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 September 30, 2024**

**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** | **83-0356689** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **756 East Winchester, Suite 100** | |
| **Murray, Utah** | **84107** |
| **(Address of principal executive offices)** | **(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 | ☐ | Accelerated filer | ☐ |
| Non-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 November 11, 2024, the registrant had 13,211,160 shares of common stock, $0.001 par value per share, outstanding.

**FinWise Bancorp**
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q (this "Report"), unless we state otherwise or the context otherwise requires, references to "we," "our," "us," "the Company" and "FinWise Bancorp" refer to FinWise Bancorp and its wholly owned subsidiaries, FinWise Bank (which we sometimes refer to as "FinWise Bank," "FinWise," "the Bank" or "our Bank,") and FinWise Investment, LLC.

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 our current views with respect to, among other things, future events and our 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:

- the success of the financial technology and banking-as-a-service ("BaaS") industries, as well as the continued evolution of the regulation of these industries;
- the ability of our Strategic Program or Fintech Banking and Payment Solutions service providers to comply with regulatory regimes, and our ability to adequately oversee and monitor our Strategic Program and Fintech Banking and Payment Solutions service providers;
- our ability to maintain and grow our relationships with our service providers;
- 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 keep pace with rapid technological changes in the industry or implement new technology effectively;
- system failure or cybersecurity breaches of our network security;
- 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 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 and business conditions, either nationally or in our market areas;
- increased national or regional competition in the financial services industry;
- 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 credit losses ("ACL");
- the financial soundness of other financial institutions;
- changes in Small Business Administration ("SBA") rules, regulations and loan products, including specifically the Section 7(a) program, or changes to the status of the Bank as an SBA Preferred Lender;

- changes in the existing regulatory framework for brokered deposits and potential reclassification of certain BaaS deposits as brokered deposits in light of proposed rulemaking or application of the current deposit framework by the Federal Deposit Insurance Corporation ("FDIC") to the Bank's BaaS deposits;
- the value of collateral securing our loans;
- our levels of nonperforming assets;
- losses from loan defaults;
- our ability to protect our intellectual property and the risks we face with respect to claims and litigation initiated against us;
- our ability to implement our growth strategy;
- our ability to continue to launch new products or services successfully;
- the concentration of our lending and depositor relationships through Strategic Programs in the financial technology industry generally;
- interest rate and liquidity risks;
- 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;
- dependence on our management team and changes in management composition;
- the sufficiency of our capital;
- 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;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- results of examinations of us by our regulators;
- our involvement from time to time in legal proceedings;
- 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;
- future equity and debt issuances;
- that the anticipated benefits new lines of business that we may enter or investments or acquisitions we may make are not realized within the expected time frame or at all as a result of such things as the strength or weakness of the economy and competitive factors in the areas where we and such other businesses operate; and
- other factors listed from time to time in our filings with the Securities and Exchange Commission (the "SEC"), including, without limitation, this Report, our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 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 FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

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

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| **ASSETS** | (Unaudited) | |
| Cash and cash equivalents | | |
| Cash and due from banks | $ 7,705 | $ 411 |
| Interest-bearing deposits in other banks | 78,063 | 116,564 |
| Total cash and cash equivalents | 85,768 | 116,975 |
| Investment securities available-for-sale, at fair value, net of allowance for credit losses of $0, (amortized cost of $30.0 million) | 30,472 | — |
| Investment securities held-to-maturity, net of allowance for credit losses of $0, (fair value of $12.2 million and $13.8 million, respectively) | 13,270 | 15,388 |
| Investment in Federal Home Loan Bank ("FHLB") stock, at cost | 349 | 238 |
| Strategic Program loans held-for-sale, at lower of cost or fair value | 84,000 | 47,514 |
| Loans held for investment, net of allowance for credit losses of $12.7 million and $12.9 million, respectively | 418,065 | 358,560 |
| Premises and equipment, net | 17,099 | 14,630 |
| Accrued interest receivable | 3,098 | 3,573 |
| Small Business Administration (“SBA”) servicing asset, net | 3,261 | 4,231 |
| Investment in Business Funding Group ("BFG"), at fair value | 7,900 | 4,200 |
| Operating lease right-of-use (“ROU”) assets | 3,735 | 4,293 |
| Income taxes receivable, net | 3,317 | 2,400 |
| Other assets | 12,697 | 14,219 |
| **Total assets** | **$ 683,031** | **$ 586,221** |
| **LIABILITIES AND SHAREHOLDERS’ EQUITY** | | |
| **Liabilities** | | |
| Deposits | | |
| Noninterest-bearing | $ 142,785 | $ 95,486 |
| Interest-bearing | 345,874 | 309,347 |
| Total deposits | 488,659 | 404,833 |
| Accrued interest payable | 647 | 619 |
| Income taxes payable, net | — | 1,873 |
| Deferred income taxes, net | 1,036 | 748 |
| Paycheck Protection Program Liquidity Facility | 106 | 190 |
| Operating lease liabilities | 5,542 | 6,296 |
| Other liabilities | 16,671 | 16,606 |
| **Total liabilities** | **512,661** | **431,165** |
| **Commitments and contingencies (Note 6)** | | |
| **Shareholders’ equity** | | |
| Preferred stock, $0.001 par value, 4,000,000 authorized; no shares issued and outstanding as of September 30, 2024 and December 31, 2023 | — | — |
| Common stock, $0.001 par value, 40,000,000 shares authorized; 13,211,160 and 12,493,565 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively | 13 | 12 |
| Additional paid-in-capital | 56,214 | 51,200 |
| Retained earnings | 113,801 | 103,844 |
| Accumulated other comprehensive income, net of tax | 342 | — |
| Total shareholders’ equity | 170,370 | 155,056 |
| **Total liabilities and shareholders’ equity** | **$ 683,031** | **$ 586,221** |

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

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

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| **Interest income** | | | | |
| Interest and fees on loans | $ 17,590 | $ 15,555 | $ 50,506 | $ 42,252 |
| Interest on securities | 298 | 88 | 496 | 237 |
| Other interest income | 1,036 | 1,569 | 3,989 | 3,993 |
| Total interest income | 18,924 | 17,212 | 54,991 | 46,482 |
| **Interest expense** | | | | |
| Interest on deposits | 4,161 | 2,801 | 11,607 | 6,290 |
| Total interest expense | 4,161 | 2,801 | 11,607 | 6,290 |
| **Net interest income** | 14,763 | 14,411 | 43,384 | 40,192 |
| Provision for credit losses | 2,157 | 3,070 | 7,696 | 8,429 |
| Net interest income after provision for credit losses | 12,606 | 11,341 | 35,688 | 31,763 |
| **Non-interest income** | | | | |
| Strategic Program fees | 4,862 | 3,945 | 12,862 | 11,684 |
| Gain on sale of loans, net | 393 | 357 | 1,164 | 1,244 |
| SBA loan servicing fees, net | 87 | (138) | 957 | 1,271 |
| Change in fair value on investment in BFG | (100) | (500) | (425) | (800) |
| Other miscellaneous income | 812 | 1,228 | 2,324 | 1,900 |
| Total non-interest income | 6,054 | 4,892 | 16,882 | 15,299 |
| **Non-interest expense** | | | | |
| Salaries and employee benefits | 9,659 | 6,416 | 25,830 | 18,354 |
| Professional services | 1,331 | 750 | 4,180 | 3,529 |
| Occupancy and equipment expenses | 1,046 | 958 | 3,147 | 2,388 |
| Other operating expenses | 2,013 | 1,609 | 6,115 | 4,790 |
| Total non-interest expense | 14,049 | 9,733 | 39,272 | 29,061 |
| **Income before income taxes** | 4,611 | 6,500 | 13,298 | 18,001 |
| Provision for income taxes | 1,157 | 1,696 | 3,349 | 4,698 |
| **Net income** | **$ 3,454** | **$ 4,804** | **$ 9,949** | **$ 13,303** |
| Earnings per share, basic | $ 0.26 | $ 0.38 | $ 0.77 | $ 1.04 |
| Earnings per share, diluted | $ 0.25 | $ 0.37 | $ 0.74 | $ 1.01 |
| Weighted average shares outstanding, basic | 12,658,557 | 12,387,392 | 12,596,496 | 12,565,218 |
| Weighted average shares outstanding, diluted | 13,257,835 | 12,868,207 | 13,167,315 | 13,008,833 |

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

**FinWise Bancorp**
**Consolidated Statements of Comprehensive Income (Unaudited)**
**(in thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Net income** | **$ 3,454** | **$ 4,804** | **$ 9,949** | **$ 13,303** |
| Other comprehensive income, before income taxes | | | | |
| Securities available-for-sale | | | | |
| Unrealized holding gain | $ 451 | $ — | $ 451 | $ — |
| Income tax expense related to unrealized holding gain | (109) | — | (109) | — |
| Other comprehensive income, net of tax | 342 | — | 342 | — |
| | | | | |
| **Comprehensive income** | **$ 3,796** | **$ 4,804** | **$ 10,291** | **$ 13,303** |

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

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

**Three Months Ended September 30, 2024**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income, Net of Tax | Total Shareholders' Equity |
| **Balance at June 30, 2024** | **13,143,560** | **$ 13** | **$ 55,441** | **$ 110,342** | **$ —** | **$ 165,796** |
| Stock-based compensation expense | 64,600 | — | 766 | — | — | 766 |
| Common stock repurchased and retired | — | — | — | 5 | — | 5 |
| Stock options exercised, net | 3,000 | — | 7 | — | — | 7 |
| Other comprehensive income | — | — | — | — | 342 | 342 |
| Net income | — | — | — | 3,454 | — | 3,454 |
| **Balance at September 30, 2024** | **13,211,160** | **$ 13** | **$ 56,214** | **$ 113,801** | **$ 342** | **$ 170,370** |

**Nine Months Ended September 30, 2024**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income, Net of Tax | Total Shareholders' Equity |
| **Balance at December 31, 2023** | **12,493,565** | **$ 12** | **$ 51,200** | **$ 103,844** | **$ —** | **$ 155,056** |
| Stock-based compensation expense | 393,910 | — | 1,335 | — | — | 1,335 |
| Stock options exercised, net | 29,117 | — | 24 | — | — | 24 |
| Common stock repurchased and retired | (44,608) | — | (469) | 8 | — | (461) |
| BFG ownership purchase | 339,176 | 1 | 4,124 | — | — | 4,125 |
| Other comprehensive income | — | — | — | — | 342 | 342 |
| Net income | — | — | — | 9,949 | — | 9,949 |
| **Balance at September 30, 2024** | **13,211,160** | **$ 13** | **$ 56,214** | **$ 113,801** | **$ 342** | **$ 170,370** |

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

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

**Three Months Ended September 30, 2023**

| | Common Stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Total Shareholders' Equity |
| **Balance at June 30, 2023** | **12,723,703** | **$ 13** | **$ 52,625** | **$ 94,810** | **$ 147,448** |
| Stock-based compensation expense | — | — | 499 | — | 499 |
| Common stock repurchased and retired | (230,978) | (1) | (2,425) | 73 | (2,353) |
| Stock options exercised, net | 840 | — | 4 | — | 4 |
| Net income | — | — | — | 4,804 | 4,804 |
| **Balance at September 30, 2023** | **12,493,565** | **$ 12** | **$ 50,703** | **$ 99,687** | **$ 150,402** |

**Nine Months Ended September 30, 2023**

| | Common Stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Total Shareholders' Equity |
| **Balance at December 31, 2022** | **12,831,345** | **$ 13** | **$ 54,614** | **$ 85,832** | **$ 140,459** |
| Adjustment for adoption of ASC 2016-13, net of tax | — | — | — | (212) | (212) |
| Stock-based compensation expense | 168,821 | — | 1,549 | — | 1,549 |
| Common stock repurchased and retired | (524,241) | (1) | (5,504) | 764 | (4,741) |
| Stock options exercised, net | 17,640 | — | 44 | — | 44 |
| Net income | — | — | — | 13,303 | 13,303 |
| **Balance at September 30, 2023** | **12,493,565** | **$ 12** | **$ 50,703** | **$ 99,687** | **$ 150,402** |

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

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2024** | **2023** |
| **Cash flows from operating activities:** | | |
| Net income | $ 9,949 | $ 13,303 |
| **Adjustments to reconcile net income to net cash (used in) provided by operating activities:** | | |
| Depreciation and amortization | 4,154 | 2,844 |
| Provision for credit losses | 7,696 | 8,429 |
| Noncash operating lease cost | 558 | 560 |
| Net (accretion) amortization in securities discounts and premiums | (17) | — |
| Additions to servicing asset | — | (150) |
| Gain on sale of loans, net | (1,164) | (1,244) |
| Originations of Strategic Program loans held-for-sale | (3,594,347) | (2,929,506) |
| Proceeds from sale of Strategic Program loans held-for-sale | 3,557,861 | 2,907,384 |
| Change in fair value of BFG | 425 | 800 |
| Recovery of SBA servicing asset | (822) | (255) |
| Stock-based compensation expense | 1,335 | 1,549 |
| Deferred income taxes | 179 | 1,401 |
| **Net changes in:** | | |
| Accrued interest receivable | 475 | (892) |
| Other assets | 605 | (2,122) |
| Accrued interest payable | 28 | 526 |
| Operating lease liabilities | (754) | (475) |
| Other liabilities | (1,809) | 385 |
| Net cash (used in) provided by operating activities | (15,648) | 2,537 |
| **Cash flows from investing activities:** | | |
| Net increase in loans receivable | (51,070) | (85,325) |
| Purchase of lease pools | (14,967) | (22,052) |
| Investment in equity securities | — | (18) |
| Purchase of bank premises and equipment, net | (4,830) | (6,329) |
| Purchase of investment securities available-for-sale | (30,018) | — |
| Proceeds from maturities and paydowns of securities held-to-maturity | 2,132 | 1,392 |
| Purchases of securities held-to-maturity | — | (2,939) |
| Purchase of FHLB stock | (111) | (27) |
| Net cash used in investing activities | (98,864) | (115,298) |
| **Cash flows from financing activities:** | | |
| Net increase in deposits | 83,826 | 143,755 |
| Common stock repurchased | (461) | (4,741) |
| Proceeds from exercise of stock options | 24 | 44 |
| Repayment of PPP Liquidity Facility | (84) | (93) |
| Net cash provided by financing activities | 83,305 | 138,965 |
| **Net change in cash and cash equivalents** | (31,207) | 26,204 |
| Cash and cash equivalents, beginning of the period | 116,975 | 100,567 |
| Cash and cash equivalents, end of the period | $ 85,768 | $ 126,771 |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for income taxes | $ 4,400 | $ 5,050 |
| Cash paid for interest | $ 11,579 | $ 5,764 |
| **Supplemental disclosures of noncash investing and financing activities:** | | |
| Increase in BFG investment in exchange for shares of the Company's common stock | $ 4,125 | $ — |
| Unrealized gain on investment securities available-for-sale | $ 451 | $ — |

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

**FinWise Bancorp**
**Notes to Consolidated Financial Statements (Unaudited)**

## Note 1 – Business, Basis of Presentation, and Summary of Significant Accounting Policies

**Nature of Business and Organization –** FinWise Bancorp is a Utah bank holding company headquartered in Murray, Utah and operates all business activities through its wholly-owned subsidiaries, FinWise Bank ("Bank") and FinWise Investment, LLC. The Bank provides a full range of banking services to individual and commercial customers and provides banking and payments solutions to fintech brands. As a technology-focused bank, the Bank also has established Strategic Programs with various third-party platforms that use technology to streamline the origination of consumer and business loans and process payments.

References to “FinWise Bancorp,” “Bancorp” or the “holding company,” refer to FinWise Bancorp on a standalone basis. References to the “Company” refer to FinWise Bancorp, FinWise Bank, and FinWise Investment, LLC collectively and on a consolidated basis.

**Basis of Presentation** – The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, the statements do not include all of the information and footnotes required by GAAP for complete financial statements. 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 statement of the consolidated financial condition and the consolidated results of operations for the periods presented have been included. The results of operations and other data presented for the three and nine months ended September 30, 2024 are not necessarily indicative of the results of operations that may be expected for subsequent periods or the full year results. The consolidated balance sheet data as of December 31, 2023 was derived from audited financial statements; however, the accompanying notes to the unaudited consolidated financial statements do not include all of the annual disclosures required by GAAP and should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023.

Reclassifications have been made to prior year amounts to conform to the current year presentation. Certain of these reclassifications relate to the change in fair value of our SBA servicing asset, which was reclassified from non-interest expense to non-interest income to better align with the SBA servicing asset revenue and the associated costs. The effect of these reclassifications were not material to the previously reported consolidated financial statements.

**Stock Repurchase Program** – On March 7, 2024, the Company announced that its Board of Directors (the “Board”) had authorized, effective March 6, 2024, a common stock repurchase program to purchase up to 641,832 shares of the Company’s common stock in the aggregate. The repurchase program authorizes the repurchase by the Company of its common stock in open market transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or privately negotiated transactions. Repurchases could also be made pursuant to a trading plan under Rule 10b5-1 under the Exchange Act, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. The Share Repurchase Committee, designated by the Board of Directors, will determine the actual timing, number and value of any shares repurchased in its discretion depending on a variety of factors, including but not limited to, the market price and trading volume of the Company’s common stock, general market and economic conditions, the ongoing assessment of the Company’s capital needs, and applicable legal and regulatory requirements. The repurchase program does not obligate the Company to purchase any particular number of shares and may be limited or terminated at any time at the Company’s discretion without notice. During the three months ended September 30, 2024, there were no open-market share repurchases. Since the repurchase program’s inception, the Company has repurchased and subsequently retired a total of 44,608 shares for $0.5 million at an average price of $10.30 per share.

**Securities Available-for-Sale, at Fair Value** – U.S. Treasury securities that the Company intends to hold for an indefinite period of time, but which may be sold in response to changes in liquidity needs, interest rates, or other similar factors, are classified as “securities available-for-sale”. Such securities are recorded in the Company’s consolidated balance sheets at their respective fair values and increases or decreases in those values are recorded as unrealized gains or losses, respectively, and are reported as other comprehensive income (loss) in the Company’s consolidated balance sheets, rather than included in or deducted from the Company's earnings. Interest on securities classified as available-for-sale are recorded in interest on securities in the Company's consolidated statements of income.

**Comprehensive Income (Loss)** – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of equity in the accompanying consolidated balance sheets, net of income taxes, and such items, along with net income, are components of comprehensive income (loss).

**Recent Accounting Pronouncements**

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures". ASU 2023-09 improves the transparency of income tax disclosures by requiring entities to provide greater disaggregation of information on income taxes paid and on the rate reconciliation disclosures. This pronouncement also requires qualitative discussion of the primary state and local jurisdictions for income taxes and the type of reconciling categories. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. Early adoption is permitted. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures", which requires disclosure, on an annual and interim basis, of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), as well as the aggregate amount of other segment items included in the reported measure of segment profit or loss. The ASU requires that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss. Public entities will be required to provide all annual disclosures currently required by Topic 280 in interim periods, and entities with a single reportable segment are required to provide all the disclosures required by the amendments in the update and existing segment disclosures in Topic 280. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Entities must adopt this ASU on a retrospective basis. Early adoption is permitted. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

**Note 2 – Investments**

***Investment Securities Available-for-Sale, at Fair Value***

The Company's available-for-sale ("AFS") investment portfolio consists of U.S. Treasury securities. The Company reports AFS debt securities on the Company's consolidated balance sheets at fair value. The amortized cost, gross unrealized gains and losses, and estimated fair value of AFS securities as of September 30, 2024, are summarized as follows:

| | September 30, 2024 | | | |
|---|---|---|---|---|
| *($ in thousands)* | **Amortized Cost** | **Unrealized Gain** | **Unrealized Loss** | **Estimated Fair Value** |
| U.S. Treasury securities | $ 30,021 | $ 451 | $ — | $ 30,472 |

There were no U.S. Treasury securities in an unrealized loss position at September 30, 2024.

The following table presents the amortized cost and estimated fair value of AFS securities as of the period ended, by contractual maturity:

| | September 30, 2024 | |
|---|---|---|
| ($ in thousands) | **Amortized Cost** | **Estimated Fair Value** |
| Due in one year or less | $ 2,468 | $ 2,479 |
| Due after one year through five years | 27,553 | 27,993 |
| Total securities AFS | $ 30,021 | $ 30,472 |

At September 30, 2024, AFS debt securities in the amount of $30.0 million were pledged as collateral for a credit line held by the Bank.

***Investment Securities Held-to-Maturity, at Cost***

The Company's held-to-maturity ("HTM") investment portfolio consists of agency mortgage-backed securities and agency collateralized mortgage obligations. The Company reports HTM debt securities on the Company's consolidated balance sheets at carrying value which is amortized cost. The amortized cost, unrealized gains and losses, and estimated fair values of the Company's HTM debt securities at September 30, 2024 and December 31, 2023, are summarized as follows:

| | September 30, 2024 | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | Amortized Cost | Allowance for Credit Losses | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| Mortgage-backed securities | $ 6,160 | $ — | $ 2 | $ (537) | $ 5,625 |
| Collateralized mortgage obligations | 7,110 | — | 16 | (569) | 6,557 |
| Total securities held-to-maturity | $ 13,270 | $ — | $ 18 | $ (1,106) | $ 12,182 |

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | Amortized Cost | Allowance for Credit Losses | Unrealized Gain | Unrealized Loss | Estimated Fair Value |
| Mortgage-backed securities | $ 6,959 | $ — | $ — | $ (817) | $ 6,142 |
| Collateralized mortgage obligations | 8,429 | — | 4 | (766) | 7,667 |
| Total securities held-to-maturity | $ 15,388 | $ — | $ 4 | $ (1,583) | $ 13,809 |

***Credit Quality Indicators & Allowance for Credit Losses - HTM and AFS***

On January 1, 2023, the Company adopted ASU 2016-13, which replaced the legacy GAAP other-than-temporary impairment ("OTTI") model with an expected credit loss model ("CECL"). ASU 2016-13 requires an allowance on lifetime expected credit losses on HTM and AFS debt securities but retains the concept from the OTTI model that credit losses are recognized once securities become impaired. For HTM and AFS debt securities, the Company evaluates the credit risk of its securities on at least a quarterly basis. The Company estimates expected credit losses on HTM and AFS debt securities on a collective basis by major security type. Accrued interest receivable on HTM and AFS debt securities is excluded from the estimate of credit losses. At September 30, 2024, December 31, 2023, and at adoption of CECL on January 1, 2023, there was no ACL related to HTM or AFS debt securities due to the composition of the portfolio which is generally considered not to have credit risk given the United States government guarantee associated with these agency securities.

The Company had seventeen securities, consisting of eight collateralized mortgage obligations and nine mortgage-backed securities, in an unrealized loss position at September 30, 2024 and nineteen securities, consisting of nine collateralized mortgage obligations and ten mortgage-backed securities, in an unrealized loss position at December 31, 2023. The following table presents the estimated fair value and gross unrealized losses of HTM debt securities, aggregated by category and length of time in a continuous unrealized loss position at September 30, 2024 and December 31, 2023:

| | September 30, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 Months or More | | Total | |
| *($ in thousands)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities | $ — | $ — | $ 5,078 | $ (537) | $ 5,078 | $ (537) |
| Collateralized mortgage obligations | — | — | 4,662 | (569) | 4,662 | (569) |
| Total securities held-to-maturity | $ — | $ — | $ 9,740 | $ (1,106) | $ 9,740 | $ (1,106) |

| ($ in thousands) | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mortgage-backed securities | $ 680 | $ (15) | $ 5,462 | $ (802) | $ 6,142 | $ (817) |
| Collateralized mortgage obligations | 934 | (4) | 4,812 | (762) | 5,746 | (766) |
| Total securities held-to-maturity | $ 1,614 | $ (19) | $ 10,274 | $ (1,564) | $ 11,888 | $ (1,583) |

The amortized cost and estimated market value of debt securities HTM at September 30, 2024 and December 31, 2023, 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.

| ($ in thousands) | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Securities held-to-maturity | | | | |
| Due in one year or less | $ — | $ — | $ — | $ — |
| Due after one year through five years | — | — | — | — |
| Due after five years through ten years | 2,314 | 2,223 | 2,745 | 2,577 |
| Due after ten years | 10,956 | 9,959 | 12,643 | 11,232 |
| Total securities held-to-maturity | $ 13,270 | $ 12,182 | $ 15,388 | $ 13,809 |

At September 30, 2024, HTM debt securities in the amount of $13.3 million were pledged as collateral for a credit line held by the Bank. There were no sales or transfers of investment securities and no realized gains or losses on these securities during the three and nine months ended September 30, 2024 or 2023.

***FHLB Stock***

The Bank is a member of the FHLB system. Members are required to own FHLB stock of at least the greater of 0.06% of FHLB membership asset value or 4.50% of outstanding FHLB advances. At September 30, 2024 and December 31, 2023, the Bank owned $0.3 million and $0.2 million, respectively, of FHLB stock, which is carried at cost. The Company evaluated the carrying value of its FHLB stock investment at September 30, 2024 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 its recorded investment.

**Note 3 – Loans Held for Investment and Allowance for Credit Losses**

Loans held for investment outstanding by general ledger classification as of September 30, 2024 and December 31, 2023, consisted of the following:

| ($ in thousands) | September 30, 2024 | December 31, 2023 |
|---|---|---|
| SBA[1] | $ 251,439 | $ 239,922 |
| Commercial leases | 64,277 | 38,110 |
| Commercial, non-real estate | 3,025 | 2,457 |
| Residential real estate | 41,391 | 38,123 |
| Strategic Program loans | 19,409 | 19,408 |
| Commercial real estate: | | |
| Owner occupied | 32,480 | 20,798 |
| Non-owner occupied | 2,736 | 2,025 |
| Consumer | 19,206 | 11,372 |
| Total loans held for investment, gross | $ 433,963 | $ 372,215 |
| Deferred loan fees, net | (3,237) | (767) |
| Allowance for credit losses | (12,661) | (12,888) |
| Loans held for investment, net | $ 418,065 | $ 358,560 |

[1] Included in the SBA loans held for investment above are $154.5 million and $131.7 million of loans guaranteed by the SBA as of September 30, 2024 and December 31, 2023, respectively.

The Bank sells participation interests in some loans it originates and may acquire a participation interest in loans originated by others. All reported amounts reflect only the Bank's ownership interest in the loans.

**Strategic Program Loans** – The Company originates loans with various third-party loan origination platforms that use technology and other innovative systems to streamline the origination of unsecured and secured consumer and business loans to a wide array of borrowers within certain approved credit profiles. Loans issued by the Company through these programs 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 provider or another investor. Interest income is earned by the Company while holding the loans. These loans are classified as held-for-sale on the balance sheet and measured at the lower of cost or market.

The Company may also hold loans or a portion of the loans or receivables and sell the remainder directly to the Strategic Program provider 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, typically serve as sub-servicer and perform typical primary servicing duties including loan collections, modifications, charging-off, reporting and monitoring.

Each Strategic Program provider establishes a "reserve" deposit account with the Company to reasonably ensure the strategic programs will have sufficient funds available to purchase the loans. The agreements generally require that the reserve account deposit balance does not fall below an agreed upon dollar or percentage threshold related to the total loans currently outstanding as held-for-sale 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 Program providers at the Company at September 30, 2024 and December 31, 2023, was $44.0 million and $29.8 million, respectively.

Strategic Program loans retained and held-for-sale as of September 30, 2024 and December 31, 2023, are summarized as follows:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| *($ in thousands)* | | |
| Retained Strategic Program loans | $ 19,409 | $ 19,408 |
| Strategic Program loans held-for-sale | 84,000 | 47,514 |
| Total Strategic Program loans | $ 103,409 | $ 66,922 |

***Allowance for Credit Losses:*** In determining an appropriate amount for the allowance, the Bank segmented and aggregated the loan portfolio based on the FDIC Consolidated Reports of Condition and Income ("Call Report") codes. These classifications, which in general are based upon the nature of the collateral and type of borrower, are different than the classifications adopted for other financial reporting purposes, which are based upon the proposed use of the loan proceeds. The following pool segments identified as of September 30, 2024 and December 31, 2023 are based on the CECL methodology:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| ($ in thousands) | | |
| Construction and land development | $ 33,903 | $ 28,330 |
| Residential real estate | 59,229 | 51,428 |
| Residential real estate multifamily | 1,504 | 647 |
| Commercial real estate: | | |
| Owner occupied | 187,890 | 186,550 |
| Non-owner occupied | 12,783 | 15,354 |
| Commercial and industrial | 35,818 | 21,399 |
| Consumer | 19,150 | 10,989 |
| Lease financing receivables | 64,277 | 38,110 |
| Retained Strategic Program loans | 19,409 | 19,408 |
| Total loans held for investment, gross | $ 433,963 | $ 372,215 |

Activity in the ACL by common characteristic loan pools based on the CECL methodology was as follows:

| | Three Months Ended September 30, 2024 | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **Beginning Balance** | **Provision for (Reversal of) Credit Losses** | **Charge-Offs** | **Recoveries** | **Ending Balance** |
| Construction and land development | $ 330 | $ 382 | $ — | $ — | $ 712 |
| Residential real estate | 1,029 | (224) | (27) | 3 | 781 |
| Residential real estate multifamily | 11 | 23 | — | — | 34 |
| Commercial real estate: | | | | | |
| Owner occupied | 4,094 | (1,441) | (103) | 219 | 2,769 |
| Non-owner occupied | 380 | (18) | (221) | — | 141 |
| Commercial and industrial | 423 | 42 | (96) | 2 | 371 |
| Consumer | 261 | 280 | (15) | 4 | 530 |
| Lease financing receivables | 650 | 689 | (113) | 8 | 1,234 |
| Retained Strategic Program loans | 5,949 | 2,211 | (2,360) | 289 | 6,089 |
| Total allowance for credit losses on financing receivables | $ 13,127 | $ 1,944 | $ (2,935) | $ 525 | $ 12,661 |
| Unfunded lending commitments | 140 | 213 | — | — | 353 |
| Total allowance for credit losses | $ 13,267 | $ 2,157 | $ (2,935) | $ 525 | $ 13,014 |

| | Nine Months Ended September 30, 2024 | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **Beginning Balance** | **Provision for (Reversal of) Credit Losses** | **Charge-Offs** | **Recoveries** | **Ending Balance** |
| Construction and land development | $ 316 | $ 396 | $ — | $ — | $ 712 |
| Residential real estate | 956 | (143) | (91) | 59 | 781 |
| Residential real estate multifamily | 6 | 28 | — | — | 34 |
| Commercial real estate: | | | | | |
| Owner occupied | 3,336 | (161) | (628) | 222 | 2,769 |
| Non-owner occupied | 282 | 80 | (221) | — | 141 |
| Commercial and industrial | 361 | 327 | (334) | 17 | 371 |
| Consumer | 211 | 388 | (74) | 5 | 530 |
| Lease financing receivables | 355 | 1,157 | (293) | 15 | 1,234 |
| Retained Strategic Program loans | 7,065 | 5,410 | (7,268) | 882 | 6,089 |
| Total allowance for credit losses on financing receivables | $ 12,888 | $ 7,482 | $ (8,909) | $ 1,200 | $ 12,661 |
| Unfunded lending commitments | 139 | 214 | — | — | 353 |
| Total allowance for credit losses | $ 13,027 | $ 7,696 | $ (8,909) | $ 1,200 | $ 13,014 |

| ($ in thousands) | Three Months Ended September 30, 2023 Beginning Balance | Provision for (Reversal of) Credit Losses | Charge-Offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|
| Construction and land development | $ 279 | $ 14 | $ — | $ — | $ 293 |
| Residential real estate | 708 | 223 | — | 3 | 934 |
| Residential real estate multifamily | 6 | — | — | — | 6 |
| Commercial real estate: | | | | | |
| Owner occupied | 2,968 | 362 | (31) | — | 3,299 |
| Non-owner occupied | 199 | (316) | — | 389 | 272 |
| Commercial and industrial | 287 | 151 | (107) | 18 | 349 |
| Consumer | 90 | 39 | (28) | 2 | 103 |
| Lease financing receivables | 528 | 6 | — | — | 534 |
| Retained Strategic Program loans | 7,256 | 2,431 | (2,748) | 257 | 7,196 |
| Total allowance for credit losses on financing receivables | $ 12,321 | $ 2,910 | $ (2,914) | $ 669 | $ 12,986 |
| Unfunded lending commitments | 42 | 160 | — | — | 202 |
| Total allowance for credit losses | $ 12,363 | $ 3,070 | $ (2,914) | $ 669 | $ 13,188 |

| ($ in thousands) | Nine Months Ended September 30, 2023 Beginning Balance | Impact of ASU 2016-13 Adoption | Provision for (Reversal of) Credit Losses | Charge-Offs | Recoveries | Ending Balance |
|---|---|---|---|---|---|---|
| Construction and land development | $ 424 | $ (67) | $ (64) | $ — | $ — | $ 293 |
| Residential real estate | 876 | (58) | 150 | (121) | 87 | 934 |
| Residential real estate multifamily | 3 | 1 | 2 | — | — | 6 |
| Commercial real estate: | | | | | | |
| Owner occupied | 3,030 | (533) | 955 | (153) | — | 3,299 |
| Non-owner occupied | 208 | (41) | (284) | — | 389 | 272 |
| Commercial and industrial | 339 | (85) | 265 | (191) | 21 | 349 |
| Consumer | 65 | 14 | 69 | (47) | 2 | 103 |
| Lease financing receivables | 339 | (105) | 300 | — | — | 534 |
| Retained Strategic Program loans | 6,701 | 1,131 | 6,860 | (8,289) | 793 | 7,196 |
| Total allowance for credit losses on financing receivables | $ 11,985 | $ 257 | $ 8,253 | $ (8,801) | $ 1,292 | $ 12,986 |
| Unfunded lending commitments | — | 26 | 176 | — | — | 202 |
| Total allowance for credit losses | $ 11,985 | $ 283 | $ 8,429 | $ (8,801) | $ 1,292 | $ 13,188 |

Nonaccrual and past due loans are summarized below as of September 30, 2024 and December 31, 2023:

**September 30, 2024**

| ($ in thousands) | Loans Past Due and Still Accruing: 30-89 Days Past Due | 90 Days and Greater | Total | Nonaccrual Loans with no ACL[1] | Nonaccrual Loans with ACL | Current Loans | Total Loans |
|---|---|---|---|---|---|---|---|
| Construction and land development | $ — | $ — | $ — | $ — | $ — | $ 33,903 | $ 33,903 |
| Residential real estate | 6,081 | — | 6,081 | 1,389 | — | 51,759 | 59,229 |
| Residential real estate multifamily | — | — | — | — | — | 1,504 | 1,504 |
| Commercial real estate: | | | | | | | |
| Owner occupied | 1,178 | — | 1,178 | 23,141 | 1,177 | 162,394 | 187,890 |
| Non-owner occupied | 632 | — | 632 | 3,125 | — | 9,026 | 12,783 |
| Commercial and industrial | 1,107 | — | 1,107 | 862 | — | 33,849 | 35,818 |
| Consumer | 107 | 6 | 113 | — | — | 19,037 | 19,150 |
| Commercial leases | 317 | — | 317 | 188 | — | 63,772 | 64,277 |
| Retained Strategic Program loans | 1,509 | 47 | 1,556 | — | — | 17,853 | 19,409 |
| Total | $ 10,931 | $ 53 | $ 10,984 | $ 28,705 | $ 1,177 | $ 393,097 | $ 433,963 |

[1] Included in the nonaccrual loan balances are $17.5 million of SBA 7(a) loan balances guaranteed by the SBA.

**December 31, 2023**

| ($ in thousands) | Loans Past Due and Still Accruing: 30-89 Days Past Due | 90 Days and Greater | Total | Nonaccrual Loans with no ACL[1] | Nonaccrual Loans with ACL | Current Loans | Total Loans |
|---|---|---|---|---|---|---|---|
| Construction and land development | $ 1,648 | $ 297 | $ 1,945 | $ — | $ — | $ 26,385 | $ 28,330 |
| Residential real estate | 23 | — | 23 | 1,585 | — | 49,820 | 51,428 |
| Residential real estate multifamily | — | — | — | — | — | 647 | 647 |
| Commercial real estate: | | | | | | | |
| Owner occupied | — | — | — | 21,643 | 640 | 164,267 | 186,550 |
| Non-owner occupied | — | — | — | 2,362 | — | 12,992 | 15,354 |
| Commercial and industrial | — | — | — | 282 | — | 21,117 | 21,399 |
| Consumer | 81 | 48 | 129 | — | — | 10,860 | 10,989 |
| Commercial leases | — | — | — | — | — | 38,110 | 38,110 |
| Retained Strategic Program loans | 1,953 | 96 | 2,049 | — | — | 17,359 | 19,408 |
| Total | $ 3,705 | $ 441 | $ 4,146 | $ 25,872 | $ 640 | $ 341,557 | $ 372,215 |

[1] Included in the nonaccrual loan balances are $15.0 million of SBA 7(a) loan balances guaranteed by the SBA.

There was no interest income recognized for the three and nine months ended September 30, 2024 and 2023, while loans were classified as nonaccrual.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Bank measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. Generally, collectively assessed loans are grouped by Call Report code and then risk grade grouping.

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* – A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is believed to be remote.

*Watch* – A Watch asset may be a larger loan or one that places a heavier reliance on collateral due to the relative financial strength of the borrower. The assets may be maintenance intensive requiring closer monitoring. The obligor is believed to have an adequate primary source of repayment.

*Special Mention* – 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 believes that it is currently protected against a default and loss is considered unlikely and not imminent.

*Substandard* – A Substandard asset is believed to be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have identified weaknesses and are characterized by the possibility that the Company may sustain some loss if deficiencies are not corrected.

*Not Rated* – For certain Strategic Program and consumer loans, the Company does not evaluate and risk rate the loans in the same manner as other loans in the Company's portfolio. The Not Rated loans are typically homogenous, smaller dollar balances approved using abridged underwriting methods that allow the Company to streamline the loan approval process and increase efficiency**.** Credit quality for Strategic Program loans is highly correlated with delinquency levels.

The following table presents the amortized cost of the Company's loan and lease portfolio by collateral type, risk rating and origination year as of September 30, 2024, in addition to the gross writeoff by collateral type for the nine months ended September 30, 2024. The loans are grouped based on how they are assessed under CECL.

| | **Loans and Leases Amortized Cost Basis by Origination Year** | | | | | | |
|---|---|---|---|---|---|---|---|
| **September 30, 2024** | **2024** | **2023** | **2022** | **2021** | **Prior** | **Revolving Loans** | **Total** |
| *($ in thousands)* | | | | | | | |
| **Construction and land development** | | | | | | | |
| Pass | $ 10,248 | $ 9,811 | $ 11,268 | $ 2,574 | $ 2 | $ — | $ 33,903 |
| Watch | — | — | — | — | — | — | — |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Total | 10,248 | 9,811 | 11,268 | 2,574 | 2 | — | 33,903 |
| Current period gross writeoff | — | — | — | — | — | — | — |
| **Residential real estate** | | | | | | | |
| Pass | 3,570 | 1,400 | 524 | 1,382 | 1,732 | — | 8,608 |
| Watch | 11,066 | 23,145 | 11,871 | 1,145 | 1,679 | — | 48,906 |
| Special Mention | — | — | — | 160 | 9 | — | 169 |
| Substandard | — | — | 1,351 | 38 | 157 | — | 1,546 |
| Total | 14,636 | 24,545 | 13,746 | 2,725 | 3,577 | — | 59,229 |
| Current period gross writeoff | — | — | — | (91) | — | — | (91) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Residential real estate multifamily** | | | | | | | |
| Pass | 847 | 294 | 258 | 79 | — | — | 1,478 |
| Watch | — | — | — | — | 26 | — | 26 |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Total | 847 | 294 | 258 | 79 | 26 | — | 1,504 |
| Current period gross writeoff | — | — | — | — | — | — | — |
| **Commercial real estate - owner occupied** | | | | | | | |
| Pass | 17,536 | 3,916 | 3,478 | 1,184 | 11,968 | — | 38,082 |
| Watch | 14,651 | 63,840 | 34,796 | 6,047 | 4,432 | — | 123,766 |
| Special Mention | — | — | 191 | — | 350 | — | 541 |
| Substandard | — | 16,150 | 6,611 | 1,480 | 1,260 | — | 25,501 |
| Total | 32,187 | 83,906 | 45,076 | 8,711 | 18,010 | — | 187,890 |
| Current period gross writeoff | — | (364) | (227) | (27) | (10) | — | (628) |
| **Commercial real estate - non-owner occupied** | | | | | | | |
| Pass | — | — | 1,264 | — | 354 | — | 1,618 |
| Watch | 1,000 | 4,183 | 2,510 | 1,145 | 142 | — | 8,980 |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | — | 2,185 | — | — | — | 2,185 |
| Total | 1,000 | 4,183 | 5,959 | 1,145 | 496 | — | 12,783 |
| Current period gross writeoff | — | — | (221) | — | — | — | (221) |
| **Commercial and industrial** | | | | | | | |
| Pass | 1,946 | 375 | 594 | 397 | 568 | — | 3,880 |
| Watch | 14,573 | 10,536 | 3,671 | 551 | 710 | — | 30,041 |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | 666 | 509 | 353 | — | 369 | — | 1,897 |
| Total | 17,185 | 11,420 | 4,618 | 948 | 1,647 | — | 35,818 |
| Current period gross writeoff | — | (83) | (99) | (81) | (71) | — | (334) |
| **Consumer** | | | | | | | |
| Pass | 11,738 | 5,212 | 1,440 | 378 | 331 | — | 19,099 |
| Watch | 45 | 6 | — | — | — | — | 51 |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Total | 11,783 | 5,218 | 1,440 | 378 | 331 | — | 19,150 |
| Current period gross writeoff | — | (15) | (22) | (19) | (18) | — | (74) |
| **Lease financing receivables** | | | | | | | |
| Pass | 34,350 | 24,747 | 4,840 | — | 118 | — | 64,055 |
| Watch | — | — | — | — | — | — | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | 222 | — | — | — | — | 222 |
| Total | 34,350 | 24,969 | 4,840 | — | 118 | — | 64,277 |
| Current period gross writeoff | — | (293) | — | — | — | — | (293) |
| | | | | | | | |
| **Retained Strategic Program loans** | | | | | | | |
| Pass | — | — | — | — | — | — | — |
| Watch | — | — | — | — | — | — | — |
| Special Mention | — | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — | — |
| Not Rated | 14,907 | 2,506 | 1,451 | 545 | — | — | 19,409 |
| Total | 14,907 | 2,506 | 1,451 | 545 | — | — | 19,409 |
| Current period gross writeoff | (1,852) | (4,282) | (838) | (296) | — | — | (7,268) |
| | | | | | | | |
| Total portfolio loans receivable, gross | $ 137,143 | $ 166,852 | $ 88,656 | $ 17,105 | $ 24,207 | $ — | $ 433,963 |
| Total current period gross writeoff | $ (1,852) | $ (5,037) | $ (1,407) | $ (514) | $ (99) | $ — | $ (8,909) |

The following table presents the amortized cost of the Company's loan and lease portfolio by collateral type, risk rating and origination year as of December 31, 2023, in addition to the gross writeoff by collateral type for the year ended December 31, 2023. The loans are grouped based on how they are assessed under CECL.

| | **Loans and Leases Amortized Cost Basis by Origination Year** | | | | | |
|---|---|---|---|---|---|---|
| **December 31, 2023** | **2023** | **2022** | **2021** | **Prior** | **Revolving Loans** | **Total** |
| *($ in thousands)* | | | | | | |
| **Construction and land development** | | | | | | |
| Pass | $ 12,919 | $ 10,345 | $ 4,354 | $ 97 | $ — | $ 27,715 |
| Watch | — | — | — | — | — | — |
| Special Mention | — | — | — | — | — | — |
| Substandard | — | 615 | — | — | — | 615 |
| Total | 12,919 | 10,960 | 4,354 | 97 | — | 28,330 |
| Current period gross writeoff | — | — | — | — | — | — |
| | | | | | | |
| **Residential real estate** | | | | | | |
| Pass | 2,209 | 874 | 1,480 | 2,947 | 2,249 | 9,759 |
| Watch | 23,614 | 12,399 | 1,661 | 2,035 | — | 39,709 |
| Special Mention | — | — | 208 | 11 | — | 219 |
| Substandard | — | 1,585 | — | 156 | — | 1,741 |
| Total | 25,823 | 14,858 | 3,349 | 5,149 | 2,249 | 51,428 |
| Current period gross writeoff | — | (121) | — | (104) | — | (225) |
| | | | | | | |
| **Residential real estate multifamily** | | | | | | |
| Pass | 278 | 263 | 80 | — | — | 621 |
| Watch | — | — | — | 26 | — | 26 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Special Mention | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — |
| Total | 278 | 263 | 80 | 26 | — | 647 |
| Current period gross writeoff | — | — | — | — | — | — |
| **Commercial real estate - owner occupied** | | | | | | |
| Pass | 12,566 | 1,234 | 854 | 12,207 | — | 26,861 |
| Watch | 62,360 | 53,832 | 11,871 | 7,654 | — | 135,717 |
| Special Mention | — | 192 | — | 1,498 | — | 1,690 |
| Substandard | 16,466 | 3,712 | 1,066 | 1,038 | — | 22,282 |
| Total | 91,392 | 58,970 | 13,791 | 22,397 | — | 186,550 |
| Current period gross writeoff | (318) | (21) | (97) | (278) | — | (714) |
| **Commercial real estate - non-owner occupied** | | | | | | |
| Pass | 2,805 | 1,294 | — | 419 | — | 4,518 |
| Watch | 4,382 | 2,635 | 1,223 | 234 | — | 8,474 |
| Special Mention | — | — | — | — | — | — |
| Substandard | — | 2,362 | — | — | — | 2,362 |
| Total | 7,187 | 6,291 | 1,223 | 653 | — | 15,354 |
| Current period gross writeoff | — | — | — | — | — | — |
| **Commercial and industrial** | | | | | | |
| Pass | 2,090 | 601 | 744 | 821 | 31 | 4,287 |
| Watch | 10,157 | 4,600 | 764 | 930 | — | 16,451 |
| Special Mention | — | — | — | 8 | — | 8 |
| Substandard | 260 | — | — | 393 | — | 653 |
| Total | 12,507 | 5,201 | 1,508 | 2,152 | 31 | 21,399 |
| Current period gross writeoff | (87) | (114) | (122) | (149) | — | (472) |
| **Consumer** | | | | | | |
| Pass | 7,792 | 1,975 | 637 | 558 | 2 | 10,964 |
| Watch | 24 | — | — | 1 | — | 25 |
| Special Mention | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — |
| Total | 7,816 | 1,975 | 637 | 559 | 2 | 10,989 |
| Current period gross writeoff | (3) | (5) | (53) | (7) | — | (68) |
| **Lease financing receivables** | | | | | | |
| Pass | 31,313 | 6,559 | — | 238 | — | 38,110 |
| Watch | — | — | — | — | — | — |
| Special Mention | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — |
| Total | 31,313 | 6,559 | — | 238 | — | 38,110 |
| Current period gross writeoff | — | — | — | — | — | — |
| **Retained Strategic Program loans** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Pass | — | — | — | — | — | — |
| Watch | — | — | — | — | — | — |
| Special Mention | — | — | — | — | — | — |
| Substandard | — | — | — | — | — | — |
| Not Rated | 14,506 | 3,609 | 1,292 | 1 | — | 19,408 |
| Total | 14,506 | 3,609 | 1,292 | 1 | — | 19,408 |
| Current period gross writeoff | (3,773) | (6,154) | (1,017) | (2) | — | (10,946) |
| | | | | | | |
| Total portfolio loans receivable, gross | $ 203,741 | $ 108,686 | $ 26,234 | $ 31,272 | $ 2,282 | $ 372,215 |
| Total current period gross writeoff | $ (4,181) | $ (6,415) | $ (1,289) | $ (540) | $ — | $ (12,425) |

**Modified Loans to Troubled Borrowers**

During the three and nine months ended September 30, 2024 there were two and three loan modifications to loans with borrowers experiencing financial difficulty with principal totaling $0.4 million and $0.6 million, respectively. The loan modifications deferred payments of principal and interest for six months or more. No concessions were made related to principal or interest reductions or to maturity dates on these loans. The table below reflects the current principal balance outstanding as of September 30, 2024 along with the concession granted for loans that were modified during the three and nine months ended September 30, 2024. During the three and nine months ended September 30, 2023 there were no material loan modifications.

| *($ in thousands)* | Principal deferment (Months) | Outstanding Balance | % of Total Loan Type |
|---|---|---|---|
| Commercial real estate: | | | |
| Owner occupied | 11 months | $ 243 | 0.13 % |
| Non owner occupied | 11 months | 173 | 1.35 % |
| Residential | 11 months | 156 | 0.26 % |
| Total | | $ 572 | |

**Collateral-Dependent Loans**

A collateral-dependent loan is a nonaccrual loan for which the Bank relies substantially on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with a loan, the Company considers (1) character, overall financial condition and resources, and payment record of the borrower; (2) the prospects for support from any financially responsible guarantors; and (3) the nature and degree of protection provided by the cash flow and value of any underlying collateral. The loan may become collateral-dependent when foreclosure is probable or the borrower is experiencing financial difficulty and its sources of repayment become inadequate over time. At such time, the Company develops an expectation that repayment will be provided substantially through the operation or sale of the collateral.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of the dates indicated:

| *($ in thousands)* | | Collateral Type | | |
|---|---|---|---|---|
| **As of September 30, 2024** | **Allowance for Credit Losses** | **Real Estate** | **Personal Property** | **Total** |
| Construction and land development | $ — | $ — | $ — | $ — |
| Residential real estate | — | 1,389 | — | 1,389 |
| Commercial real estate: | | | | |
| Owner occupied | 196 | 24,318 | — | 24,318 |
| Non-owner occupied | — | 3,125 | — | 3,125 |
| Commercial and industrial | — | — | 862 | 862 |
| Commercial leases | — | — | 188 | 188 |
| Total | $ 196 | $ 28,832 | $ 1,050 | $ 29,882 |

The amount of collateral-dependent loans as of September 30, 2024 include $17.5 million of SBA 7(a) loan balances that are guaranteed by the SBA.

| *($ in thousands)* | | Collateral Type | | |
|---|---|---|---|---|
| **As of December 31, 2023** | **Allowance for Credit Losses** | **Real Estate** | **Personal Property** | **Total** |
| Construction and land development | $ — | $ 615 | $ — | $ 615 |
| Residential real estate | — | 1,585 | — | 1,585 |
| Commercial real estate: | | | | |
| Owner occupied | 45 | 21,643 | — | 21,643 |
| Non-owner occupied | — | 2,362 | — | 2,362 |
| Commercial and industrial | — | — | 282 | 282 |
| Total | $ 45 | $ 26,205 | $ 282 | $ 26,487 |

The amount of collateral-dependent loans as of December 31, 2023 include $15.0 million of SBA 7(a) loan balances that are guaranteed by the SBA.

**Note 4 – SBA Servicing Asset, Net**

The Company periodically sells the guaranteed 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 $218.6 million and $275.2 million at September 30, 2024 and December 31, 2023, respectively.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *($ in thousands)* | **2024** | **2023** | **2024** | **2023** |
| Balance at beginning of period | $ 3,689 | $ 5,233 | $ 4,231 | $ 5,210 |
| Additions to servicing asset | — | — | — | 150 |
| Amortization of servicing asset | (724) | (498) | (1,792) | (1,217) |
| Change in valuation allowance | 296 | (337) | 822 | 255 |
| Balance at end of period | $ 3,261 | $ 4,398 | $ 3,261 | $ 4,398 |
| SBA servicing asset, fair value | $ 3,261 | $ 4,398 | $ 3,261 | $ 4,398 |

Activity in the valuation allowance for the SBA servicing asset was as follows for the periods indicated:

| ($ in thousands) | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Balance at beginning of period | $ (1,625) | $ (1,936) | $ (2,151) | $ (2,528) |
| Impairment | — | (337) | — | — |
| Recovery | 296 | — | 822 | 255 |
| Balance at end of period | $ (1,329) | $ (2,273) | $ (1,329) | $ (2,273) |

The fair market value of the SBA servicing asset as of September 30, 2024 and December 31, 2023, was $3.3 million and $2.1 million, respectively. Recovery or impairment 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 20.9%, weighted average term of 3.31 years, and a weighted average discount rate of 12.8% at September 30, 2024.

The Company assumed a weighted average prepayment rate of 18.2%, weighted average term of 3.72 years, and a weighted average discount rate of 15.4% at December 31, 2023.

**Note 5 – 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 September 30, 2024 and December 31, 2023, that the Bank's capital levels exceed the regulatory floors required to be classified as a well-capitalized bank.

As of September 30, 2024 and December 31, 2023, 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 amount and ratio of capital required to be categorized as well-capitalized as of the dates indicated:

| ($ in thousands) | Actual Amount | Actual Ratio | Well-Capitalized Requirement Amount | Well-Capitalized Requirement Ratio |
|---|---|---|---|---|
| **September 30, 2024** | | | | |
| Leverage ratio (CBLR election) | $ 131,295 | 20.3 % | $ 58,265 | 9.0 % |
| **December 31, 2023** | | | | |
| Leverage ratio (CBLR election) | $ 116,108 | 20.7 % | $ 50,441 | 9.0 % |

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 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. 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 does not intend 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 capital ratio requirements are met. The Company plans to maintain capital ratios that meet or exceed 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 6 – Commitments and Contingencies**

***Federal Home Loan Bank Secured Line of Credit***

As of September 30, 2024 and December 31, 2023, the Bank’s available line of credit with the FHLB to borrow in overnight funds was $25.0 million and $30.5 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 September 30, 2024 and December 31, 2023, no amounts were outstanding under the line of credit. Loans totaling $41.6 million and $46.9 million were pledged to secure the FHLB line of credit as of September 30, 2024 and December 31, 2023, respectively.

***Other Lines of Credit***

At September 30, 2024 and December 31, 2023, the Bank had the ability to access $41.9 million and $11.4 million, respectively, from the Federal Reserve Bank’s Discount Window on a collateralized basis. At September 30, 2024, the Federal Reserve Bank’s Bank Term Funding Program was no longer active. At December 31, 2023, the Bank had the ability to access $0.8 million from the Federal Reserve Bank’s Bank Term Funding Program on a collateralized basis. Through Zions Bank, the Bank had an available unsecured line of credit of $5.0 million at September 30, 2024 and December 31, 2023. The Bank had an available line of credit with Bankers’ Bank of the West to borrow up to $1.1 million in overnight funds at September 30, 2024 and December 31, 2023. The Bank had no outstanding balances on such unsecured or secured lines of credit as of September 30, 2024 and December 31, 2023.

***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. The Company’s 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 in the table below do not necessarily reflect the actual future cash funding requirements.

At September 30, 2024 and December 31, 2023, financial instruments with off-balance-sheet risk were as follows:

| *($ in thousands)* | **September 30, 2024** | **December 31, 2023** |
|---|---|---|
| Revolving, open-end lines of credit | $ 2,106 | $ 1,630 |
| Commercial real estate | 17,742 | 17,421 |
| Other unused commitments | 944 | 724 |
| | $ 20,792 | $ 19,775 |

### *Allowance for Credit Losses on Unfunded Commitments*

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelable by the Company. The allowance for credit losses on unfunded commitments is included in other liabilities on the consolidated balance sheets and is adjusted through a charge to provision for credit loss expense on the consolidated statements of income. The allowance for credit losses on unfunded commitments estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance for credit losses on unfunded commitments was $0.4 million and $0.1 million as of September 30, 2024 and December 31, 2023, respectively.

## Note 7 – 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 the Company’s common stock The exchange was accounted for at fair value based on the fair value of the Company’s shares of approximately $3.5 million. On July 25, 2023 the Company entered into a definitive agreement, as amended, to purchase from certain members of BFG an additional 10% membership interest in exchange for shares of common stock of the Company. On February 5, 2024, the transaction was consummated and the Company issued in the aggregate 339,176 shares of common stock of the Company in a private placement to the sellers in exchange for the additional membership interest in BFG. The second transaction increased the Company’s total ownership interest in BFG to 20%. The ownership interest consists of Class A Voting Units representing 4.7% of the aggregate membership interests of BFG and Class B Non-Voting Units representing 15.3% of the aggregate membership interests of BFG.

The remaining 80% of the outstanding 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.

On March 31, 2020, the Company entered into a right of first refusal and option agreement with the members of BFG whereby the Company has the right of first refusal to purchase additional interests in BFG from any selling members and the option to purchase all, but not less than all, of the interests in BFG from the remaining members. The purchase price for the remaining members’ interests is based on an earnings multiple between 10 times and 15 times BFG’s net profit for 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. The Company issued an aggregate 270,000 warrants to the BFG members as consideration for entering into the agreement. 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 was not publicly traded at that time. The resulting fair value of the warrants was $0.19 per share.

For further discussion on the Company’s investment in BFG, see Note 9 - Fair Value of Financial Instruments and 11 - Related Party Transactions.

## Note 8 – 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 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. On June 27, 2024, the shareholders of the Company approved an amendment to the 2019 Plan increasing the number of shares of common stock reserved for issuance under the plan by an additional 500,000 shares to 1,780,000. At September 30, 2024, 445,334 shares under the 2019 Plan were 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 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. No shares were granted under the 2016 Plan prior to 2018. At September 30, 2024, 2,189 shares under the 2016 Plan were available for future issuance.

The 2019 Plan and the 2016 Plan (collectively, the "Plans") provide for the issuance of non-statutory stock options and restricted stock to employees, directors and consultants. The Plans also provide for the issuance of incentive stock options only to employees. The stock-based incentive awards for the Plans are granted at an exercise price not less than the fair market value of the Company's common stock on the date of grant in the case of stock options. Restricted stock is valued based on the fair market value of the Company's common stock on the grant date. 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.

Under the 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, or 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.

***Stock-based Compensation Expense***

The following table presents stock-based compensation expense recognized:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *($ in thousands)* | **2024** | **2023** | **2024** | **2023** |
| Stock options | $ 54 | $ 129 | $ 184 | $ 366 |
| Restricted shares | 712 | 370 | 1,151 | 1,183 |
| Total | $ 766 | $ 499 | $ 1,335 | $ 1,549 |

During the three and nine months ended September 30, 2024 and the three and nine months ended September 30, 2023, the Company recognized a *de minimis* income tax benefit for stock-based compensation. As of September 30, 2024, the Company had unrecognized stock-based compensation expense related to stock options and restricted stock of approximately $0.2 million and $3.8 million, respectively, which is expected to be recognized over the remaining weighted average recognition period of 1.1 years and 3.2 years, respectively.

**Note 9 – 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. There were no transfers between fair value levels for the three and nine months ended September 30, 2024 and 2023.

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

**Investment securities available-for-sale**: Investment securities available-for-sale consist of U.S. Treasury securities and are carried at fair value. The Company estimates the fair value of investment securities available-for-sale using current active market quotes, if available, which are considered Level 1 measurements. Level 1 measurements include securities issued by the U.S. Treasury.

**Investment in BFG**: The Company's valuation technique 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 4.5% discount to non-voting shares to arrive at fair value as of September 30, 2024 and December 31, 2023. The calculation of fair value utilized significant unobservable inputs, including projected cash flows, growth rates, and discount rates. See Note 6 - Commitments and Contingencies and Note 11 - Related Party Transactions for more information.

The table below presents the Company's financial instruments valued on a recurring basis at the dates indicated:

| | | September 30, 2024 | December 31, 2023 |
|---|---|---|---|
| *($ in thousands)* | **Level** | **Estimated Fair Value** | **Estimated Fair Value** |
| Financial assets: | | | |
| Investment securities available-for-sale | 1 | $ 30,472 | $ — |
| Investment in BFG | 3 | $ 7,900 | $ 4,200 |

The table below presents a reconciliation of our investment in BFG classified as a Level 3 financial instrument and measured at fair value on a recurring basis for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *($ in thousands)* | **2024** | **2023** | **2024** | **2023** |
| Beginning balance | $ 8,000 | $ 4,500 | $ 4,200 | $ 4,800 |
| Purchase of BFG ownership interest | — | — | 4,125 | — |
| Change in fair value of BFG | (100) | (500) | (425) | (800) |
| Ending balance | $ 7,900 | $ 4,000 | $ 7,900 | $ 4,000 |

The table below presents the Company's financial instruments valued on a nonrecurring basis at the dates indicated:

| *($ in thousands)* | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Description of Financial Instrument** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| **September 30, 2024** | | | | |
| Nonrecurring assets: | | | | |
| Individually evaluated loans | $ 29,882 | $ — | $ — | $ 29,882 |
| **December 31, 2023** | | | | |
| Nonrecurring assets: | | | | |
| Individually evaluated loans | $ 27,127 | $ — | $ — | $ 27,127 |

**Individually evaluated loans** – The loan amount above represents loans individually evaluated that have been adjusted to the lower of cost or fair value. When collateral-dependent loans are individually evaluated, they are 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, if any, represents charge-offs on loans when the fair value of the collateral is less than the carrying amount of the loan.

**Quantitative information for Level 3 fair value measurements** – The following table presents information about quantitative inputs and assumptions used to fair value Level 3 nonrecurring assets as of September 30, 2024 and December 31, 2023:

| *($ in thousands)* | **Fair Value** | **Valuation Technique** | **Unobservable Input** | **Range (Weighted Average)** |
|---|---|---|---|---|
| **September 30, 2024** | | | | |
| Individually evaluated loans | $ 29,882 | Market comparable | Discount to appraisal value for estimated selling costs | 11.40 % |
| **December 31, 2023** | | | | |
| Individually evaluated loans | $ 27,127 | Market comparable | Discount to appraisal value for estimated selling costs | 7.57 % |

The range and weighted average of the significant unobservable inputs used to fair value the investment in BFG as of September 30, 2024 and as of December 31, 2023 are shown in the following table:

| *($ in thousands)* | **September 30, 2024 Range (Weighted Average)** | **December 31, 2023 Range (Weighted Average)** |
|---|---|---|
| **Discounted Cash Flows** | | |
| Revenue growth rate | 12.7 % | 11.0 % |
| Expense growth rate | 13.9 % | 13.4 % |
| Discount rate | 25.0 % | 20.0 % |
| | | |
| **Guideline Public Company** | | |
| Multiples of enterprise value | 4.0x to 5.3x | 3.5x to 5.5x |

The tables below present the carrying amount and estimated fair value of the Company's financial instruments at the dates indicated:

| | September 30, 2024 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurements Using | | |
| ($ in thousands) | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | $ 85,768 | $ 85,768 | $ 85,768 | $ — | $ — |
| Investment securities available-for-sale | 30,472 | 30,472 | 30,472 | — | — |
| Investment securities held-to-maturity | 13,270 | 12,182 | — | 12,182 | — |
| Investment in FHLB stock | 349 | 349 | — | 349 | — |
| Loans held for investment, net | 418,065 | 412,316 | — | — | 412,316 |
| Strategic Program loans held-for-sale | 84,000 | 84,000 | — | 84,000 | — |
| Accrued interest receivable | 3,098 | 3,098 | — | 3,098 | — |
| SBA servicing asset, net | 3,261 | 3,261 | — | 3,261 | — |
| Investment in BFG | 7,900 | 7,900 | — | — | 7,900 |
| **Financial liabilities:** | | | | | |
| Total deposits | $ 488,659 | $ 476,596 | $ — | $ 476,596 | $ — |
| Accrued interest payable | 647 | 647 | — | 647 | — |
| PPPLF | 106 | 106 | — | 106 | — |

| | December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurements Using | | |
| ($ in thousands) | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets** | | | | | |
| Cash and cash equivalents | $ 116,975 | $ 116,975 | $ 116,975 | $ — | $ — |
| Investment securities held-to-maturity | 15,388 | 13,809 | — | 13,809 | — |
| Investment in FHLB stock | 238 | 238 | — | 238 | — |
| Loans held for investment, net | 358,560 | 360,032 | — | — | 360,032 |
| Strategic Program loans held-for-sale | 47,514 | 47,509 | — | 47,509 | — |
| Accrued interest receivable | 3,573 | 3,573 | — | 3,573 | — |
| SBA servicing asset, net | 4,231 | 4,231 | — | 4,231 | — |
| Investment in BFG | 4,200 | 4,200 | — | — | 4,200 |
| **Financial liabilities:** | | | | | |
| Total deposits | $ 404,833 | $ 394,195 | $ — | $ 394,195 | $ — |
| Accrued interest payable | 619 | 619 | — | 619 | — |
| PPPLF | 190 | 190 | — | 190 | — |

**Note 10 – Income Taxes**

For the three months ended September 30, 2024 and 2023, income tax expense was $1.2 million and $1.7 million, respectively, resulting in an effective income tax rate of 25.1% and 26.1%, respectively. For the nine months ended September 30, 2024 and 2023, income tax expense was $3.3 million and $4.7 million, respectively, resulting in an effective income tax rate of 25.2% and 26.1%, respectively. The effective tax rate differs from the statutory rate of 21.0% during the three and nine months ended September 30, 2024 due primarily to the resolution of state tax matters, and the effects of state income taxes and stock-based compensation. The effective tax rate differs from the statutory rate of 21.0% during the three and nine months ended September 30, 2023 due primarily to the effects of state income taxes, stock-based compensation and nondeductible compensation.

**Note 11 – Related Party Transactions**

In the ordinary course of business, the Bank may grant loans to certain executive officers and directors and the companies with which they are associated. The Company had *de minimis* loans outstanding to related parties as of September 30, 2024 and December 31, 2023. Total deposits from certain executive officers and directors and the companies with which they are associated were $1.9 million and $1.5 million as of September 30, 2024 and December 31, 2023, respectively.

BFG is a small business loan broker, primarily under the SBA's 7(a) loan program. As noted in Note 7 - Investment in Business Funding Group, the Company has a 20% 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. The Company paid commission fees to BFG in the amounts of $0.7 million and $1.5 million for the three months ended September 30, 2024 and 2023, respectively, and $1.7 million and $4.0 million for the nine months ended September 30, 2024 and 2023, respectively. The Company received distributions from BFG in the amounts of $0.2 million and $0.2 million for the three months ended September 30, 2024 and 2023, respectively, and $0.5 million and $0.5 million for the nine months ended September 30, 2024 and 2023, respectively. These distributions were recorded in the consolidated statements of income in other miscellaneous income.

**Note 12 – Earnings per Share**

The following table is a reconciliation of the components used to derive basic and diluted earnings per share for the three and nine months ended September 30, 2024 and 2023 (in thousands, except share and per share amounts):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2024** | **2023** | **2024** | **2023** |
| **Numerator:** | | | | |
| Net income | $ 3,454 | $ 4,804 | $ 9,949 | $ 13,303 |
| Amount allocated to participating common shareholders[1] | (143) | (89) | (267) | (209) |
| Net income allocated to common shareholders | $ 3,311 | $ 4,715 | $ 9,682 | $ 13,094 |
| **Denominator:** | | | | |
| Weighted average shares outstanding, basic | 12,658,557 | 12,387,392 | 12,596,496 | 12,565,218 |
| Weighted average effect of dilutive securities: | | | | |
| Stock options | 472,132 | 403,012 | 458,391 | 374,092 |
| Warrants | 127,146 | 77,803 | 112,428 | 69,523 |
| Weighted average shares outstanding, diluted | 13,257,835 | 12,868,207 | 13,167,315 | 13,008,833 |
| **Earnings per share, basic** | $ 0.26 | $ 0.38 | $ 0.77 | $ 1.04 |
| **Earnings per share, diluted** | $ 0.25 | $ 0.37 | $ 0.74 | $ 1.01 |
| | | | | |
| Anti-dilutive stock options excluded from the calculation of diluted earnings per share | 64,686 | 116,135 | 91,629 | 605,896 |

[1] Represents earnings attributable to holders of unvested restricted stock issued to the Company's directors and employees.

**Note 13 – Subsequent Events**

Subsequent to September 30, 2024, ten loans with aggregate outstanding principal of $7.7 million were placed into nonaccrual status. $2.5 million of the outstanding principal is guaranteed by the SBA. The loans were accruing interest and categorized as 30-89 days past due at September 30, 2024 (see Note 3 – Loans Held for Investment and Allowance for Credit Losses). The pledge of other collateral also secures each of these loans.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated and should be read together with our consolidated financial statements and related notes thereto and the 2023 Form 10-K. 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 2023 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 material business operations through our wholly owned subsidiary, FinWise Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level.*

### Critical Accounting Estimates

The accompanying management's discussion and analysis of financial condition and results of operations is based upon our unaudited consolidated financial statements included in Part I, Item 1 of this Report. The preparation of these unaudited consolidated 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.

Our critical accounting estimates primarily relate to the allowance for credit losses, stock-based compensation and income taxes. See Note 1 - Summary of Significant Accounting Policies to the consolidated financial statements included in Part II, Item 8 in our 2023 Form 10-K for information on our critical accounting policies related to these critical accounting estimates.

There have been no material changes during the nine months ended September 30, 2024 to the methods we used and judgments we made relating to critical accounting estimates from those disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2023 Form 10-K.

### Business Overview

FinWise Bancorp is a Utah corporation and the parent company of FinWise Bank and FinWise Investment, LLC. Our assets consist primarily of our investment in the Bank and all of our material business activities are conducted through the Bank.

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, demand deposits sourced through Lively, Inc., Institutional Deposit exchanges, and brokered deposit arrangements. 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.

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. 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 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 financial condition and results of operations depend primarily on our ability to originate loans using our strategic relationships with third-party loan origination platforms to earn interest and non-interest income. We focus on four main lending areas: (i) SBA 7(a) loans, (ii) Strategic Programs, (iii) residential and commercial real estate and (iv) commercial leasing. For a description and analysis of our loan categories, see "Financial Condition."

**Executive Summary**

This executive summary provides certain 2024 and 2023 financial highlights from the discussion and analysis that follows:

- For the three months ended September 30, 2024, originations increased to $1.4 billion from $1.1 billion when compared to the three months ended September 30, 2023. For the nine months ended September 30, 2024, originations increased to $3.7 billion from $3.1 billion when compared to the nine months ended September 30, 2023. New Strategic Programs and organic growth through existing programs contributed to the increase in loan originations for both comparative periods.

- Net interest margin ("NIM") was 9.70% for the three months ended September 30, 2024, compared to 11.77% for the three months ended September 30, 2023. NIM was 10.05% for the nine months ended September 30, 2024, compared to 12.11% for the nine months ended September 30, 2023. NIM is impacted by income earned from interest-earning assets and interest costs incurred on interest-bearing liabilities. NIM decreased in both periods principally as a result of FinWise having diversified its revenue sources by lending to lower risk borrowers with lower yields on loans.

- FinWise generated $3.5 million and $4.8 million of net income for the three months ended September 30, 2024 and 2023, respectively, and $9.9 million and $13.3 million for the nine months ended September 30, 2024 and 2023, respectively. Net income declined in both comparative periods as FinWise invested in expansion of its product offerings and supporting business infrastructure.

- Total assets increased by $96.8 million to $683.0 million as of September 30, 2024 compared to December 31, 2023, principally in loans and investment securities. We believe our strong capital levels support our current and planned growth strategy.

*Strategic Program Service Providers*

During the nine months ended September 30, 2024, we entered into the following new strategic program relationships:

- We enhanced our portfolio of private student loan products through our new strategic lending program with Earnest, to help students and their families with education financing.

- We announced our first strategic payments program with Hank Payments Corp. to offer modernized payments and cash management solutions to our customers.

- We announced our new strategic lending program with Plannery to offer a debt consolidation platform exclusively for healthcare professionals.

- We announced the launch of a new strategic lending program with PowerPay to offer consumers a simple and affordable lending solution for home improvement and elective health care purchases.

We have introduced our Payments (MoneyRails™) and Bank Identification Number ("BIN") Sponsorship products which, together with our Strategic Programs, comprise the Bank's Fintech Banking & Payment Solutions offerings. Payments (MoneyRails™) and BIN Sponsorship connect our customers to the Bank's API-driven banking services ledger. Payments (MoneyRails™) and BIN Sponsorship remain under development.

## Results of Operations

*Net Income Overview*

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|---|
| *($ in thousands)* | 2024 | 2023 | % Change | 2024 | 2023 | % Change |
| Interest income | $ 18,924 | $ 17,212 | 9.9 % | $ 54,991 | $ 46,482 | 18.3 % |
| Interest expense | (4,161) | (2,801) | 48.6 % | (11,607) | (6,290) | 84.5 % |
| Net interest income | 14,763 | 14,411 | 2.4 % | 43,384 | 40,192 | 7.9 % |
| Provision for credit losses | (2,157) | (3,070) | (29.7)% | (7,696) | (8,429) | (8.7)% |
| Non-interest income | 6,054 | 4,892 | 23.8 % | 16,882 | 15,299 | 10.3 % |
| Non-interest expense | (14,049) | (9,733) | 44.3 % | (39,272) | (29,061) | 35.1 % |
| Provision for income taxes | (1,157) | (1,696) | (31.8)% | (3,349) | (4,698) | (28.7)% |
| Net income | $ 3,454 | $ 4,804 | (28.1)% | $ 9,949 | $ 13,303 | (25.2)% |

*Net Interest Income and NIM*

Net interest income was the primary contributor to our earnings in 2024 and 2023. 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.”

Net interest income increased for the three months ended September 30, 2024, compared to the same period in 2023 primarily due to increases in the average balances of our loans held-for-sale and loans held for investment portfolios, partially offset by yield decreases on those same portfolios as well as increased rates and volumes on the certificate of deposit balances. Net interest income for the three months ended September 30, 2024, includes a $0.5 million one-time decrease for accrued interest not previously reversed at the time loans were deemed nonperforming. NIM decreased to 9.70% for the three months ended September 30, 2024 from 11.77% for the three months ended September 30, 2023 primarily from our strategy to reduce average credit risk in the loan portfolio by increasing our investment in higher quality but lower yielding loans combined with the increased cost of funds as the Bank competed in the national deposit market for funds to support our asset growth.

Net interest income increased for the nine months ended September 30, 2024, compared to the same period in 2023, primarily due to volume increases in the loans held for investment and loans held-for-sale portfolios and was partially offset by increased volume and rate in the certificates of deposit portfolio which also contributed to the increase in our cost of funds. NIM decreased to 10.05% for the nine months ended September 30, 2024 from 12.11% for the nine months ended September 30, 2023 primarily from our strategy to reduce average credit risk in the loan portfolio combined with the increased cost of funds as the Bank competed in the national deposit market for funds to support our asset growth. Also contributing to the decrease in NIM was the previously described one-time decrease in net interest income.

*Average Balances and Yields.* The following tables present average balances for assets and liabilities, the total dollar amounts of interest income from interest-earning assets, the total dollar amounts of interest expense on interest-bearing liabilities, the resulting average yields and costs, and NIM. The yields and costs for the periods indicated are derived by dividing the annualized income or expense by the average balances for assets or liabilities, respectively, for the periods presented. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yield/rates. Average balances have been calculated using daily averages.

| ($ in thousands) | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits | $ 78,967 | $ 1,036 | 5.22 % | $ 116,179 | $ 1,569 | 5.36 % |
| Investment securities | 33,615 | 298 | 3.53 % | 14,958 | 88 | 2.34 % |
| Loans held-for-sale | 70,123 | 4,913 | 27.87 % | 38,410 | 3,823 | 39.49 % |
| Loans held for investment[1] | 422,820 | 12,677 | 11.93 % | 316,220 | 11,732 | 14.72 % |
| Total interest-earning assets | 605,525 | 18,924 | 12.43 % | 485,767 | 17,212 | 14.06 % |
| Noninterest-earning assets | 56,290 | | | 27,240 | | |
| Total assets | $ 661,815 | | | $ 513,007 | | |
| Interest-bearing liabilities: | | | | | | |
| Demand | $ 55,562 | $ 547 | 3.92 % | $ 48,303 | $ 483 | 3.96 % |
| Savings | 9,538 | 18 | 0.76 % | 9,079 | 17 | 0.74 % |
| Money market accounts | 13,590 | 127 | 3.72 % | 15,140 | 142 | 3.73 % |
| Certificates of deposit | 262,537 | 3,469 | 5.26 % | 183,273 | 2,159 | 4.67 % |
| Total deposits | 341,227 | 4,161 | 4.85 % | 255,795 | 2,801 | 4.34 % |
| Other borrowings | 112 | — | 0.35 % | 235 | — | 0.35 % |
| Total interest-bearing liabilities | 341,339 | 4,161 | 4.85 % | 256,030 | 2,801 | 4.34 % |
| Noninterest-bearing deposits | 127,561 | | | 92,077 | | |
| Noninterest-bearing liabilities | 25,536 | | | 16,299 | | |
| Shareholders' equity | 167,379 | | | 148,601 | | |
| Total liabilities and shareholders' equity | $ 661,815 | | | $ 513,007 | | |
| Net interest income and interest rate spread[2] | | $ 14,763 | 7.58 % | | $ 14,411 | 9.72 % |
| Net interest margin[3] | | | 9.70 % | | | 11.77 % |
| Ratio of average interest-earning assets to average interest- bearing liabilities | | | 177.40 % | | | 189.73 % |

| ($ in thousands) | Nine Months Ended September 30, 2024 Average Balance | 2024 Interest | 2024 Average Yield/Cost | 2023 Average Balance | 2023 Interest | 2023 Average Yield/Cost |
|---|---|---|---|---|---|---|
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits | $ 98,741 | $ 3,989 | 5.40 % | $ 105,948 | $ 3,993 | 5.04 % |
| Investment securities | 21,144 | 496 | 3.13 % | 14,415 | 237 | 2.20 % |
| Loans held-for-sale | 55,946 | 12,659 | 30.22 % | 36,974 | 10,744 | 38.85 % |
| Loans held for investment[1] | 400,983 | 37,847 | 12.61 % | 286,302 | 31,508 | 14.71 % |
| Total interest-earning assets | 576,814 | 54,991 | 12.73 % | 443,639 | 46,482 | 14.01 % |
| Noninterest-earning assets | 48,534 | | | 24,287 | | |
| Total assets | $ 625,348 | | | $ 467,926 | | |
| Interest-bearing liabilities: | | | | | | |
| Demand | $ 59,993 | $ 1,491 | 3.32 % | $ 44,669 | $ 1,294 | 3.87 % |
| Savings | 9,702 | 56 | 0.78 % | 8,245 | 37 | 0.61 % |
| Money market accounts | 11,128 | 305 | 3.66 % | 13,748 | 310 | 3.01 % |
| Certificates of deposit | 251,127 | 9,755 | 5.19 % | 146,914 | 4,648 | 4.23 % |
| Total deposits | 331,950 | 11,607 | 4.67 % | 213,576 | 6,289 | 3.94 % |
| Other borrowings | 142 | — | 0.35 % | 266 | 1 | 0.35 % |
| Total interest-bearing liabilities | 332,092 | 11,607 | 4.67 % | 213,842 | 6,290 | 3.93 % |
| Noninterest-bearing deposits | 103,669 | | | 93,247 | | |
| Noninterest-bearing liabilities | 26,265 | | | 15,687 | | |
| Shareholders' equity | 163,322 | | | 145,150 | | |
| Total liabilities and shareholders' equity | $ 625,348 | | | $ 467,926 | | |
| Net interest income and interest rate spread[2] | | $ 43,384 | 8.06 % | | $ 40,192 | 10.08 % |
| Net interest margin[3] | | | 10.05 % | | | 12.11 % |
| Ratio of average interest-earning assets to average interest- bearing liabilities | | | 173.69 % | | | 207.46 % |

[1] Loans placed on nonaccrual status are included in loan balances.
[2] Interest spread is the weighted average yield on interest-earning assets, less the weighted average rate incurred on interest-bearing liabilities.
[3] Net interest margin is net interest income, expressed as a percentage of average earning assets.

*Rate/Volume Analysis.* The following table sets forth the effects of changing rates and volumes on our net interest income based on average balances. The rate column shows the effects attributable to changes in average rate. The volume column shows the effects attributable to changes in average volume. For purposes of this table, changes attributable to changes in both average rate and average 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 September 30, 2024 vs 2023 Increase (Decrease) Due to Change in: Rate | Volume | Total | Nine Months Ended September 30, 2024 vs 2023 Increase (Decrease) Due to Change in: Rate | Volume | Total |
|---|---|---|---|---|---|---|
| Interest income: | | | | | | |
| Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks | $ (40) | $ (493) | $ (533) | $ (99) | $ 95 | $ (4) |
| Investment securities | 61 | 149 | 210 | 123 | 136 | 259 |
| Loans held-for-sale | (603) | 1,693 | 1,090 | (1,460) | 3,375 | 1,915 |
| Loans held for investment | (1,216) | 2,161 | 945 | (3,525) | 9,864 | 6,339 |
| Total interest income | (1,798) | 3,510 | 1,712 | (4,961) | 13,470 | 8,509 |
| Interest expense: | | | | | | |
| Demand | (5) | 69 | 64 | (141) | 338 | 197 |
| Savings | — | 1 | 1 | 12 | 7 | 19 |
| Money market accounts | — | (15) | (15) | (42) | 37 | (5) |
| Certificates of deposit | 293 | 1,017 | 1,310 | 1,236 | 3,870 | 5,106 |
| Total interest-bearing liabilities | 288 | 1,072 | 1,360 | 1,065 | 4,252 | 5,317 |
| Change in net interest income | $ (2,086) | $ 2,438 | $ 352 | $ (6,026) | $ 9,218 | $ 3,192 |

*Provision for Credit Losses*

The decrease in our provision for credit losses for the three and nine months ended September 30, 2024, compared to the same periods in 2023, was primarily related to our periodic assessment of the qualitative factors resulting in the removal of the qualitative factor related to COVID, and modestly lower net charge-offs, partially offset by an increase in other qualitative factors.

*Non-interest Income*

The following tables present, for the periods indicated, the major categories of non-interest income:

| ($ in thousands) | Three Months Ended September 30, 2024 | 2023 | Change $ | % |
|---|---|---|---|---|
| Non-interest income: | | | | |
| Strategic Program fees | $ 4,862 | $ 3,945 | $ 917 | 23.2 % |
| Gain on sale of loans | 393 | 357 | 36 | 10.1 % |
| SBA loan servicing fees, net | 87 | (138) | 225 | 163.0 % |
| Change in fair value on investment in BFG | (100) | (500) | 400 | (80.0 %) |
| Other miscellaneous income | 812 | 1,228 | (416) | (33.9 %) |
| Total non-interest income | $ 6,054 | $ 4,892 | $ 1,162 | 23.8 % |

The increase in total non-interest income for the three months ended September 30, 2024, compared to the same period in 2023 was primarily due to increased fees associated with the higher origination volume of Strategic Program loans, partially offset by a decrease in other miscellaneous income related to a $0.6 million gain on the resolution of a forbearance agreement in our SBA lending program recognized in the third quarter of 2023.

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *($ in thousands)* | 2024 | 2023 | $ | % |
| Non-interest income: | | | | |
| Strategic Program fees | $ 12,862 | $ 11,684 | $ 1,178 | 10.1 % |
| Gain on sale of loans | 1,164 | 1,244 | (80) | (6.5 %) |
| SBA loan servicing fees, net | 957 | 1,271 | (314) | (24.7 %) |
| Change in fair value on investment in BFG | (425) | (800) | 375 | (46.8 %) |
| Other miscellaneous income | 2,324 | 1,900 | 424 | 22.3 % |
| Total non-interest income | $ 16,882 | $ 15,299 | 1,583 | 10.3 % |

The increase in total non-interest income for the nine months ended September 30, 2024, compared to the same period in 2023, was primarily due to increased fees associated with the higher origination volume of Strategic Program loans and increased rental income on our commercial operating leases, which is included in other miscellaneous income.

*Non-interest Expense*

The following tables present, for the periods indicated, the major categories of non-interest expense:

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *($ in thousands)* | 2024 | 2023 | $ | % |
| Non-interest expense: | | | | |
| Salaries and employee benefits | $ 9,659 | $ 6,416 | $ 3,243 | 50.5 % |
| Professional services | 1,331 | 750 | 581 | 77.5 % |
| Occupancy and equipment expenses | 1,046 | 958 | 88 | 9.2 % |
| Other operating expenses | 2,013 | 1,609 | 404 | 25.1 % |
| Total non-interest expense | $ 14,049 | $ 9,733 | $ 4,316 | 44.3 % |

The increase in total non-interest expense for the three months ended September 30, 2024, compared to the same period in 2023, was primarily due to an increase in salaries and employee benefits due mainly to an increase in the number of employees, a catch-up in bonus accrual expense of $0.4 million to reflect updated performance award estimates, and amortization of the 2024 deferred compensation awards totaling $0.6 million. Increases in professional services were mainly attributable to increased contract expenses of $0.5 million and increases in other operating expenses related to data processing costs of $0.3 million to support the growth in our business infrastructure.

| | Nine Months Ended September 30, | | Change | |
|---|---|---|---|---|
| *($ in thousands)* | 2024 | 2023 | $ | % |
| Non-interest expense: | | | | |
| Salaries and employee benefits | $ 25,830 | $ 18,354 | $ 7,476 | 40.7 % |
| Professional services | 4,180 | 3,529 | 651 | 18.4 % |
| Occupancy and equipment expenses | 3,147 | 2,388 | 759 | 31.8 % |
| Other operating expenses | 6,115 | 4,790 | 1,325 | 27.7 % |
| Total non-interest expense | $ 39,272 | $ 29,061 | $ 10,211 | 35.1 % |

The increase in total non-interest expense for the nine months ended September 30, 2024, compared to the same period in 2023, was primarily due to an increase in salaries and employee benefits due mainly to an increase in the number of employees, the aforementioned bonus accrual catch-up of $0.4 million, and amortization of the 2024 deferred compensation awards totaling $0.8 million. Increases in occupancy and equipment expense totaling $0.6 million resulted primarily from an increase in depreciation on operating lease equipment while increases in professional fees totaling $0.6 million resulted primarily from an increase in audit fees and contract services. The increase in other operating expenses was primarily driven by increases in data processing costs of $0.4 million, SBA program fees and underwriting related to SBA loans of $0.4 million, and a charge related to potential bad debt expense on our program receivables of $0.4 million.

*Provision for Income Taxes*

Our provision for income taxes for the three and nine months ended September 30, 2024 and 2023 resulted in an effective income tax rate of 25.1%, 26.1%, 25.2% and 26.1%, respectively. The effective tax rate differed from the federal statutory rate of 21.0% for the three and nine months ended September 30, 2024 due primarily to the resolution of state tax matters, the effects of state taxes and the tax effect of stock-based compensation. The effective tax rate differed from the federal statutory rate of 21.0% for the three and nine months ended September 30, 2023 primarily due to the effects of state income taxes, the tax effect of stock-based compensation and nondeductible compensation related to Section 162(m) of the Internal Revenue Code.

*Net Income*

The changes in net income for the three and nine months ended September 30, 2024, compared to the same periods in 2023, were primarily the result of the factors discussed above.

**Financial Condition**

The following table summarizes selected components of our consolidated balance sheets as of September 30, 2024 and December 31, 2023.

| | As of | | Change | |
|---|---|---|---|---|
| *($ in thousands)* | **September 30, 2024** | **December 31, 2023** | **$** | **%** |
| Interest-bearing deposits in other banks | $ 78,063 | $ 116,564 | $ (38,501) | (33.0)% |
| Investment securities available-for-sale, at fair value | 30,472 | — | 30,472 | 100.0 % |
| Investment securities held-to-maturity, net | 13,270 | 15,388 | (2,118) | (13.8)% |
| Loans held for investment, net | 418,065 | 358,560 | 59,505 | 16.6 % |
| Total assets | 683,031 | 586,221 | 96,810 | 16.5 % |
| Deposits | 488,659 | 404,833 | 83,826 | 20.7 % |
| Total liabilities | 512,661 | 431,165 | 81,496 | 18.9 % |
| Total shareholders' equity | 170,370 | 155,056 | 15,314 | 9.9 % |
| Total equity to total assets | 24.9 % | 26.5 % | | (5.7)% |

*Interest-Bearing Deposits in Other Banks*

The decrease in interest-bearing deposits in other banks from December 31, 2023 to September 30, 2024, was primarily due to the purchase of the investment securities available-for-sale. Aside from minimal balances held with our correspondent banks, the majority of our interest-bearing deposits are at 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 our 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.

The following table summarizes the weighted-average yields of our investment securities at September 30, 2024. The weighted average yield of investment securities was calculated using the sum of all interest that the investments generate, divided by the average book value. There are no tax-exempt securities.

| | 1 Year or Less | 1 - 5 Years | 5 - 10 Years | Over 10 Years | Total |
|---|---|---|---|---|---|
| Securities available-for-sale: | | | | | |
| U.S. Treasuries | 4.68 % | 4.19 % | — % | — % | 4.23 % |
| | | | | | |
| Securities held-to-maturity: | | | | | |
| Mortgage-backed securities | — % | — % | 2.25 % | 1.73 % | 1.87 % |
| Collateralized mortgage obligations | — % | — % | 3.15 % | 3.07 % | 3.08 % |
| Total | 4.68 % | 4.19 % | 2.52 % | 2.52 % | 3.70 % |

There were no calls, sales or maturities of securities during the nine months ended September 30, 2024 and 2023.

At September 30, 2024, we had a total of seventeen securities in an unrealized loss position, consisting of eight collateralized mortgage obligations and nine mortgage-backed securities. At December 31, 2023, we had a total of nineteen securities in an unrealized loss position, consisting of nine collateralized mortgage obligations and ten mortgage-backed securities.

*Loan Portfolio Program Summary*

The following table summarizes our gross loan portfolio held for investment by loan program as of the dates indicated:

| | As of September 30, 2024 | | As of December 31, 2023 | |
|---|---|---|---|---|
| *($ in thousands)* | Amount | % of total loans | Amount | % of total loans |
| SBA[1] | $ 251,439 | 57.9 % | $ 239,922 | 64.5 % |
| Commercial leases | 64,277 | 14.8 % | 38,110 | 10.2 % |
| Commercial, non-real estate | 3,025 | 0.7 % | 2,457 | 0.7 % |
| Residential real estate | 41,391 | 9.5 % | 38,123 | 10.2 % |
| Strategic Program loans | 19,409 | 4.5 % | 19,408 | 5.2 % |
| Commercial real estate: | | | | |
| Owner occupied | 32,480 | 7.5 % | 20,798 | 5.6 % |
| Non-owner occupied | 2,736 | 0.7 % | 2,025 | 0.5 % |
| Consumer | 19,206 | 4.4 % | 11,372 | 3.1 % |
| Total loans held for investment, gross | $ 433,963 | 100.0 % | $ 372,215 | 100.0 % |

[1] SBA loans as of September 30, 2024 and December 31, 2023 include $154.5 million and $131.7 million, respectively, of SBA 7(a) loan balances that are guaranteed by the SBA.

We manage our loan portfolio based on factors that include concentrations per loan program and aggregated portfolio, industry of operation 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 products. 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 Loans*

We originate and service loans partially guaranteed by the SBA under its Section 7(a) loan program for small businesses and professionals throughout the USA. Through our diversification efforts, we have built an SBA 7(a) portfolio that we believe positions us to better withstand economic shifts. For example, we focus on industries such as non-store retailers (e-commerce), ambulatory healthcare services, professional, scientific and technical services (including law firms), and merchant wholesalers.

As of September 30, 2024 and December 31, 2023, we had total SBA 7(a) loans of $251.4 million and $239.9 million, respectively, representing 57.9% and 64.5% of our total loans held for investment, 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 retaining a larger amount of the guaranteed portion of these loans. In light of suppressed gain-on-sale premiums and increasing variable loan rates during 2023, we retained on our balance sheet a greater percentage of the guaranteed portion of certain SBA loans that we originated than we have historically, which we believe will benefit us through stronger government guaranteed held for investment loan growth and an increased recurring stream of interest income and partially offset the decline in gain-on-sale revenue.

*Commercial leases*

As of September 30, 2024 and December 31, 2023, we had total commercial leases of $64.3 million and $38.1 million, respectively, representing 14.8% and 10.2% of our total loans held for investment, respectively. Underwriting for smaller credit requests from customers is generally based on an internal credit scorecard, incorporating several customer and structure attributes including: severity and aging of delinquency; number of credit inquiries; LTV ratio; term; and payment-to-income ratio. We periodically update our underwriting scorecard, which can have an impact on our credit tier scoring. Underwriting for larger credit requests from customers is generally based on commercial credit metrics where the primary repayment source considered 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 also considerations. These leases are generally secured by liens on business assets leased or purchased with Company funds. Historically, we have retained these leases on our balance sheet for investment; however, we may sell leases to certain purchasers from time to time.

*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 September 30, 2024 and December 31, 2023, we had total commercial non-real estate loans of $3.0 million and $2.5 million, respectively, representing 0.7% and 0.7% of our total loans held for investment, respectively. Any loan, lease, 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 September 30, 2024 and December 31, 2023, we had total residential real estate loans of $41.4 million and $38.1 million, respectively, representing 9.5% and 10.2% of our total loans held for investment, 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 and secured consumer and business loans to borrowers within certain approved credit profiles. Although we have generally sold most of these loans, we may choose to hold more of the funded loans and/or receivables based on a number of factors including the amount of our available capital. As of September 30, 2024 and December 31, 2023, we had total Strategic Program loans held for investment of $19.4 million and $19.4 million, respectively, representing 4.5% and 5.2% of our total loans held for investment, respectively. Loans originated through these programs are limited to predetermined Bank underwriting criteria, which has been approved by our board of directors. The primary form of repayment on these loans is from personal or business cash flow. Secured loans are secured by liens on consumer or business assets, as applicable. 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 generally 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 proprietors, partnerships, corporations, or other business enterprises for commercial, industrial, agricultural, or professional purposes, secured by real estate, but not for personal expenditure purposes. As of September 30, 2024 and December 31, 2023, we had total commercial real estate loans of $35.2 million and $22.8 million, respectively, representing 8.1% and 6.1% of our total loans held for investment, respectively. Of these amounts, $32.5 million and $20.8 million represented owner occupied properties as of September 30, 2024 and December 31, 2023, 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 September 30, 2024 and December 31, 2023, we had total consumer loans of $19.2 million and $11.4 million, respectively, representing 4.4% and 3.1% of our total loans held for investment, 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 ("UCC") financing form. Historically, we have retained these loans on our balance sheet for investment.

*Loan Maturity*

The following table details the contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and variable rates in each maturity range as of September 30, 2024:

| **As of September 30, 2024** | **Remaining Contractual Maturity Held for Investment** | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **One Year or Less** | **After One Year and Through Five Years** | **After Five Years and Through Fifteen Years** | **After Fifteen Years** | **Total** |
| **Fixed rate loans:** | | | | | |
| SBA | $ 452 | $ 743 | $ 1,762 | $ 1,132 | $ 4,089 |
| Commercial leases | 16,911 | 45,126 | 2,240 | — | 64,277 |
| Commercial, non-real estate | 687 | 1,926 | 412 | — | 3,025 |
| Residential real estate | 6,774 | 3,423 | 57 | — | 10,254 |
| Strategic Program loans | 14,410 | 4,638 | 330 | — | 19,378 |
| Commercial real estate | | | | | |
| Owner occupied | 1,844 | 558 | — | — | 2,402 |
| Non-owner occupied | 157 | 338 | 647 | 53 | 1,195 |
| Consumer | 5,216 | 13,001 | 989 | — | 19,206 |
| Subtotal fixed rate loans | 46,451 | 69,753 | 6,437 | 1,185 | 123,826 |
| | | | | | |
| **Variable rate loans:** | | | | | |
| SBA | 18,489 | 73,291 | 105,754 | 49,816 | 247,350 |
| Commercial leases | — | — | — | — | — |
| Commercial, non-real estate | — | — | — | — | — |
| Residential real estate | 27,971 | 1,724 | 1,442 | — | 31,137 |
| Strategic Program loans | 3 | 13 | 15 | — | 31 |
| Commercial real estate | | | | | |
| Owner occupied | 2,749 | 10,332 | 13,899 | 3,098 | 30,078 |
| Non-owner occupied | 1,524 | 17 | — | — | 1,541 |
| Consumer | — | — | — | — | — |
| Subtotal variable rate loans | 50,736 | 85,377 | 121,110 | 52,914 | 310,137 |
| Total | $ 97,187 | $ 155,130 | $ 127,547 | $ 54,099 | $ 433,963 |

*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 nonaccrual 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. Consumer loans and credit card balances are charged off at 120 days and 180 days, respectively. 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.

We had a total of $30.6 million in nonperforming assets which included $0.9 million in material loan modifications at September 30, 2024. The amount of nonperforming assets as of September 30, 2024 includes $17.8 million of SBA 7(a) loan balances that are guaranteed by the SBA. We had $27.1 million in nonperforming assets which included $0.4 million in material loan modifications at December 31, 2023. The amount of nonperforming assets as of December 31, 2023 includes $15.0 million of SBA 7(a) loan balances that are guaranteed by the SBA. The increase in nonperforming assets and material loan modifications from the prior period was primarily attributable to several loans in the SBA 7(a) loan portfolio moving to nonperforming status. Due to elevated interest rates, the slowdown of consumer spending and the variable rate nature of our SBA portfolio, the risk of default is elevated and may result in additional delinquencies in future periods.

*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 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 accounts 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.

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 credit 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. Internal loan grades are based on current financial information, historical payment experience, and credit documentation, among other factors. 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.

Pass - A Pass asset is higher quality and does not fit any of the other categories described below. The likelihood of loss is believed to be remote.

Watch – A Watch asset may be a larger loan or one that places a heavier reliance on collateral due to the relative financial strength of the borrower. The assets may be maintenance intensive requiring closer monitoring. The obligor is believed to have an adequate primary source of repayment. New loans pursuant to the SBA 7(a) program are classified as watch loans until they have a demonstrated period of satisfactory performance, typically 18 months.

Special Mention – A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, we believe that it is currently protected against a default and loss is considered unlikely and not imminent.

Substandard – A Substandard asset is believed to be inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have identified weaknesses and are characterized by the possibility that we may sustain some loss if deficiencies are not corrected.

Not Rated - For certain Strategic Program and consumer loans, we do not evaluate and risk rate the loans in the same manner as other loans in our portfolio. The Not Rated loans are typically homogenous, smaller dollar balances approved using abridged underwriting methods that allow us to streamline the loan approval process and increase efficiency. Credit quality for Strategic Program loans has been highly correlated with delinquency levels.

*Allowance for Credit Losses*

We adopted Financial Accounting Standards Board Accounting Standards Update No. 2016–13, *Financial Instruments – Credit Losses (Topic 326)*, commonly referred to as the “CECL model,” on January 1, 2023.

The estimate of credit loss incorporates assumptions for both the likelihood and amount of funding over the estimated life of the commitments, including adjustments for current conditions and reasonable and supportable forecasts. Management periodically reviews and updates its assumptions for estimated funding rates. 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 ACL on at least a quarterly 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 ACL is reviewed by regulatory examinations and our auditors.

Credit losses are charged against the ACL when we believe that the collectability of the principal loan balance is unlikely. Subsequent recoveries, if any, are credited to the ACL when received. The amortized cost basis of loans does not include accrued interest receivable, which is included in "accrued interest receivable" on the consolidated balance sheets. The “provision for credit losses” on the consolidated statements of income is a combination of the provision for credit losses and the provision for unfunded loan commitments.

The following tables present a summary of changes in the ACL for the periods and dates indicated:

| *($ in thousands)* | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| ACL: | | | | |
| Beginning balance | $ 13,127 | $ 12,321 | $ 12,888 | $ 11,985 |
| Impact of ASU 2016-13 adoption[1] | — | — | — | 257 |
| Adjusted beginning balance | 13,127 | 12,321 | 12,888 | 12,242 |
| Provision for credit losses | 1,944 | 2,910 | 7,482 | 8,253 |
| **Charge-offs** | | | | |
| Construction and land development | — | — | — | — |
| Residential real estate | (27) | — | (91) | (121) |
| Residential real estate multifamily | — | — | — | — |
| Commercial real estate | | | | |
| Owner occupied | (103) | (31) | (628) | (153) |
| Non-owner occupied | (221) | — | (221) | — |
| Commercial and industrial | (96) | (107) | (334) | (191) |
| Consumer | (15) | (28) | (74) | (47) |
| Lease financing receivables | (113) | — | (293) | — |
| Strategic Program loans | (2,360) | (2,748) | (7,268) | (8,289) |
| **Recoveries** | | | | |
| Construction and land development | — | — | — | — |
| Residential real estate | 3 | 3 | 59 | 87 |
| Residential real estate multifamily | — | — | — | — |
| Commercial real estate | | | | |
| Owner occupied | 219 | — | 222 | — |
| Non-owner occupied | — | 389 | — | 389 |
| Commercial and industrial | 2 | 18 | 17 | 21 |
| Consumer | 4 | 2 | 5 | 2 |
| Lease financing receivables | 8 | — | 15 | — |
| Strategic Program loans | 289 | 257 | 882 | 793 |
| Ending balance | $ 12,661 | $ 12,986 | $ 12,661 | $ 12,986 |

[1] ASU 2016-13 (CECL) was adopted January 1, 2023.

The following tables show the allocation of the ACL as of September 30, 2024 and December 31, 2023. The ACL related to Strategic Programs constitutes 48.1% and 54.8% of the total ACL while comprising 4.5% and 5.2%, respectively, of total loans held for investment as of September 30, 2024 and December 31, 2023, respectively. The percentage of ACL related to Strategic Program loans retained reflects the increased credit risks associated with certain retained Strategic Program loans.

| | September 30, 2024 | | |
|---|---|---|---|
| *($ in thousands)* | | **Amount** | **% of Total Allowance** |
| Construction and land development | $ | 712 | 5.6 % |
| Residential real estate | | 781 | 6.2 % |
| Residential real estate multifamily | | 34 | 0.3 % |
| Commercial real estate | | | |
| Owner occupied | | 2,769 | 21.9 % |
| Non-owner occupied | | 141 | 1.1 % |
| Commercial and industrial | | 371 | 2.9 % |
| Consumer | | 530 | 4.2 % |
| Lease financing receivables | | 1,234 | 9.7 % |
| Strategic Program loans | | 6,089 | 48.1 % |
| Total | $ | 12,661 | 100.0 % |

| | December 31, 2023 | | |
|---|---|---|---|
| *($ in thousands)* | | **Amount** | **% of Total Allowance** |
| Construction and land development | $ | 316 | 2.4 % |
| Residential real estate | | 956 | 7.4 % |
| Residential real estate multifamily | | 6 | 0.1 % |
| Commercial real estate | | | |
| Owner occupied | | 3,336 | 25.9 % |
| Non-owner occupied | | 282 | 2.2 % |
| Commercial and industrial | | 361 | 2.8 % |
| Consumer | | 211 | 1.6 % |
| Commercial leases | | 355 | 2.8 % |
| Strategic Program loans | | 7,065 | 54.8 % |
| Total | $ | 12,888 | 100.0 % |

The following table reflects the ratios of the ACL to total loans held for investment ("LHFI"), nonaccrual loans to total loans held for investment, and the ACL to nonaccrual loans by CECL loan category as of September 30, 2024.

| | ACL to Total LHFI | Nonaccrual Loans to Total LHFI | ACL to Nonaccrual Loans |
|---|---|---|---|
| Construction and land development | 2.1 % | — % | — % |
| Residential real estate | 1.3 % | 2.3 % | 56.2 % |
| Residential real estate multifamily | 2.3 % | — % | — % |
| Commercial real estate | | | |
| Owner occupied | 1.5 % | 12.9 % | 11.4 % |
| Non-owner occupied | 1.1 % | 24.4 % | 4.5 % |
| Commercial and industrial | 1.0 % | 2.4 % | 43.0 % |
| Consumer | 2.8 % | — % | — % |
| Lease financing receivables | 1.9 % | 0.3 % | 657.3 % |
| Strategic Program loans | 31.4 % | — % | — % |
| Total | 2.9 % | 6.9 % | 42.4 % |

The following table reflects the ratios of the ACL to total LHFI, nonaccrual loans to total loans held for investment, and the ACL to nonaccrual loans by CECL loan category as of December 31, 2023.

| *($ in thousands)* | ACL to Total LHFI | Nonaccrual Loans to Total LHFI | ACL to Nonaccrual Loans |
|---|---|---|---|
| Construction and land development | 1.1 % | — % | — % |
| Residential real estate | 1.9 % | 3.1 % | 60.3 % |
| Residential real estate multifamily | 1.0 % | — % | — % |
| Commercial real estate | | | |
| Owner occupied | 1.8 % | 11.6 % | 15.4 % |
| Non-owner occupied | 1.8 % | 15.4 % | 12.0 % |
| Commercial and industrial | 1.7 % | 1.3 % | 128.2 % |
| Consumer | 1.9 % | — % | — % |
| Lease financing receivables | 0.9 % | — % | — % |
| Strategic Program loans | 36.4 % | — % | — % |
| Total | 3.5 % | 7.0 % | 49.8 % |

When comparing September 30, 2024 to December 31, 2023, the decrease in ACL to total loans held for investment was primarily due to the reduction in Strategic Program loans held for investment. The decrease in nonaccrual loans to total loans held for investment as shown above was primarily due to the growth in the loans held for investment portfolio. The decrease in the ACL to nonaccrual loans ratio as shown above primarily pertained to growth in the nonaccrual loans concentrated in the SBA product which has a lower risk profile than the Strategic Program loans.

The following table summarizes net charge-offs ("NCO"), average loans and the ratio of NCO to average loans for the periods indicated:

| ($ in thousands) | Three Months Ended September 30, 2024 | | | Three Months Ended September 30, 2023 | | |
|---|---|---|---|---|---|---|
| | Net Charge-Offs | Average Loans | NCO to Average Loans | Net Charge-Offs | Average Loans | NCO to Average Loans |
| Construction and land development | $ — | $ 29,027 | — % | $ — | $ 26,102 | — % |
| Residential real estate | 24 | 58,504 | 0.2 % | (3) | 38,805 | — % |
| Residential real estate multifamily | — | 1,318 | — % | — | 579 | — % |
| Commercial real estate | | | | | | |
| Owner occupied | (116) | 189,657 | (0.2)% | 31 | 168,996 | 0.1 % |
| Non-owner occupied | 221 | 18,610 | 4.7 % | (389) | 10,752 | (14.4)% |
| Commercial and industrial | 94 | 29,734 | 1.3 % | 89 | 17,943 | 2.0 % |
| Consumer | 11 | 17,128 | 0.3 % | 26 | 6,398 | 1.6 % |
| Lease financing receivables | 105 | 60,284 | 0.7 % | — | 26,161 | — % |
| Strategic Program loans | 2,071 | 18,559 | 44.4 % | 2,491 | 20,485 | 48.2 % |
| Total | $ 2,410 | $ 422,821 | 2.3 % | $ 2,245 | $ 316,220 | 2.8 % |

| ($ in thousands) | Nine Months Ended September 30, 2024 | | | Nine Months Ended September 30, 2023 | | |
|---|---|---|---|---|---|---|
| | Net Charge-Offs | Average Loans | NCO to Average Loans | Net Charge-Offs | Average Loans | NCO to Average Loans |
| Construction and land development | $ — | $ 29,417 | — % | $ — | $ 26,690 | — % |
| Residential real estate | 32 | 55,348 | 0.1 % | 34 | 33,465 | 0.1 % |
| Residential real estate multifamily | — | 1,084 | — % | — | 519 | — % |
| Commercial real estate | | | | | | |
| Owner occupied | 406 | 188,512 | 0.3 % | 153 | 150,641 | 0.1 % |
| Non-owner occupied | 221 | 16,884 | 1.7 % | (389) | 11,290 | (4.6)% |
| Commercial and industrial | 317 | 25,274 | 1.7 % | 170 | 16,445 | 1.4 % |
| Consumer | 69 | 14,993 | 0.6 % | 45 | 5,991 | 1.0 % |
| Lease financing receivables | 278 | 52,101 | 0.7 % | — | 19,222 | — % |
| Strategic Program loans | 6,386 | 18,112 | 47.1 % | 7,496 | 22,039 | 45.5 % |
| Total | $ 7,709 | $ 401,725 | 2.6 % | $ 7,509 | $ 286,302 | 3.5 % |

The total ratio of NCO to average loans outstanding was lower during the three and nine months ended September 30, 2024 as compared to the three and nine months ended September 30, 2023, primarily due to the loan portfolio growth in loans deemed to have less credit risk.

*Total Assets*

Total assets at September 30, 2024 were $683.0 million, an increase of $96.8 million from December 31, 2023. The increase in total assets was primarily due to the increase in loans held for investment, net of $59.5 million, mainly attributable to the growth in our commercial lease, SBA and commercial real estate - owner occupied portfolios, Strategic Program loans held-for-sale of $36.5 million, and investment securities available-for-sale of $30.5 million. These increases were partially offset by a decrease in interest-bearing deposits in other banks of $38.5 million used to purchase the investment securities available-for-sale. These changes were consistent with our strategy to grow assets in lower risk revenue producing products.

*Deposits*

Deposits are the major source of funding for us. We offer a variety of deposit products including interest and noninterest bearing demand accounts, HSA demand deposits, 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 tables present the end of period and average balances of our deposit portfolio for the periods indicated (average balances have been calculated using daily averages):

| | September 30, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| *($ in thousands)* | **Total** | **Percent** | **Total** | **Percent** |
| *Period end:* | | | | |
| Noninterest-bearing demand deposits | $ 142,785 | 29.2 % | $ 95,486 | 23.6 % |
| Interest-bearing deposits: | | | | |
| Demand | 58,984 | 12.1 % | 50,058 | 12.4 % |
| Savings | 9,592 | 1.9 % | 8,633 | 2.1 % |
| Money markets | 15,027 | 3.1 % | 11,661 | 2.9 % |
| Time certificates of deposit | 262,271 | 53.7 % | 238,995 | 59.0 % |
| Total period end deposits | $ 488,659 | 100.0 % | $ 404,833 | 100.0 % |

Our deposits increased from December 31, 2023 to September 30, 2024 by $83.8 million, or 20.7%, primarily due to increases in noninterest-bearing demand deposits of $47.3 million, or 49.5%, and brokered time deposits of $14.1 million, or 6.6%. Deposits are used to fund our lending programs. As of September 30, 2024, $205.0 million of time certificates of deposit were callable giving us the ability to terminate the callable deposits and replace them with lower cost callable or non-callable deposits should it be economically beneficial for us to do so.

As an FDIC-insured institution, our deposits are insured up to applicable limits by the Deposit Insurance Fund ("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 $183.8 million and $136.9 million as of September 30, 2024 and December 31, 2023, respectively. Uninsured deposits at the Bank as of September 30, 2024 include $44.0 million of total deposits contractually required to be maintained at the Bank pursuant to our Strategic Program agreements and an additional $48.9 million of total deposits associated with accounts owned by the parent holding company or the Bank. The maturity profile of our uninsured time deposits, those amounts that exceed the FDIC insurance limit, at September 30, 2024 is as follows:

| | September 30, 2024 | | | | |
|---|---|---|---|---|---|
| *($ in thousands)* | **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 | $ 84 | $ — | $ 2,456 | $ 219 | $ 2,759 |

*Total Liabilities*

Total liabilities increased to $512.7 million, or 18.9%, as of September 30, 2024 from $431.2 million as of December 31, 2023 primarily due to an increase in deposits as discussed above.

## 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, principal and interest repayments on 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.

Our primary source of funds to originate new loans is derived from deposits. Deposits are comprised of core and non-core deposits. To attract core 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 the higher margin of our technology oriented business model. We utilize rate listing services and website advertising to attract deposits from consumer and commercial sources. Non-core deposits generally include brokered deposits and deposits acquired through the utilization of a listing service.

We intend to have various term offerings to match our funding needs. 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 control 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 12.6% of total assets at September 30, 2024.

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 September 30, 2024, we had the ability to access $41.9 million from the Federal Reserve Bank's Discount Window on a collateralized basis. The Bank had an available unsecured line of credit with two correspondent banks to borrow up to $6.1 million in overnight funds. We also maintain a $25.0 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 September 30, 2024. In long term borrowings, we had $0.1 million outstanding at September 30, 2024 related to the Paycheck Protection Program Liquidity Facility ("PPPLF"). The PPPLF is secured by pledged Paycheck Protection Program ("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 September 30, 2024, liquid assets (defined as cash and due from banks and interest-bearing deposits) totaled $85.8 million and constituted 12.6% of total assets. In addition, during the three months ended September 30, 2024, we purchased U.S. Treasury securities, which are classified as investment securities available-for-sale. These investment securities totaled $30.5 million at September 30, 2024 (4.5% of total assets) and can be readily sold. We believe that our liquid assets combined with the available lines of credit and our ability to generate core and non-core funding provides adequate liquidity to meet our current financial obligations for at least the next 12 months.

***Capital Resources***

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.

Shareholders' equity increased $15.3 million to $170.4 million at September 30, 2024 compared to $155.1 million at December 31, 2023 primarily due to the purchase of additional equity interests in BFG in exchange for $4.1 million in FinWise Bancorp common stock and net income of $9.9 million.

We use several indicators of capital strength. The most commonly used measure is total equity to total assets, which was 24.9% and 26.5% as of September 30, 2024 and December 31, 2023, respectively.

Our return on average equity was 8.3% and 12.8% for the three months ended September 30, 2024 and 2023, respectively and 8.1% and 12.3% for the nine months ended September 30, 2024 and 2023, respectively. Our return on average assets was 2.1% and 3.7% for the three months ended September 30, 2024 and 2023, respectively, and 6.3% and 3.8% for the nine months ended September 30, 2024 and 2023, respectively.

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 our business. 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 pursuant to regulatory definitions and requirements. The sufficiency of capital and the Bank's capital classifications are also subject to qualitative judgments by the regulators about 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 issued 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 elected to opt into the Community Bank Leverage Ratio framework starting in 2020. Under these capital requirements the Bank must maintain a leverage ratio greater than 9.0% to be considered well-capitalized.

As of September 30, 2024, 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). See Note 5 - Capital Requirements for additional information regarding our regulatory capital requirements.

*Stock Repurchase Program*

We have a stock repurchase program authorized by our Board of Directors. The stock repurchase program became effective as of March 6, 2024 and authorizes us to repurchase 641,832 shares of our common stock in the aggregate in open market transactions, privately negotiated transactions, or any manner that complies with the provisions of Rule 10b-18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as pursuant to a trading plan under Rule 10b5-1 under the Exchange Act. Our decision to repurchase shares will depend on a variety of factors, including but not limited to, the market price and trading volume of our common stock, general market and economic conditions, the ongoing assessment of our capital needs, and applicable legal and regulatory requirements. The repurchase program does not obligate us to purchase any particular number of shares and may be limited or terminated at any time without prior notice. During the three months ended September 30, 2024, there were no open-market share repurchases. Since the repurchase program's inception, we have repurchased and subsequently retired a total of 44,608 shares for $0.5 million at an average price of $10.30 per share. See Note 1 - Summary of Significant Accounting Policies for more information.

*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 September 30, 2024:

| ($ in thousands) | Total | Less than One Year | One to Three Years | Three to Five Years | More Than Five Years |
|---|---|---|---|---|---|
| **Contractual Obligations** | | | | | |
| Deposits without stated maturity | $ 226,389 | $ 226,389 | $ — | $ — | $ — |
| Time deposits | 262,271 | 34,458 | 88,994 | 128,150 | 10,669 |
| Operating lease obligations | 5,824 | 1,078 | 2,253 | 2,390 | 103 |
| Total | $ 494,484 | $ 261,925 | $ 91,247 | $ 130,540 | $ 10,772 |

*Off-Balance-Sheet Financing Arrangements*

In the normal course of business, we enter into certain off-balance sheet arrangements 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. With the exception of these off-balance sheet arrangements, we have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. For details of our commitments to extend credit please See Note 6 - Commitments and Contingencies.

**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, we are not required to provide information requested by Part I, Item 3 of this Report.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our 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, our Chief Executive Officer and Chief Financial Officer concluded that our 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 disclosures.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control 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 ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II OTHER INFORMATION

## 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

There are a number of factors that may adversely affect our business, financial results or stock price. Refer to Part I, Item 1A. "Risk Factors" of the 2023 Form 10-K for a discussion of these risks. There have been no material changes to the risk factors disclosed in our 2023 Form 10-K, as filed with the SEC on March 25, 2024.

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

*Issuer Purchases of Equity Securities*

On March 7, 2024, we announced that the Board had authorized, effective March 6, 2024, a common stock repurchase program to purchase up to 641,832 shares of our common stock in the aggregate. The repurchase program expires on March 31, 2026, but may be limited or terminated at any time without prior notice. The repurchase program authorized the repurchase by us of our common stock in open market transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Exchange Act of 1934, as amended (the "Exchange Act"), or privately negotiated transactions. Repurchases may also be made pursuant to a trading plan under Rule 10b5-1 under the Exchange Act, which would permit shares to be repurchased when we might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. The Share Repurchase Committee, designated by the Board of Directors, will determine the actual timing, number and value of any shares repurchased in its discretion depending on a variety of factors, including but not limited to, the market price and trading volume of our common stock, general market and economic conditions, the ongoing assessment of our capital needs, and applicable legal and regulatory requirements. The repurchase program does not obligate us to purchase any particular number of shares. There were no repurchases of our common stock during the three months ended September 30, 2024. At September 30, 2024, 597,224 shares remain available for repurchase.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None of our directors or officers have adopted, modified, or terminated a Rule 10b5-1(c) trading arrangement or, except as discussed below, a non-Rule 10b5-1 trading arrangement during the fiscal quarter ended September 30, 2024. Our directors and officers participate in certain of our benefit plans and may from time to time make elections to surrender shares or have shares withheld to cover withholding taxes or pay the exercise price of options granted thereunder. These elections may be designed to satisfy the affirmative defense conditions of Rule 10b5-1 under the Exchange Act or may constitute non-Rule 10b5-1 trading arrangements as defined in Item 408(c) of Regulation S-K.

**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)). |
| 10.1*+ | Form of Employee Restricted Stock Agreement under the FinWise Bancorp 2019 Stock Option Plan |
| 10.2*+ | Form of Director Restricted Stock Agreement under the FinWise Bancorp 2019 Stock Option Plan |
| 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.

** The certifications attached hereto are not considered "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act"), as amended, or otherwise subject to the limitations of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

+ Indicates management contract or compensatory plan.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | FinWise Bancorp | |
| Date: November 12, 2024 | By: | **/s/ Kent Landvatter** |
| | | **Kent Landvatter** |
| | | **Chief Executive Officer and Chairman** |
| | | *(Principal Executive Officer)* |
| Date: November 12, 2024 | By: | **/s/ Robert Wahlman** |
| | | **Robert Wahlman** |
| | | **Executive Vice President and Chief Financial Officer** |
| | | *(Principal Financial and Accounting Officer)* |

**FINWISE BANCORP**
**RESTRICTED STOCK AGREEMENT**

THIS RESTRICTED STOCK AGREEMENT (this "**Agreement**"), among Finwise Bancorp, a bank holding company (the "**Company**") and ___________ (the "**Employee**"). The Company and the Employee are hereafter sometimes individually referred to as a "party" and collectively as the "parties".

WHEREAS, the Employee is an employee of the Company or an affiliate of the Company;

WHEREAS, the parties hereto desire to enter into this Agreement to provide for the issuance and vesting of restricted shares of Common Stock of the Company.

NOW THEREFORE, for and good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged the Company and the Employee agree as follows:

1. **Issuance of Award**. Pursuant to and subject to the terms of the Company's 2019 Stock Option Plan, as amended, (the "**Plan**") and this Agreement, the Company hereby grants to the Employee an aggregate award of _____________ restricted shares of Common Stock (the "**Award**"), comprising:

1.1. Initial Award. An award of ______[1] restricted shares of Common Stock (the "**Initial Award**"), effective as of May __, 2024 (the "**Initial Award Effective Date**"); and

1.2. Supplemental Award. An award of ______[2] restricted shares of Common Stock (the "**Supplemental Award**"), effective as of the day following the date on which a registration statement on Form S-8 become effective with respect to a number of shares of Common Stock sufficient for the Supplemental Award and all similar awards granted by the Company (the later of such dates, the "**Supplemental Award Effective Date**").

2. **Incorporation of Plan**. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan, as interpreted by the Administrator, shall govern. Except as otherwise provided herein, all capitalized terms used herein shall have the meaning given to such terms in the Plan.

3. **Vesting; Forfeiture**.

3.1. Vesting. Subject to Section 3.2, a number of whole shares as close as possible to 20% of the Award will vest on each of the first five anniversaries of the Initial Award Effective Date.

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[1] Note to Draft: Anticipated to be 80% of Award.
[2] Note to Draft: Anticipated to be 20% of Award.

3.2. Forfeiture. If the Employee's service with the Company or an affiliate of the Company terminates for any reason, whether by the employer or the Employee, prior to the Employee becoming vested in all of the shares of Common Stock comprising the Award, then any part of the Award in which the Employee is not vested at the time of such termination shall be automatically forfeited and cancelled without any payment thereon and all dividends or other distributions accrued with respect to such forfeited shares also shall be forfeited.

4. **Rights as a Shareholder**.

4.1. Reasonably promptly after the later to occur of (i) the Initial Award Effective Date and the Supplemental Award Effective Date, as applicable, and (ii) the execution and delivery of this Agreement by the parties hereto, the Company shall either issue stock certificates, registered in the name of the Employee, evidencing the shares of the Award or shall make (or cause to be made) an appropriate book entry reflecting the Employee's ownership of such shares. The restricted shares, if certificated, shall bear a legend reflecting the restrictions and forfeiture provisions set forth in the Plan and thus Agreement, and if held in uncertificated form, shall be subject to an appropriate electronic coding or stop order. Each such stock certificate shall be held in the custody of the Company until such shares vest.

4.2. The Employee shall not be deemed for any purpose to be, or have rights as, a shareholder of the Company by virtue of the grant of the Award, except to the extent a stock certificate is issued therefor or an appropriate book entry is made reflecting the issuance thereof pursuant to Section 4.1 hereof, and then only from the date such certificate is issued or such book entry is made. Following the issuance of such stock certificate or the making of such book entry, the Employee shall have all rights as a shareholder of Common Stock for all shares comprising the Award, whether or not such shares are vested, including all rights to dividends, subject to forfeiture of such dividends in the event that the underlying shares are later forfeited, as well as the right to vote; provided, however, that the Employee acknowledges that unless he or she has made an election under Section 83(b) of the IRS Code, any amounts paid as dividends on shares that have not vested may be treated as additional compensation to the Employee and the Employee hereby authorizes the Company to withhold any taxes or other amounts required to be withheld from such dividends.

4.3. Unless the Administrator otherwise determines, any property received by the Employee with respect to a share of the Award as a result of any cash dividend, stock dividend, recapitalization, merger, consolidation, combination, exchange of shares, distribution or otherwise, (i) will not vest until such share of the Award vests, (ii) may, in the sole discretion of the Administrator, be held in custody by the Company and (iii) shall be subject to the provisions of this Agreement, and to all other restrictions as apply to the shares in respect of which such property was paid. The Company shall issue to the Employee a receipt evidencing the property held by it in respect of the Award. Any such property received by the Employee with respect to a share of the Award shall be delivered to the Company in the event such share is forfeited. Any securities received by the Employee with respect to a restricted share of the Award as a result of any dividend, recapitalization, merger, consolidation, combination, exchange of shares or otherwise shall bear a legend or be subject to an electronic coding or stop order, as set forth in Section 4.1 hereof.

5. **Restrictions on Transfer of Awards**. Prior to vesting, the Award may not be transferred without the prior written consent of the Company, which consent may be withheld in its discretion; provided, however, that the Award may be transferred for estate planning purposes to a trust or limited liability company controlled by the Employee. Any permitted transferee of the Award shall take such Award subject to the terms of this Agreement. Any such permitted transferee must agree to be bound by this Agreement, and shall execute a joinder agreement, and must agree to such other waivers, limitations, and restrictions as the Company may reasonably require. Any transfer of the Award which is not made in compliance with this Agreement shall be null and void and of no effect.

6. **Tax Advice**. The Employee acknowledges that none of the Company or any affiliate or their agents, employees or representatives have made any warranties or representations to the Employee with respect to the income tax consequences of the transactions contemplated by this Agreement, and the Employee is in no manner relying on the Company or its agents, employees or representatives for an assessment of such tax consequences. The Employee should rely on the Employee's own tax advisors for such advice.

7. **Taxes**. The Employee is solely responsible for any taxes, interest or penalties with respect to the issuance, vesting or disposition of the Award. Prior to the vesting of any portion of the Award, the Employee must make arrangements satisfactory to the Company to pay or provide for any applicable federal, state and local withholding obligations of the Company. The Employee may satisfy such tax withholding obligation relating to the vesting of the Award by tendering a cash payment or through such means as the Administrator may determine in its sole discretion. The Company may withhold from amounts, if any, payable to the Employee any applicable withholding or employment taxes resulting from the issuance or vesting of the Award or any dividends or distribution with respect to the Award.

8. **Remedies**. The Employee shall be liable to the Company for all costs and damages, including incidental and consequential damages, resulting from a disposition of the Award which is in violation of the provisions of this Agreement. Without limiting the generality of the foregoing, the Employee agrees that the Company shall be entitled to obtain specific performance of the obligations of the Employee under this Agreement and immediate injunctive relief in the event any action or proceeding is brought in equity to enforce the same. The Employee will not urge as a defense that there is an adequate remedy at law.

9. **Notices**. Any notice or communication required or permitted to be given to any party under this Agreement shall be in writing and shall be deemed to have been duly given or made: (a) if delivered personally by courier or otherwise, then as of the date delivered or if delivery is refused, then as of the date presented; (b) if sent or mailed by reputable overnight courier service to the Company at its principal office address and to the Employee at his or her address appearing in the current records of the Company, then as of the first business day after the date so sent; (c) if sent or mailed by certified U.S. Mail, return receipt requested, to the Company at its principal office address and to the Employee at his or her address appearing in

the current records of the Company, then as of the third business day after the date so mailed or (d) if by email to the Company at [______] and to the Employee at his or her email address appearing in the current records of the Company, then as of the date and time emailed. The address or email address to which notices to a party shall be sent may be changed by such party from time to time by written notice to the other party.

10. **Successors and Assigns**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors and assigns of the parties hereto, including, without limitation, any business entity that succeeds to the business of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon the Employee and his or her heirs, executors, administrators, successors and assigns.

11. **Interpretation**. The Employee hereby acknowledges that all decisions, determinations and interpretations of the Administrator in respect of this Agreement and the Award shall be final and conclusive.

12. **Delays or Omissions**. No delay or omission to exercise any right, power or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, must be in a writing signed by such party and shall be effective only to the extent specifically set forth in such writing.

13. **Entire Agreement; Amendments and Waivers**. This Agreement, [together with the Employee's employment agreement, dated as of_______,][3] constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. This Agreement may not be amended except in an instrument in writing signed on behalf of each of the parties hereto and approved by the Board. No amendment, supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby.

14. **Non-solicitation**.

14.1. In consideration of the Award, the Employee agrees and covenants not to:

a. directly or indirectly, solicit, hire, recruit, attempt to hire or recruit, or induce the termination of employment of any employee of the Company or its Affiliates for twelve months following the Employee's termination of employment; or

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[3] Note to Draft: Delete if not applicable.

b. or indirectly, solicit, contact (including, but not limited to, e-mail, regular mail, express mail, telephone, fax, and instant message), attempt to contact or meet with the current customers of the Company or any of its Affiliates for purposes of offering or accepting goods or services similar to or competitive with those offered by the Company or any of its Affiliates for a period of twelve months following the Employee's termination of employment.

14.2. In the event of a breach or threatened breach of any of the covenants contained in Section 14.1, the Employee hereby consents and agrees that the Company shall be entitled to, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

15. **Clawback**. The Award and any portion thereof, whether or not vested, shall be subject to (i) forfeiture as set forth in this Section 15, as determined by the Administrator in its sole discretion, and (ii) any clawback or recoupment policy established by the Company or that may be required by applicable law. In the event that any portion of the Award is forfeited, any dividends or other distributions with respect to such shares also shall be forfeited. Upon notice by the Administrator, the Employee shall deliver to the Company any applicable stock certificates and any dividends or other distributions received by the Employee relating to the forfeited Award or portion of the Award.

15.1. Financial Restatement. In the event of the restatement of the Company's financial statements due to material noncompliance with financial reporting requirements under applicable securities laws, as required by the Securities and Exchange Commission, any portion of the Award that would not have been granted to the Employee or which would not have vested, after giving effect to the restatement, will be subject to forfeiture.

15.2. Financial Loss or Reputational Damage. If the Company suffers extraordinary financial loss, reputational damage or similar adverse impact as a result of actions taken or decisions made by the Employee in circumstances constituting illegal or intentionally wrongful conduct, gross negligence or seriously poor judgment, the entire Award will be subject to forfeiture.

15.3. Risk-Adjustment: Unvested shares of the Award will be subject to forfeiture if the Employee engaged in risk-taking that is determined by the Administrator to be outside the company's risk parameters.

16. **Invalidity**. If for any reason one or more of the provisions contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument.

17. **Titles**. The titles, captions or headings of the Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

18. **No Right to Employment**. This Agreement shall **NOT** confer upon the Employee any right to continue as an employee of the Company or an affiliate. Further, nothing in this Agreement shall be construed to limit the discretion of the Company or any affiliate to terminate the Employee's employment at any time and for any reason.

19. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, with regard to the conflict of laws principles thereof.

20. **Titles**. The titles, captions or headings of the Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

21. **Counterparts**. This Agreement may be executed in any number of counterparts, any of which may be executed and transmitted by facsimile, by email in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, and each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

22. **Employee Acknowledgment**. The Employee hereby acknowledges (i) receipt of a copy of the Plan, (ii) that all decisions, determinations and interpretations of the Administrator in respect of the Plan, this Agreement and the Award shall be final and conclusive and (iii) that any shares of Common Stock acquired pursuant to the Award are being acquired for the Employee's own account and not with a view to distribution.

***[Signature Page Follows]***

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Agreement as of the day and year first above written.

**FINWISE BANCORP**, a Utah corporation

By: ______________________
Name:
Title:

The Employee hereby accepts and agrees to be bound by all of the terms and conditions of this Agreement.

__________________________
[Name]

*[Signature Page to Restricted Stock Grant Agreement]*

# FINWISE BANCORP
# DIRECTOR RESTRICTED STOCK AGREEMENT

THIS RESTRICTED STOCK AGREEMENT (this "**Agreement**"), made to be effective as of May __, 2024 (the "**Effective Date**") among Finwise Bancorp, a bank holding company (the "**Company**") and ___________ (the "**Director**"). The Company and the Director are hereafter sometimes individually referred to as a "party" and collectively as the "parties".

WHEREAS, the Director is a member of the Board of Directors of the Company;

WHEREAS, the parties hereto desire to enter into this Agreement to provide for the issuance and vesting of restricted shares of Common Stock of the Company.

NOW THEREFORE, for and good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged the Company and the Director agree as follows:

1. **Issuance of Award**. Pursuant to and subject to the terms of the Company's 2019 Stock Option Plan (the "**Plan**") and this Agreement, the Company hereby grants to the Director, as of the Effective Date, an award of _______ restricted shares of Common Stock (the "**Award**").

2. **Incorporation of Plan**. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan, as interpreted by the Administrator, shall govern. Except as otherwise provided herein, all capitalized terms used herein shall have the meaning given to such terms in the Plan.

3. **Vesting; Forfeiture**.

3.1. Vesting. Subject to Section 3.2, the Award shall vest on November ____, 2024.

3.2. Forfeiture. If the Director's service with the Company terminates for any reason prior to the Director becoming vested in the Award, then the Award shall be automatically forfeited and cancelled without any payment thereon and all dividends or other distributions accrued with respect to such forfeited shares also shall be forfeited.

4. **Rights as a Shareholder**.

4.1. Reasonably promptly after the later to occur of the Effective Date and the execution and delivery of this Agreement by the parties hereto, the Company shall either issue stock certificates, registered in the name of the Director, evidencing the shares of the Award or shall make (or cause to be made) an appropriate book entry reflecting the Director's ownership of such shares. The restricted shares, if certificated, shall bear a legend reflecting the restrictions and forfeiture provisions set forth in the Plan and thus Agreement, and if held in uncertificated form, shall be subject to an appropriate electronic coding or stop order. Each such stock certificate shall be held in the custody of the Company until such shares vest.

4.2. The Director shall not be deemed for any purpose to be, or have rights as, a shareholder of the Company by virtue of the grant of the Award, except to the extent a stock certificate is issued therefor or an appropriate book entry is made reflecting the issuance thereof pursuant to Section 4.1 hereof, and then only from the date such certificate is issued or such book entry is made. Following the issuance of such stock certificate or the making of such book entry, the Director shall have all rights as a shareholder of Common Stock for all shares comprising the Award, whether or not such shares are vested, including all rights to dividends, subject to forfeiture of such dividends in the event that the underlying shares are later forfeited, as well as the right to vote; provided, however, that the Director acknowledges that unless he or she has made an election under Section 83(b) of the IRS Code, any amounts paid as dividends on shares that have not vested may be treated as additional compensation to the Director.

4.3. Unless the Administrator otherwise determines, any property received by the Director with respect to a share of the Award as a result of any cash dividend, stock dividend, recapitalization, merger, consolidation, combination, exchange of shares, distribution or otherwise, (i) will not vest until such share of the Award vests, (ii) may, in the sole discretion of the Administrator, be held in custody by the Company and (iii) shall be subject to the provisions of this Agreement, and to all other restrictions as apply to the shares in respect of which such property was paid. The Company shall issue to the Director a receipt evidencing the property held by it in respect of the Award. Any such property received by the Director with respect to a share of the Award shall be delivered to the Company in the event such share is forfeited. Any securities received by the Director with respect to a restricted share of the Award as a result of any dividend, recapitalization, merger, consolidation, combination, exchange of shares or otherwise shall bear a legend or be subject to an electronic coding or stop order, as set forth in Section 4.1 hereof.

5. **Restrictions on Transfer of Awards**. Prior to vesting, the Award may not be transferred without the prior written consent of the Company which consent may be withheld in its discretion; provided, however, that the Award may be transferred for estate planning purposes to a trust or limited liability company controlled by the Director. Any permitted transferee of the Award shall take such Award subject to the terms of this Agreement. Any such permitted transferee must agree to be bound by this Agreement, and shall execute a joinder agreement, and must agree to such other waivers, limitations, and restrictions as the Company may reasonably require. Any transfer of the Award which is not made in compliance with this Agreement shall be null and void and of no effect.

6. **Tax Advice**. The Director acknowledges that none of the Company or any affiliate or their agents, employees or representatives have made any warranties or representations to the Director with respect to the income tax consequences of the transactions contemplated by this Agreement, and the Director is in no manner relying on the Company or its agents, employees or representatives for an assessment of such tax consequences. The Director should rely on the Director's own tax advisors for such advice.

7. **Taxes**. The Director is solely responsible for any taxes, interest or penalties with respect to the issuance, vesting or disposition of the Award.

8. **Remedies**. The Director shall be liable to the Company for all costs and damages, including incidental and consequential damages, resulting from a disposition of the Award which is in violation of the provisions of this Agreement. Without limiting the generality of the foregoing, the Director agrees that the Company shall be entitled to obtain specific performance of the obligations of the Director under this Agreement and immediate injunctive relief in the event any action or proceeding is brought in equity to enforce the same. The Director will not urge as a defense that there is an adequate remedy at law.

9. **Notices**. Any notice or communication required or permitted to be given to any party under this Agreement shall be in writing and shall be deemed to have been duly given or made: (a) if delivered personally by courier or otherwise, then as of the date delivered or if delivery is refused, then as of the date presented; (b) if sent or mailed by reputable overnight courier service to the Company at its principal office address and to the Director at his address appearing in the current records of the Company, then as of the first business day after the date so sent; (c) if sent or mailed by certified U.S. Mail, return receipt requested, to the Company at its principal office address and to the Director at his address appearing in the current records of the Company, then as of the third business day after the date so mailed or (d) if by email to the Company at [______] and to the Director at his email address appearing in the current records of the Company, then as of the date and time emailed. The address or email address to which notices to a party shall be sent may be changed by such party from time to time by written notice to the other party.

10. **Successors and Assigns**. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon, and inure to the benefit of, the executors, administrators, heirs, legal representatives, successors and assigns of the parties hereto, including, without limitation, any business entity that succeeds to the business of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon the Director and his or her heirs, executors, administrators, successors and assigns.

11. **Interpretation**. The Director hereby acknowledges that all decisions, determinations and interpretations of the Administrator in respect of this Agreement and the Award shall be final and conclusive.

12. **Delays or Omissions**. No delay or omission to exercise any right, power or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, must be in a writing signed by such party and shall be effective only to the extent specifically set forth in such writing.

13. **Entire Agreement; Amendments and Waivers**. This Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. This Agreement may not be amended except in an instrument in writing signed on behalf of each of the parties hereto and approved by the Board. No amendment, supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby.

14. **Clawback**. The Award and any portion thereof, whether or not vested, shall be subject to any clawback or recoupment policy established by the Company or that may be required by applicable law. In the event that any portion of the Award is forfeited, any dividends or other distributions with respect to such shares also shall be forfeited. Upon notice by the Administrator, the Director shall deliver to the Company any applicable stock certificates and any dividends or other distributions received by the Director relating to the forfeited Award or portion of the Award.

15. **Invalidity**. If for any reason one or more of the provisions contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, then to the maximum extent permitted by law, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument.

16. **Titles**. The titles, captions or headings of the Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

17. **No Right to Continued Service**. This Agreement shall **NOT** confer upon the Director any right to continue as a director of or Service Provider to the Company. Further, nothing in this Agreement shall be construed to limit the discretion of the Company or its shareholders to terminate the Director's service at any time and for any reason.

18. **Governing Law**. This Agreement shall be governed by and construed in accordance with the laws of the State of Utah, with regard to the conflict of laws principles thereof.

19. **Titles**. The titles, captions or headings of the Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

20. **Counterparts**. This Agreement may be executed in any number of counterparts, any of which may be executed and transmitted by facsimile, by email in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, and each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

21. **Director Acknowledgment**. The Director hereby acknowledges (i) receipt of a copy of the Plan, (ii) that all decisions, determinations and interpretations of the Administrator in respect of the Plan, this Agreement and the Award shall be final and conclusive and (iii) that any shares of Common Stock acquired pursuant to the Award are being acquired for the Employee's own account and not with a view to distribution.

***[Signature Page Follows]***

IN WITNESS WHEREOF, the parties hereto have executed this Restricted Stock Agreement as of the day and year first above written.

**FINWISE BANCORP**, a Utah corporation

By: ______________________
Name:
Title:

The Director hereby accepts and agrees to be bound by all of the terms and conditions of this Agreement.

__________________________
[Name]

**Exhibit 31.1**

**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 statement 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 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 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.

FINWISE BANCORP

Date: November 12, 2024

By: /s/ Kent Landvatter
Kent Landvatter
Chief Executive Officer

**Exhibit 31.2**

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

I, Robert Wahlman, 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 statement 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 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 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.

FINWISE BANCORP

Date: November 12, 2024

By: /s/ Robert Wahlman
Robert Wahlman
Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**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 September 30, 2024, 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; 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 part of the Report or as a separate disclosure document.

FINWISE BANCORP

| | | | |
|---|---|---|---|
| Date: | November 12, 2024 | By: | /s/ Kent Landvatter |
| | | | Kent Landvatter |
| | | | Chief Executive Officer |
| Date: | November 12, 2024 | By: | /s/ Robert Wahlman |
| | | | Robert Wahlman |
| | | | Executive Vice President and Chief Financial Officer |