2022 would have been 11.7%. Deposit growth has been a challenge in recent quarters, and we believe there are several reasons: 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; c) as interest rates have risen dramatically 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 30% of our deposits being non-interest bearing. Overall, the Bank's liquidity position continues to be strong.

Regarding the income statement at 12/31/2022:

- 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 saw materially improved trends 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 in 2022 was 9.1% higher than in 2021 due to our strong loan growth and higher interest rates on both loans and our overnight cash at the Federal Reserve. These improvements were somewhat offset by the higher rates we are now paying on deposits, but the net impact was clearly positive. As of today's date we continue to have a strong pipeline of potential new loans.

- Non-interest income was down from last year due to the one-time gain in 2021 related to the deferred tax asset and also the timing of SBA loan closings. We expect this to improve in 2023 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.

- Backing out the non-recurring out of pocket expenses in 2021 and 2022 related to the proposed BMTX merger, the Bank's operating expenses have increased by about 8% over the past twelve months. 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 total assets, the Bank's operating expenses are actually slightly down from last year – our operating expense as a percentage of average assets was 3.0% in 2022 as compared to 3.1% in 2021. We 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.

As previously announced last month, we and BMTX mutually decided to terminate our merger agreement on December 22. Our strategy now will be to strive to maximize the value of the Bank to our stakeholders – shareholders, customers, employees, business partners, and regulators – by continuing to grow the Bank and increase its profitability.

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 December 31, 2022	As of December 31, 2021
ASSETS		
Cash and cash equivalents	$ 1,079	$ 772
Fed funds and interest-bearing deposits	13,463	7,551
Investment Securities	7,782	9,892
Loans on accrual	144,474	116,651
Loans on nonaccrual	1,450	2,545
Total loans, gross	145,924	119,196
Allowance for Loan Losses	(1,479)	(1,492)
Total loans, net	144,445	117,704
Premises and equipment	93	102
Other real estate owned	0	0
Other assets	4,761	3,924
Total assets	$ 171,623	$ 139,945
LIABILITIES		
Noninterest-bearing deposits	$ 40,095	$ 33,458
Interest-bearing deposits	92,119	75,877
Other liabilities	24,536	15,264
Total liabilities	156,750	124,599
SHAREHOLDERS' EQUITY		
Common stock and related surplus	60,467	63,283
Accumulated deficit	(45,594)	(47,937)
Total Shareholders' Equity	14,873	15,346
TOTAL LIABILITIES & EQUITY	$ 171,623	$ 139,945

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended December 31, 2022	For the Quarter Ended December 31, 2021	For the Twelve Months Ended December 31, 2022	For the Twelve Months Ended December 31, 2021
INTEREST INCOME				
Loans	$ 1,733	$ 1,249	$ 5,572	$ 4,856
Equipment finance	$ (7)	$ 33	36	194
Fed funds & interest-bearing deposits	$ 102	$ 6	190	24
Investment securities	$ 46	$ 34	165	97
Total interest income	$ 1,874	1,322	5,963	5,171
INTEREST EXPENSE				
Deposits/Borrowings	$ 493	148	1,033	654
Net interest income before provision	$ 1,381	1,174	4,930	4,517
PROVISION FOR LOAN LOSSES	$ -	-	-	71
Net Interest income after provision	$ 1,381	1,174	4,930	4,446
NONINTERST INCOME	$ 100	1,854	362	2,508
NONINTERSEST EXPENSE				
Salaries and benefits	$ 682	547	2,583	2,263
Occupancy expenses	$ 196	314	746	723
Other expenses	$ 358	532	1,366	1,624
Total noninterest expense	$ 1,236	1,393	4,695	4,610
INCOME TAXES		-	-	-
NET INCOME	$ 245	$ 1,635	$ 597	$ 2,344