

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: 001-40721

FINWISE BANCORP

(Exact Name of Registrant as Specified in its Charter)

Utah
(State or other jurisdiction of
incorporation or organization)
756 East Winchester, Suite 100
Murray, Utah
(Address of principal executive offices)

83-0356689
(I.R.S. Employer
Identification No.)

84107
(Zip Code)

Registrant's telephone number, including area code: (801) 501-7200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	FINW	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 16, 2022, the registrant had 12,788,810 shares of common stock, \$0.001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Report”) contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company’s current views with respect to, among other things, future events and its financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “project,” “projection,” “forecast,” “budget,” “goal,” “target,” “would,” “aim” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry and management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates and projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements, including, but not limited to, the following:

- conditions relating to the Covid-19 pandemic, including the severity and duration of the associated economic slowdown either nationally or in our market areas, and the response of governmental authorities to the Covid-19 pandemic and our participation in Covid-19-related government programs such as the Paycheck Protection Program (“PPP”);
- system failure or cybersecurity breaches of our network security;
- the success of the financial technology industry, the development and acceptance of which is subject to a high degree of uncertainty, as well as the continued evolution of the regulation of this industry;
- our ability to keep pace with rapid technological changes in the industry or implement new technology effectively;
- our reliance on third-party service providers for core systems support, informational website hosting, internet services, online account opening and other processing services;
- general economic conditions, either nationally or in our market areas (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation), that impact the financial services industry and/or our business;
- increased competition in the financial services industry, particularly from regional and national institutions and other companies that offer banking services;
- our ability to measure and manage our credit risk effectively and the potential deterioration of the business and economic conditions in our primary market areas;
- the adequacy of our risk management framework;
- the adequacy of our allowance for loan losses (“ALL”);
- the financial soundness of other financial institutions;
- new lines of business or new products and services;
- changes in Small Business Administration (“SBA”) rules, regulations and loan products, including specifically the Section 7(a) program, changes in SBA standard operating procedures or changes to the status of the Bank as an SBA Preferred Lender;
- changes in the value of collateral securing our loans;
- possible increases in our levels of nonperforming assets;
- potential losses from loan defaults and nonperformance on loans;
- our ability to protect our intellectual property and the risks we face with respect to claims and litigation initiated against us;
- the inability of small- and medium-sized businesses to whom we lend to weather adverse business conditions and repay loans;
- our ability to implement aspects of our growth strategy and to sustain our historic rate of growth;
- our ability to continue to originate, sell and retain loans, including through our Strategic Programs;

- the concentration of our lending and depositor relationships through Strategic Programs in the financial technology industry generally;
- our ability to attract additional merchants and retain and grow our existing merchant relationships;
- interest rate risk associated with our business, including sensitivity of our interest earning assets and interest bearing liabilities to interest rates, and the impact to our earnings from changes in interest rates;
- the effectiveness of our internal control over financial reporting and our ability to remediate any future material weakness in our internal control over financial reporting;
- potential exposure to fraud, negligence, computer theft and cyber-crime and other disruptions in our computer systems relating to our development and use of new technology platforms;
- our dependence on our management team and changes in management composition;
- the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals;
- compliance with laws and regulations, supervisory actions, the Dodd-Frank Act, capital requirements, the Bank Secrecy Act, anti-money laundering laws, predatory lending laws, and other statutes and regulations;
- changes in the laws, rules, regulations, interpretations or policies relating to financial institutions, accounting, tax, trade, monetary and fiscal matters, including the application of interest rate caps or maximums;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our ALL or to write-down assets;
- our involvement from time to time in legal proceedings, examinations and remedial actions by regulators;
- further government intervention in the U.S. financial system;
- the ability of our Strategic Program service providers to comply with regulatory regimes, including laws and regulations applicable to consumer credit transactions, and our ability to adequately oversee and monitor our Strategic Program service providers;
- our ability to maintain and grow our relationships with our Strategic Program service providers;
- natural disasters and adverse weather, acts of terrorism, pandemics, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control;
- compliance with requirements associated with being a public company;
- level of coverage of our business by securities analysts;
- future equity and debt issuances; and
- other factors listed from time to time in the Company’s filings with the Securities and Exchange Commission (the “SEC”), including, without limitation, this Report, the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”) and subsequent reports on Form 10-Q and Form 8-K.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report, including those discussed in the section entitled “Risk Factors.” If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date of this Report, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether because of new information, future developments or otherwise, except as required by law. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence. In addition, we cannot assess the impact of each risk and uncertainty on our business or the extent to which any risk or uncertainty, or combination of risks and uncertainties, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I
Item 1. Financial Statements

FinWise Bancorp
Consolidated Balance Sheets (Unaudited)
(in thousands, except share and par value amounts)

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 414	\$ 411
Interest-bearing deposits	116,232	85,343
Total cash and cash equivalents	116,646	85,754
Investment securities held-to-maturity, at cost	10,986	11,423
Investment in Federal Home Loan Bank (FHLB) stock, at cost	449	378
Strategic Program loans held-for-sale, at lower of cost or fair value	73,805	60,748
Loans receivable, net	189,549	198,102
Premises and equipment, net	4,531	3,285
Accrued interest receivable	1,347	1,548
Deferred taxes, net	1,788	1,823
SBA servicing asset, net	5,225	3,938
Investment in Business Funding Group (BFG), at fair value	5,400	5,900
Investment in FinWise Investments, LLC	80	80
Operating lease right-of-use ("ROU") assets	7,178	—
Other assets	7,500	7,235
Total assets	\$ 424,484	\$ 380,214
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 127,330	\$ 110,548
Interest-bearing	150,130	141,344
Total deposits	277,460	251,892
Accrued interest payable	39	48
Income taxes payable, net	3,411	233
PPP Liquidity Facility	952	1,050
Operating lease liabilities	7,386	—
Other liabilities	10,281	11,549
Total liabilities	299,529	264,772
Commitments and contingencies (Note 8)		
Shareholders' equity		
Preferred stock, \$0.001 par value, 4,000,000 authorized; no shares issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Common stock, \$0.001 par value, 40,000,000 shares authorized; 12,788,810 and 12,772,010 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	13	13
Additional paid-in-capital	54,915	54,836
Retained earnings	70,027	60,593
Total shareholders' equity	124,955	115,442
Total liabilities and shareholders' equity	\$ 424,484	\$ 380,214

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

FinWise Bancorp
Consolidated Statements of Income (Unaudited)
(in thousands, except share and per share amounts)

	For the Three Months Ended March 31,	
	2022	2021
Interest income		
Interest and fees on loans	\$ 13,156	\$ 8,790
Interest on securities	39	6
Other interest income	28	10
Total interest income	13,223	8,806
Interest expense		
Interest on deposits	261	297
Interest on PPP Liquidity Facility	1	75
Total interest expense	262	372
Net interest income	12,961	8,434
Provision for loan losses	2,947	633
Net interest income after provision for loan losses	10,014	7,801
Non-interest income		
Strategic Program fees	6,623	2,953
Gain on sale of loans, net	5,052	2,603
SBA loan servicing fees	387	152
Change in fair value on investment in BFG	(398)	360
Other miscellaneous income	18	11
Total non-interest income	11,682	6,079
Non-interest expense		
Salaries and employee benefits	7,092	4,895
Occupancy and equipment expenses	302	194
(Recovery) impairment of SBA servicing asset	(59)	—
Other operating expenses	1,713	1,574
Total non-interest expense	9,048	6,663
Income before income tax expense	12,648	7,217
Provision for income taxes	3,214	1,926
Net income	\$ 9,434	\$ 5,291
Earnings per share, basic	\$ 0.74	\$ 0.61
Earnings per share, diluted	\$ 0.70	\$ 0.59
Weighted average shares outstanding, basic	12,777,237	8,091,186
Weighted average shares outstanding, diluted	13,567,311	8,335,772

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

FinWise Bancorp
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2021	8,660,334	\$ 9	\$ 16,853	\$ 29,010	\$ 45,872
Stock-based compensation expense	—	—	981	—	981
Stock options exercised	55,776	—	166	—	166
Net Income	—	—	—	5,291	5,291
Balance at March 31, 2021	8,716,110	\$ 9	\$ 18,000	\$ 34,301	\$ 52,310

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
Balance at January 1, 2022	12,772,010	\$ 13	\$ 54,836	\$ 60,593	\$ 115,442
Stock-based compensation expense	—	—	39	—	39
Stock options exercised	16,800	—	40	—	40
Net Income	—	—	—	9,434	9,434
Balance at March 31, 2022	12,788,810	\$ 13	\$ 54,915	\$ 70,027	\$ 124,955

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

FinWise Bancorp
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	For the Three Months	
	Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 9,434	\$ 5,291
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	272	268
Provision for loan losses	2,947	633
Amortization of operating lease ROU asset	202	—
Net amortization in securities discounts and premiums	9	7
Capitalized servicing assets	(1,408)	(856)
Gain on sale of SBA loans, net	(5,052)	(2,603)
Originations of Strategic Program loans held-for-sale	(2,423,186)	(955,539)
Proceeds on Strategic Program loans held-for-sale	2,410,129	938,640
Change in fair value of BFG	398	(360)
Recovery of SBA servicing asset	(59)	—
Stock-based compensation expense	39	981
Deferred income tax benefit (expense)	35	(218)
Net changes in:		
Accrued interest receivable	201	234
Accrued interest payable	(9)	23
Other assets	(265)	1,266
Operating lease liabilities	6	—
Other liabilities	1,910	3,345
Net cash used in operating activities	<u>(4,397)</u>	<u>(8,888)</u>
Cash flows from investing activities:		
Net increase in loans receivable	10,658	32,908
Distributions from BFG	102	257
Purchase of bank premises and equipment	(1,338)	(295)
Proceeds from maturities and paydowns of securities held-to-maturity	428	132
Purchase of FHLB stock	(71)	(173)
Net cash provided by investing activities	<u>9,779</u>	<u>32,829</u>
Cash flows from financing activities:		
Net increase in deposits	25,568	24,035
Proceeds from exercise of stock options	40	166
Proceeds from PPP Liquidity Facility	—	5,558
Repayment of PPP Liquidity Facility	(98)	(26,861)
Net cash provided by financing activities	<u>25,510</u>	<u>2,898</u>
Net change in cash and cash equivalents	30,892	26,839
Cash and cash equivalents, beginning of the period	85,754	47,383
Cash and cash equivalents, end of the period	<u>\$ 116,646</u>	<u>\$ 74,222</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period		
Income taxes	\$ —	\$ 1,926
Interest	\$ 1,274	\$ 349
Supplemental disclosures of noncash operating activities:		
Right-of-use assets obtained in exchange for operating lease liabilities (ASC 842 adoption effective January 1, 2022)	7,380	—

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies

Nature of business and organization – FinWise Bancorp is a Utah Corporation headquartered in Murray, Utah and operates all business activities through its wholly-owned banking subsidiary, FinWise Bank, dba Utah Community Bank. Utah Community Bank was incorporated in the state of Utah on May 7, 1999. All West Bancorp was incorporated in the state of Utah on October 22, 2002, after which, it acquired 100% of Utah Community Bank. As of March 4, 2016, Utah Community Bank’s articles of incorporation were amended to rename the entity FinWise Bank. As of March 15, 2021, All West Bancorp’s articles of incorporation were amended and restated to rename the entity FinWise Bancorp. References herein to “FinWise Bancorp,” “Bancorp” or the “holding company,” refer to FinWise Bancorp on a standalone basis. The word “Company” refers to FinWise Bancorp and FinWise Bank collectively and on a consolidated basis. References to the “Bank” refer to FinWise Bank on a standalone basis.

On July 15, 2021, the Company publicly filed a Registration Statement on Form S-1 with the SEC in connection with its Initial Public Offering (“IPO”) (the “Registration Statement”), which was subsequently amended on July 30, 2021, August 4, 2021, November 1, 2021, and November 16, 2021. The Registration Statement was declared effective by the SEC on November 18, 2021. In connection with the IPO, the Company issued 4,025,000 shares of common stock, par value of \$0.001, which included 525,000 shares sold pursuant to the underwriters’ exercise of their option to purchase additional shares. The securities were sold to the public at a price of \$10.50 per share and began trading on the Nasdaq Stock Market LLC on November 19, 2021. On November 23, 2021, the closing date of the IPO, the Company received total net proceeds of \$39.3 million. The net proceeds less other related expenses, including audit fees, legal fees, listing fees, and other expenses, totaled \$35.6 million.

The Bank is an independent bank that provides a full range of banking services to individual and corporate customers. The Bank’s primary source of revenue is from loans including Small Business Administration (SBA), commercial, commercial real estate, residential real estate, and consumer. The Bank also has established Strategic Programs with various third-party loan origination platforms that use technology to streamline the origination of unsecured consumer and secured or unsecured business loans to borrowers within certain approved credit profiles. The Bank earns monthly program fees based on the volume of loans originated in these Strategic Programs, as well as interest during the time the Bank holds the loans.

The Company is subject to competition from other financial institutions and to the regulations of certain federal and state agencies and undergoes periodic examinations by those agencies.

COVID-19 – On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic. Local and national governments and regulatory authorities have systematically implemented remedial measures to try to slow and curb the spread of COVID-19, including business closures and operating restrictions, travel bans, shelter in place, stay home, and similar directives and orders. In response to the COVID-19 pandemic and in adherence with state and local guidelines, the Company has implemented the business continuity plan and other measures and activities to protect the Company’s employees and, at the same time, to assist the Company’s clients and the communities of which the Company is a part, including remote working for the majority of the Company’s employees, increased mobile banking and electronic transaction options for clients, payment deferral assistance to commercial and consumer borrowers, and participation in the SBA’s Paycheck Protection Program (“PPP”) for loans to qualifying small businesses.

On March 22, 2020, the federal banking agencies issued an “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus”. This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the Financial Accounting Standards Board (“FASB”) staff that the federal banking agencies concluded that short-term modifications (e.g., six months) made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not troubled debt restructurings (“TDRs”).

The Coronavirus Aid, Relief and Economic Security (“CARES”) Act was passed by Congress on March 27, 2020. The CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The Bank has applied this guidance related to payment deferrals and other COVID-19 related loan modifications.

The CARES Act also included a total allocation of \$659 billion for loans to be issued by financial institutions through the Small Business Administration (“SBA”). This program is known as the Paycheck Protection Program (“PPP”). PPP loans are forgivable, in whole or in part, if the proceeds are used for eligible payroll costs and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00%. PPP loans originated prior to June 5, 2020 have a term of two years, while PPP loans originated on or after June 5, 2020 have a term of five years. Payments are deferred for at least the first six months of the loan and the loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee ranging from 1% to 5%, based on the size of the loan. At March 31, 2022, net deferred loan fees related to PPP loans was a *de minimis* amount, which will be recognized over the life of the loans. Participation in the PPP will likely have a positive impact on the Company’s financial position and results of operations as this fee income is recognized over the term of the PPP loans. As of December 31, 2021, PPP borrowers had applied for and received forgiveness from the SBA for \$125.2 million of PPP loan principal and have made \$0.3 million of principal payments leaving \$1.1 million of PPP loan principal outstanding as of December 31, 2021. During the three months ended March 31, 2022, PPP borrowers made \$0.1 million of principal payments leaving \$1.0 million of PPP loan principal outstanding as of March 31, 2022. The loan forgiveness resulted in the recognition of a *de minimis* amount of deferred loan fees for the three months ended March 31, 2022.

Basis of Presentation – The consolidated financial statements are comprised of the accounts of FinWise Bancorp and its wholly-owned subsidiaries, FinWise Investments, LLC and FinWise Bank (collectively, the “Company”). All significant inter-company transactions have been eliminated in consolidation. In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for three months ended March 31, 2022 are not necessarily indicative of the results of operations that may be expected for subsequent periods or the full year results.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the SEC for the presentation of the Form 10-Q. The unaudited consolidated financial statements presented should be read in conjunction with the Company’s audited consolidated financial statements and notes to the audited consolidated financial statements included in the Company’s December 31, 2021 Annual Report on Form 10-K.

Out-of-period adjustment – During the first quarter of 2022, we recognized a \$(0.8) million (\$(0.6) million net of tax) reduction of interest and fees on loans and loans receivable, net as an out-of-period adjustment. The adjustment was not considered material to the interim consolidated financial statements for the quarter ended March 31, 2022 or the financial statements of any previously filed interim or annual periods.

Use of estimates – In preparing the consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities as of the date of the consolidated balance sheets and certain revenues and expenses for the period. Actual results could differ, either positively or negatively, from those estimates.

Recently adopted accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by, among other provisions, recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. The guidance was initially effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. However, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, delaying the effective date to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. In transition, entities may also elect a package of practical expedients that must be applied in its entirety to all leases commencing before the adoption date, unless the lease is modified, and permits entities to not reassess (a) the existence of a lease, (b) lease classification or (c) determination of initial direct costs, as of the adoption date, which effectively allows entities to carryforward accounting conclusions under previous U.S. GAAP. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities an optional transition method to apply the guidance under ASC Topic 842 as of the adoption date, rather than as of the earliest period presented. The Company adopted this guidance on January 1, 2022, which resulted in an increase in assets and liabilities by \$7.4 million on the Company’s consolidated financial statements.

Accounting pronouncements to be adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The ASU sets forth a “current expected credit loss” (CECL) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost, available-for-sale debt securities and applies to certain off-balance sheet credit exposures. This ASU was initially effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. However, the FASB issued an ASU to delay adoption for smaller reporting companies to calendar year 2023. The Company is currently assessing the impact of the adoption of this ASU on its consolidated financial statements.

Note 2 – Investments

Investment securities held-to-maturity, at cost

The amortized cost, unrealized gains and losses, and estimated fair values of the Company’s held-to-maturity securities at March 31, 2022 and December 31, 2021, are summarized as follows:

(\$ in thousands)	March 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Mortgage-backed securities	\$ 10,986	\$ 3	\$ (726)	\$ 10,263

(\$ in thousands)	December 31, 2021			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Mortgage-backed securities	\$ 11,423	\$ 23	\$ (114)	\$ 11,332

The Company had twelve securities in an unrealized loss position at March 31, 2022 and nine securities in an unrealized loss position at December 31, 2021, as summarized in the following tables:

(\$ in thousands)	March 31, 2022					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 10,042	\$ (726)	\$ —	\$ —	\$ 10,042	\$ (726)

(\$ in thousands)	December 31, 2021					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 8,961	\$ (114)	\$ —	\$ —	\$ 8,961	\$ (114)

The amortized cost and estimated market value of debt securities at March 31, 2022, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(\$ in thousands)</i>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Securities held-to-maturity		
Due in one year or less	\$ —	\$ —
Due after one year through five years	—	—
Due after five years through ten years	1,462	1,402
Due after ten years	9,524	8,861
Total Securities held-to-maturity	\$ 10,986	\$ 10,263

At March 31, 2022, all held-to-maturity securities were pledged as collateral for a credit line held by the Bank. There were no sales of investment securities during the three months ended March 31, 2022 or 2021.

FHLB stock

The Bank is a member of the FHLB system. Members are required to own FHLB stock of at least the greater of 1% of FHLB membership asset value or 2.7% of outstanding FHLB advances. At March 31, 2022 and December 31, 2021, the Bank owned \$0.4 million, respectively, of FHLB stock, which is carried at cost. The Company evaluated the carrying value of its FHLB stock investment at March 31, 2022 and determined that it was not impaired. This evaluation considered the long-term nature of the investment, the current financial and liquidity position of the FHLB, repurchase activity of excess stock by the FHLB at its carrying value, the return on the investment from recurring and special dividends, and the Company's intent and ability to hold this investment for a period of time sufficient to recover our recorded investment.

Note 3 – Loans and Allowance for Loan Losses

Loans are summarized as follows according to major risk category as of March 31, 2022 and December 31, 2021:

<i>(\$ in thousands)</i>	<u>March 31, 2022</u>	<u>December 31, 2021</u>
SBA	\$ 127,778	\$ 142,392
Commercial, non-real estate	3,285	3,428
Residential real estate	30,772	27,108
Strategic Program loans	101,819	85,850
Commercial real estate	4,187	2,436
Consumer	4,711	4,574
Total loans	\$ 272,552	\$ 265,788
Loans held-for-sale	(73,805)	(60,748)
Total loans held for investment	\$ 198,747	\$ 205,040
Deferred loan costs (fees), net	789	2,917
Allowance for loan losses	(9,987)	(9,855)
Net loans	\$ 189,549	\$ 198,102

Strategic Program Loans – In 2016, the Company began originating loans with various third-party loan origination platforms that use technology and other innovative systems to streamline the origination of unsecured consumer and secured or unsecured business loans to a wide array of borrowers within certain approved credit profiles. Loans issued by the Company through these programs generally follow and are limited to specific predetermined underwriting criteria. The Company earns monthly minimum program fees from these third parties. Based on the volume of loans originated by the Company related to each Strategic Program, an additional fee equal to a percentage of the loans generated under the Strategic Program may be collected. The program fee is included within non-interest income on the Consolidated Statements of Income.

The Company generally retains the loans and/or receivables for a number of business days after origination before selling the loans and/or receivables to the Strategic Program platform or another investor. Interest income is recognized by the Company while holding the loans. These loans are classified as held-for-sale on the balance sheet.

The Company may also hold a portion of the loans or receivable and sell the remainder directly to the Strategic Programs or other investors. The Company generally services the loans originated through the Strategic Programs in consideration of servicing fees equal to a percentage of the loans generated under the Strategic Programs. In turn, the Strategic Program service providers, subject to the Company’s approval and oversight, serve as sub-servicer and perform typical primary servicing duties including loan collections, modifications, charging-off, reporting and monitoring.

Each Strategic Program establishes a “reserve” deposit account with the Company. The agreements generally require that the deposit reserve account balance does not fall below the dollar amount of the total loans outstanding currently held by the Company for the specific Strategic Program. If necessary, the Company has the right to withdraw amounts from the reserve account to fulfill loan purchaser obligations created under the program agreements. Total cash held in reserve by Strategic Programs at the Company at March 31, 2022 and December 31, 2021, was \$50.8 million and \$39.6 million, respectively.

Strategic Program loans retained and held-for-sale as of March 31, 2022 and December 31, 2021, are summarized as follows:

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<i>(\$ in thousands)</i>		
Retained Strategic Program loans	\$ 28,014	\$ 25,102
Strategic Program loans held-for-sale	73,805	60,748
Total Strategic Program loans	<u>\$ 101,819</u>	<u>\$ 85,850</u>

Changes in the ALL are summarized as follows:

Three Months Ended March 31, 2022							
<i>(\$ in thousands)</i>	<u>SBA</u>	<u>Commercial, Non-Real Estate</u>	<u>Residential Real Estate</u>	<u>Strategic Program Loans</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 2,739	\$ 132	\$ 352	\$ 6,549	\$ 21	\$ 62	\$ 9,855
Charge-offs	(31)	—	—	(2,878)	—	—	(2,909)
Recoveries	—	1	—	93	—	—	94
Provision (recapture)	356	(26)	59	2,558	—	—	2,947
Balance at end of period	<u>\$ 3,064</u>	<u>\$ 107</u>	<u>\$ 411</u>	<u>\$ 6,322</u>	<u>\$ 21</u>	<u>\$ 62</u>	<u>\$ 9,987</u>
Ending balance							
individually evaluated							
for impairment	—	—	—	—	—	—	—
Ending balance							
collectively evaluated							
for impairment	<u>\$ 3,064</u>	<u>\$ 107</u>	<u>\$ 411</u>	<u>\$ 6,322</u>	<u>\$ 21</u>	<u>\$ 62</u>	<u>\$ 9,987</u>
Loans receivable	<u>\$ 127,778</u>	<u>\$ 3,285</u>	<u>\$ 30,772</u>	<u>\$ 28,014</u>	<u>\$ 4,187</u>	<u>\$ 4,711</u>	<u>\$ 198,747</u>
Ending balance							
individually evaluated							
for impairment	<u>951</u>	<u>—</u>	<u>200</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,151</u>
Ending balance							
collectively evaluated							
for impairment	<u>\$ 126,827</u>	<u>\$ 3,285</u>	<u>\$ 30,572</u>	<u>\$ 28,014</u>	<u>\$ 4,187</u>	<u>\$ 4,711</u>	<u>\$ 197,596</u>

**Three Months Ended
March 31, 2021**

<i>(\$ in thousands)</i>	<u>SBA</u>	<u>Commercial, Non-Real Estate</u>	<u>Residential Real Estate</u>	<u>Strategic Program Loans</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 920	\$ 232	\$ 855	\$ 4,111	\$ 19	\$ 62	\$ 6,199
Charge-offs	(7)	(41)	—	(741)	—	(2)	(791)
Recoveries	11	—	—	132	—	—	143
Provision	—	—	—	633	—	—	633
Balance at end of period	<u>\$ 924</u>	<u>\$ 191</u>	<u>\$ 855</u>	<u>\$ 4,135</u>	<u>\$ 19</u>	<u>\$ 60</u>	<u>\$ 6,184</u>
Ending balance individually evaluated for impairment	—	—	—	—	—	—	—
Ending balance collectively evaluated for impairment	<u>\$ 924</u>	<u>\$ 191</u>	<u>\$ 855</u>	<u>\$ 4,135</u>	<u>\$ 19</u>	<u>\$ 60</u>	<u>\$ 6,184</u>
Loans receivable	<u>\$ 167,824</u>	<u>\$ 3,867</u>	<u>\$ 21,712</u>	<u>\$ 6,580</u>	<u>\$ 2,589</u>	<u>\$ 4,807</u>	<u>\$ 207,379</u>
Ending balance individually evaluated for impairment	890	—	756	—	—	—	1,646
Ending balance collectively evaluated for impairment	<u>\$ 166,934</u>	<u>\$ 3,867</u>	<u>\$ 20,956</u>	<u>\$ 6,580</u>	<u>\$ 2,589</u>	<u>\$ 4,807</u>	<u>\$ 205,733</u>

The following tables summarize impaired loans as of March 31, 2022 and December 31, 2021:

March 31, 2022

<i>(\$ in thousands)</i>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With no related allowance recorded					
SBA	\$ 951	\$ 951	\$ —	\$ 962	\$ 48
Commercial, non-real estate	—	—	—	—	—
Residential real estate	200	200	—	100	—
Strategic Program loans	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Total	<u>\$ 1,151</u>	<u>\$ 1,151</u>	<u>\$ —</u>	<u>\$ 1,062</u>	<u>\$ 48</u>

December 31, 2021

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<i>(\$ in thousands)</i>					
With no related allowance recorded					
SBA	\$ 972	\$ 972	\$ —	\$ 945	\$ 47
Commercial, non-real estate	—	—	—	—	—
Residential real estate	—	—	—	189	—
Strategic Program loans	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Total	\$ 972	\$ 972	\$ —	\$ 1,134	\$ 47

For the three months ending March 31, 2022 and December 31, 2021, there were no impaired loans with an allowance recorded.

Nonaccrual and past due loans are summarized below as of March 31, 2022 and December 31, 2021:

March 31, 2022

<i>(\$ in thousands)</i>	<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90+ Days Past Due & Still Accruing</u>	<u>Total Past Due</u>	<u>Non- Accrual</u>	<u>Total</u>
SBA	\$ 126,894	\$ 227	\$ —	\$ —	\$ 227	\$ 657	\$ 127,778
Commercial, non-real estate	3,285	—	—	—	—	—	3,285
Residential real estate	30,572	—	—	200	200	—	30,772
Strategic Program loans	100,105	981	573	159	1,713	1	101,819
Commercial real estate	4,187	—	—	—	—	—	4,187
Consumer	4,707	4	—	—	4	—	4,711
Total	\$ 269,750	\$ 1,212	\$ 573	\$ 359	\$ 2,144	\$ 658	\$ 272,552

December 31, 2021

<i>(\$ in thousands)</i>	<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90+ Days Past Due & Still Accruing</u>	<u>Total Past Due</u>	<u>Non- Accrual</u>	<u>Total</u>
SBA	\$ 141,488	\$ 247	\$ —	\$ —	\$ 247	\$ 657	\$ 142,392
Commercial, non-real estate	3,428	—	—	—	—	—	3,428
Residential real estate	27,108	—	—	—	—	—	27,108
Strategic Program loans	84,065	1,041	690	54	1,785	—	85,850
Commercial real estate	2,436	—	—	—	—	—	2,436
Consumer	4,554	20	—	—	20	—	4,574
Total	\$ 263,079	\$ 1,308	\$ 690	\$ 54	\$ 2,052	\$ 657	\$ 265,788

The amount of interest income for the three months ended March 31, 2022 and 2021, that was not recorded on nonaccrual loans was *de minimis*.

In addition to past due and nonaccrual status criteria, the Company also evaluates loans using a loan grading system. Internal loan grades are based on current financial information, historical payment experience, and credit documentation, among other factors. Performance-based grades are summarized below:

Pass (Loan Grades 1-4) – A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

Special Mention (Loan Grade 5) – A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the Company is currently protected and loss is considered unlikely and not imminent.

Classified Substandard (Loan Grade 6) – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have well defined weaknesses and are characterized by the distinct possibility that the Company may sustain some loss if deficiencies are not corrected.

Classified Doubtful (Loan Grade 7) – A Doubtful asset has all the weaknesses inherent in a Substandard asset with the added characteristics that the weaknesses make collection or liquidation in full highly questionable.

Classified Loss (Loan Grade 8) – A loss loan has an existing weakness or weaknesses that render the loan uncollectible and of such little value that continuing to carry as an asset on the Bank's book is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical nor desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future.

The Company does not currently grade retained Strategic Program loans due to their small balances and homogenous nature. Credit quality for Strategic Program loans is highly correlated with delinquency levels. The Strategic Program loans are evaluated collectively for impairment.

Outstanding loan balances categorized by these credit quality indicators are summarized as follows at March 31, 2022 and December 31, 2021:

March 31, 2022

<i>(\$ in thousands)</i>	Pass Grade 1-4	Special Mention Grade 5	Classified/ Doubtful/Loss Grade 6-8	Total
SBA	\$ 125,366	\$ 1,461	\$ 951	\$ 127,778
Commercial, non-real estate	3,285	—	—	3,285
Residential real estate	30,572	—	200	30,772
Commercial real estate	4,187	—	—	4,187
Consumer	4,711	—	—	4,711
Not Risk Graded				
Strategic Program loans				101,819
Total at March 31, 2022	<u>\$ 168,121</u>	<u>\$ 1,461</u>	<u>\$ 1,151</u>	<u>\$ 272,552</u>

December 31, 2021

<i>(\$ in thousands)</i>	Pass Grade 1-4	Special Mention Grade 5	Classified/ Doubtful/Loss Grade 6-8	Total
SBA	\$ 139,985	\$ 1,435	\$ 972	\$ 142,392
Commercial, non-real estate	3,382	46	—	3,428
Residential real estate	27,108	—	—	27,108
Commercial real estate	2,436	—	—	2,436
Consumer	4,574	—	—	4,574
Not Risk Graded				
Strategic Program loans				85,850
Total at December 31, 2021	<u>\$ 177,485</u>	<u>\$ 1,481</u>	<u>\$ 972</u>	<u>\$ 265,788</u>

Loans modified and recorded as TDR's during the three months ended March 31, 2022 and March 31, 2021, consist of the following:

<i>(\$ in thousands)</i>	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
March 31, 2022			
SBA	1	\$ 96	\$ 96
Total at March 31, 2022	<u>1</u>	<u>\$ 96</u>	<u>\$ 96</u>
Non-Accrual			
SBA	1	\$ 25	\$ 25
March 31, 2021			
SBA	3	\$ 114	\$ 114
Residential real estate	1	756	756
Total at March 31, 2021	<u>4</u>	<u>\$ 870</u>	<u>\$ 870</u>
Non-Accrual			
SBA	1	\$ 53	\$ 53

At March 31, 2022 and 2021, there were no commitments to lend additional funds to debtors whose loan terms have been modified in a TDR. Loans modified and recorded as TDR's during the three months ended March 31, 2022 and 2021 included modifications to rate and term. There was one principal charge-off recorded related to TDRs during the three months ended March 31, 2022 for \$0.01 million. There were no principal charge-offs recorded related to TDRs during the three months ended March 31, 2021.

During the three months ended March 31, 2022 and 2021, there were no loan modifications to TDRs. Separately, one restructured loan incurred a default within 12 months of the restructure date and continues to be in default during the three months ended March 31, 2022. One restructured loan incurred a default within 12 months of the restructure date during the three months ended March 31, 2021. This same loan was paid in full with interest on May 28, 2021.

Note 4 – Premises and Equipment

Premises and equipment at March 31, 2022 and December 31, 2021, consist of the following:

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
(\$ in thousands)		
Leasehold improvements	\$ 80	\$ 80
Furniture, fixtures, and equipment	2,437	2,219
Construction in progress	3,453	2,333
Total premises and equipment	\$ 5,970	\$ 4,632
Less accumulated depreciation	(1,439)	(1,347)
Premises and equipment, net	\$ 4,531	\$ 3,285

Depreciation expense was approximately \$0.1 million and \$0.1 million for the three months ended March 31, 2022 and 2021, respectively.

Lease Liabilities

The Company leases its facilities under noncancelable operating leases. Rent expense for three months ended March 31, 2022 and 2021 was \$0.2 million and \$0.1 million, respectively. Future minimum annual rental payments for these operating leases are as follows (\$ in thousands):

Nine Months Ended December 31, 2022	\$ 469
Year Ended December 31, 2023	850
Year Ended December 31, 2024	1,104
Year Ended December 31, 2025	1,086
Year Ended December 31, 2026	1,118
Year Ended December 31, 2027	1,152
Thereafter	2,203
Total	<u>7,982</u>
Less present value discount	<u>(596)</u>
Operating lease liabilities	<u>\$ 7,386</u>

The Company entered into one lease during the three months ended March 31, 2022 to provide additional space while the Murray office construction is completed. ASC 842 does not apply due to the short-term period of this lease and immateriality. The tables below present information regarding the Company's lease assets and liabilities. Comparative periods and disclosures are not presented here due to adoption of ASC 842 on January 1, 2022.

	<u>Three Months Ended</u> <u>March 31,</u> <u>2022</u>
Operating cash flows from operating leases (<i>in thousands</i>)	\$ 28
Weighted-average remaining lease term – operating leases (<i>in years</i>)	7.4
Weighted-average discount rate – operating leases	1.9%

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31, 2022	
<i>(in thousands)</i>		
Operating leases		
Operating lease cost	\$	236
Variable lease cost		4
Operating lease expense		240
Short-term lease rent expense		—
Net rent expense	\$	240

Note 5 – Deposits

Major classes of deposits at March 31, 2022 and December 31, 2021, are as follows:

	March 31, 2022	December 31, 2021
<i>(\$ in thousands)</i>		
Demand	\$ 135,249	\$ 115,947
Savings	7,089	6,685
Money markets	53,434	31,076
Time certificates of deposit	81,688	98,184
Total deposits	\$ 277,460	\$ 251,892

At March 31, 2022, the scheduled maturities of time deposits are as follows (\$ in thousands):

Year Ended December 31, 2022	\$ 24,444
Year Ended December 31, 2023	21,461
Year Ended December 31, 2024	16,156
Year Ended December 31, 2025	10,073
Year Ended December 31, 2026	8,676
Thereafter	878
Total	81,688

Time deposits with balances equal or greater than \$250,000 totaled \$3.5 million and \$3.7 million at March 31, 2022 and December 31, 2021, respectively.

Note 6 – SBA Servicing Asset

The Company periodically sells portions of SBA loans and retains rights to service the loans. Loans serviced for others are not included in the accompanying balance sheet. The unpaid principal balances of SBA loans serviced for others was \$256.3 million and \$210.2 million at March 31, 2022 and December 31, 2021, respectively.

The following table summarizes SBA servicing asset activity for the periods indicated:

	For the Three Months Ended March 31,	
	2022	2021
<i>(\$ in thousands)</i>		
Beginning balance	\$ 3,938	\$ 2,415
Additions to servicing asset	1,408	856
Recovery on SBA servicing asset	59	—
Amortization of servicing asset	(180)	(197)
Ending balance	\$ 5,225	\$ 3,074

The fair market value of the SBA servicing asset as of March 31, 2022 and December 31, 2021, was \$5.23 million and \$3.94 million, respectively. Fair value adjustments to servicing rights are mainly due to market-based assumptions associated with discounted cash flows, loan prepayment speeds, and changes in interest rates. A significant change in prepayments of the loans in the servicing portfolio could result in significant changes in the valuation adjustments, thus creating potential volatility in the carrying amount of servicing rights.

The Company assumed a weighted average prepayment rate of 14.25%, weighted average term of 4.26 years, and a weighted average discount rate of 9.70% at March 31, 2022.

The Company assumed a weighted average prepayment rate of 14.37%, weighted average term of 4.02 years, and a weighted average discount rate of 11.38% at December 31, 2021.

Note 7 – Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal and State of Utah banking agencies (the regulators). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off -balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk -weighting, and other factors. Prompt corrective action provisions are not applicable to the bank holding company.

Beginning January 1, 2020, the bank qualified and elected to use the community bank leverage ratio (CBLR) framework for quantitative measures which requires the Bank to maintain minimum amounts and ratios of Tier 1 capital to average total consolidated assets. Management believes, as of December 31, 2021 and March 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2022 and December 31, 2021, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank’s category). The following table sets forth the actual capital amounts and ratios for the Bank and the minimum ratio and amount of capital required to be categorized as well-capitalized and adequately capitalized as of the dates indicated.

The Bank’s actual capital amounts and ratios are presented in the following table:

(\$ in thousands)	Actual		Well-Capitalized Requirement	
	Amount	Ratio	Amount	Ratio
March 31, 2022				
Leverage ratio (CBLR election)	\$ 74,437	19.1%	\$ 35,057*	9.0%
December 31, 2021				
Leverage ratio (CBLR election)	\$ 65,503	17.7%	\$ 31,442*	8.5%

* On March 27, 2020 the CARES Act became law. Section 4012 of the CARES Act directs the agencies to issue an interim final rule reducing the CBLR ratio requirement from 9% to 8% for the last two quarters of the year 2020, 8.5% for the calendar year 2021, and 9% thereafter.

Federal Reserve Board Regulations require maintenance of certain minimum reserve balances based on certain average deposits. The Bank had reserve requirements of \$0.0 million as of March 31, 2022 and December 31, 2021, respectively.

The Federal Reserve’s policy statement and supervisory guidance on the payment of cash dividends by a Bank Holding Company (“BHC”), such as FinWise Bancorp, expresses the view that a BHC should generally pay cash dividends on common stock only to the extent that (1) the BHC’s net income available over the past year is sufficient to cover the cash dividend, (2) the rate of earnings retention is consistent with the organization’s expected future needs and financial condition, and (3) the minimum regulatory capital adequacy ratios are met. Should an insured depository institution controlled by a bank holding company be “significantly undercapitalized” under the applicable federal bank capital ratios, or if the bank subsidiary is “undercapitalized” and has failed to submit an acceptable capital restoration plan or has materially failed to implement such a plan, federal banking regulators (in the case of the Bank, the FDIC) may choose to require prior Federal Reserve approval for any capital distribution by the BHC.

In addition, since FinWise Bancorp is a legal entity separate and distinct from the Bank and does not conduct stand-alone operations, an ability to pay dividends depends on the ability of the Bank to pay dividends to FinWise Bancorp and the FDIC and the Utah Department of Financial Institutions (“UDFI”) may, under certain circumstances, prohibit the payment of dividends to FinWise Bancorp from the Bank. Utah corporate law also requires that dividends can only be paid out of funds legally available.

The Company has not paid any cash dividends on its common stock since inception and it currently has no plans to pay cash dividends in the foreseeable future. However, the Company’s Board of Directors may declare a cash or stock dividend out of retained earnings provided the regulatory minimum capital ratios are met. The Company plans to maintain capital ratios that meet the well-capitalized standards per the regulations and, therefore, would limit dividends to amounts that are appropriate to maintain those well-capitalized regulatory capital ratios.

Note 8 – Commitments and Contingent Liabilities

Federal Home Loan Bank Secured Line of Credit

As of March 31, 2022 and December 31, 2021, the Bank’s available line of credit with the FHLB to borrow in overnight funds was \$3.9 million and \$4.1 million, respectively. All borrowings are short-term and the interest rate is equal to the correspondent bank’s daily federal funds purchase rate. As of March 31, 2022 and December 31, 2021, no amounts were outstanding under the line of credit. Loans totaling \$5.2 million and \$5.4 million were pledged to secure the FHLB line of credit as of March 31, 2022 and December 31, 2021, respectively.

Line of Credit

At March 31, 2022 and December 31, 2021, we had the ability to access \$9.6 million and \$10.9 million from the Federal Reserve Bank’s Discount Window on a collateralized basis. Through Zions Bank, the Bank had an available unsecured line available of \$1.0 million at March 31, 2022 and December 31, 2021. The Bank had an available line of credit with Bankers’ Bank of the West to borrow up to \$1.05 million in overnight funds at March 31, 2022 and December 31, 2021. We had no outstanding balances on such unsecured or secured lines of credit as of March 31, 2022 and December 31, 2021.

Paycheck Protection Program Liquidity Facility

On April 20, 2020, the Bank was approved by the Federal Reserve to access its SBA Paycheck Protection Program Liquidity Facility (“PPPLF”) through the discount window. The PPPLF enables the Company to fund PPP loans without taking on additional liquidity or funding risks because the Company is able to pledge PPP loans as collateral to secure extensions of credit under the PPPLF on a non-recourse basis. Borrowings under the PPPLF have a fixed-rate of 0.35%, with a term that matches the underlying loans. The Bank pledged \$1.0 million of PPP loans as eligible collateral under the PPPLF borrowing arrangement at December 31, 2021. The Bank pledged \$1.0 million of PPP loans as eligible collateral under the PPPLF borrowing arrangement at March 31, 2022. The average outstanding borrowings were \$87.3 million during the three months ended March 31, 2021 and \$1.0 million during the three months ended March 31, 2022.

Commitments to Extend Credit

In the ordinary course of business, the Bank has entered into commitments to extend credit to customers which have not yet been exercised. These financial instruments include commitments to extend credit in the form of loans. Those instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

At March 31, 2022 and December 31, 2021, financial instruments with off-balance-sheet risk were as follows:

<i>(\$ in thousands)</i>	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Revolving, open-end lines of credit	\$ 1,224	\$ 1,259
Commercial real estate	22,167	15,402
Other unused commitments	255	377
	<u>\$ 23,646</u>	<u>\$ 17,038</u>

Note 9 – Investment in Business Funding Group, LLC

On December 31, 2019, the Company purchased from certain members of BFG a 10% membership interest in exchange for an aggregate of 950,784 shares of par value \$0.001 Common Stock of the Company. The exchange was accounted for at fair value based on the fair value of the Company’s shares of approximately \$3.5 million.

The Company's 10% membership interests of BFG are comprised of Class A Voting Units representing 4.96% of the aggregate membership interests of BFG and Class B Non-Voting Units representing 5.04% of the aggregate membership interests of BFG. The other existing members of BFG jointly own the remaining 90% of the outstanding membership interests, on a fully-diluted basis – all of which membership interests are Class A Voting Units. Based on the Company's accounting policy with respect to investments in limited liability companies, the Company concluded that its level of ownership was indicative of significant influence and, as a result, the investment would be accounted for using the equity method. However, the Company elected the fair value option for its investment due to cost-benefit considerations. The Company received distributions from BFG in the amounts of \$0.1 million and \$0.3 million for the three months ended March 31, 2022 and 2021, respectively. These distributions were recorded in the Consolidated Balance Sheets as decreases in the investment in BFG.

On March 31, 2020, the Company entered into an agreement with BFG whereby the Company has the right of first refusal to purchase additional interests in BFG from any selling members. Additionally, the Company was granted an option to purchase all, but not less than all, of the interests in BFG from the remaining members for an earnings multiple between 10 times and 15 times net profit based on the fiscal year ended immediately prior to the exercise of the option. The option period begins on January 1, 2021 and expires on January 1, 2028. In consideration of granting the first right of refusal and the option, BFG members received 270,000 warrants in the aggregate. The warrants have an exercise price of \$6.67 per share and the warrants expire on March 31, 2028. The warrants are free-standing equity instruments and, as a result, are classified within equity at the fair value on the issuance date. The fair value of the warrants was determined by our board of directors with input from management, relying in part upon valuation reports prepared by a third-party valuation firm using a Black-Scholes option pricing model adjusted for a lack of marketability since the Company's stock is not publicly traded. The resulting fair value of the warrants was \$0.19 per share.

For further discussion on the Company's investment in BFG, see Note 13 Related Parties.

Note 10 – Stock-Based Compensation

Stock option plans

The Company utilizes stock-based compensation plans, as well as discretionary grants, for employees, directors and consultants to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives and to promote the success of the Company's business.

The 2019 Stock Option Plan ("2019 Plan") was adopted on June 20, 2019 following approval by the Company's Board of Directors and shareholders. The 2019 Plan provides for the issuance of non-statutory stock options and restricted stock to employees, directors and consultants. The 2019 Plan also provides for the issuance of incentive stock options only to employees. The 2019 Plan authorizes the issuance of 780,000 common shares. The 2019 Plan will terminate as to future awards 10 years from the later of the effective date or the earlier of the most recent Board or stockholder approval of an increase in the number of shares reserved for issuance under the 2019 Plan. At March 31, 2022, 297,786 shares are available for future issuance.

The 2016 Stock Option Plan ("2016 Plan") was adopted on April 20, 2017 following approval by the Company's Board of Directors and shareholders. The 2016 Plan provides for the issuance of non-statutory stock options and restricted stock to employees, directors and consultants. The 2016 Plan also provides for the issuance of incentive stock options only to employees. The 2016 Plan authorizes the issuance of 299,628 common shares. The 2016 Plan will terminate as to future awards 10 years from the later of the effective date or the earlier of the most recent Board or stockholder approval of an increase in the number of shares reserved for issuance under the 2016 Plan. At March 31, 2022, 29,712 shares under 2016 Plan are available for future issuance.

The stock-based incentive awards for both the 2019 Plan and the 2016 Plan (collectively, the "Plans") are granted at an exercise price not less than the fair market value of the shares on the date of grant, which is based on a Black-Scholes valuation model, in the case of options, or based on the fair value of the stock at the grant date, in the case of restricted stock. Vesting of the options vary by employee or director and can have a term no more than 10 years, with the options generally having vesting periods ranging from 1 to 5 years. No shares had been granted under the 2016 Plan prior to 2018.

Under both Plans, if an award expires or becomes un-exercisable without having been exercised in full, or is surrendered pursuant to an exchange program, the unpurchased shares that were subject thereto shall become available for future grant or sale under the Plans. However, shares that have actually been issued under the Plans, upon exercise of an award, shall not be returned to the Plans and shall not become available for future distribution under the Plans, except that if unvested shares of restricted stock are repurchased by the Company at their original purchase price, such shares shall become available for future grant under the Plans.

Other stock-based compensation

On December 24, 2019, the Board approved a restricted stock discretionary grant of 1,072,746 shares to certain employees. Pursuant to the awards agreement, 351,852 shares vested on the grant date and were repurchased by the Company on December 31, 2019 to pay for employee withholding taxes. Pursuant to the awards agreement, 73,770 shares subsequently vested and were repurchased by the Company on April 6, 2020 to pay for employee income taxes. Granted shares vest based on the accelerated attribution method on a schedule where all shares would be fully vested on December 1, 2023. On November 18, 2021, pursuant to the awards agreement, the 424,458 remaining unvested shares became vested because the Company's registration statement was declared effective.

Stock options

The grant date fair value is determined using the Black-Scholes option valuation model. No option grants took place in the three months ended March 31, 2022.

The following summarizes stock option activity for the three months ended March 31, 2022:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021	862,488	\$ 4.41	8.2	\$ 8,088,660
Options exercised	(16,800)	2.37		248,312
Options forfeited	(6,660)	3.28		92,357
Outstanding at March 31, 2022	<u>839,028</u>	<u>\$ 4.46</u>	<u>8.0</u>	<u>\$ 10,645,951</u>
Options vested and exercisable at March 31, 2022	<u>592,632</u>	<u>\$ 4.58</u>	<u>8.0</u>	<u>\$ 7,447,226</u>

The weighted average grant-date fair value of options per share granted was \$1.55 during the three months ended March 31, 2022. The aggregate intrinsic value of options exercised during the three months ended March 31, 2022 was \$0.25 million. During the three months ended March 31, 2022, the Company received *de minimis* proceeds from the exercise of stock options and recognized a *de minimis* tax benefit from the exercise of stock options. Upon exercise of the stock options, the Company will issue new authorized shares.

Stock-based compensation expense

The following tables present pre-tax and after-tax stock-based compensation expense recognized:

(\$ in thousands)	For the Three Months Ended March 31,	
	2022	2021
Pre-tax		
Stock options	\$ 39	\$ 747
Restricted shares	—	234
Total	\$ 39	\$ 981
After-tax		
Stock options	\$ 38	\$ 681
Restricted shares	—	478
Total	\$ 38	\$ 1,159

As of March 31, 2022, the Company had unrecognized stock-based compensation expense related to stock options of approximately \$0.2 million, respectively, which is expected to be recognized over the remaining weighted average recognition period of 2.2 years.

Note 11 – Fair Value of Financial Instruments

The Company measures and discloses certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, not a forced liquidation or distressed sale). GAAP establishes a consistent framework for measuring fair value and disclosure requirements about fair value measurements. Among other things, the standard requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's estimates for market assumptions. These two types of inputs create the following fair value hierarchy.

Level 1 – Quoted prices in active markets for identical instruments. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Observable inputs other than Level 1 including quoted prices in active markets for similar instruments, quoted prices in less active markets for identical or similar instruments, or other observable inputs that can be corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs from nonbinding single dealer quotes not corroborated by observable market data. In developing Level 3 measurements, management incorporates whatever market data might be available and uses discounted cash flow models where appropriate. These calculations include projections of future cash flows, including appropriate default and loss assumptions, and market-based discount rates.

The estimated fair value amounts of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize at a future date. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. In addition, reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates that must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

The following methods were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: The carrying amount of these items is a reasonable estimate of their fair value.

Investment securities held-to-maturity: The estimated fair values of investment securities are priced using current active market quotes, if available, which are considered Level 1 measurements. For most of the portfolio, matrix pricing based on the securities' relationship to other benchmark quoted prices is used to establish the fair value. These measurements are considered Level 2.

Investment in Federal Home Loan Bank stock: The fair value is based upon the redemption value of the stock, which equates to the carrying value.

Strategic Program loans held-for-sale: The carrying amount of these items is a reasonable estimate of their fair value.

Loans held for investment: The fair value is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types' fair value approximated carrying value because of their floating rate or expected maturity characteristics.

SBA servicing asset: The fair value of servicing assets is based on, in part, third -party valuations that project estimated future cash inflows that include servicing fees and outflows that include market rates for costs of servicing. The present value of the future cash flows are calculated utilizing market-based discount rates. The market-based discount rates represent risk spreads based on secondary market transactions utilizing calculated prepayment curves. Due to the fact that observable loan transactions are used to determine the risk spreads, the Company considers the measurement to be Level 2.

Investment in BFG: The Company purchased its ownership interest in BFG on December 31, 2019. The Company's valuation utilized the average of the discounted cash flow method and the Guideline Public Company method. A 20% lack of marketability discount was applied to the valuation as well as a 4.50% discount to non-voting shares to arrive at fair value.

Deposits: The carrying amount of deposits with no stated maturity, such as savings and checking accounts, is a reasonable estimate of their fair value. The market value of certificates of deposit is based upon the discounted value of contractual cash flows. The discount rate is determined using the rates currently offered on comparable instruments.

Accrued interest receivable and payable: The fair value of accrued interest receivable and payable approximates their carrying amount.

PPP Liquidity Facility: The fair value of PPPLF is estimated using a discounted cash flow based on the remaining contractual term and current borrowing rates for similar terms.

	Level	March 31, 2022		December 31, 2021	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(\$ in thousands)					
Financial assets:					
Cash and cash equivalents	1	\$ 116,646	\$ 116,646	\$ 85,754	\$ 85,754
Investment securities held-to-maturity	2	10,986	10,263	11,423	11,332
Investment in FHLB stock	2	449	449	378	378
Loans held for investment	3	189,549	192,172	198,102	197,412
Loans held-for-sale	2	73,805	73,800	60,748	60,743
Accrued interest receivable	2	1,347	1,347	1,548	1,548
SBA servicing asset	2	5,225	5,225	3,938	3,938
Investment in BFG	3	5,400	5,400	5,900	5,900
Financial liabilities:					
Total deposits	2	277,460	265,883	251,892	249,488
Accrued interest payable	2	39	39	48	48
PPP Liquidity Facility	2	952	952	1,050	1,050

Assets measured at fair value on a nonrecurring basis are summarized as follows:

Description of Financial Instrument	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
(\$ in thousands)				
March 31, 2022				
Nonrecurring assets				
Impaired loans	\$ 1,151	\$ —	\$ —	\$ 1,151
December 31, 2021				
Nonrecurring assets				
Impaired loans	\$ 972	\$ —	\$ —	\$ 972

Impaired loans – The loan amount above represents loans impaired as of year-end that have been adjusted to fair value. When collateral dependent loans are identified as impaired, the impairment is measured using the current fair value of the collateral securing these loans, less selling costs. The fair value of real estate collateral is determined using collateral valuations or a discounted cash flow analysis using inputs such as discount rates, sale prices of similar assets, and term of expected disposition. Some appraised values are adjusted based on management’s review and analysis, which may include historical knowledge, changes in market conditions, estimated selling and other anticipated costs, and/or expertise and knowledge. The loss represents charge-offs or impairments on loans for adjustments made based on the fair value of the collateral.

Quantitative information for Level 3 fair value measurements – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets as of March 31, 2022 and as of December 31, 2021, along with the valuation techniques used, are shown in the following table:

(\$ in thousands)	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
March 31, 2022				
Impaired loans	\$ 1,151	Market comparable	Adjustment to appraisal value	0.61%
December 31, 2021				
Impaired loans	\$ 972	Market comparable	Adjustment to appraisal value	0.50%

Note 12 – Income Taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. Deferred tax assets changed a *de minimis* amount from December 31, 2021 to March 31, 2022 as a result of changes to temporary timing differences associated with accounting for bad debts. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on this analysis, management has determined that a valuation allowance for deferred tax assets was not required at March 31, 2022.

For the three months ended March 31, 2022 and 2021, income tax expense was \$3.2 million and \$1.9 million, respectively, resulting in an effective income tax rate of 25.4% and 26.7%, respectively. The effective tax rate differs from the statutory rate of 26.0% during the three months ended March 31, 2022 and 2021, respectively, due primarily to the tax effect of stock-based compensation.

The Company had no unrecognized tax benefits at March 31, 2022.

On March 27, 2020, the U.S. government enacted the CARES Act. Among other provisions, the CARES Act makes several modifications to federal net operating losses, including requiring a taxpayer with a net operating loss (“NOL”) arising in a taxable year beginning in 2018, 2019, or 2020 to carry that loss back to each of the five preceding years unless the taxpayer elects to waive or reduce the carryback. The Company did not generate NOLs in 2018, 2019 and 2020.

Note 13 – Related Parties

In the ordinary course of business, the Company may grant loans to certain executive officers and directors and the companies with which they are associated. The Company had loans outstanding to related parties of \$0.0 million as of March 31, 2022 and December 31, 2021. Total deposits from certain executive officers and directors and the companies with which they are associated were \$0.9 million and \$0.5 million as of March 31, 2022 and December 31, 2021, respectively.

BFG is a small business loan broker, primarily under the SBA's 7(a) loan program. As noted in Note 9 Investments above, the Company has a 10% ownership in the outstanding membership units of BFG. The Company underwrites loans sourced by BFG in its normal course of business. If approved and funded, the Company pays BFG a commission fee based on the amount funded. There is no guarantee or commitment made by the Company to BFG to approve or fund loans referred by BFG. The Company is able to use its sole discretion in deciding to approve and fund loans referred by BFG.

Note 14 – Earnings per Share

The following table is a reconciliation of the components used to derive basic and diluted EPS for the three months ended March 31, 2022 and 2021 (\$ in thousands, except share and per share amounts):

	For the Three Months Ended March 31,	
	2022	2021
Numerator:		
Net income	\$ 9,434	\$ 5,291
Amount allocated to participating common shareholders ⁽¹⁾	—	(357)
Net income allocate to common shareholders	<u>\$ 9,434</u>	<u>\$ 4,934</u>
Denominator:		
Weighted average shares outstanding, basic	12,777,237	8,091,186
Weighted average effect of dilutive securities:		
Stock options	619,516	244,586
Warrants	170,558	—
Weighted average shares outstanding, diluted	<u>13,567,311</u>	<u>8,335,772</u>
Earnings per share, basic	<u>\$ 0.74</u>	<u>\$ 0.61</u>
Earnings per share, diluted	<u>\$ 0.70</u>	<u>\$ 0.59</u>

(1) Represents earnings attributable to holders of unvested restricted stock issued outside of the Plan to the Company's employees.

There were 219,512 and 698,302 anti-dilutive options for March 31, 2022 and 2021 reported in the table above. There were 99,442 shares and 270,000 anti-dilutive warrants for March 31, 2022 and 2021 reported in the table above.

Note 15 – Revenue Recognition

The following is a summary of the Company's revenue disaggregated by contracts with customers and revenue outside the scope of ASC 606:

<i>(\$ in thousands)</i>	For the Three Months Ended March 31,	
	2022	2021
Interest income		
Interest income, not-in-scope		
Interest and fees on loans	\$ 13,156	\$ 8,790
Interest on securities	39	6
Other interest income	28	10
Total interest income	<u>\$ 13,223</u>	<u>\$ 8,806</u>
Non-interest income		
Non-interest income, in-scope		
Service charges on deposit accounts	\$ 8	\$ 6
Strategic Program set up fees	49	—
Non-interest income, not in-scope		
Strategic Program fees	6,166	2,873
Gain on sale of loans	5,052	2,603
SBA loan servicing fees	387	152
Change in fair value on investment in BFG	(398)	360
Other miscellaneous income	10	5
Strategic Program service charges	408	80
Total non-interest income	<u>\$ 11,682</u>	<u>\$ 6,079</u>

Note 16 – Subsequent Events

Subsequent events are events or transactions that occur after the date of the most recent balance sheet but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date of the balance sheet and before the financial statements are available to be issued. The Company has evaluated subsequent events through May 16, 2022, which is the date the unaudited consolidated financial statements are available to be issued.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes thereto and other financial information included elsewhere in this Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences are discussed in the sections of this Report and our most recently filed Annual Report on Form 10-K entitled "Risk Factors," "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this Report. We assume no obligation to update any of these forward-looking statements except to the extent required by law.

The following discussion pertains to our historical results, on a consolidated basis. However, because we conduct all our material business operations through our wholly owned subsidiary, FinWise Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level.

All dollar amounts in the tables in this section are in thousands of dollars, except per share data or where otherwise specifically noted. Unless otherwise stated, all information in this Report gives effect to a six-for-one stock split of our common stock completed effective July 26, 2021. The effect of the stock split on outstanding shares and per share figures has been retroactively applied to all periods presented in this Report.

Overview

The Company is a Utah corporation and the parent company of FinWise Bank. The Company's assets consist primarily of its investment in the Bank and all of its material business activities are conducted through the Bank. The Company is a registered bank holding company that is subject to supervision by the UDFI and the Federal Reserve. As a Utah state-chartered bank that is not a member of the Federal Reserve System, the Bank is separately subject to regulations and supervision by both the UDFI and the FDIC. The Bank's deposits are federally insured up to the maximum legal limits. See "Supervision and Regulation."

Our banking business is our only business line. Our banking business offers a diverse range of commercial and retail banking products and services, and consists primarily of originating loans in a variety of sectors. Attracting nationwide deposits from the general public, businesses and other financial institutions, and investing those deposits, together with borrowings and other sources of funds, is also critical to our banking business. While our commercial and residential real estate lending and other products and services offered from our branch continue to be concentrated in and around the Salt Lake City, Utah MSA, our third-party loan origination relationships have allowed us to expand into new markets across the United States. These relationships were developed to support our ability to generate significant loan volume across diverse consumer and commercial markets and have been the primary source of our significant growth and superior profitability. Our analytics platform, FinView™, enhances our ability to gather and interpret performance data for our originations and provides management with an ability to identify attractive, risk-adjusted sectors for growth. These insights coupled with the billions of dollars in originations funded annually and our ability to sell loans or retain for investment enhance our unique position. Our track record has demonstrated that these qualities deliver superior growth and profitability and that the flexibility inherent in our model enhances our ability to manage credit risk.

Our financial condition and results of operations depend primarily on our ability to (i) originate loans using our strategic relationships with third-party loan origination platforms to earn interest and noninterest income, (ii) utilize FinView™ to identify attractive risk-adjusted lending opportunities and inform the selection of loans for investment while limiting credit losses, (iii) attract and retain low cost, stable deposits, and (iv) efficiently operate in compliance with applicable regulations.

Our lending focuses on four main lending areas: (i) SBA 7(a) loans, (ii) Strategic Programs, (iii) residential and commercial real estate and (iv) consumer lending. For a description and analysis of the Company's loan categories, see "—Principal Factors Affecting Our Financial Condition".

Covid 19 Pandemic

Since March 2020, our nation has experienced a massive health and economic crisis as a result of the Covid-19 pandemic, which continues to negatively impact the health and finances of millions of people and businesses and have a pronounced impact on the global and national economy. To control the spread of the Covid-19 virus, governments around the world instituted widespread shutdowns of the economy which resulted in record unemployment in a matter of weeks. The economic turbulence spawned by the Covid-19 pandemic left many banks with potential credit quality and income issues. These issues are further compounded by uncertainties regarding the length, depth and possible resurgence of the pandemic and its ultimate long-term effects on the economy. In an effort to reduce the impact of economic shutdowns, the United States Congress has passed the CARES Act, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, the Consolidated Appropriations Act, 2021, and recently the American Rescue Plan Act of 2021. These relief measures have provided stimulus payments to individuals, expanded unemployment benefits, and created programs that provided critical financing to small businesses through products such as the EIDL and the PPP, both of which are being administered by the SBA. Additionally, the United States government agreed to make six months of payments on SBA loans and increase the SBA guaranty on SBA 7(a) loans to 90% for loans originated from February 1, 2020 through September 30, 2021. The SBA has made the full monthly P&I payments with respect to our qualifying SBA 7(a) customers in “regular servicing” status for six months. For most of our SBA portfolio (the legacy loans), the SBA made borrowers’ principal and interest payments from April 2020 through September 2020. These were officially referred to as First Round Section 1112 Payments, as they derived from Section 1112 of the CARES Act. To be eligible for the full six months of First Round Section 1112 Payments, the SBA loans were required to be: (i) in “regular servicing” status; (ii) approved by the SBA before March 27, 2020; and (iii) fully disbursed by September 27, 2020. Under the Economic Aid Act, the SBA will make an additional two payments for eligible SBA customers, capped at \$9,000 per month per loan. Borrowers with loan payments above \$9,000 per month are responsible for paying the difference. For our legacy portfolio, the SBA will make payment on the lesser of a borrower’s monthly principal and interest payment or \$9,000 per month from February 2021 through March 2021. These are referred to as Second Round Section 1112 Payments.

The SBA released a list of NAICS codes deemed to have been particularly affected by the Covid-19 pandemic. SBA customers who met all other Section 1112 qualifying criteria and operated within certain NAICS codes, are entitled to an additional three months of payments which were completed in 2021. As of March 31, 2021, the Bank had 35 qualifying SBA loans totaling approximately \$4.9 million in SBA 7(a) unguaranteed balance that received an additional three months of Second Round Section 1112 Payments, which were capped at \$9,000 per month and per loan. As of March 31, 2022, 5 of the 35 qualifying SBA loans have been paid in full. The remaining 30 loans are performing and total approximately \$4.4 million in SBA 7(a) unguaranteed balance. As of March 31, 2022, none of the remaining 30 loans are entitled to additional Section 1112 payments. We ceased originating PPP loans after 2020.

We believe the Bank’s diversified loan portfolio and associated revenue streams have enabled the Bank to sustain and grow its business despite the adverse conditions relating to the Covid-19 pandemic. For the three months ended March 31, 2021, the provision for loan losses amounted to \$0.6 million. For the three months ended March 31, 2022 the provision for loan losses amounted to \$2.9 million. While some of the adverse conditions relating to the Covid-19 pandemic reversed in 2021, and have continued such reversal in the beginning of 2022, sustained improvements are highly dependent upon strengthening economic conditions. The Covid-19 pandemic continues to cause economic uncertainties which may again result in these and other adverse impacts to our financial condition and results of operations. We believe our SBA 7(a) underwriting program has remained strong throughout the Covid-19 pandemic and our SBA 7(a) loans are well collateralized when compared to the SBA industry in general.

Results of Operations*Net Income Overview*

The following table sets forth the principal components of net income for the periods indicated.

(\$ in thousands)	For the Three Months Ended March 31,	
	2022	2021
Interest income	\$ 13,223	\$ 8,806
Interest expense	(262)	(372)
Provision for loan losses	(2,947)	(633)
Non-interest income	11,682	6,079
Non-interest expense	(9,048)	(6,663)
Provision for income taxes	(3,214)	(1,926)
Net income	<u>9,434</u>	<u>5,291</u>

Net income for the three months ended March 31, 2022 was \$9.4 million, an increase of \$4.1 million or 78.3% from net income of \$5.3 million for the three months ended March 31, 2021. The increase was primarily due to an increase of \$5.6 million or 92.2% in non-interest income and an increase of \$4.4 million or 50.2% in interest income, offset by an increase of \$2.4 million or 35.8% in non-interest expense and an increase of \$2.3 million or 365.6% in provision for loan losses, as described below.

Net Interest Income and Net Interest Margin Analysis

Net interest income was the primary contributor to our earnings in 2022 and 2021. We believe our net interest income results were enhanced by using FinView™ to identify attractive risk-adjusted lending opportunities and assist in the selection of Strategic Program loans that we chose to hold for investment. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as “volume changes.” It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as “rate changes.”

For the three months ended March 31, 2022, our net interest income increased \$4.5 million, or 53.7%, to \$13.0 million compared to the three months ended March 31, 2021. This increase was primarily due to an increase in asset yields, growth in average interest earning assets, and a decrease in our cost of funds. Average interest earning assets increased by \$80.1 million, or 26.0%, to \$387.8 million for the three months ended March 31, 2022 compared to the three months ended March 31, 2021, while the related yield on average interest earning assets increased by 219 basis points to 13.64%, resulting in increased interest income for the three months ended March 31, 2022 of \$13.2 million. A substantial decrease in the average balances of comparatively low yielding PPP loans during the three months ended March 31, 2022 contributed to the increase in yield on average interest earning assets for the period. The corresponding cost of funds on interest bearing liabilities for the three months ended March 31, 2022 declined by 9 basis points to 0.79%, and the average balance in interest bearing liabilities decreased by \$35.5 million, or 21.0%. The general decline of interest rates in the U.S. financial markets in 2021 is the primary cause for the decline in the cost of funds. As indicated in the rate/volume table set forth below, the decline in the cost of funds and the effect of decreased volumes of interest-bearing liabilities resulted in decreased interest expense for the three months ended March 31, 2022 to \$0.3 million. We gather deposits in the Salt Lake City, Utah MSA through our one branch and nationwide from our Strategic Program service providers, SBA 7(a) borrowers, Institutional Deposit exchanges, and brokered deposit arrangements. For the three months ended March 31, 2022, average outstanding balances under our PPPLF decreased compared to the three months ended March 31, 2021. The decrease in funding from our PPPLF was partially offset by increases in deposits sourced through our branch, Strategic Programs, SBA 7(a) borrowers, national Institutional Deposit exchanges and brokered deposit arrangements compared to the three months ended March 31, 2021. Our net interest margin increased from 10.96% at March 31, 2021 to 13.37% at March 31, 2022.

Average Balances and Yields. The following table presents average balances for assets and liabilities, the total dollar amounts of interest income from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the periods indicated are derived by dividing the income or expense by the average balances for assets or liabilities, respectively, for the periods presented. Loan fees are included in interest income on loans and represent a net cost of approximately \$0.4 million (including *de minimis* SBA fees related to PPP loans) for the three months ended March 31, 2022, and \$1.3 million (including approximately \$0.9 million in SBA fees related to PPP loans) of net loan fees are included in interest income on loans for the three months ended March 31, 2021. Average balances have been calculated using daily averages.

(\$ in thousands)	Three Months Ended March 31,					
	2022			2021		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest earning assets:						
Interest-bearing deposits with the Federal Reserve, non-						
U.S. central banks and other banks	\$ 79,855	\$ 28	0.14%	\$ 46,885	\$ 10	0.09%
Investment securities	11,263	39	1.39%	1,750	6	1.37%
Loans held for sale	94,610	6,765	28.60%	35,349	3,566	40.35%
Loans held for investment	202,052	6,391	12.65%	223,728	5,224	9.34%
Total interest earning assets	387,780	13,223	13.64%	307,712	8,806	11.45%
Less: ALL	(10,366)			(6,288)		
Non-interest earning assets	24,160			11,354		
Total assets	\$ 401,574			\$ 312,778		
Interest bearing liabilities:						
Demand	\$ 6,344	\$ 14	0.88%	\$ 6,287	\$ 14	0.89%
Savings	6,678	1	0.06%	6,851	3	0.18%
Money market accounts	31,889	22	0.28%	17,728	16	0.36%
Certificates of deposit	87,626	224	1.02%	50,888	264	2.08%
Total deposits	132,537	261	0.79%	81,754	297	1.45%
Other borrowings	985	1	0.41%	87,267	75	0.34%
Total interest bearing liabilities	133,522	262	0.79%	169,021	372	0.88%
Non-interest bearing deposits	137,750			89,111		
Non-interest bearing liabilities	11,553			6,586		
Shareholders' equity	118,749			48,060		
Total liabilities and shareholders' equity	\$ 401,574			\$ 312,778		
Net interest income and interest rate spread		\$ 12,961	12.85%		\$ 8,434	10.57%
Net interest margin			13.37%			10.96%
Ratio of average interest-earning assets to average interest-bearing liabilities			290.42%			182.06%

Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate. The volume column shows the effects attributable to changes in volume. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

(\$ in thousands)	Three Months Ended March 31,		
	2022		
	Increase (Decrease) Due to		
	Rate	Volume	Total
Interest income:			
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	\$ 9	\$ 9	\$ 18
Investment securities	—	33	33
Loans held-for-sale	(672)	3,871	3,199
Loans held for investment	1,606	(439)	1,167
Total interest income	943	3,474	4,417
Interest expense:			
Demand	—	—	—
Savings	(2)	—	(2)
Money market accounts	(3)	9	6
Certificates of deposit	95	(135)	(40)
Other borrowings	17	(91)	(74)
Total interest bearing liabilities	107	(217)	(110)
Net interest income	\$ 836	\$ 3,691	\$ 4,527

Provision for Loan Losses

The provision for loan losses is a charge to income to bring our ALL to a level deemed appropriate by management and approved by of board of directors. We determine the provision for loan losses monthly in connection with our monthly evaluation of the adequacy of our ALL. For a description of the factors we considered in determining the ALL see “—Principal Factors Affecting Our Financial Condition—Allowance for Loan Losses” and “—Critical Accounting Policies and Estimates—Allowance for Loan Losses.”

Our provision for loan losses was \$2.9 million and \$0.6 million for the three months ended March 31, 2022 and 2021, respectively. The increase of \$2.3 million was primarily due to substantial growth in SBA 7(a) and Strategic Program loans, and an increase in net charge offs.

Noninterest Income

The largest portion of our noninterest income is associated with our Strategic Program fees. Other sources of noninterest income include gain on sale of loans, SBA loan servicing fees, change in fair value on investment in BFG and other miscellaneous fees.

The following table presents, for the periods indicated, the major categories of noninterest income:

(\$ in thousands)	For the Three Months Ended		Change	
	March 31,		\$	%
	2022	2021		
Noninterest income:				
Strategic Program fees	\$ 6,623	\$ 2,953	\$ 3,670	124.3%
Gain on sale of loans	5,052	2,603	2,449	94.1%
SBA loan servicing fees	387	152	235	154.6%
Change in fair value on investment in BFG	(398)	360	(758)	(210.6%)
Other miscellaneous income	18	11	7	63.6%
Total noninterest income	<u>\$ 11,682</u>	<u>\$ 6,079</u>	<u>\$ 5,603</u>	<u>92.2%</u>

For the three months ended March 31, 2022, total noninterest income increased \$5.6 million, or 92.2%, to \$11.7 million compared to the three months ended March 31, 2021. This increase was primarily due to the increase in Strategic Program fees, gain on sale of loans, and SBA loan servicing fees. The increase in Strategic Program fees was primarily due to the increase in loan origination volume in the Strategic Program. The increase in gain on sale of loans was primarily due to the increase in the number of SBA 7(a) loans sold during the three months ended March 31, 2022. The increase in SBA loan servicing fees was primarily due to the increase in SBA 7(a) loans serviced for others during the period. These increases were partially offset by a decrease in the change in fair value on investment in BFG due primarily to the softening of comparable company values used in determining BFG fair value.

Noninterest Expense

Noninterest expense has increased as we have grown and as we have expanded and modernized our operational infrastructure and implemented our plan to build an efficient, technology-driven banking operation with significant capacity for growth.

The following table presents, for the periods indicated, the major categories of noninterest expense:

(\$ in thousands)	For the Three Months Ended		Change	
	March 31,			
	2022	2021	\$	%
Noninterest expense:				
Salaries and employee benefits	\$ 7,092	\$ 4,895	\$ 2,197	44.9%
Occupancy and equipment expenses	302	194	108	55.7%
Recovery of SBA servicing asset	(59)	—	(59)	(100.0%)
Other operating expenses	1,713	1,574	139	8.8%
Total noninterest expense	\$ 9,048	\$ 6,663	\$ 2,385	35.8%

For the three months ended March 31, 2022, total noninterest expense increased \$2.4 million, or 35.8%, to \$9.0 million compared to the three months ended March 31, 2021. This increase was primarily due to the increase in salaries and employee benefits. For the three months ended March 31, 2022, salaries and employee benefits increased \$2.2 million, or 44.9%, to \$7.1 million compared to the three months ended March 31, 2021. This increase was primarily due to the increase in the number of employees during the three months ended March 31, 2022. The increase in employees during this timeframe coincided with an increase in Strategic Program loan volume and the expansion of our information technology and security division to support enhancements in our infrastructure, and an increase in contractual bonuses paid relating to the expansion of the Strategic Programs in 2022. For the three months ended March 31, 2022, other operating expense increased \$0.1 million, or 8.8%, to \$1.7 million compared to the three months ended March 31, 2021. This increase was primarily due to our initiative to develop new and upgrade existing technology, increased third party financial and business process reviews, increased marketing costs, and increased legal and professional fees, all with the intent of supporting of our growth. For the three months ended March 31, 2022, the increase in noninterest expense was partially offset by a the minor recovery and lack of additional impairment on the SBA servicing asset during the three months ended March 31, 2022.

Financial Condition

Loan Portfolio

We manage our loan portfolio based on factors that include concentrations per loan program and aggregated portfolio, industry selection and geographies. We also monitor the impact of identified and estimated losses on capital as well as the pricing characteristics of each product. The following provides a general description and the risk characteristics relevant to each of the business lines. Each loan is assigned a risk grade during the origination and closing process by credit administration personnel based on criteria described later in this section. We analyze the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the portfolio balances. This ratings analysis is performed at least quarterly.

SBA 7(a) Loans

We originate and service loans partially guaranteed by the SBA under its Section 7(a) loan program. SBA 7(a) loans are made to small businesses and professionals throughout the USA. As of March 31, 2022 and December 31, 2021, we had total SBA 7(a) loans of \$126.8 million and \$141.3 million, respectively, representing 46.5% and 53.2% of our total loans, respectively. Loans are sourced primarily through our referral relationship with BFG. Although BFG actively markets throughout the USA, because of its physical location in the New York area we have developed a lending presence in the New York and New Jersey geographies. The maximum SBA 7(a) loan amount is \$5 million. Underwriting is generally based on commercial credit metrics where the primary repayment source is borrower cash flow, secondary is personal guarantor cash flow and tertiary is the sale of collateral pledged. These loans may be secured by commercial and residential mortgages as well as liens on business assets. In addition to typical underwriting metrics, we review the nature of the business, use of proceeds, length of time in business and management experience to help us target loans that we believe have lower credit risk. The SBA 7(a) program generally provides 50%, 75%, 85% and 90% guarantees for eligible SBA 7(a) loans. The guaranty is conditional and covers a portion of the risk of payment default by the borrower, but not the risk of improper underwriting, closing or servicing by the lender. As such, prudent underwriting, closing and servicing processes are essential to effective utilization of the SBA 7(a) program. Historically, we have generally sold the SBA-guaranteed portion (typically 75% of the principal balance) of a majority of the loans we originate at a premium in the secondary market while retaining all servicing rights and the unguaranteed portion; however, beginning in 2020, we made the decision to drive interest income by temporarily retaining a larger amount of the guaranteed portion of these loans.

SBA Paycheck Protection Program Loans

As of March 31, 2022 and December 31, 2021, we had total PPP loans of \$1.0 million and \$1.1 million, respectively, representing 0.4% of our total loans, respectively. The PPP loans also resulted in fees paid by the SBA to the originating bank for processing PPP loans, which fees are accreted into interest income over the life of the applicable loans. If a PPP loan is forgiven or paid off before maturity, the remaining unearned fee is recognized into income at that time. For the three months ended March 31, 2021, the Company recognized a total of \$0.9 million in PPP-related accreted fees (\$0.6 million of which were accelerated due to loan forgiveness). A *de minimis* amount was recognized during the three months ended March 31, 2022 and a *de minimis* amount of deferred fees remained as of March 31, 2022.

Commercial, non-real estate

Commercial non-real estate loans consist of loans and leases made to commercial enterprises that are not secured by real estate. As of March 31, 2022 and December 31, 2021, we had total commercial non-real estate loans of \$3.3 million and \$3.4 million, respectively, representing 1.2% and 1.3% of our total loans, respectively. Any loan, line of credit, or letter of credit (including any unfunded commitments) and any interest obtained in such loans made by another lender to individuals, sole proprietorships, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes, not secured by real estate, but not for personal expenditure purposes are included in this category. For example, commercial vehicle term loans and commercial working capital term loans. Underwriting is generally based on commercial credit metrics where the primary repayment source is borrower cash flow, secondary is personal guarantor cash flow (when applicable) and tertiary is the sale of collateral pledged. The nature of the business, use of proceeds, length of time in business, management experience, repayment ability, credit history, ratio calculations and assessment of collateral adequacy are all considerations. These loans are generally secured by liens on business assets. Historically, we have retained these loans on our balance sheet for investment.

Residential real estate

Residential real estate loans include construction, lot and land development loans that are for the purpose of acquisition and development of property to be improved through the construction of residential buildings, and loans secured by other residential real estate. As of March 31, 2022 and December 31, 2021, we had total residential real estate loans of \$30.8 million and \$27.1 million, respectively, representing 11.3% and 10.2% of our total loans, respectively. Construction loans are usually paid off through the conversion to permanent financing from third-party lending institutions. Lot loans may be paid off as the borrower converts to a construction loan. At the completion of the construction project, if the loan is converted to permanent financing by us or if scheduled loan amortization begins, it is then reclassified from construction to single-family dwelling. Underwriting of construction and development loans typically includes analysis of not only the borrower's financial condition and ability to meet the required debt obligations, but also the general market conditions associated with the area and type of project being funded. These loans are generally secured by mortgages for residential property located primarily in the Salt Lake City, Utah MSA, and we obtain guarantees from responsible parties. Historically, we have retained these loans on our balance sheet for investment.

Strategic Program loans

We, through our Strategic Program service providers, issue, on a nationwide basis, unsecured consumer and secured or unsecured business loans to borrowers within certain approved credit profiles. As of March 31, 2022 and December 31, 2021, we had total Strategic Program loans of \$101.8 million and \$85.9 million, respectively, representing 37.4% and 32.3% of our total loans, respectively. Loans originated through these programs are limited to predetermined Bank underwriting criterion, which has been approved by our board of directors. The primary form of repayment on these loans is from personal or business cash flow. Business loans may be secured by liens on business assets, as applicable. We have generally sold most of these loans, but as our capital grows and FinView™ evolves, we may choose to hold more of the funded loans and/or receivables. We reserve the right to sell any portion of funded loans and/or receivables directly to the Strategic Program service providers or other investors. We retain the legal right to service all these loans, but contract with the Strategic Program service provider or another approved sub-servicer to service these loans on our behalf.

Commercial real estate

Commercial real estate loans include loans to individuals, sole proprietorships, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes, secured by real estate primarily located in the Salt Lake City, Utah MSA, but not for personal expenditure purposes. As of March 31, 2022 and December 31, 2021, we had total commercial real estate loans of \$4.2 million and \$2.4 million, respectively, representing 1.5% and 0.9% of our total loans, respectively. Underwriting is generally based on commercial credit metrics where the primary repayment source is borrower cash flow, secondary is personal guarantor cash flow (when applicable) and tertiary is the sale of collateral pledged. The nature of the business, use of proceeds, length of time in business, management experience, repayment ability, credit history, ratio calculations and assessment of collateral adequacy are all considerations. In addition to real estate, these loans may also be secured by liens on business assets. Historically, we have retained these loans on our balance sheet for investment.

Consumer

Consumer lending provides financing for personal, family, or household purposes on a nationwide basis. Most of these loans are originated through our POS platform and come from a variety of sources, including other approved merchant or dealer relationships and lending platforms. As of March 31, 2022 and December 31, 2021, we had total consumer loans of \$4.7 million and \$4.6 million, respectively, representing 1.7% of our total loans, respectively. We use a debt-to-income ("DTI") ratio to determine whether an applicant will be able to service the debt. The DTI ratio compares the applicant's anticipated monthly expenses and total monthly obligations to the applicant's monthly gross income. Our policy is to limit the DTI ratio to 45% after calculating interest payments related to the new loan. Loan officers, at their discretion, may make exceptions to this ratio if the loan is within their authorized lending limit. DTI ratios of no more than 50% may be approved subject to an increase in interest rate. Strong offsetting factors such as higher discretionary income or large down payments are used to justify exceptions to these guidelines. All exceptions are documented and reported. While the loans are generally for the purchase of goods which may afford us a purchase money security interest, they are underwritten as if they were unsecured. On larger loans, we may file a Uniform Commercial Code financing form. Historically, we have retained these loans on our balance sheet for investment.

Loan Portfolio Program Summary

Through our diversification efforts and FinView™, we have built a portfolio that we believe positions us to withstand economic shifts. For example, we focus on industries and loan types that have historically lower loss rates such as professional, scientific and technical services (including law firms), non-store retailers (e-commerce), and ambulatory healthcare services. We believe that these efforts helped minimize our exposure to industries severely impacted by the Covid-19 pandemic.

The following table summarizes our loan portfolio by loan program as of the dates indicated:

	As of March 31, 2022		As of December 31, 2021	
	Amount	% of total loans	Amount	% of total loans
SBA ⁽¹⁾	\$ 127,778	46.9 %	\$ 142,392	53.6 %
Commercial, non real estate	3,285	1.2 %	3,428	1.3 %
Residential real estate	30,772	11.3 %	27,108	10.2 %
Strategic Program loans	101,819	37.4 %	85,850	32.3 %
Commercial real estate	4,187	1.5 %	2,436	0.9 %
Consumer	4,711	1.7 %	4,574	1.7 %
Total	\$ 272,552	100.0 %	\$ 265,788	100.0 %

(1) The amount of SBA loans as of March 31, 2022 and December 31, 2021 includes approximately \$1.0 million and \$1.1 million of PPP loans. SBA loans as of March 31, 2022 and December 31, 2021 include \$53.2 million and \$75.7 million, respectively, of SBA 7(a) loan balances that are guaranteed by the SBA.

Loan Maturity and Sensitivity to Changes in Interest Rates

As of March 31, 2022, including the impact of PPP loans, \$107.7 million, or 54.2%, of the total held for investment loan balance matures in less than five years. Loans maturing in greater than five years totaled \$91.1 million as of March 31, 2022. The variable rate portion of our total held for investment loan portfolio at March 31, 2022 was \$155.1 million, or 78.0%. As of December 31, 2021, including the impact of PPP loans, \$103.1 million, or 50.3%, of the total held for investment loan balance matures in less than five years. Loans maturing in greater than five years totaled \$101.9 million as of December 31, 2021. The variable rate portion of our total held for investment loan portfolio at December 31, 2021 was \$163.8 million, or 79.9%. The variable rate portion of the total held for investment loans reflects our strategy to minimize interest rate risk through the use of variable rate products.

The following tables detail maturities and sensitivity to interest rate changes for our loan portfolio at March 31, 2022 and December 31, 2021:

At March 31, 2022

	Remaining Contractual Maturity Held for Investment				
	One Year or Less	After One Year and Through Five Years	After Five Years and Through Fifteen Years	After Fifteen Years	Total
(\$ in thousands)					
Fixed rate loans:					
SBA ⁽¹⁾	\$ 623	\$ 661	\$ 254	\$ 110	\$ 1,648
Commercial, non-real estate	1,087	1,987	202	9	3,285
Residential real estate	3,113	1,056	—	—	4,169
Strategic Program loans	17,470	10,544	—	—	28,014
Commercial real estate	1,624	521	8	1	2,154
Consumer	1,485	2,880	53	—	4,418
Variable rate loans:					
SBA	7,364	29,246	52,542	36,978	126,130
Commercial, non-real estate	—	—	—	—	—
Residential real estate	26,047	304	247	5	26,603
Strategic Program loans	—	—	—	—	—
Commercial real estate	864	521	648	—	2,033
Consumer	79	214	—	—	293
Total	\$ 59,756	\$ 47,934	\$ 53,954	\$ 37,103	\$ 198,747

(1) The amount of SBA fixed rate loans includes approximately \$1.0 million of PPP loans. PPP loans originated prior to June 5, 2020, have a two year term. PPP loans originated on or after June 5, 2020, have a five year term. For PPP borrowers who submit completed applications for forgiveness, loan payments are automatically deferred until the SBA renders a decision on the forgiveness request. PPP borrowers who fail to submit timely forgiveness applications are required to make monthly payments beginning ten months from the end of the chosen “covered period”. The “covered period” is a maximum of 24 weeks from the origination date. Assuming a 24 week covered period, PPP borrowers are not required to begin making payments until 16 months after the origination date. At the time payments begin, if the borrower and lender of a two year PPP loan mutually agree to extend the term of the loan it can be extended to a five year term. As of March 31, 2022, three PPP loans have been granted maturity date extensions.

At December 31, 2021

	Remaining Contractual Maturity Held for Investment				
	One Year or Less	After One Year and Through Five Years	After Five Years and Through Fifteen Years	After Fifteen Years	Total
(\$ in thousands)					
Fixed rate loans:					
SBA ⁽¹⁾	\$ 644	\$ 732	\$ 259	\$ 114	\$ 1,749
Commercial, non-real estate	1,168	2,112	142	6	3,428
Residential real estate	2,876	1,519	—	—	4,395
Strategic Program loans	18,121	6,981	—	—	25,102
Commercial real estate	1,565	639	7	1	2,212
Consumer	1,500	2,793	66	—	4,359
Variable rate loans:					
SBA	7,920	31,598	58,493	42,632	140,643
Commercial, non-real estate	—	—	—	—	—
Residential real estate	22,234	291	188	—	22,713
Strategic Program loans	—	—	—	—	—
Commercial real estate	224	—	—	—	224
Consumer	62	153	—	—	215
Total	\$ 56,314	\$ 46,818	\$ 59,155	\$ 42,753	\$ 205,040

(1) The amount of SBA fixed rate loans includes approximately \$1.1 million of PPP loans. PPP loans originated prior to June 5, 2020, have a two year term. PPP loans originated on or after June 5, 2020, have a five year term. For PPP borrowers who submit completed applications for forgiveness, loan payments are automatically deferred until the SBA renders a decision on the forgiveness request. PPP borrowers who fail to submit timely forgiveness applications are required to make monthly payments beginning ten months from the end of the chosen “covered period”. The “covered period” is a maximum of 24 weeks from the origination date. Assuming a 24 week covered period, PPP borrowers are not required to begin making payments until 16 months after the origination date. At the time payments begin, if the borrower and lender of a two year PPP loan mutually agree to extend the term of the loan it can be extended to a five year term. As of December 31, 2021, three PPP loans have been granted maturity date extensions.

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were contractually due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether such loans are actually past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also generally place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. When interest accrual is discontinued, all unpaid accrued interest is reversed from income. Interest income is subsequently recognized only to the extent recoveries received (either from payments received from the customer, derived from the disposition of collateral or from legal action, such as judgment enforcement) exceed liquidation expenses incurred and outstanding principal.

A non-accrual asset may be restored to accrual status when (1) none of its principal and interest is due and unpaid, and we expect repayment of the remaining contractual principal and interest, or (2) when asset otherwise becomes well secured and is not in the process of collection.

Any loan which we deem to be uncollectible, in whole or in part, is charged off to the extent of the anticipated loss. In general, loans that are past due for 90 days or more are charged off unless the loan is both well secured and in the process of collection. We believe our disciplined lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our loan officers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

The following table provides information with respect to our nonperforming assets and troubled debt restructurings at the dates indicated:

(\$ in thousands)	As of	
	March 31, 2022	December 31, 2021
Nonaccrual loans:		
SBA	\$ 657	\$ 657
Commercial, non real estate	—	—
Residential real estate	—	—
Strategic Program loans	1	—
Total nonperforming loans	\$ 658	\$ 657
Total accruing loans past due 90 days or more	\$ 359	\$ 54
Nonaccrual troubled debt restructuring	\$ 25	\$ 25
Total troubled debt restructurings	96	106
Other Real Estate Owned	—	—
Less nonaccrual troubled debt restructurings	(25)	(25)
Total nonperforming assets and troubled debt restructurings	\$ 754	\$ 763
Total nonperforming loans to total loans	0.2%	0.2%
Total nonperforming loans to total assets	0.2%	0.2%
Total nonperforming assets and troubled debt restructurings to total loans	0.3%	0.3%
Total nonperforming assets and troubled debt restructurings to total assets	0.2%	0.2%
Total nonperforming assets and troubled debt restructurings to total assets (less PPP loans) ⁽¹⁾	0.2%	0.2%

(1) See “GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures” for a reconciliation of this measure to its most comparable GAAP measure.

Our total nonperforming assets and troubled debt restructurings at March 31, 2022 and December 31, 2021 were \$0.8 million. Total nonperforming assets at March 31, 2022 and December 31, 2021 were composed of \$0.7 million in nonaccrual loans and \$0.1 million of troubled debt restructurings.

We do not classify loans that experience insignificant payment delays and payment shortfalls as impaired. We consider an “insignificant period of time” from payment delays to be a period of 90 days or less, or 180 days or less in certain Strategic Programs. We will customarily attempt to provide a modification for a customer experiencing what we consider to be a short-term event that has temporarily impacted cash flow. In those cases, we will review the request to determine if the customer is experiencing cash flow strain and how the event has impacted the ability of the customer to repay in the long term. Short-term modifications are not classified as troubled debt restructurings because they do not meet the definition set by the FDIC or our accounting policy for identifying troubled debt restructurings. The FDIC issued statements in March and April of 2020 that encouraged banks to work with all borrowers, especially those from industry sectors particularly vulnerable to economic volatility. The FDIC clarified that prudent efforts to modify the terms on existing loans for affected customers will not be subject to examiner criticism, and that certain loan modifications made in response to Covid-19 are not troubled debt restructurings.

Interest income that would have been recorded for the three months ended March 31, 2022 and 2021 had nonaccrual loans been current throughout the period amounted to *de minimis* amounts for each period.

Credit Risk Profile

We believe that we underwrite loans carefully and thoroughly, limiting our lending activities to those products and services where we have the resources and expertise to lend profitably without undue credit risk. We require all loans to conform to policy (or otherwise be identified as exceptions to policy and monitored and reported on, at minimum, quarterly) and be granted on a sound and collectable basis. Loans are made with a primary emphasis on loan profitability, credit risk and concentration exposures.

We are proactive in our approach to identifying and resolving problem loans and are focused on working with the borrowers and guarantors of problem loans to provide loan modifications when warranted. When considering how to best diversify our loan portfolio, we consider several factors including our aggregate and product-line specific concentration risks, our business line expertise, and the ability of our infrastructure to appropriately support the product. While certain product lines generate higher net charge-offs, our exposure is carefully monitored and mitigated by our concentration policies and reserved for by the loan loss allowance we maintain. Specifically, retention of certain Strategic Program loans with higher default rates account for a disproportionate amount of our charge-offs. In addition to our oversight of the credit policies and processes associated with these programs, we limit within our concentration policies the aggregate exposure of these loans as a percentage of the total loan portfolio, carefully monitor certain vintage loss-indicative factors such as first payment default and marketing channels, and appropriately provision for these balances so that the cumulative charge-off rates remain consistent with management expectations. While the level of nonperforming assets fluctuates in response to changing economic and market conditions, the relative size and composition of the loan portfolio, and our management's degree of success in resolving problem assets, we believe our proactive stance to early identification and intervention is the key to successfully managing our loan portfolio. As an example, at the beginning of the Covid-19 pandemic we analyzed our portfolio to identify loans that were more likely to be vulnerable to the pandemic's impact. We then proactively opened a dialogue with potentially affected borrowers to assess their needs and provide assistance. Through this process we were able to not only better understand our portfolio risks but were able to intercede with borrowers if needed.

Accurate and timely loan risk grading is considered a critical component of an effective credit risk management system. Loan grades take into consideration the borrower's financial condition, industry trends, and the economic environment. Loan risk grades are changed as necessary to reflect the risk inherent in the loan. Among other things, we use loan risk grading information for loan pricing, risk and collection management and determining monthly loan loss reserve adequacy. Further, on a quarterly basis, the Loan Committee holds a Loan Risk Grade meeting, wherein all loans in our portfolio are reviewed for accurate risk grading. Any changes are made after the Loan Risk Grade meeting to provide for accurate reporting. Reporting is achieved in Loan Committee minutes, which minutes are reviewed by the Board. We supplement credit department supervision of the loan underwriting, approval, closing, servicing and risk grading process with periodic loan reviews by risk department personnel specific to the testing of controls.

We use a grading system to rank the quality of each loan. The grade is periodically evaluated and adjusted as performance dictates. Loan grades 1 through 4 are passing grades, grade 5 is special mention. Collectively, grades 6 (substandard), 7 (doubtful) and 8 (loss) represent classified loans within the portfolio. The following guidelines govern the assignment of these risk grades. We do not currently grade Strategic Program loans held for investment due to their small balances and homogenous nature. As credit quality for Strategic Program loans have been highly correlated with delinquency levels, the Strategic Program loans are evaluated collectively for impairment.

Grade 1: Pass - Loans fully secured by deposit accounts. Loans where the borrower has strong sources of repayment, generally 5 years or more of consistent employment (or related field) and income history. Debt of the borrower is modest relative to the borrower's financial strength and ability to pay with a DTI ratio of less than 25%. Cash flow is very strong as evidenced by significant discretionary income amounts. Borrower will consistently maintain 30% of the outstanding debts in deposit accounts with us, often with the right of offset, holds, etc. Loan to value ratios (LTV) will be 60% or less. Loans in this category require very minimal monitoring.

Grade 2: Pass - The borrower has good sources of repayment, generally 3 years or more of consistent employment (or related field) and income history. The debt of the borrower is reasonable relative to the borrower's financial strength with a DTI ratio of less than 35%. Cash flow is strong as evidenced by exceptional discretionary income amounts. Borrowers will consistently maintain 20% of the outstanding debts in deposit accounts with us. LTV ratios will be 70% or less. These loans require minimal monitoring.

Grade 3: Pass - There is a comfortable primary source of repayment, generally 2 years or more of consistent employment (or related field) and income history. Borrowers may exhibit a mix of strengths and weaknesses. For example, they have either adequate cash flow with higher than desired leverage, or marginal cash flow with strong collateral and liquidity. Borrowers will have DTIs less than 45%. Borrowers will generally maintain deposit accounts with us, but the consistency and amount of the deposits are not as strong as Grades 1 and 2. LTV ratios will be within our guidelines. These loans will be monitored on a quarterly basis.

Grade 4: Pass Watch – There is adequate primary source of repayment, generally employment time or time in a related field is less than 2 years. Borrowers' debt to income ratios may fall outside of our guidelines or there is minimal excess cash flow. There may be heavy reliance on collateral, or the loan is large, relative to the financial strength of the borrower. The loans may be maintenance intensive requiring closer monitoring.

Grade 5: Special Mention – A loan in this category has a specific weakness or problem but does not currently present a significant risk of loss or default as to any material terms of the loan or financing agreement. A typical problem could include a documentation deficiency. If the deficiency is corrected the account will be re-graded.

Grade 6: Classified Substandard – A substandard loan has a developing or current weakness or weaknesses that could result in loss or default if deficiencies are not corrected, or adverse conditions arise.

Grade 7: Classified Doubtful – A doubtful loan has an existing weakness or weaknesses that make collection or liquidation in full, on the basis of currently existing facts and conditions, highly questionable and improbable.

Grade 8: Classified Loss – A loss loan has an existing weakness or weaknesses that render the loan uncollectible and of such little value that continuing to carry as an asset on our book is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical nor desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future.

The following table presents, as of the period presented, the loan balances by loan program as well as risk rating. No loans were classified as ‘Loss’ grade during the periods presented.

	As of March 31, 2022				Total
	Pass Grade 1-4	Special Mention Grade 5	Classified/ Doubtful Grade 6-7	Loss Grade 8	
<i>(\$ in thousands)</i>					
SBA	\$ 125,366	\$ 1,461	\$ 951	\$ —	\$ 127,778
Commercial, non real estate	3,285	—	—	—	3,285
Residential real estate	30,572	—	200	—	30,772
Commercial real estate	4,187	—	—	—	4,187
Consumer	4,711	—	—	—	4,711
Not Risk Graded					
Strategic Program ⁽¹⁾ loans					101,819
Total	<u>\$ 168,121</u>	<u>\$ 1,461</u>	<u>\$ 1,151</u>	<u>\$ —</u>	<u>\$ 272,552</u>

As of December 31, 2021

(\$ in thousands)	Pass Grade 1-4	Special Mention Grade 5	Classified/ Doubtful Grade 6-7	Loss Grade 8	Total
SBA	\$ 139,985	\$ 1,435	\$ 972	\$ —	\$ 142,392
Commercial, non real estate	3,382	46	—	—	3,428
Residential real estate	27,108	—	—	—	27,108
Commercial real estate	2,436	—	—	—	2,436
Consumer	4,574	—	—	—	4,574
Not Risk Graded					
Strategic Program ⁽¹⁾ loans					85,850
Total	\$ 177,485	\$ 1,481	\$ 972	\$ —	\$ 265,788

(1) The Strategic Program loan balance includes \$73.8 million and \$60.7 million of loans classified as held-for-sale as of March 31, 2022 and December 31, 2021, respectively.

Allowance for Loan Losses

We have not adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, commonly referred to as the “CECL model,” but plan to adopt the CECL model in the 2023 calendar year.

The ALL, a material estimate which could change significantly in the near-term in the event of rapidly shifting credit quality, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that we consider adequate to absorb potential losses in the loan portfolio. Loan losses are charged against the ALL when we believe that the collectability of the principal loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL when received.

Our judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available and as situations and information change.

We evaluate the ALL on a monthly basis and take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions and trends that may affect the borrower’s ability to repay. The quality of the loan portfolio and the adequacy of the ALL is reviewed by regulatory examinations.

The ALL consists of the following two elements:

- *Specific allowance for identified impaired loans.* For such loans that are identified as impaired, an allowance is established when the discounted cash flows (or collateral value if the loan is collateral dependent) or observable market price of the impaired loan are lower than the carrying value of that loan.

Independent appraisals are obtained for all collateral dependent loans deemed impaired when collateral value is expected to exceed \$5 thousand net of actual and/or anticipated liquidation-related expenses. After initially measured for impairment, new appraisals are ordered on at least an annual basis for all real estate secured loans deemed impaired. Non-real estate secured loan appraisal values are reevaluated and assessed throughout the year based upon interim changes in collateral and market conditions.

- *General valuation allowance.* This component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are reviewed based on industry, stage and structure and are assigned allowance percentages based on historical loan loss experience for similar loans with similar characteristics and trends adjusted for qualitative factors. Qualitative factors that, in management’s judgment, affect the collectability of the portfolio as of the evaluation date, may include changes in lending policies and procedures; changes in national and local economic and business conditions, including the condition of various market sectors; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and staff; changes in the volume and severity of past due and classified loans and in the volume of nonaccruals, troubled debt restructurings, and other loan modifications; the existence and effect of any concentrations of credit and changes in the level of such concentrations; and the effect of external factors, such as competition and legal and regulatory requirements, on the level of estimated and inherent credit losses in our current portfolio.

The ALL was \$10.0 million at March 31, 2022 compared to \$9.9 million at December 31, 2021, an increase of \$0.1 million, or 1.3%. The increase was primarily due to increased retention of Strategic Program loans with higher loss reserving characteristics.

The following table presents a summary of changes in the ALL for the periods and dates indicated:

(\$ in thousands)	For the Three Months Ended March 31,	
	2022	2021
ALL:		
Beginning balance	\$ 9,855	\$ 6,199
Provision for loan losses	2,947	633
Charge offs		
SBA	(31)	(7)
Commercial, non-real estate	—	(41)
Residential real estate	—	—
Strategic Program loans	(2,878)	(741)
Commercial real estate	—	—
Consumer	—	(2)
Recoveries		
SBA	—	11
Commercial, non-real estate	1	—
Residential real estate	—	—
Strategic Program loans	93	132
Commercial real estate	—	—
Consumer	—	—
Ending balance	<u>\$ 9,987</u>	<u>\$ 6,184</u>

Although we believe that we have established our ALL in accordance with GAAP and that the ALL was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio.

The following table shows the allocation of the ALL among loan categories and certain other information as of the dates indicated. The ALL related to Strategic Programs constitutes 63.3% and 66.5% of the total ALL while comprising 37.4% and 32.3% of total loans as of March 31, 2022 and December 31, 2021, respectively. This reflects the increased credit risks associated with certain retained Strategic Program loans.

March 31, 2022				
<i>(\$ in thousands)</i>	Amount	Total Loans	% of Total Allowance	% of Loans in Category of Total Loans
SBA	\$ 3,064	\$ 127,778	30.7%	46.9%
Commercial, non real estate	107	3,285	1.1%	1.2%
Residential real estate	411	30,772	4.1%	11.3%
Strategic Program loans	6,322	101,819	63.3%	37.4%
Commercial real estate	21	4,187	0.2%	1.5%
Consumer	62	4,711	0.6%	1.7%
Total	\$ 9,987	\$ 272,552	100.0%	100.0%

December 31, 2021				
<i>(\$ in thousands)</i>	Amount	Total Loans	% of Total Allowance	% of Loans in Category of Total Loans
SBA	\$ 2,739	\$ 142,392	27.8%	53.6%
Commercial, non real estate	132	3,428	1.3%	1.3%
Residential real estate	352	27,108	3.6%	10.2%
Strategic Program loans	6,549	85,850	66.5%	32.3%
Commercial real estate	21	2,436	0.2%	0.9%
Consumer	62	4,574	0.6%	1.7%
Total	\$ 9,855	\$ 265,788	100.0%	100.0%

The following tables reflect the ratio of the ALL to nonperforming loan balances and net charge-offs to average loans outstanding by loan category, for the periods presented. The ratio of net charge-offs to average loans outstanding generally decreased or remained consistent for loan categories in the three months ended March 31, 2022 from the three months ended March 31, 2021. The increase in the ratio for Strategic Programs loans was primarily due to increases in charge-offs in the three months ended March 31, 2022 while the decreases in Commercial, non-real estate and Consumer were primarily due to lower charge-off amounts in the three months ended March 31, 2022.

	For the Three Months Ended March 31,	
	2022	2021
Net charge-offs to average loans outstanding by loan category		
SBA	0.1%	0.0%
Commercial, non-real estate	(0.1%)	4.0%
Residential real estate	0.0%	0.0%
Strategic Program loans	9.2%	5.7%
Commercial real estate	0.0%	0.0%
Consumer	0.0%	0.1%
	As of	
	March 31, 2022	December 31, 2021
ALL to nonperforming loans	1,517.8%	1,499.1%

Interest-Bearing Deposits in Other Banks

Our interest-bearing deposits in other banks increased to \$116.2 million at March 31, 2022 from \$85.3 million at December 31, 2021, an increase of \$30.9 million, or 36.2%. This increase was primarily due to the Company's public stock offering and an increase in loan originations. Interest-bearing deposits in other banks have generally been the primary repository of the liquidity we use to fund our operations. Aside from minimal balances held with our correspondent banks, the majority of our interest-bearing deposits in other banks was held directly with the Federal Reserve.

Securities

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements.

We classify investment securities as either held-to-maturity or available-for-sale based on our intentions and the Company's ability to hold such securities until maturity. In determining such classifications, securities that we have the positive intent and the ability to hold until maturity are classified as held-to-maturity and carried at amortized cost. All other securities are designated as available-for-sale and carried at estimated fair value with unrealized gains and losses included in shareholders' equity on an after-tax basis. For the year presented, all securities were classified as held-to-maturity.

The following tables summarize the contractual maturities and weighted average yields of investment securities at March 31, 2022, and the amortized cost of those securities as of the indicated dates.

(\$ in thousands)	At March 31, 2022			
	One Year or Less		After One to Five Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Mortgage-backed securities	\$ —	—	\$ —	—

(\$ in thousands)	At March 31, 2022				
	After Five to Ten Years Weighted		After Ten Years Weighted		Total Amortized Cost
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	
Mortgage-backed securities	\$ 1,462	1.2%	\$ 9,524	1.4%	\$ 10,986

The weighted average yield of investment securities is the sum of all interest that the investments generate, divided by the sum of the book value.

There were no calls, sales or maturities of securities during the three months ended March 31, 2022 and March 31, 2021.

At March 31, 2022, there were 13 securities, consisting of five collateralized mortgage obligations and eight mortgage-backed securities. One of these securities were in a gain position for greater than 12 months and twelve of these securities were in an unrealized loss position as of March 31, 2022. There were nine securities in an unrealized loss position as of December 31, 2021.

Deposits

Deposits are the major source of funding for the Company, with the exception of the Company's participation in the PPPLF, which added a significant amount of funding in 2020 (see discussion below in *Liquidity and Capital Resources – Liquidity Management*). We offer a variety of deposit products including interest and noninterest bearing demand accounts, money market and savings accounts and certificates of deposit, all of which we market at competitive pricing. We generate deposits from our customers on a relationship basis and through access to national Institutional and brokered deposit sources. We also generate deposits in relation to our Strategic Programs in the form of reserve accounts as discussed above. These deposits add an element of flexibility in that they tend to increase or decrease in relation to the size of or Strategic Program loan portfolio. In addition to the reserve account, some Strategic Program loan originators maintain operating deposit accounts with us.

The following table presents the end of period and average balances and for the periods indicated (average balances have been calculated using daily averages):

(\$ in thousands)	March 31, 2022		December 31, 2021	
	Total	Percent	Total	Percent
<i>Period end:</i>				
Noninterest-bearing demand deposits	\$ 127,330	45.9%	\$ 110,548	43.9%
Interest-bearing deposits:				
Demand	7,919	2.8%	5,399	2.1%
Savings	7,089	2.6%	6,685	2.7%
Money markets	53,434	19.3%	31,076	12.3%
Time certificates of deposit	81,688	29.4%	98,184	39.0%
Total period end deposits	\$ 277,460	100.0%	\$ 251,892	100.0%

(\$ in thousands)	For the Three Months Ended March 31,			
	2022		2021	
	Total	Percent	Total	Percent
<i>Average:</i>				
Noninterest-bearing demand deposits	\$ 137,750	51.0%	\$ 89,111	52.1%
Interest-bearing deposits:				
Demand	6,344	2.3%	6,287	3.7%
Savings	6,678	2.5%	6,851	4.0%
Money market	31,889	11.8%	17,728	10.4%
Time certificates of deposit	87,626	32.4%	50,888	29.8%
Total average deposits	\$ 270,287	100.0%	\$ 170,865	100.0%

Our deposits increased to \$277.5 million at March 31, 2022 from \$251.9 million at December 31, 2021, an increase of \$25.6 million, or 10.2%. This increase was primarily due to an increase in money markets and noninterest-bearing demand deposits.

As an FDIC-insured institution, our deposits are insured up to applicable limits by the DIF of the FDIC. The Dodd-Frank Act raised the limit for federal deposit insurance to \$250,000 for most deposit accounts and increased the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000. Our total uninsured deposits were \$187.9 million and \$106.4 million for the three months ended March 31, 2022 and 2021, respectively. The maturity profile of our uninsured time deposits, those amounts that exceed the FDIC insurance limit, at March 31, 2022 is as follows:

(\$ in thousands)	March 31, 2022				
	Three months or less	More than three months to six months	More than six months to twelve months	More than twelve months	Total
Time deposits, uninsured	\$ 128	\$ —	\$ 502	\$ 144	\$ 774

Liquidity and Capital Resources

Liquidity Management

Liquidity management is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, the sale of loans, repayment of loans and net profits. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, loan prepayments, loan sales and security sales are greatly influenced by general interest rates, economic conditions, and competition.

On November 23, 2021, we completed our IPO at a price of \$10.50 per share. We raised approximately \$36.1 million in net proceeds after deducting underwriting discounts and commissions of approximately \$3.0 million and certain estimated offering expenses payable by us of approximately \$3.2 million. The net proceeds less \$0.5 million in other related expenses, including legal fees totaled \$35.6 million.

Our primary source of funds to originate new loans (other than the PPPLF program used to fund PPP loans in 2020) is derived from deposits. Deposits are comprised of core and noncore deposits. We use brokered deposits and a rate listing service to advertise rates to banks, credit unions, and other institutional entities. We designate deposits obtained from this source as Institutional Deposits. To date, depositors of brokered and Institutional Deposits have been willing to place deposits with us at rates near the middle of the market. To attract deposits from local and nationwide consumer and commercial markets, we historically paid rates at the higher end of the market, which we have been able to pay due to our high margin and technology oriented business model. We utilize rate listing services and website advertising to attract deposits from consumer and commercial sources.

We regularly evaluate new, core deposit products and in 2020, we launched a deposit product targeted to the needs of our PPP borrowers. We intend to have various term offerings to match our funding needs. Plans for 2022 include marketing commercial checking accounts to selected business customers and expanded roll out of our deposit product targeted to the needs of our SBA borrowers. These accounts offer small business cash management tools including ACH and wire capabilities, competitive interest rates, and personalized customer support. The commercial checking account is expected to be a no-fee based account with emphasis on electronic banking. With no current plans to expand our brick-and-mortar branch network, online and mobile banking offers a means to meet customer needs and better efficiency through technology compared to traditional branch networks. We believe that the rise of mobile and online banking provides us the opportunity to further leverage the technological competency we have demonstrated in recent years.

We regularly adjust our investment in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management, funds management and liquidity policies. The objective of the liquidity policy is to reduce the risk to our earnings and capital arising from the inability to meet obligations in a timely manner. This entails ensuring sufficient funds are available at a reasonable cost to meet potential demands from both fund providers and borrowers. Liquid assets, defined as cash and due from banks and interest bearing deposits, were 27.5% of total assets at March 31, 2022.

We primarily utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below. At March 31, 2022, we had the ability to access \$9.6 million from the Federal Reserve Bank's Discount Window on a collateralized basis. Through Zions Bank, the Bank had an available unsecured line available of \$1.0 million. The Bank had an available unsecured line of credit with Bankers' Bank of the West to borrow up to \$1.05 million in overnight funds. We also maintain a \$3.9 million line of credit with Federal Home Loan Bank, secured by specific pledged loans. We had no outstanding balances on such unsecured or secured lines of credit as of March 31, 2022. In long term borrowings, we had \$1.0 million outstanding at March 31, 2022 related to the PPPLF. The PPPLF is secured by pledged PPP loans.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At March 31, 2022, liquid assets (defined as cash and due from banks and interest bearing deposits), consisting of cash and due from banks, totaled \$116.6 million. We believe that our liquid assets combined with the available lines of credit provide adequate liquidity to meet our current financial obligations for at least the next 12 months.

Capital Resources

Shareholders' equity increased \$9.5 million to \$125.0 million at March 31, 2022 compared to \$115.4 million at December 31, 2021. The increase in shareholders' equity was primarily attributable to net income recognized of \$9.4 million. Stock options exercised, and stock-based compensation increased additional paid-in capital aggregately by approximately \$0.1 million.

We use several indicators of capital strength. The most commonly used measure is average common equity to average assets, which was 29.9% and 25.7% for the three months ended March 31, 2022 and December 31, 2021, respectively.

Our return on average equity was 31.4% and 43.1% for the three months ended March 31, 2022 and 2021, respectively. Our return on average assets was 9.4% and 6.5% for the three months ended March 31, 2022 and 2021, respectively.

We seek to maintain adequate capital to support anticipated asset growth, operating needs and unexpected risks, and to ensure that we are in compliance with all current and anticipated regulatory capital guidelines. Our primary sources of new capital include retained earnings and proceeds from the sale and issuance of capital stock or other securities. Expected future use or activities for which capital may be set aside include balance sheet growth and associated relative increases in market or credit exposure, investment activity, potential product and business expansions, acquisitions and strategic or infrastructure investments.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Under the prompt corrective action rules, an institution is deemed "well capitalized" if its Tier 1 leverage ratio, Common Equity Tier 1 ratio, Tier 1 Capital ratio, and Total Capital ratio meet or exceed 5%, 6.5%, 8%, and 10%, respectively. On September 17, 2019, the federal banking agencies jointly finalized a rule intending to simplify the regulatory capital requirements described above for qualifying community banking organizations that opt into the Community Bank Leverage Ratio framework, as required by Section 201 of the Regulatory Relief Act. The Bank has elected to opt into the Community Bank Leverage Ratio framework starting in 2020. Under these new capital requirements, as temporarily amended by Section 4012 of the CARES Act, the Bank must maintain a leverage ratio greater than 8.5% for 2021 and 9.0% for 2022.

As of March 31, 2022 and December 31, 2021, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification we believe have changed the Bank's category). The following table sets forth the actual capital amounts and ratios for the Bank and the amount of capital required to be categorized as well-capitalized as of the dates indicated.

The following table presents the regulatory capital ratios for the Bank as of the dates indicated:

	<u>March 31,</u>	<u>December 31,</u>	<u>2022</u>	<u>2021</u>
<i>Capital Ratios</i>	<u>2022</u>	<u>2021</u>	<u>Well- Capitalized Requirement</u>	<u>Well- Capitalized Requirement</u>
Leverage Ratio (under CBLR)	19.1%	17.7%	9.0%(1)	8.5%(2)

(1) The Well-Capitalized Requirement for years 2022 and 2021 were 9.0% and 8.5%.

Contractual Obligations

We have contractual obligations to make future payments on debt and lease agreements. While our liquidity monitoring and management consider both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on future obligations and summarizes our contractual obligations as of March 31, 2022.

(\$ in thousands)	<u>Total</u>	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>More Than Five Years</u>
Contractual Obligations					
Deposits without stated maturity	\$ 135,249	\$ 135,249	\$ —	\$ —	\$ —
Time deposits	81,688	28,967	35,080	16,901	740
Long term borrowings ⁽¹⁾	952	545	—	407	—
Operating lease obligations	7,982	740	1,949	2,220	3,073
Total	<u>\$ 225,871</u>	<u>\$ 165,501</u>	<u>\$ 37,029</u>	<u>\$ 19,528</u>	<u>\$ 3,813</u>

(1) Balances in this category pertain to the PPPLF and are fully-collateralized with PPP loans

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated statements of financial condition. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit, which involves, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized in our consolidated statements of financial condition. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. We are not aware of any accounting loss to be incurred by funding these commitments; if required, we would maintain an allowance for off-balance sheet credit risk which would be recorded in other liabilities on the consolidated balance sheets.

Our commitments to extend credit as of the dates indicated are summarized below. Since commitments associated with commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

(\$ in thousands)	<u>As of March 31, 2022</u>	<u>As of December 31, 2021</u>
Revolving, open-end lines of credit	\$ 1,224	\$ 1,259
Commercial real estate	22,167	15,402
Other unused commitments	255	377
Total commitments	<u>\$ 23,646</u>	<u>\$ 17,038</u>

Critical Accounting Policies and Estimates

The accompanying management's discussion and analysis of results of operations and financial condition is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. There have been no significant changes during the three months ended March 31, 2022 to the items that we disclosed as our critical accounting policies and estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2021 Form 10-K.

Accounting policies, as described in detail in the notes to our consolidated financial statements, included in the 2021 Form 10-K, are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that those critical accounting policies and estimates require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial measures included in this Report are not measures of financial performance recognized by GAAP. This non-GAAP financial measure is “total nonperforming assets and troubled debt restructurings to total assets (less PPP loans).” Our management uses this non-GAAP financial measures in its analysis of our performance.

- “Total nonperforming assets and troubled debt restructurings to total assets (less PPP loans)” is defined as the sum of nonperforming assets and troubled debt restructurings divided by total assets minus PPP loans. The most directly comparable GAAP financial measure is the sum of nonperforming assets and troubled debt restructurings to total assets. We believe this measure is important because we believe that PPP loans will not be included in nonperforming assets or troubled debt restructurings since PPP loans are 100% guaranteed by the SBA. We believe that the non-GAAP measure more accurately discloses the proportion of nonperforming assets and troubled debt restructurings to total assets consistently with periods prior to the presence of PPP loans.

We believe these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these measures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other companies use. The following table provides a reconciliation of these non-GAAP financial measures to the most closely related GAAP measure.

Total nonperforming assets and troubled debt restructurings to total assets (less PPP loans)

<i>(\$ in thousands)</i>	As of	
	March 31, 2022	December 31, 2021
Total nonperforming assets and troubled debt restructuring	\$ 754	\$ 763
Total assets	\$ 424,484	\$ 380,214
PPP loans	\$ 991	\$ 1,091
Total assets less PPP loans	<u>\$ 423,493</u>	<u>\$ 379,123</u>
Total nonperforming assets and troubled debt restructurings to total assets (less PPP loans)	0.2%	0.2%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Under the filer category of “smaller reporting company,” as defined in Rule 12b-2 of the Exchange Act, the Company is not required to provide information requested by Part I, Item 3 of this Report.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act as of the end of the period covered by this Report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this Report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

In the current opinion of management, the likelihood is remote that the impact of such ordinary course proceedings, either individually or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors

This section supplements and updates certain of the information found under Part I, Item 1A. "Risk Factors" of the 2021 Form 10-K based on information currently known to us and recent developments since the date of the 2021 Form 10-K filing. The matters discussed below should be read in conjunction with the risk factors set forth in the 2021 Form 10-K. The risks and uncertainties that we face are not limited to those described below and those set forth in the 2021 Form 10-K. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our securities, particularly in light of the fast-changing nature of the COVID-19 pandemic, containment measures, continued outbreaks and new variants, and the related impacts to economic and operating conditions.

Acts of terrorism, geopolitical and other external events could impact our ability to conduct business.

As discussed in more detail in the 2021 Form 10-K, acts of terrorism, geopolitical and other external events could impact our ability to conduct business. Political and social conditions, fiscal and monetary policies, trade wars and tariffs, labor shortages, prolonged or recurring government shutdowns, regional or domestic hostilities, economic sanctions and the prospect or occurrence of more widespread conflicts could also negatively affect our business, operations and partners, consumer and business spending, including travel patterns and business investment, and demand for credit. The U.S., the U.K., the EU and other countries have each imposed export controls on certain products and financial and economic sanctions on certain industry sectors and parties in and associated with Russia, and additional sanction packages to constrain Russia have been and continue to be proposed and adopted. The conflict in Ukraine has led to economic uncertainty and market disruptions, including significant volatility in commodity and energy prices and credit and capital markets. The broader consequences of this conflict are difficult to predict at this time, but may include further sanctions, regional instability and geopolitical shifts, increased prevalence and sophistication of cyberattacks against us, our customers, service providers and other third parties, potential retaliatory action by customers or the Russian government against companies such as us, heightened regulatory scrutiny related to sanctions compliance, increased inflation, further increases or fluctuations in commodity and energy prices, decreases in global travel, further disruptions to the global supply chain and the availability of certain natural resources and other adverse effects on macroeconomic conditions. The duration of the conflict in Ukraine and the extent to which it may intensify or expand beyond Ukraine are currently unknown, and such events could exacerbate or heighten many of the other risk factors described in Part I, Item 1A. "Risk Factors" of the 2021 Form 10-K and have a material adverse effect on our business, financial condition and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no unregistered sales of the Company's stock during the first quarter of 2022. The Company did not repurchase any of its shares during the first quarter of 2022 and does not have any authorized share repurchase programs.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits.

Number	Description
3.1	Fourth Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 30, 2021 (File No. 333-257929)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 30, 2021 (File No. 333-257929)).
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 15, 2021 (File No. 333-257929)).
10.1	Amendment to Employment Agreement, dated March 14, 2022, by and between David Tilis and FinWise Bancorp
10.2*	Second Amendment to Employment Agreement, dated March 31, 2022, by and between David Tilis and FinWise Bancorp
10.3*	Third Amendment to Employment Agreement, dated April 29, 2022, by and between David Tilis and FinWise Bancorp
31.1*	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document in Exhibit 101)

* Filed herewith.

SECOND AMENDMENT TO EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT (the "Amendment") is made and entered into this 31st day of March, 2022 (the "Effective Date"), by and among FinWise Bancorp, a Utah community bank holding company ("Holding Company"), its wholly-owned subsidiary, FinWise Bank f/k/a Utah Community Bank, a Utah corporation (the "Bank") and David Tilis, and individual ("Executive"). Holding Company, Bank and Executive are sometimes individually referred to hereafter as a "Party" and collectively referred to as the "Parties." Capitalized terms not defined in this Amendment shall have the meaning set forth in the Employment Agreement.

RECITALS

WHEREAS, Executive entered into an Employment Agreement, dated January 1, 2018 (the "Agreement"), whereby Executive would be employed under the terms and subject to the conditions set forth therein; and

WHEREAS, the Agreement was amended on March 14, 2022 to extend the term of the Agreement until March 31, 2022; and

WHEREAS, the Parties desire to amend Section 2 as set forth herein to extend the term to April 30, 2022.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises and covenants hereinafter set forth, this Amendment and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend and confirm the Agreement as follows:

1. **Amendment.** Section 2 of the Agreement is hereby amended with the following:

Subject to the terms hereof the term of this agreement, Executive's employment under this Agreement shall commence on January 1, 2018 (the "Effective Date") and shall continue until April 30, 2022 (the "Term") unless earlier terminated pursuant to the provisions hereof.

2. **Effect of Amendment.** This Amendment is incorporated in and supersedes all contrary terms of the Agreement and the First Amendment Employment with respect to the items addressed herein. Except as specifically modified by this Amendment, all other terms and provisions in the Agreement as amended, shall remain in full force and effect. The Agreement and this Amendment contain the entire understanding and agreement of the Parties related to the subject matter hereof and thereof, and supersede all prior and contemporaneous oral and written agreements or understanding with respect to the subject matter hereof and thereof. In the event of any conflict between the provisions of this Amendment and the provisions of the Agreement, this Amendment will control.

3. **Miscellaneous.** Each party represents and warrants that it has the power and authority to execute this Amendment. This Amendment may be signed in counterpart or duplicate copies, and any signed counterpart or duplicate copy shall be equivalent to a signed original for all purposes.

IN WITNESS WHEREOF, Holding Company, Bank and Executive have hereto caused this Agreement to be executed on or as of the day and year above first written.

EXECUTIVE:

/s/ David Tilis

David Tilis

BANK:

FinWise Bank, a Utah community bank

By: /s/ Kent Landvatter

Its: President

HOLDING COMPANY:

FinWise Bancorp, a Utah bank holding company

By: /s/ Kent Landvatter

Its: President

THIRD AMENDMENT TO EMPLOYMENT AGREEMENT

THIS THIRD AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") is made and entered into this 29th day of April, 2022 (the "Effective Date"), by and among FinWise Bancorp, a Utah community bank holding company ("Holding Company"), its wholly-owned subsidiary, FinWise Bank f/k/a Utah Community Bank, a Utah corporation (the "Bank") and David Tilis, an individual ("Executive"). Holding Company, Bank and Executive are sometimes individually referred to hereafter as a "Party" and collectively referred to as the "Parties." Capitalized terms not defined in this Amendment shall have the meaning set forth in the Employment Agreement.

RECITALS

WHEREAS, Executive entered into an Employment Agreement, dated January 1, 2018 (the "Agreement"), whereby Executive would be employed under the terms and subject to the conditions set forth therein;

WHEREAS, the Agreement was amended on March 14, 2022 to extend the term of the Agreement until March 31, 2022;

WHEREAS, the Agreement was subsequently amended on March 31, 2022 to extend the term of the Agreement until April 30, 2022; and

WHEREAS, the Parties desire to amend Section 2 of the Agreement as set forth herein to extend the term to May 16, 2022.

NOW, THEREFORE, FOR AND IN CONSIDERATION of the mutual promises and covenants hereinafter set forth, this Amendment and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend and confirm the Agreement as follows:

1. **Amendment.** Section 2 of the Agreement is hereby amended with the following:

Subject to the terms hereof the term of this agreement, Executive's employment under this Agreement shall commence on January 1, 2018 (the "Effective Date") and shall continue until May 16, 2022 (the "Term") unless earlier terminated pursuant to the provisions hereof.

2. **Effect of Amendment.** This Amendment is incorporated in and supersedes all contrary terms of the Agreement and all amendments thereto with respect to the items addressed herein. Except as specifically modified by this Amendment, all other terms and provisions in the Agreement as amended, shall remain in full force and effect. The Agreement and this Amendment contain the entire understanding and agreement of the Parties related to the subject matter hereof and thereof, and supersede all prior and contemporaneous oral and written agreements or understanding with respect to the subject matter hereof and thereof. In the event of any conflict between the provisions of this Amendment and the provisions of the Agreement, this Amendment will control.

3. **Miscellaneous.** Each party represents and warrants that it has the power and authority to execute this Amendment. This Amendment may be signed in counterpart or duplicate copies, and any signed counterpart or duplicate copy shall be equivalent to a signed original for all purposes.

IN WITNESS WHEREOF, Holding Company, Bank and Executive have hereto caused this Agreement to be executed on or as of the day and year above first written.

EXECUTIVE:

/s/ David Tilis

David Tilis

BANK:

FinWise Bank, a Utah community bank

By: /s/ Kent Landvatter

Its: President

HOLDING COMPANY:

FinWise Bancorp, a Utah bank holding company

By: /s/ Kent Landvatter

Its: President

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kent Landvatter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FinWise Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ Kent Landvatter

Kent Landvatter

President and Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Javvis Jacobson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FinWise Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ Javvis Jacobson

Javvis Jacobson

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FinWise Bancorp (the “Company”) on Form 10-Q for the period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned’s best knowledge and belief:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished solely pursuant to the requirements of 18 U.S.C. § 1350 and is not being filed as a part of the Report or as a separate disclosure document.

/s/ Kent Landvatter

Kent Landvatter
President and Chief Executive Officer

Date: May 16, 2022

/s/ Javvis Jacobson

Javvis Jacobson
Executive Vice President and Chief Financial Officer

Date: May 16, 2022
