



Dear Shareholders:

April 19, 2023

I am pleased to report the first quarter 2023 financial results for First Sound Bank (“the Bank”).

For the quarter ending March 31, 2023 the Bank generated net income of \$178 thousand compared to net income of only \$12 thousand during the same period in 2022. The two primary drivers of the earnings improvement were strong loan growth year over year and also the fact that, compared to 2022’s first quarter, the Bank and our management team were not negatively impacted by out of pocket expenses and management time devoted to the proposed BMTX merger. Our BMTX related expenses for 2023’s first quarter were only \$8 thousand, and we spent minimal management time on the final wind-down of that transaction. Now that those expenses and distractions are behind us, we are back on track to grow the Bank and continue to strive for increased profitability in the months and quarters to come. Our focus will be on continued loan growth, successful SBA loan closings, good deposit growth, and strong expense control.

Regarding the balance sheet at 3/31/2023:

- Total loans are up 16% 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 \$5.9 million between 3/31/2022 and 3/31/2023. Second, we continue to purposefully exit the equipment finance (“EFA”) business; as of 3/31/2023 our EFA loans had declined by \$380 thousand compared to a year ago. As of today the entire EFA portfolio is down to less than \$200 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 a very strong 23% during the twelve months ending 3/31/2023 which far exceeded our budget and will position us for improved earnings in the future.
- Deposits are up 35% from a year ago, reflecting a deliberate effort on our part to grow deposits to fund the Bank’s strong loan growth. It is noted that this number includes a one-time nonrecurring deposit of \$12 million which we expected would leave the Bank sometime in early 2023, and in fact did leave the bank shortly after quarter-end 3/31/2023; backing out this large deposit, our annualized deposit growth through 3/31/2023 would have been 24%. As with all banks, we are experiencing an increase in our deposit expense as we compete with not only other banks and credit unions but more challenging is the competition from non-bank investment alternatives such as Treasury bills and bonds. Our Bank’s deposit mix continues to be favorable, with 28% of our deposits being non-interest bearing, although that percentage has decreased from our Bank’s historical average of about 32%. Overall, the Bank’s liquidity position continues to be strong.

Regarding the income statement at 3/31/2023:

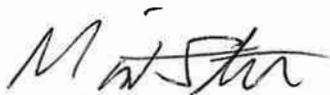
- The Bank's gross interest income in Q1 2023 was 65% higher than the same period in 2022 due to our strong loan growth and higher interest rates on both loans and our overnight cash at the Federal Reserve. Offsetting this was a substantial increase in our cost of funds, which increased more than 5 times, due to higher rates on our deposit products and our borrowings at the Federal Home Loan Bank. But the net impact was clearly positive, with a year over year increase in our net interest income of 18%.
- Non-interest income was up slightly from last year but still below our budget due to the timing of SBA loan closings. We expect this to improve in subsequent 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.
- Backing out the non-recurring out of pocket expenses related to the proposed BMTX merger, the Bank's operating expenses in Q1 2023 have increased by 5% compared to last year, which is on budget. The primary driver of our operating expense increase is related to higher personnel costs. We have made additions to our lending, credit, and operations teams, and as a small community bank we know that our employees are our most important asset. 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 annualized operating expense as a percentage of assets was 2.7% in Q1 2023 compared to 3.0% for the same period in 2022. 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.

We have scheduled a date and time for our 2023 Annual Shareholder Meeting. The meeting will be held on Tuesday, June 20 at 1:30 PM, here in the lobby conference room of the Fourth & Madison building. The official purpose of the meeting is to vote to approve the Bank's directors and our outside CPA firm; the unofficial purpose is to meet and greet each other and talk about the Bank. All shareholders are cordially invited and I am hoping you will attend. Proxy forms are in the process of being mailed to all shareholders of record as of April 27, 2023.

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 March 31,	
	2023	2022
ASSETS		
Cash & Due From Banks	\$ 1,686	\$ 862
Fed Funds & Int Bearing Dep	19,405	13,353
Investment Securities	7,803	8,958
Loans on Accrual	141,928	121,744
Loans on Non Accrual	1,413	1,525
Total Loans	143,341	123,269
Less Allowance for Loan Losses	(1,636)	(1,473)
Net Loans	141,705	121,796
Bank Premises & Equipment	87	97
Other Real Estate Owned	0	0
Other Assets	4,055	4,385
TOTAL ASSETS	\$ 174,741	\$ 149,451
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Non IB Demand Deposits	\$ 42,530	\$ 36,105
Interest Bearing Deposits	109,682	76,433
Other Liabilities	7,578	22,100
Total Liabilities	159,790	134,638
Shareholders' Equity		
Common Stock & Related Surplus	14,773	14,801
Accumulated Surplus (Deficit)	178	12
Total Shareholders' Equity	14,951	14,813
TOTAL LIABILITIES & EQUITY	\$ 174,741	\$ 149,451

STATEMENT OF OPERATIONS (IN 000'S) Unaudited

	For the Quarter Ended	
	March 31, 2023	March 31, 2022
INTEREST INCOME		
Loans	\$ 1,805	\$ 1,152
Equipment Financing	(12)	28
Fed Funds & Int Bearing Dep	172	10
Investment Securities	34	23
Total Interest Income	1,999	1,213
INTEREST EXPENSE		
Deposits/Borrowings	726	138
NET INTEREST INCOME	1,273	1,075
Less Provision for Loan Losses	0	0
Net Interest Income After Provision for Loan Losses	1,273	1,075
NON INTEREST INCOME	85	52
NON INTEREST EXPENSE		
Salaries & Benefits	658	575
Occupancy & Equipment	271	250
Other Expenses	251	290
Total Noninterest Expense	1,180	1,115
Income taxes	0	0
NET INCOME (LOSS)	\$ 178	\$ 12