First Sound Bank

Experienced. Innovative. Sound.

Dear Shareholders: July 28, 2022

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

After a weak first quarter of 2022, the Bank's earnings and loan production began to materially improve during the second quarter. As previously discussed in my last shareholder letter, our weak Q1 was caused by lower-than-expected loan demand, SBA loans in the pipeline which did not close by quarter-end, and increased expenses in various areas of the Bank. During Q2 these trends began to greatly improve. For the six-month period ending June 30, 2022, the Bank generated modest net income of $153 thousand, with most of that income occurring toward the end of the second quarter. The key factors contributing to this improvement were a significant increase in loan demand, successful SBA loan closings, and our bank-wide expenses leveling off. Compared to net income of $498 thousand for the first six months of 2021, our year-to-date 2022 results are down from last year; however in the first half of 2021 we experienced several significantly positive events including one-time non-recurring fee income from the PPP loan program and an unusually high level of SBA loan closings. As will be outlined below, there are numerous trends occurring at the Bank which we believe will continue to improve our earnings as 2022 progresses. We now once again have a strong pipeline of new loans, including several SBA loans, and we do not anticipate any material further expense increases this year other than those related to our pending merger with BM Technologies. As has been the case since we brought in our new management team in the Spring of 2019, we are continuing to execute our new strategic plan for the Bank. This includes 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. We are also squarely focused on getting our proposed merger with BM Technologies closed, subject to regulatory and shareholder approval.

Regarding the balance sheet at 6/30/2022:

- Total loans are roughly flat from a year ago, up only 1% year-over-year, however this number includes two non-recurring loan categories. First, our PPP loans were $31.2 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 6/30/2022 were down to $5.9 million, a decline of over $25 million year-over-year. This was fully expected and is a non-recurring event, in fact it is a positive outcome because our net interest spread on the PPP loans is only 0.65%. Second, we continue to purposefully exit the equipment finance ("EFA") business; between 6/30/2021 and 6/30/2022 our total EFA loan balances declined by $1.8 million, and as of today the entire EFA loan portfolio is down to less than $400 thousand. This is also viewed as a positive outcome because EFA is a non-recurring and unprofitable business line for us. Offsetting these paydowns is our new core loan production which despite our slower than expected Q1 performance has been very robust; after backing out both the PPP and EFA loans, the Bank's core loan portfolio grew by an exceptionally strong 29% during the 12 months ending 6/30/2022 which far exceeded our budget and will position us for improved earnings in the months and quarters to come.

- Deposits were down slightly from a year ago, a decline of 2%, for several reasons: a) like most community banks, we experienced a surge in deposits during the PPP loan program; these funds are gradually being spent by those customers, especially those whose profits have not yet recovered from the pandemic; b) in anticipation of the proposed BM Technologies merger which will create substantial excess liquidity for the Bank, we are purposefully not pursuing transactional deposits but rather only relationship deposits; and c) interest rates have finally begun to gradually increase which tends to induce customers to seek yield through non-bank investment alternatives; we have in fact seen numerous customers transfer large amounts of cash out of the Bank and into brokerage accounts; 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 37% of our deposits being non-interest bearing. Overall, the Bank's liquidity position continues to be strong.

Regarding the income statement at 6/30/2022:

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

- The Bank's net interest income before loan loss provision decreased slightly, by about 1%, for the first six months of 2022 compared to the same period in 2021. This was due to the combined paydowns in our non-recurring PPP and EFA loan portfolios plus the impact of the one-time PPP fees in 2021; these decreases were offset by the increased income from the 29% growth in our core loan portfolio. As mentioned previously, as of today's date we once again have a large pipeline of new loans and we are actively seeking new asset growth opportunities.

- Non-interest income was down materially from last year due to the timing of SBA loan closings. We expect this to improve in Q3 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 new strategic plan.

- As discussed previously, the Bank's operating expenses have increased by about 6% over the past 12 months. Backing out the one-time expenses related to the BM Technologies merger, 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. Going forward, Management continues to be very focused on expense control.

Our plan from this point forward is to continue to grow the Bank's core loan portfolio, run off the remaining EFA loans, control operating expenses, focus on SBA origination and sales, and work toward increasing the Bank's core profitability. More information will be coming your way soon on the proposed BM Technologies merger as we work through the details of the regulatory approval process.

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 June 30, 2022	As of June 30, 2021
ASSETS		
Cash and cash equivalents	$ 1,457	$ 437
Fed funds and interest-bearing deposits	9,042	24,986
Investment Securities	8,193	7,986
Loans on accrual	130,438	129,044
Loans on nonaccrual	1,525	1,680
Total loans, gross	131,963	130,724
Allowance for Loan Losses	(1,476)	(1,491)
Total loans, net	130,487	129,233
Premises and equipment	92	124
Other real estate owned	0	0
Other assets	4,786	2,477
Total assets	$ 154,057	$ 165,243
LIABILITIES		
Noninterest-bearing deposits	$ 41,973	$ 40,151
Interest-bearing deposits	72,428	76,023
Other liabilities	25,025	35,353
Total liabilities	139,426	151,527
SHAREHOLDERS' EQUITY		
Common stock and related surplus	60,225	61,653
Accumulated deficit	(45,594)	(47,937)
Total Shareholders' Equity	14,631	13,716
TOTAL LIABILITIES & EQUITY	$ 154,057	$ 165,243

Statement of Operations

(In 000's) Unaudited

	For the Quarter Ended June 30,		For the Six Months Ended 30,	
	2022	2021	2022	2021
INTEREST INCOME				
Loans	$ 1,225	$ 1,263	$ 2,376	$ 2,453
Equipment finance	19	53	48	115
Fed funds & interest-bearing deposits	25	5	30	10
Investment securities	44	26	72	41
Total interest income	1,313	1,347	2,526	2,619
INTEREST EXPENSE				
Deposits/Borrowings	156	189	294	358
Net interest income before provision	1,157	1,158	2,232	2,261
PROVISION FOR LOAN LOSSES	-	100	-	100
Net interest income after provision	1,157	1,058	2,232	2,161
NONINTERST INCOME	98	382	151	439
NONINTERSEST EXPENSE				
Salaries and benefits	617	728	1,192	1,136
Occupancy expenses	183	186	357	365
Other expenses	314	312	681	601
Total noninterest expense	1,114	1,226	2,230	2,102
INCOME TAXES	-	-	-	-
NET INCOME	$ 141	$ 214	$ 153	$ 498