

**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, 2023

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-40721

**FINWISE BANCORP**

(Exact Name of Registrant as Specified in its Charter)

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

83-0356689  
(I.R.S. Employer  
Identification No.)  
  
84107  
(Zip Code)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 9, 2023, the registrant had 12,493,565 shares of common stock, \$0.001 par value per share, outstanding.



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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the success of the financial technology industry, the development and acceptance of which is subject to a high degree of uncertainty, as well as the continued evolution of the regulation of this industry;
- the ability of our Strategic Program service providers to comply with regulatory regimes, including laws and regulations applicable to consumer credit transactions, and our ability to adequately oversee and monitor our Strategic Program service providers;
- our ability to maintain and grow our relationships with our Strategic Program service providers;
- 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;
- our reliance on third-party service providers for core systems support, informational website hosting, internet services, online account opening and other processing services;
- general economic conditions, either nationally or in our market areas (including interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation and deflation), that impact the financial services industry and/or our business;
- increased competition in the financial services industry, particularly from regional and national institutions and other companies that offer banking services;
- our ability to measure and manage our credit risk effectively and the potential deterioration of the business and economic conditions in our primary market areas;
- the adequacy of our risk management framework;
- the adequacy of our allowance for credit losses (“ACL”);
- the financial soundness of other financial institutions;
- new lines of business or new products and services;
- changes in Small Business Administration (“SBA”) rules, regulations and loan products, including specifically the Section 7(a) program, changes in SBA standard operating procedures or changes to the status of the Bank as an SBA Preferred Lender;

- changes in the value of collateral securing our loans;
- possible increases in our levels of nonperforming assets;
- potential losses from loan defaults and nonperformance on loans;
- our ability to protect our intellectual property and the risks we face with respect to claims and litigation initiated against us;
- the inability of small- and medium-sized businesses to whom we lend to weather adverse business conditions and repay loans;
- our ability to implement aspects of our growth strategy and to sustain our historic rate of growth;
- our ability to continue to originate, sell and retain loans, including through our Strategic Programs;
- the concentration of our lending and depositor relationships through Strategic Programs in the financial technology industry generally;
- our ability to attract additional merchants and retain and grow our existing merchant relationships;
- interest rate risk associated with our business, including sensitivity of our interest earning assets and interest bearing liabilities to interest rates, and the impact to our earnings from changes in interest rates;
- the effectiveness of our internal control over financial reporting and our ability to remediate any future material weakness in our internal control over financial reporting;
- potential exposure to fraud, negligence, computer theft and cyber-crime and other disruptions in our computer systems relating to our development and use of new technology platforms;
- our dependence on our management team and changes in management composition;
- the sufficiency of our capital, including sources of capital and the extent to which we may be required to raise additional capital to meet our goals;
- compliance with laws and regulations, supervisory actions, the Dodd-Frank Act, capital requirements, the Bank Secrecy Act, anti-money laundering laws, predatory lending laws, and other statutes and regulations;
- our ability to maintain a strong core deposit base or other low-cost funding sources;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our ACL or to write-down assets;
- our involvement from time to time in legal proceedings, examinations and remedial actions by regulators;
- further government intervention in the U.S. financial system;
- changes in political conditions, including any prolonged U.S. government shutdown;
- natural disasters and adverse weather, acts of terrorism, pandemics, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control;
- compliance with requirements associated with being a public company;
- level of coverage of our business by securities analysts;
- future equity and debt issuances;
- the possibility that the proposed acquisition of BFG equity interests does not close when expected or at all because required regulatory approvals are not received or other conditions to closing are not satisfied on a timely basis or at all;

- that we may be required to modify the terms and conditions of the proposed acquisition to obtain regulatory approval;
- that the anticipated benefits of the proposed acquisition 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 BFG do business; and
- other factors listed from time to time in the Company’s filings with the Securities and Exchange Commission (the “SEC”), including, without limitation, this Report, the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “2022 Form 10-K”) and subsequent reports on Form 10-Q and Form 8-K.

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

**PART I**

**Item 1. Financial Statements**

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

	September 30, 2023	December 31, 2022
<b>ASSETS</b>		
Cash and cash equivalents		
Cash and due from banks	\$ 379	\$ 386
Interest-bearing deposits	126,392	100,181
Total cash and cash equivalents	126,771	100,567
Investment securities held-to-maturity, at cost	15,840	14,292
Investment in Federal Home Loan Bank (FHLB) stock, at cost	476	449
Strategic Program loans held-for-sale, at lower of cost or fair value	45,710	23,589
Loans receivable, net	324,197	224,217
Premises and equipment, net	14,181	9,478
Accrued interest receivable	2,711	1,818
Deferred taxes, net	—	1,167
SBA servicing asset, net	4,398	5,210
Investment in Business Funding Group (BFG), at fair value	4,000	4,800
Operating lease right-of-use (“ROU”) assets	4,481	5,041
Income taxes receivable, net	1,134	—
Other assets	11,157	10,152
<b>Total assets</b>	<b>\$ 555,056</b>	<b>\$ 400,780</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 94,268	\$ 78,817
Interest-bearing	292,485	164,181
Total deposits	386,753	242,998
Accrued interest payable	581	54
Income taxes payable, net	—	1,077
Deferred taxes, net	234	—
PPP Liquidity Facility	221	314
Operating lease liabilities	6,545	7,020
Other liabilities	10,320	8,858
<b>Total liabilities</b>	<b>404,654</b>	<b>260,321</b>
<b>Commitments and contingencies (Note 7)</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$0.001 par value, 4,000,000 authorized; no shares issued and outstanding as of September 30, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value, 40,000,000 shares authorized; 12,493,565 and 12,831,345 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	12	13
Additional paid-in-capital	50,703	54,614
Retained earnings	99,687	85,832
Total shareholders' equity	150,402	140,459
<b>Total liabilities and shareholders' equity</b>	<b>\$ 555,056</b>	<b>\$ 400,780</b>

*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)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Interest income</b>				
Interest and fees on loans	\$ 15,555	\$ 12,481	\$ 42,252	\$ 38,501
Interest on securities	88	52	237	135
Other interest income	1,569	290	3,993	423
Total interest income	17,212	12,823	46,482	39,059
<b>Interest expense</b>				
Interest on deposits	2,801	303	6,290	808
Interest on PPP Liquidity Facility	—	1	—	2
Total interest expense	2,801	304	6,290	810
<b>Net interest income</b>	<b>14,411</b>	<b>12,519</b>	<b>40,192</b>	<b>38,249</b>
Provision for credit losses	3,070	4,457	8,429	10,317
Net interest income after provision for loan losses	11,341	8,062	31,763	27,932
<b>Non-interest income</b>				
Strategic Program fees	3,945	5,136	11,684	17,980
Gain on sale of loans, net	357	1,923	1,244	9,387
SBA loan servicing fees	199	327	1,016	1,056
Change in fair value on investment in BFG	(500)	(100)	(800)	(1,400)
Other miscellaneous income	1,228	237	1,900	613
Total non-interest income	5,229	7,523	15,044	27,636
<b>Non-interest expense</b>				
Salaries and employee benefits	6,416	5,137	18,354	18,684
Professional services	750	1,701	3,529	3,845
Occupancy and equipment expenses	958	540	2,388	1,261
(Recovery) impairment of SBA servicing asset	337	(127)	(255)	949
Other operating expenses	1,609	1,218	4,790	3,797
Total non-interest expense	10,070	8,469	28,806	28,536
<b>Income before income tax expense</b>	<b>6,500</b>	<b>7,116</b>	<b>18,001</b>	<b>27,032</b>
Provision for income taxes	1,696	3,462	4,698	8,462
<b>Net income</b>	<b>\$ 4,804</b>	<b>\$ 3,654</b>	<b>\$ 13,303</b>	<b>\$ 18,570</b>
Earnings per share, basic	\$ 0.38	\$ 0.28	\$ 1.04	\$ 1.45
Earnings per share, diluted	\$ 0.37	\$ 0.27	\$ 1.01	\$ 1.37
Weighted average shares outstanding, basic	12,387,392	12,784,298	12,565,218	12,727,555
Weighted average shares outstanding, diluted	12,868,207	13,324,059	13,008,833	13,404,564

*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, 2022**

Common Stock				Additional			Total
Shares	Amount	13	\$	Paid-In	Retained	Shareholders'	Equity
Balance at June 30, 2022	12,884,821	\$	13	\$	55,015	\$	130,537
Stock-based compensation expense	—		—		308		308
Common stock repurchased	(20,000)		—		(210)		(214)
Net Income	—		—		—	3,654	3,654
<b>Balance at September 30, 2022</b>	<b>12,864,821</b>	<b>\$</b>	<b>13</b>	<b>\$</b>	<b>55,113</b>	<b>\$</b>	<b>134,285</b>

**Nine Months Ended September 30, 2022**

Common Stock				Additional			Total
Shares	Amount	13	\$	Paid-In	Retained	Shareholders'	Equity
Balance at January 1, 2022	12,772,010	\$	13	\$	54,836	\$	115,442
Stock-based compensation expense	96,011		—		447		447
Common stock repurchased	(20,000)		—		(210)		(214)
Stock options exercised	16,800		—		40		40
Net Income	—		—		—	18,570	18,570
<b>Balance at September 30, 2022</b>	<b>12,864,821</b>	<b>\$</b>	<b>13</b>	<b>\$</b>	<b>55,113</b>	<b>\$</b>	<b>134,285</b>

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

**Three Months Ended September 30, 2023**

Common Stock				Additional			Total
Shares	Amount	13	\$	Paid-In	Retained	Shareholders'	Equity
Balance at June 30, 2023	12,723,703	\$	13	\$	52,625	\$	147,448
Stock-based compensation expense	—		—		499		499
Common stock repurchased	(230,978)		(1)		(2,425)		(2,353)
Stock options exercised	840		—		4		4
Net Income	—		—		—	4,804	4,804
<b>Balance at September 30, 2023</b>	<b>12,493,565</b>	<b>\$</b>	<b>12</b>	<b>\$</b>	<b>50,703</b>	<b>\$</b>	<b>150,402</b>

**Nine Months Ended September 30, 2023**

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

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

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

	For the Nine Months Ended September 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,303	\$ 18,570
<b>Adjustments to reconcile net income to net cash from operating activities</b>		
Depreciation and amortization	2,844	1,345
Provision for credit losses	8,429	10,317
Noncash operating lease cost	560	689
Net amortization in securities discounts and premiums	—	26
Capitalized servicing assets	(150)	(3,164)
Gain on sale of loans, net	(1,244)	(9,387)
Originations of Strategic Program loans held-for-sale	(2,929,506)	(5,863,965)
Proceeds on Strategic Program loans held-for-sale	2,907,384	5,881,107
Change in fair value of BFG	800	1,400
(Recovery) impairment of SBA servicing asset	(255)	949
Stock-based compensation expense	1,549	447
Deferred income tax benefit	1,401	(341)
<b>Net changes in:</b>		
Accrued interest receivable	(892)	(124)
Accrued interest payable	526	(18)
Other assets	(2,122)	(9)
Operating lease liabilities	(475)	(131)
Other liabilities	385	(960)
Net cash provided by operating activities	2,538	36,751
<b>Cash flows from investing activities:</b>		
Net (increase) decrease in loans receivable	(85,325)	7,309
Purchase of lease pools	(22,052)	(7,857)
Investment in equity investment	(18)	(191)
Purchase of bank premises and equipment, net	(6,329)	(6,771)
Proceeds from maturities and paydowns of securities held-to-maturity	1,392	1,413
Purchases of securities held to maturity	(2,939)	(3,941)
Purchase of FHLB stock	(27)	(71)
Net cash used in investing activities	(115,298)	(10,109)
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	143,755	(19,054)
Common stock repurchased	(4,741)	(214)
Proceeds from exercise of stock options	44	40
Repayment of PPP Liquidity Facility	(93)	(705)
Net cash provided by (used in) financing activities	138,965	(19,933)
<b>Net change in cash and cash equivalents</b>	<b>26,204</b>	<b>6,709</b>
Cash and cash equivalents, beginning of the period	100,567	85,754
Cash and cash equivalents, end of the period	\$ 126,771	\$ 92,463
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period</b>		
Income taxes	\$ 5,050	\$ 7,257
Interest	\$ 5,764	\$ 828
<b>Supplemental disclosures of noncash operating activities:</b>		
Right-of-use assets obtained in exchange for operating lease liabilities (ASC 842 adoption effective January 1, 2022)	\$ —	\$ 7,380

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

## Note 1 – Summary of Significant Accounting Policies

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

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

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

**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”) and include the activity of the Company and its wholly owned subsidiaries, FinWise Investment, LLC and the Bank. 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 presentation 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, 2023 are not necessarily indicative of the results of operations that may be expected for subsequent periods or the full year results. The unaudited consolidated financial statements presented should be read in conjunction with the Company’s audited consolidated financial statements and notes to the audited consolidated financial statements included in the Company’s December 31, 2022 Annual Report on Form 10-K. Certain prior period amounts have been reclassified to conform to current period presentation.

The Company has evaluated subsequent events for potential recognition and/or disclosure in this Quarterly Report on Form 10-Q through the date these consolidated financial statements were issued.

**Out-of-period adjustments** – During the first quarter of 2022, we recognized a \$(0.8) million (\$0.6 million net of tax) reduction of interest and fees on loans and loans receivable, net as an out-of-period adjustment. The impact associated with this correction was not considered material to the interim unaudited consolidated financial statements for the three and nine months ended September 30, 2022, year ended December 31, 2022, or the financial statements of any previously filed interim or annual periods.

During the third quarter of 2022, the Company identified an error in the calculation of the Company’s tax provision which understated income tax expense for previously reported financial statements. The error was related to an incorrect application of Section 162(m) of the Internal Revenue Code, which limits tax deductions relating to executive compensation of certain executives of publicly held companies. The Company recorded an out-of-period adjustment during the third quarter of 2022 to correct the previously understated income tax expense. The adjustment resulted in a decrease to after-tax income of \$(0.9) million for the year ended December 31, 2022. The impact associated with this correction was not considered material to the interim unaudited consolidated financial statements for the three months ended September 30, 2022, year ended December 31, 2022, or the financial statements of any previously filed interim or annual periods.

During the fourth quarter of 2022, the Company established a new loan trailing fee asset which is included in “Other assets” on the Consolidated Balance Sheets of approximately \$2.3 million and recognized \$2.1 million in gain on sale of loans (\$1.5 million net of tax) as an out-of-period adjustment of which \$1.2 million (\$0.9 million net of tax) would have been recorded in the first three quarters of 2022 with the remaining \$0.9 million (\$0.6 million net of tax) associated with years prior to 2022. Before this correction, the loan trailing fees had been recognized in revenue during the month payment

was owed by the Strategic Program rather than as a gain to be recognized upon sale of the loan receivables. The impact associated with this correction was not considered material to the interim unaudited consolidated financial statements for the three and nine months ended December 31, 2022, year ended December 31, 2022, or the financial statements of any previously filed interim or annual periods.

**Cash and Cash Equivalents** – For purposes of reporting cash flows, the Company defines cash and cash equivalents as cash, cash due from banks, interest-bearing deposits in other banks, other interest-bearing deposits, and federal funds sold.

**Loans Receivable** – Loans receivable are reported at their outstanding principal adjusted for any charge-offs, the allowance for credit losses, and deferred fees and costs. Loan origination fees, net of certain direct origination costs, if any, are deferred and recognized on an adjustment of the related loan yield using an effective-yield method over the contractual life of the loan. Interest income on loans is recognized on an accrual basis commencing in the month of origination using the interest method. Delinquency fees are recognized in income when chargeable and when collectability is reasonably assured.

The Company requires most loans to be substantially collateralized by real estate, equipment, vehicles, accounts receivable, inventories or other tangible or intangible assets. Real estate collateral is generally in the form of first and second mortgages on various types of property. The Company also originates unsecured loans to consumers and businesses.

The Company may change its intent from holding loans for investment and reclassify them as held-for-sale.

**Loans Held For Sale** - Loans held-for-sale are carried at the lower of aggregate cost and fair value. Gains and losses are recorded in non-interest income based on the difference between sales proceeds and carrying value.

**Nonaccrual Loans** – The Company's policy is to place loans on a nonaccrual status when: 1) payment is in default for 90 days or more unless the loan is well secured and in the process of collection; or 2) full repayment of principal and interest is not foreseen. When a loan is placed on nonaccrual status, all accrued and uncollected interest on that loan is reversed. Past-due interest received on nonaccrual loans is not recognized in interest income but is applied as a reduction of the outstanding principal of the loan. A loan is relieved of its nonaccrual status when all principal and interest payments are brought current, the loan is well secured, and an analysis of the borrower's financial condition provides reasonable assurance that the borrower can repay the loan as scheduled.

**Stock Repurchase Program** – On August 18, 2022, the Company announced that its Board of Directors (the “Board”) had authorized, effective August 16, 2022, a common stock repurchase program to purchase up to 644,241 shares of the Company’s common stock in the aggregate. The repurchase program authorized 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. The authorization permitted management to repurchase shares of the Company’s common stock from time to time at management’s discretion. 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 actual means and timing of any shares purchased under the program depended on a variety of factors, including the market price of the Company’s common stock, general market and economic conditions, and applicable legal and regulatory requirements. The repurchase program did not obligate the Company to purchase any particular number of shares. As of September 30, 2023, the Company has repurchased a total of 644,241 shares for \$5.9 million and retired them at cost thereby completing the Company's share repurchase program.

**Revenue from Contracts with Customers** – The Company applies the provisions of ASC 606, Revenue from Contracts with Customers (“ASC 606”). The core principle of this standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Services that the Company reports as part of non-interest income are subject to ASC 606 and include fees from its deposit customers for transaction-based activities, account maintenance charges and overdraft services. Transaction-based fees, such as ACH and wire transfer fees, overdraft, return and stop payment charges, are recognized at the time such transactions are executed and the services have been fulfilled by the Company. The fees are typically withdrawn from the customer’s deposit account balance. The Company also receives fees from third-parties in its Strategic Programs for setting up systems and procedures to efficiently originate loans in a convenient, compliant and safe manner. Because the third-party simultaneously receives and benefits from the services,

revenue is recognized evenly over the term of the loan program. Program Fees received in connection with the Company's Strategic Programs are recorded at the time services are provided.

**Segment Reporting** – Operating segments are components of a business where separate financial information is available and evaluated regularly by the chief operating decision makers ("CODMs") in deciding how to allocate resources and in assessing performance. ASC Topic 280, *Segment Reporting*, requires information to be reported about a company's operating segments using a "management approach", meaning it is based on the way management organizes segments internally to make operating decisions and assess performance. Based on this guidance, the Company has one reportable operating segment, the Bank.

### **Recently adopted accounting pronouncements**

**Allowance for Credit Losses:** On January 1, 2023, the Company adopted ASU 2016-13, *Topic 326* which replaced the incurred loss methodology with CECL for financial instruments measured at amortized cost and other commitments to extend credit. CECL requires the immediate recognition of estimated credit losses expected to occur over the estimated remaining life of the asset. The forward-looking concept of CECL requires loss estimates to consider historical experience, current conditions and reasonable and supportable economic forecasts of future events and circumstances.

The allowance for credit losses ("ACL") on loans held for investment is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "other liabilities" on the Consolidated Balance Sheets. 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. 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.

#### *ACL in accordance with CECL methodology*

With respect to the Bank's core portfolio which consists of SBA 7(a), local lending, retail point of sale, and equipment finance and leasing, the Bank pools similar loans that are collectively evaluated and determines an appropriate level of general allowance by portfolio segment using a non-discounted cash flow model taking into account probability of default, loss in the event of default, and prepayment speed estimates based on industry specific collected data. The model captures losses over the historical charge-off and prepayment cycle and applies those losses at a loan level over the remaining maturity of the loan. The model then calculates a historical loss rate using the average losses over the reporting period, which is then applied to each segment utilizing a standard reversion rate. With respect to the Bank's active retained Strategic Program loan portfolio, the Bank is using a methodology that compares the actual loan performance of a vintage to the worst performing loans within that vintage, known as the high-water mark. The Bank records the expected credit losses based on the high-water mark loss rate. With respect to the Bank's inactive retained Strategic Program loan portfolio, performance data at the summary level provided by the Strategic Programs is banded by credit profile and original loan term and compared to actual loan performance on a quarterly basis. The expected loss rate is supplemented with adjustments for reasonable and supportable forecasts of relevant economic indicators, including but not limited to national unemployment rate forecasts. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. Also included in the ACL are qualitative factors based on the risks present for each portfolio segment. These qualitative factors include the following that are derived from the Interagency Policy Statement on Allowance for Credit Losses: changes in lending policies and procedures; changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the loan portfolio; changes in the nature and volume of the loan portfolio and in the terms of loans; changes in the experience, ability, and depth of lending management and staff; changes in the volume and severity of past due loans, nonaccrual loans, and classified or graded loans; changes in the quality of the Bank's loan review system; changes in the value of underlying collateral for loans that are not collateral-dependent; changes in the level of concentration of credit; changes in the effect of competition, legal, and regulatory requirements on the level of estimated credit losses; and, if applicable, changes in the composition and volume of the loan portfolio due to mergers, acquisitions, and other significant transactions not considered elsewhere. The Bank also considers as an additional qualitative factor any lingering "ripple" effects of the Covid-19 pandemic, including lasting changes to consumer behavior, lending, and society at large. It is also possible that these factors could include social, political, economic, and terrorist events or activities. All of these factors are susceptible to change, which may be significant.

When management identifies loans that do not share common risk characteristics (i.e., are not similar to other loans within a pool) they are evaluated on an individual basis. These loans are not included in the collective evaluation. For loans identified as having a likelihood of foreclosure or that the borrower is experiencing financial difficulty, a collateral dependent approach is used. These are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient method to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The CECL methodology requires a significant amount of management judgment in determining the appropriate allowance for credit losses. Several of the steps in the methodology involve judgment and are subjective in nature including, among other things: segmenting the loan portfolio; determining the amount of loss history to consider; selecting predictive econometric regression models that use appropriate macroeconomic variables; determining the methodology to forecast prepayments; selecting the most appropriate economic forecast scenario; determining the length of the reasonable and supportable forecast and reversion periods; estimating expected utilization rates on unfunded loan commitments; and assessing relevant and appropriate qualitative factors. In addition, the CECL methodology is dependent on economic forecasts, which are inherently imprecise and will change from period to period. Although the allowance for credit losses is considered appropriate, there can be no assurance that it will be sufficient to absorb future losses.

In determining an appropriate amount for the allowance, the Bank segments and aggregates the loan portfolio based on common characteristics. The following segments have been identified:

Commercial Real Estate. These loans are generally secured by owner-occupied nonfarm, nonresidential properties, or by other nonfarm, nonresidential properties. Owner-occupied commercial real estate loans are typically repaid first by the cash flows generated by the underlying business. Factors that may influence a business' cash flows include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions. Non-owner occupied commercial real estate loans are generally considered to have a higher degree of credit risk as they may be dependent on the ongoing success and operating viability of a fewer number of tenants who are occupying the property and who may have a greater degree of exposure to economic conditions.

Commercial and Industrial. These loans are generally secured by business assets such as furniture, fixtures, equipment, accounts receivable, inventory, business vehicles, and other business personal property. Commercial and industrial loans are typically repaid first by the cash flows generated by the borrower's business operations. The primary risk characteristics are specific to the underlying business and its ability to generate sustainable profitability and resulting positive cash flows. Factors that may influence a business' profitability include, but are not limited to, demand for its products or services, quality and depth of management, degree of competition, regulatory changes, and general economic conditions.

Lease Financing Receivables. Equipment financing and leasing typically involve the use of equipment as collateral for the loan. If the borrower defaults on the loan, the Bank may need to repossess and sell the equipment to recover the outstanding debt. However, the value of the equipment may depreciate over time, or disappear, making it difficult for the Bank to recover the full amount of the loan. In equipment leasing, the residual value of the equipment is an important consideration. The residual value is the estimated value of the equipment at the end of the lease term. If the actual value of the equipment is lower than the residual value, the lessor may not be able to recover the full amount of the lease payments.

Construction and Land Development. Risks common to construction loans are cost overruns, changes in market demand for property, supply chain interruption affecting construction materials, inadequate long-term financing arrangements and declines in real estate values. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates. Risks common to residential lot loans are those similar to other types of real estate construction loans, as many customers finance the purchase of improved lots in anticipation of constructing a 1 to 4 family residence. Accordingly, common risks are changes in market demand for property, supply chain interruption affecting construction materials, inadequate long-term financing arrangements and declines in real estate values. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values and higher interest rates.

**Consumer.** These are loans to individuals for household, family, and other personal expenditures. Consumer loans generally have higher interest rates and shorter terms than residential loans but tend to have higher credit risk due to the type of collateral securing the loan or in some cases the absence of collateral.

**Residential Real Estate.** These loans are generally secured by 1 to 4 family residential properties. The primary risk characteristics associated with residential mortgage loans typically involve: major living or lifestyle changes to the borrower, including unemployment or other loss of income; unexpected significant expenses, such as for major medical issues or catastrophic events; and divorce or death. In addition, residential mortgage loans that have adjustable rates could expose the borrower to higher debt service requirements in a rising interest rate environment. Further, real estate values could drop significantly and cause the value of the property to fall below the loan amount, creating additional potential loss exposure for the Bank.

**Residential Real Estate Multifamily.** Risks common to multifamily loans are poor management, high vacancy rates and regulatory changes. The value of multi-family properties can be impacted by changes in the local real estate market. If property values decline, the Bank may not be able to recover the full amount of the loan if the property needs to be foreclosed.

**Strategic Program Loans.** Unsecured consumer loans and secured or unsecured business loans issued by the Company through these programs generally follow and are limited to specific predetermined underwriting criteria. Strategic Program loans cover a wide range of borrower credit profiles, loan terms and interest rates. Strategic Program loans generally have higher interest rates and shorter terms similar to consumer loans and tend to have higher credit risk due to the type of collateral securing the loan or in most cases the absence of collateral.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and modifications. The Company adopted ASU 2022-02 on January 1, 2023. Effective January 1, 2023 loan modifications to borrowers experiencing financial difficulty are required to be disclosed by type of modification and by type of loan. Prior accounting guidance classified loans which were modified as troubled debt restructurings only if the modification reflected a concession from the lender in the form of a below market interest rate or other concession in addition to borrower financial difficulty. Under the new guidance, loans with modifications will be reported whether a concession is made or not. In the first nine months of 2023, there were no loan modifications which were subject to the new reporting.

On October 9, 2023, the FASB issued ASU 2023-06, “Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification of Initiative.” ASU 2023-06 amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification (the “Codification”). The ASU was issued in response to the SEC’s August 2018 final rule that updated and simplified disclosure requirements that the SEC believed were “redundant, duplicative, overlapping, outdated, or superseded.” The new guidance is intended to align U.S. GAAP requirements with those of the SEC and to facilitate the application of U.S. GAAP for all entities. ASU 2023-06 applies to all reporting entities within the scope of the amended subtopics. Note that some of the amendments introduced by the ASU are technical corrections or clarifications of the FASB’s current disclosure or presentation requirements. The effective date for each amendment of ASU 2023-06 will be the date on which the SEC’s removal of that related disclosure requirement from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company will apply the amendments in ASU 2023-06 prospectively after the effective dates. The Company is evaluating the effect that ASU 2023-06 will have on its consolidated financial statements and related disclosures.

### **Enactment of the Inflation Reduction Act of 2022**

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act (IRA) which, among other changes, created a new corporate alternative minimum tax (AMT) based on adjusted financial statement income and imposes a 1% excise tax on corporate stock repurchases. The effective date of these provisions is January 1, 2023. The Company is aware of the effects that the enactment of the IRA will have on its consolidated financial statements. If expected stock repurchases are likely to be more than the exemption threshold, we will account for them in our tax provision.

**Note 2 – Investments**
**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 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 held-to-maturity securities at September 30, 2023 and December 31, 2022, are summarized as follows:

	<b>September 30, 2023</b>			
(\$ in thousands)	<b>Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>
Mortgage-backed securities	\$ 7,230	\$ —	\$ (1,042)	\$ 6,188
Collateralized mortgage obligations	8,610	—	(931)	7,679
<b>Total securities held-to-maturity</b>	<b>\$ 15,840</b>	<b>\$ —</b>	<b>\$ (1,973)</b>	<b>\$ 13,867</b>

	<b>December 31, 2022</b>			
(\$ in thousands)	<b>Amortized Cost</b>	<b>Unrealized Gain</b>	<b>Unrealized Loss</b>	<b>Estimated Fair Value</b>
Mortgage-backed securities	\$ 8,087	\$ 5	\$ (825)	\$ 7,267
Collateralized mortgage obligations	6,205	—	(744)	5,461
<b>Total securities held-to-maturity</b>	<b>\$ 14,292</b>	<b>\$ 5</b>	<b>\$ (1,569)</b>	<b>\$ 12,728</b>

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

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

The Company had twenty securities, consisting of eleven collateralized mortgage obligations and nine mortgage-backed securities, in an unrealized loss position at September 30, 2023 and seventeen securities, consisting of eight collateralized mortgage obligations and nine mortgage-backed securities, in an unrealized loss position at December 31, 2022, as summarized in the following tables:

	<b>September 30, 2023</b>					
(\$ in thousands)	<b>Less than 12 months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Mortgage-backed securities	\$ 722	\$ (34)	\$ 5,466	\$ (1,008)	\$ 6,188	\$ (1,042)
Collateralized mortgage obligations	3,440	(98)	3,237	(833)	6,677	(931)
<b>Total securities held-to-maturity</b>	<b>\$ 4,162</b>	<b>\$ (132)</b>	<b>\$ 8,703</b>	<b>\$ (1,841)</b>	<b>\$ 12,865</b>	<b>\$ (1,973)</b>

(\$ in thousands)	December 31, 2022					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$ 2,374	\$ (190)	\$ 3,962	\$ (635)	\$ 6,336	\$ (825)
Collateralized mortgage obligations	2,752	(96)	2,709	(648)	5,461	(744)
Total securities held-to-maturity	\$ 5,126	\$ (286)	\$ 6,671	\$ (1,283)	\$ 11,797	\$ (1,569)

The amortized cost and estimated market value of debt securities at September 30, 2023 and December 31, 2022, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(\$ in thousands)	September 30, 2023		December 31, 2022	
	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	2,912	2,677	3,388	3,202
Due after ten years	12,928	11,190	10,904	9,526
Total Securities held-to-maturity	\$ 15,840	\$ 13,867	\$ 14,292	\$ 12,728

At September 30, 2023, held-to-maturity securities in the amount of \$14.2 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, 2023 or 2022.

#### **FHLB stock**

The Bank is a member of the FHLB system. Members are required to own FHLB stock of at least the greater of 1% of FHLB membership asset value or 2.70% of outstanding FHLB advances. At September 30, 2023 and December 31, 2022, the Bank owned \$0.5 million and \$0.4 million, respectively, of FHLB stock, which is carried at cost. The Company evaluated the carrying value of its FHLB stock investment at September 30, 2023 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, 2023 and December 31, 2022, consisted of the following:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<i>(\$ in thousands)</i>		
SBA <sup>(1)</sup>	\$ 219,305	\$ 145,172
Commercial, non-real estate	34,044	11,484
Residential real estate	34,891	37,815
Strategic Program loans	20,040	24,259
Commercial real estate	21,680	12,063
Consumer	7,675	5,808
Total loans held for investment	\$ 337,635	\$ 236,601
Deferred loan fees, net	(452)	(399)
Allowance for credit losses <sup>(2)</sup>	(12,986)	(11,985)
Net loans	\$ 324,197	\$ 224,217

(1) Included in the SBA loans held for investment above are \$112.5 million and \$49.5 million of loans guaranteed by the SBA as of September 30, 2023 and December 31, 2022, respectively.

(2) The Company adopted ASU 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

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

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

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

Each Strategic Program establishes a “reserve” deposit account with the Company. The agreements generally require that the 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 Programs at the Company at September 30, 2023 and December 31, 2022, was \$29.1 million and \$16.6 million, respectively.

Strategic Program loans retained and held-for-sale as of September 30, 2023 and December 31, 2022, are summarized as follows:

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<i>(\$ in thousands)</i>		
Retained Strategic Program loans	\$ 20,040	\$ 24,259
Strategic Program loans held-for-sale	45,710	23,589
Total Strategic Program loans	<u>\$ 65,750</u>	<u>\$ 47,848</u>

**Allowance for Credit Losses**

In determining an appropriate amount for the allowance, the Bank segmented and aggregated the loan portfolio based on the Federal Deposit Insurance Corporation ("FDIC") Consolidated Reports of Condition and Income ("Call Report") codes. The following pool segments identified as of September 30, 2023 are based on the CECL methodology:

<i>(\$ in thousands)</i>		
Construction and land development	\$	26,668
Residential real estate		49,046
Residential real estate multifamily		602
Commercial real estate		183,579
Commercial and industrial		19,364
Consumer		6,870
Lease financing receivables		31,466
Retained Strategic Program loans		20,040
Total loans	<u>\$</u>	<u>337,635</u>

The portfolio classes identified as of December 31, 2022 are based on the incurred loss methodology and are segmented by general ledger classification as detailed below.

<i>(\$ in thousands)</i>		
SBA	\$	145,172
Commercial, non-real estate		11,484
Residential real estate		37,815
Retained Strategic Program loans		24,259
Commercial real estate		12,063
Consumer		5,808
Total loans	<u>\$</u>	<u>236,601</u>

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

<b>Three Months Ended September 30, 2023</b>					
<i>(\$ in thousands)</i>	<b>Beginning Balance</b>	<b>Provision for Credit Losses</b>	<b>Charge-Offs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
Construction and land development	\$ 279	\$ 14	\$ —	\$ —	\$ 293
Residential real estate	708	223	—	3	934
Residential real estate multifamily	6	—	—	—	6
Commercial real estate	3,167	46	(31)	389	3,571
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
<b>Total allowance for loan losses</b>	<b>\$ 12,321</b>	<b>\$ 2,910</b>	<b>\$ (2,914)</b>	<b>\$ 669</b>	<b>\$ 12,986</b>
Unfunded lending commitments	42	160	—	—	202
<b>Total allowance for credit losses</b>	<b>\$ 12,363</b>	<b>\$ 3,070</b>	<b>\$ (2,914)</b>	<b>\$ 669</b>	<b>\$ 13,188</b>

<b>Nine Months Ended September 30, 2023</b>						
<i>(\$ in thousands)</i>	<b>Beginning Balance</b>	<b>Impact of ASU 2016-13 adoption</b>	<b>Provision (Reversal) of Credit Losses</b>	<b>Charge-Offs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
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	3,238	(574)	671	(153)	389	3,571
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
<b>Total allowance for loan losses</b>	<b>\$ 11,985</b>	<b>\$ 257</b>	<b>\$ 8,253</b>	<b>\$ (8,801)</b>	<b>\$ 1,292</b>	<b>\$ 12,986</b>
Unfunded lending commitments	—	26	176	—	—	202
<b>Total allowance for credit losses</b>	<b>\$ 11,985</b>	<b>\$ 283</b>	<b>\$ 8,429</b>	<b>\$ (8,801)</b>	<b>\$ 1,292</b>	<b>\$ 13,188</b>

Activity in the allowance for loan losses by general ledger classification based on the incurred loss methodology was as follows:

<b>Three Months Ended September 30, 2022</b>					
<i>(\$ in thousands)</i>	<b>Beginning Balance</b>	<b>Provision (Reversal) of Loan Losses</b>	<b>Charge-Offs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
SBA	\$ 3,384	\$ 675	\$ (259)	\$ 9	\$ 3,809
Commercial, non-real estate	274	190	—	—	464
Residential real estate	415	38	—	—	453
Retained Strategic Program loans	6,442	3,542	(3,070)	233	7,147
Commercial real estate	22	7	—	—	29
Consumer	65	5	(4)	—	66
<b>Total allowance for loan losses</b>	<b>\$ 10,602</b>	<b>\$ 4,457</b>	<b>\$ (3,333)</b>	<b>\$ 242</b>	<b>\$ 11,968</b>

<b>Nine Months Ended September 30, 2022</b>					
<i>(\$ in thousands)</i>	<b>Beginning Balance</b>	<b>Provision (Reversal) of Loan Losses</b>	<b>Charge-Offs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
SBA	\$ 2,739	\$ 1,405	\$ (392)	\$ 57	\$ 3,809
Commercial, non-real estate	132	330	—	2	464
Residential real estate	352	101	—	—	453
Retained Strategic Program loans	6,549	8,465	(8,508)	641	7,147
Commercial real estate	21	8	—	—	29
Consumer	62	8	(4)	—	66
<b>Total allowance for loan losses</b>	<b>\$ 9,855</b>	<b>\$ 10,317</b>	<b>\$ (8,904)</b>	<b>\$ 700</b>	<b>\$ 11,968</b>

The following table presents the loan balances by portfolio class, based on impairment method, and the corresponding balances in the allowance as of December 31, 2022. For the year ended December 31, 2022, the allowance was calculated based on the incurred loss methodology.

(\$ in thousands)	Allowance for Loan Losses			Portfolio Loan Balances		
	Individually	Collectively	Total	Individually	Collectively	Total
SBA	\$ —	\$ 4,294	\$ 4,294	\$ 450	\$ 144,722	\$ 145,172
Commercial, non-real estate	—	401	401	—	11,484	11,484
Residential real estate	—	497	497	—	37,815	37,815
Retained Strategic Program loans	—	6,701	6,701	—	24,259	24,259
Commercial real estate	—	27	27	—	12,063	12,063
Consumer	—	65	65	—	5,808	5,808
<b>Total loans</b>	<b>\$ —</b>	<b>\$ 11,985</b>	<b>\$ 11,985</b>	<b>\$ 450</b>	<b>\$ 236,151</b>	<b>\$ 236,601</b>

The following table presents, under previously applicable GAAP, loans individually evaluated for impairment as of December 31, 2022:

(\$ in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
SBA	\$ 450	\$ 450	\$ —	\$ 711	\$ 36
Commercial, non-real estate	—	—	—	—	—
Residential real estate	—	—	—	—	—
Retained Strategic Program loans	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Consumer	—	—	—	—	—
<b>Total</b>	<b>\$ 450</b>	<b>\$ 450</b>	<b>\$ —</b>	<b>\$ 711</b>	<b>\$ 36</b>

Nonaccrual and past due loans are summarized below as of September 30, 2023 and December 31, 2022:

### September 30, 2023

<i>(\$ in thousands)</i>	<b>Current</b>	<b>30-59 Days Due Due</b>	<b>60-89 Days Due Due</b>	<b>90+ Days Past Due &amp; Still Accruing</b>	<b>Total Past Due</b>	<b>Non- Accrual<sup>(1)</sup></b>	<b>Total</b>
Construction and land development	\$ 26,371	\$ —	\$ —	\$ 297	\$ 297	\$ —	\$ 26,668
Residential real estate	48,928	—	—	—	—	118	49,046
Residential real estate multifamily	602	—	—	—	—	—	602
Commercial real estate	169,497	3,815	—	—	3,815	10,267	183,579
Commercial and industrial	19,323	20	—	—	20	21	19,364
Consumer	6,806	44	7	13	64	—	6,870
Lease financing receivables	31,466	—	—	—	—	—	31,466
Retained Strategic Program loans	18,262	950	770	58	1,778	—	20,040
<b>Total</b>	<b>\$ 321,255</b>	<b>\$ 4,829</b>	<b>\$ 777</b>	<b>\$ 368</b>	<b>\$ 5,974</b>	<b>\$ 10,406</b>	<b>\$ 337,635</b>

(1) Included in the nonaccrual loan balances are \$4.7 million of SBA 7(a) loan balances guaranteed by the SBA.

### December 31, 2022

<i>(\$ in thousands)</i>	<b>Current</b>	<b>30-59 Days Due Due</b>	<b>60-89 Days Due Due</b>	<b>90+ Days Past Due &amp; Still Accruing</b>	<b>Total Past Due</b>	<b>Non- Accrual</b>	<b>Total</b>
SBA	\$ 143,733	\$ 1,439	\$ —	\$ —	\$ 1,439	\$ —	\$ 145,172
Commercial, non-real estate	11,484	—	—	—	—	—	11,484
Residential real estate	37,387	428	—	—	428	—	37,815
Retained Strategic Program loans	22,080	1,184	802	193	2,179	—	24,259
Commercial real estate	12,063	—	—	—	—	—	12,063
Consumer	5,776	32	—	—	32	—	5,808
<b>Total</b>	<b>\$ 232,523</b>	<b>\$ 3,083</b>	<b>\$ 802</b>	<b>\$ 193</b>	<b>\$ 4,078</b>	<b>\$ —</b>	<b>\$ 236,601</b>

There was no interest income for the nine months ended September 30, 2023 and 2022, recognized on nonaccrual loans.

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 ending balances of the Company's loan and lease portfolio including non-performing loans by class of receivable and originating year and considering certain credit quality indicators as of the date indicated along with gross chargeoffs for the nine months ended September 30, 2023:

September 30, 2023 (\$ in thousands)	2023	2022	2021	Prior	Revolving Loans	Total
<b>Construction and land development</b>						
Pass	\$ 9,595	\$ 12,400	\$ 4,276	\$ 100	\$ —	\$ 26,371
Watch	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—
Substandard	—	297	—	—	—	297
<b>Total</b>	<b>9,595</b>	<b>12,697</b>	<b>4,276</b>	<b>100</b>	<b>—</b>	<b>26,668</b>
Current period gross writeoff	—	—	—	—	—	—
<b>Residential real estate</b>						
Pass	17,117	9,363	1,497	3,072	2,134	33,183
Watch	4,378	6,718	1,740	2,254	—	15,090
Special Mention	—	367	173	115	—	655
Substandard	—	118	—	—	—	118
<b>Total</b>	<b>21,495</b>	<b>16,566</b>	<b>3,410</b>	<b>5,441</b>	<b>2,134</b>	<b>49,046</b>
Current period gross writeoff	—	(121)	—	—	—	(121)
<b>Residential real estate multifamily</b>						
Pass	231	265	80	—	—	576
Watch	—	—	—	26	—	26
Special Mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—

Total	231	265	80	26	—	602
Current period gross writeoff	—	—	—	—	—	—
<b>Commercial real estate</b>						
Pass	53,271	34,201	857	13,079	—	101,408
Watch	17,712	31,705	13,462	9,909	—	72,788
Special Mention	954	432	949	1,500	—	3,835
Substandard	3,351	1,967	230	—	—	5,548
Total	75,288	68,305	15,498	24,488	—	183,579
Current period gross writeoff	—	(21)	(9)	(123)	—	(153)
<b>Commercial and industrial</b>						
Pass	7,697	2,797	811	1,675	—	12,980
Watch	2,137	2,713	838	530	—	6,218
Special Mention	—	—	—	52	—	52
Substandard	—	—	—	114	—	114
Total	9,834	5,510	1,649	2,371	—	19,364
Current period gross writeoff	—	—	(92)	(99)	—	(191)
<b>Consumer</b>						
Pass	3,244	2,219	729	665	1	6,858
Watch	11	—	—	1	—	12
Special Mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Not Rated	—	—	—	—	—	—
Total	3,255	2,219	729	666	1	6,870
Current period gross writeoff	(3)	(5)	(32)	(7)	—	(47)
<b>Lease financing receivables</b>						
Pass	24,092	7,097	—	277	—	31,466
Watch	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Total	24,092	7,097	—	277	—	31,466
Current-period gross writeoffs	—	—	—	—	—	—
<b>Retained Strategic Program loans</b>						
Pass	—	—	—	—	—	—
Watch	—	—	—	—	—	—
Special Mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Not Rated	13,370	4,967	1,702	1	—	20,040
Total	13,370	4,967	1,702	1	—	20,040
Current-period gross writeoffs	(1,835)	(5,624)	(828)	(2)	—	(8,289)

Total portfolio loans receivable, gross	157,160	117,626	27,344	33,370	2,135	337,635
Total current-period gross writeoffs	(1,838)	(5,771)	(961)	(231)	—	(8,801)

The following table presents the ending balances of the Company's loan and lease portfolio including non-performing loans by class of receivable and considering certain credit quality indicators as of the date indicated:

### December 31, 2022

(\$ in thousands)	Pass Grade 1-4	Special Mention Grade 5	Classified/ Doubtful/Loss Grade 6-8	Total
SBA	\$ 144,149	\$ 573	\$ 450	\$ 145,172
Commercial, non-real estate	11,484	—	—	11,484
Residential real estate	37,815	—	—	37,815
Commercial real estate	12,063	—	—	12,063
Consumer	5,808	—	—	5,808
Not Risk Graded				
Retained Strategic Program loans				24,259
Total	\$ 211,319	\$ 573	\$ 450	\$ 236,601

Effective January 1, 2023 loan modifications to borrowers experiencing financial difficulty are required to be disclosed by type of modification and by type of loan. Prior accounting guidance classified loans which were modified as troubled debt restructurings ("TDRs") only if the modification reflected a concession from the lender in the form of a below market interest rate or other concession in addition to borrower financial difficulty. Under the new guidance (ASU 2022-02), loans with modifications made after January 1, 2023, will be reported under the new loan modification guidance whether a concession is made or not. As of January 1, 2023, the Company has ceased to recognize or measure new TDRs but those existing at December 31, 2022 will remain until settled.

In the nine months ended September 30, 2023 there were no material loan modifications reportable under the new guidance.

Loans modified and recorded as TDR's at December 31, 2022, consist of the following:

(\$ in thousands)	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
<b>December 31, 2022</b>			
SBA	1	\$ 377	\$ 377
Total at December 31, 2022	1	\$ 377	\$ 377

The amount of SBA loans as of December 31, 2022 includes \$0.3 million of SBA 7(a) loan balances that are guaranteed by the SBA.

At December 31, 2022, there were no commitments to lend additional funds to debtors whose loan terms have been modified in a TDR. There was one principal charge-off recorded related to TDRs during the nine months ended September 30, 2022 for \$0.01 million. There was no principal charge-off recorded related to TDRs during the three months ended September 30, 2022.

During the three and nine months ended September 30, 2022, there were no loan modifications to TDRs. Separately, one restructured loan incurred a default within 12 months of the restructure date during the nine months ended September 30, 2022. This same loan was paid in full with interest on June 2, 2022.

### Collateral-Dependent Financial Loans

A collateral-dependent financial loan 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)

As of September 30, 2023	Collateral Type		
	Real Estate	Personal Property	Total
Residential real estate	\$ 118	\$ —	\$ 118
Commercial real estate	10,267	—	10,267
Commercial and industrial	—	21	21
Total	\$ 10,385	\$ 21	\$ 10,406

The amount of collateral-dependent SBA loans as of September 30, 2023 include \$4.7 million of SBA 7(a) loan balances that are guaranteed by the SBA.

(\$ in thousands)

As of December 31, 2022	Collateral Type		
	Real Estate	Personal Property	Total
Commercial real estate	\$ 1,426	\$ —	\$ 1,426

The amount of collateral-dependent SBA loans as of December 31, 2022 include \$1.1 million of SBA 7(a) loan balances that are guaranteed by the SBA.

#### Note 4 – Lease Liabilities

The Company includes commercial operating leases with an original cost of \$8.4 million and \$2.8 million within premises and equipment, net as of September 30, 2023 and December 31, 2022, respectively. Net book value of the operating leases as of September 30, 2023 and December 31, 2022 was \$7.6 million and \$2.7 million. Rental income from operating leases for the three months ended September 30, 2023 was \$0.5 million and for the three months ended September 30, 2022 was a *de minimis* amount. Rental income from operating leases for the nine months ended September 30, 2023 was \$0.8 million and for the nine months ended September 30, 2022 was a *de minimis* amount. Depreciation expense for the related premises and equipment was \$0.4 million and a *de minimis* amount for the three months ended September 30, 2023 and 2022, respectively. Depreciation expense for the related premises and equipment was \$0.6 million and a *de minimis* amount for the nine months ended September 30, 2023 and 2022, respectively.

The Company leases its facilities under noncancelable operating leases. Rent expense for the three months ended September 30, 2023 and 2022 was \$0.2 million and \$0.3 million, respectively. Rent expense for the nine months ended

September 30, 2023 and 2022 was \$0.7 million and \$0.8 million, respectively. Future minimum annual undiscounted rental payments for these operating leases are as follows (\$ in thousands):

Three Months Ended December 31, 2023	\$	279
Year Ended December 31, 2024		1,104
Year Ended December 31, 2025		1,086
Year Ended December 31, 2026		1,118
Year Ended December 31, 2027		1,152
Thereafter		2,203
Total		<u>6,942</u>
Less present value discount		(397)
Operating lease liabilities	\$	<u>6,545</u>

The Company entered into one lease during the nine months ended September 30, 2022 to provide additional space while the Murray office construction was completed. ASC 842 does not apply due to the short-term period of this lease and immateriality. The tables below present information regarding the Company's lease assets and liabilities.

	Nine Months Ended September 30,	
	2023	2022
Weighted-average remaining lease term – operating leases (in years)	6.0	7.0
Weighted-average discount rate – operating leases	1.9 %	1.9 %

Supplemental cash flow information related to leases were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(\$ in thousands)				
Operating cash flows from operating leases	\$ 279	\$ 178	\$ 571	\$ 234
Right-of-use assets obtained in exchange for operating lease liabilities	—	—	—	7,380

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(in thousands)				
Operating leases				
Operating lease cost	\$ 219	\$ 278	\$ 657	\$ 791
Variable lease cost	8	4	26	12
Operating lease expense	<u>227</u>	<u>282</u>	<u>683</u>	<u>803</u>
Short-term lease rent expense	—	9	—	38
Net rent expense	<u>\$ 227</u>	<u>\$ 291</u>	<u>\$ 683</u>	<u>\$ 841</u>

#### Note 5 – SBA Servicing Asset

The Company periodically sells portions of SBA loans and retains rights to service the loans. Loans serviced for others are not included in the accompanying balance sheet. The unpaid principal balances of SBA loans serviced for others was \$283.9 million and \$318.6 million at September 30, 2023 and December 31, 2022, respectively.

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

(\$ in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Beginning balance	\$ 5,233	\$ 4,586	\$ 5,210	\$ 3,938
Additions to servicing asset	—	921	150	3,164
Recovery (impairment) of SBA servicing asset	(337)	127	255	(949)
Amortization of servicing asset	(498)	(365)	(1,217)	(884)
Ending balance	\$ 4,398	\$ 5,269	\$ 4,398	\$ 5,269

The fair market value of the SBA servicing asset as of September 30, 2023 and December 31, 2022, was \$4.4 million and \$5.2 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 16.9%, weighted average term of 3.94 years, and a weighted average discount rate of 17.1% at September 30, 2023.

The Company assumed a weighted average prepayment rate of 14.2%, weighted average term of 4.45 years, and a weighted average discount rate of 18.8% at December 31, 2022.

#### Note 6 – 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, 2023 and December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2023 and December 31, 2022, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). The following table sets forth the actual capital amounts and ratios for the Bank and the minimum ratio and amount of capital required to be categorized as well-capitalized and adequately capitalized as of the dates indicated.

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

(\$ in thousands)	Actual		Well-Capitalized Requirement	
	Amount	Ratio	Amount	Ratio
<b>September 30, 2023</b>				
Leverage ratio (CBLR election)	\$ 110,923	22.1 %	\$ 45,139	9.0 %
<b>December 31, 2022</b>				
Leverage ratio (CBLR election)	\$ 91,674	25.1 %	\$ 32,898	9.0 %

Federal Reserve Board Regulations require maintenance of certain minimum reserve balances based on certain average deposits. The Bank had no reserve requirements as of September 30, 2023 and December 31, 2022.

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

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

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

#### **Note 7 – Commitments and Contingent Liabilities**

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

As of September 30, 2023 and December 31, 2022, the Bank's available line of credit with the FHLB to borrow in overnight funds was \$32.0 million and \$2.6 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, 2023 and December 31, 2022, no amounts were outstanding under the line of credit. Loans totaling \$49.2 million and \$4.0 million were pledged to secure the FHLB line of credit as of September 30, 2023 and December 31, 2022, respectively.

##### *Lines of Credit*

At September 30, 2023 and December 31, 2022, the Bank had the ability to access \$11.6 million and \$10.6 million from the Federal Reserve Bank's Discount Window on a collateralized basis. At September 30, 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 available of \$5.0 million and \$1.0 million at September 30, 2023 and December 31, 2022. 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, 2023 and December 31, 2022. The Bank had no outstanding balances on such unsecured or secured lines of credit as of September 30, 2023 and December 31, 2022.

*Paycheck Protection Program Liquidity Facility*

On April 20, 2020, the Bank was approved by the Federal Reserve to access its SBA Paycheck Protection Program Liquidity Facility (“PPPLF”) through the discount window. The PPPLF enables the Company to fund Paycheck Protection Program (“PPP”) loans without taking on additional liquidity or funding risks because the Company is able to pledge PPP loans as collateral to secure extensions of credit under the PPPLF on a non-recourse basis. Borrowings under the PPPLF have a fixed-rate of 0.35%, with a term that matches the underlying loans. The Bank pledged \$0.2 million of PPP loans as eligible collateral under the PPPLF borrowing arrangement at September 30, 2023. The Bank pledged \$0.3 million of PPP loans as eligible collateral under the PPPLF borrowing arrangement at December 31, 2022. The average outstanding borrowings were \$0.3 million during the nine months ended September 30, 2023 and \$0.6 million during the nine months ended September 30, 2022.

*Commitments to Extend Credit*

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

At September 30, 2023 and December 31, 2022, financial instruments with off-balance-sheet risk were as follows:

<i>(\$ in thousands)</i>	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Revolving, open-end lines of credit	\$ 2,237	\$ 1,683
Commercial real estate	20,886	17,886
Other unused commitments	367	253
	<u>\$ 23,490</u>	<u>\$ 19,822</u>

*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 \$0.2 million as of September 30, 2023.

**Note 8 – Investment in Business Funding Group, LLC**

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

The Company’s 10% membership interests of BFG are comprised of Class A Voting Units representing 4.96% of the aggregate membership interests of BFG and Class B Non-Voting Units representing 5.04% of the aggregate membership interests of BFG. The other existing members of BFG jointly own the remaining 90% of the outstanding membership interests, on a fully-diluted basis – all of which membership interests are Class A Voting Units. Based on the Company’s accounting policy with respect to investments in limited liability companies, the Company concluded that its level of ownership was indicative of significant influence and, as a result, the investment would be accounted for using the equity method. However, the Company elected the fair value option for its investment due to cost-benefit considerations. The Company received distributions from BFG in the amounts of \$0.5 million and \$0.5 million for the nine months ended September 30, 2023 and 2022, respectively. These distributions were recorded in the Consolidated Income Statement as non-interest income.

On March 31, 2020, the Company entered into an agreement with BFG whereby the Company has the right of first refusal to purchase additional interests in BFG from any selling members. Additionally, the Company was granted an option to purchase all, but not less than all, of the interests in BFG from the remaining members for an earnings multiple between 10

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

On July 25, 2023, the Company entered into a Membership Purchase Agreement (the "Purchase Agreement") with BFG and four members of BFG ("Sellers"). Pursuant to the Purchase Agreement, the Company will acquire an additional 10% voting ownership interest in BFG (the "Transaction"). As a part of the Transaction, the Company's existing 5.1% non-voting ownership interest in BFG will be converted to a voting ownership interest and, when combined with the Company's existing 4.9% voting ownership interest and the 10% voting ownership interest in BFG to be acquired in the Transaction, the Company will have a 20% voting ownership interest in BFG.

At the closing of the Transaction (the "Closing"), the Company will issue in the aggregate 372,132 shares of Common Stock of the Company, par value \$0.001 per share, in a private placement to the Sellers in exchange for their 10% aggregate ownership interest in BFG, provided that the average of the last sales prices of the Company's Common Stock on the Nasdaq National Market for the 10 consecutive trading days preceding the Closing date (the "Average FinWise Share Price") is less than \$12.63 per share and greater than \$6.00 per share.

The Purchase Agreement contains representations and warranties, covenants and indemnification provisions which the Company believes are customary for a transaction of this nature. If on the Closing date, the Average FinWise Share Price is more than \$12.63 per share, the Company may terminate the Purchase Agreement. If on the Closing date, the Average FinWise Share Price is less than \$6.00 per share, BFG may terminate the Purchase Agreement. Closing is subject to certain conditions, including the receipt of any required regulatory approval. Either of the Company or the Sellers may terminate the Purchase Agreement if any condition to the other parties' obligations has not been satisfied by September 30, 2023.

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

## **Note 9 – Stock-Based Compensation**

### ***Stock option plans***

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

The 2019 Stock Option Plan ("2019 Plan") was adopted on June 20, 2019 following approval by the Company's Board of Directors and shareholders. The 2019 Plan provides for the issuance of non-statutory stock options and restricted stock to employees, directors and consultants. The 2019 Plan also provides for the issuance of incentive stock options only to employees.

The 2019 Plan will terminate as to future awards 10 years from the later of the effective date or the earlier of the most recent Board or stockholder approval of an increase in the number of shares reserved for issuance under the 2019 Plan. At September 30, 2023, 335,353 shares are available for future issuance.

The 2016 Stock Option Plan ("2016 Plan") was adopted on April 20, 2017 following approval by the Company's Board of Directors and shareholders. The 2016 Plan provides for the issuance of non-statutory stock options and restricted stock to employees, directors and consultants. The 2016 Plan also provides for the issuance of incentive stock options only to employees. The 2016 Plan authorizes the issuance of 299,628 common shares. The 2016 Plan will terminate as to future awards 10 years from the later of the effective date or the earlier of the most recent Board or stockholder approval of an increase in the number of shares reserved for issuance under the 2016 Plan. At September 30, 2023, 2,189 shares under 2016 Plan are available for future issuance.

The stock-based incentive awards for both the 2019 Plan and the 2016 Plan (collectively, the "Plans") are granted at an exercise price not less than the fair market value of the shares on the date of grant, which is based on a Black-Scholes valuation model, in the case of options, or based on the fair value of the stock at the grant date, in the case of restricted

stock. Vesting of the options vary by employee or director and can have a term no more than 10 years, with the options generally having vesting periods ranging from 1 to 5 years. No shares had been granted under the 2016 Plan prior to 2018.

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

### Stock options

The grant date fair value is determined using the Black-Scholes option valuation model.

The assumptions for expected life reflected management's judgment and include consideration of historical experience. Expected volatility is based on data from comparable public companies for the expected option term. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. Management believes that the assumptions used in the option-pricing model are highly subjective and represent only one estimate of possible value, as there is no active market for the options granted. The table below summarizes the assumptions used for the options granted during the nine months ended September 30, 2023 and 2022.

	For the Nine Months Ended September 30,	
	2023	2022
Risk-free interest rate	3.6% - 4.0%	3.1%
Expected term in years	5.5 - 7.5	5.5 - 6.5
Expected volatility	43.9% - 44.9%	45.8% - 46.7%
Expected dividend yield	—	—

The following summarizes stock option activity for the three months and nine months ended September 30, 2023:

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	881,625	\$ 5.27	7.5	\$ 3,871,667
Options granted	124,906	8.64	9.6	—
Options exercised	(17,640)	2.45	0	120,229
Options forfeited	(8,903)	9.52	0	11,765
Outstanding at September 30, 2023	979,988	\$ 5.71	7.1	\$ 3,268,832
Options vested and exercisable at September 30, 2023	700,557	\$ 4.75	6.6	\$ 2,856,141

	Stock Options	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2023	981,467	\$ 5.72	7.4	\$ 3,546,581
Options exercised	(840)	4.13	0	4,133
Options forfeited	(639)	13.04	0	—
Outstanding at September 30, 2023	979,988	\$ 5.71	7.1	\$ 3,268,832
Options vested and exercisable at September 30, 2023	700,557	\$ 4.75	6.6	\$ 2,856,141

The weighted average grant-date fair value of options per share granted during the nine months ended September 30, 2023 was \$4.12. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2023 was a *de minimis* amount. During the nine months ended September 30, 2023, the Company received *de minimis* proceeds from the exercise of stock options and recognized a *de minimis* tax benefit from the exercise of stock options. Upon exercise of the stock options, the Company will issue new authorized shares.

The weighted average grant-date fair value of options per share granted during the nine months ended September 30, 2022 was \$6.26. The aggregate intrinsic value of options exercised during the nine months ended September 30, 2022 was \$0.2 million. During the nine months ended September 30, 2022, the Company received *de minimis* proceeds from the exercise of stock options and recognized a *de minimis* tax benefit from the exercise of stock options.

### Stock-based compensation expense

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

(\$ in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Pre-tax</b>				
Stock options	\$ 129	\$ 116	\$ 366	\$ 209
Restricted shares	370	192	1,183	238
<b>Total</b>	<b>\$ 499</b>	<b>\$ 308</b>	<b>\$ 1,549</b>	<b>\$ 447</b>
<b>After-tax</b>				
Stock options	\$ 125	\$ 116	\$ 343	\$ 204
Restricted shares	278	192	1,055	238
<b>Total</b>	<b>\$ 403</b>	<b>\$ 308</b>	<b>\$ 1,398</b>	<b>\$ 442</b>

As of September 30, 2023, the Company had unrecognized stock-based compensation expense related to stock options and restricted stock of approximately \$0.6 million and \$1.3 million, respectively, which is expected to be recognized over the remaining weighted average recognition period of 1.6 years and 1.5 years.

### Note 10 – Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

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

**Investment in BFG:** The Company's valuation technique utilized the average of the discounted cash flow method and the Guideline Public Company method. The valuation was also adjusted using a Guideline Transaction method based on the potential transaction announced on July 25, 2023 and the share price on September 30, 2023. A 20% lack of marketability discount was applied to the valuation as well as a 4.50% discount to non-voting shares to arrive at fair value as of September 30, 2023 and December 31, 2022. The calculation of fair value utilized significant unobservable inputs, including projected cash flows, growth rates, and discount rates. The fair value of the investment in BFG was \$4.0 million and \$4.8 million as of September 30, 2023 and December 31, 2022, respectively. The following table summarizes investment in BFG activity for the periods indicated:

(\$ in thousands)	For the Nine Months Ended September 30,	
	2023	2022
Beginning balance	\$ 4,800	\$ 5,900
Change in fair value of BFG	(800)	(1,400)
Ending balance	\$ 4,000	\$ 4,500

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

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

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

The table below presents the carrying amount and fair value of the Company's financial instruments:

(\$ in thousands)	Level	September 30, 2023		December 31, 2022	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets:</b>					
Cash and cash equivalents	1	\$ 126,771	\$ 126,771	\$ 100,567	\$ 100,567
Investment securities held-to-maturity	2	15,840	13,867	14,292	12,728
Investment in FHLB stock	2	476	476	449	449
Loans held for investment	3	324,197	343,070	224,217	237,225
Loans held-for-sale	2	45,710	45,710	23,589	23,589
Accrued interest receivable	2	2,711	2,711	1,818	1,818
SBA servicing asset	2	4,398	4,398	5,210	5,210
Investment in BFG	3	4,000	4,000	4,800	4,800
<b>Financial liabilities:</b>					
Total deposits	2	386,753	361,998	242,998	221,287
Accrued interest payable	2	581	581	54	54
PPP Liquidity Facility	2	221	221	314	314

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

(\$ in thousands)	Description of Financial Instrument	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
<b>September 30, 2023</b>					
Nonrecurring assets					
	Individually evaluated loans	\$ 10,703	\$ —	\$ —	\$ 10,703
<b>December 31, 2022</b>					
Nonrecurring assets					
	Individually evaluated loans	\$ 450	\$ —	\$ —	\$ 450

**Individually evaluated loans** – The loan amount above represents loans individually evaluated that have been adjusted to 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 represents charge-offs on loans for adjustments made based on the fair value of the collateral.

**Quantitative information for Level 3 fair value measurements** – The range and weighted average of the significant unobservable inputs used to fair value Level 3 nonrecurring assets as of September 30, 2023 and as of December 31, 2022, along with the valuation techniques used, are shown in the following table:

<i>(\$ in thousands)</i>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
<b>September 30, 2023</b>				
Individually evaluated loans	\$ 10,703	Market comparable	Adjustment to appraisal value	3.30 %
<b>December 31, 2022</b>				
Individually evaluated loans	\$ 450	Market comparable	Adjustment to appraisal value	0.20 %

The range and weighted average of the significant unobservable inputs used to fair value the investment in BFG Level 3 recurring asset as of September 30, 2023 and as of December 31, 2022 are shown in the following table:

<i>(\$ in thousands)</i>	<u>September 30, 2023 Range (Weighted Average)</u>	<u>December 31, 2022 Range (Weighted Average)</u>
<b>Discounted Cash Flows</b>		
Revenue growth rate	10.5 %	10.8 %
Expense growth rate	13.9 %	11.5 %
Discount rate	27.5 %	30.0 %
<b>Guideline Public Company</b>		
Multiples of enterprise value	2.8x to 5.0x	3.0x to 5.0x

As mentioned above, the valuation as of September 30, 2023 was also adjusted using a Guideline Transaction method based on the potential transaction announced on July 25, 2023 and the share price on September 30, 2023.

**Note 11 – Income Taxes**

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and tax basis of its assets and liabilities. Deferred tax assets decreased \$1.4 million to a deferred tax liability during the nine months ended September 30, 2023 as a result of changes to temporary timing differences associated with accelerated tax depreciation. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on this analysis, management has determined that a valuation allowance for deferred tax assets was not required at September 30, 2023.

For the nine months ended September 30, 2023 and 2022, income tax expense was \$4.7 million and \$8.5 million, respectively, resulting in an effective income tax rate of 26.1% and 31.3%, respectively. The effective tax rate differs from the statutory rate of 24.9% during the nine months ended September 30, 2023 due primarily to nondeductible wages, state taxes and the tax effect of stock-based compensation. The effective tax rate differs from the statutory rate of 24.9% during the nine months ended September 30, 2022 due primarily to the tax effect of nondeductible wages and stock-based compensation.

The Company had no unrecognized tax benefits at September 30, 2023.

## Note 12 – Related Parties

In the ordinary course of business, the Company may grant loans to certain executive officers and directors and the companies with which they are associated. The Company had *de minimis* loans outstanding to related parties as of September 30, 2023 and December 31, 2022. Total deposits from certain executive officers and directors and the companies with which they are associated were \$1.6 million and \$1.2 million as of September 30, 2023 and December 31, 2022, respectively.

On October 21, 2022, Mr. Alan Weichselbaum, who was elected as a director of the Company on October 6, 2022, repaid in full the \$0.1 million aggregate principal amount plus interest owed under a secured promissory note, dated as of June 1, 2022 (the “2022 Note”), between the Company and Mr. Weichselbaum in accordance with the terms of the 2022 Note. As such, the obligations of the parties under the 2022 Note and a related security agreement were discharged and the 2022 Note and the security agreement were terminated.

BFG is a small business loan broker, primarily under the SBA’s 7(a) loan program. As noted in Note 8 Investments above, the Company has a 10% ownership in the outstanding membership units of BFG. The Company underwrites loans sourced by BFG in its normal course of business. If approved and funded, the Company pays BFG a commission fee based on the amount funded. There is no guarantee or commitment made by the Company to BFG to approve or fund loans referred by BFG. The Company is able to use its sole discretion in deciding to approve and fund loans referred by BFG.

## Note 13 – Earnings per Share

The following table is a reconciliation of the components used to derive basic and diluted EPS for the three and nine months ended September 30, 2023 and 2022 (\$ in thousands, except share and per share amounts):

(\$ in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net income	\$ 4,804	\$ 3,654	\$ 13,303	\$ 18,570
Amount allocated to participating common shareholders <sup>(1)</sup>	(89)	(27)	(209)	(139)
Net income allocate to common shareholders	\$ 4,715	\$ 3,627	\$ 13,094	\$ 18,431
<b>Denominator:</b>				
Weighted average shares outstanding, basic	12,387,392	12,784,298	12,565,218	12,727,555
Weighted average effect of dilutive securities:				
Stock options	403,012	450,038	374,092	542,740
Warrants	77,803	89,723	69,523	134,269
Weighted average shares outstanding, diluted	12,868,207	13,324,059	13,008,833	13,404,564
<b>Earnings per share, basic</b>	\$ 0.38	\$ 0.28	\$ 1.04	\$ 1.45
<b>Earnings per share, diluted</b>	\$ 0.37	\$ 0.27	\$ 1.01	\$ 1.37

(1) Represents earnings attributable to holders of unvested restricted stock issued to the Company’s directors and employees.

There were 605,896 and 378,684 anti-dilutive options for the nine months ended September 30, 2023 and 2022, respectively, reported in the table above. There were 200,477 shares and 135,731 anti-dilutive warrants for the nine months ended September 30, 2023 and 2022, respectively, reported in the table above.

## Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the date of the most recent balance sheet but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing of the financial statements. The Company’s financial statements do not

recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the date of the balance sheet and before the financial statements are available to be issued.

The Company has evaluated subsequent events through November 13, 2023, which is the date the consolidated financial statements are available to be issued.

## **Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*In 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.*

*The following discussion and analysis is intended as a review of significant factors affecting the Company's 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 2022 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 Annual Report on Form 10-K entitled “Risk Factors,” “Cautionary Note Regarding Forward-Looking Statements” and elsewhere in this Report. We assume no obligation to update any of these forward-looking statements except to the extent required by law.*

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

### **Critical Accounting Policies and Estimates**

The accompanying management’s discussion and analysis of results of operations and financial condition is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. With the exception of our adoption of ASU 2016-13, *Topic 326*, there have been no significant changes during the nine months ended September 30, 2023 to the items that we disclosed as our critical accounting policies and estimates in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the 2022 Form 10-K.

Accounting policies, as described in detail in the notes to our consolidated financial statements, included in the 2022 Form 10-K, are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that those critical accounting policies and estimates require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

### **Overview**

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

Our banking business is our only business line. Our banking business offers a diverse range of commercial and retail banking products and services, and consists primarily of originating loans in a variety of sectors. Attracting nationwide deposits from the general public, businesses and other financial institutions, and investing those deposits, together with borrowings and other sources of funds, is also critical to our banking business. While our commercial and residential real estate lending and other products and services offered from our branch continue to be concentrated in and around the Salt Lake City, Utah MSA, our third-party loan origination relationships have allowed us to expand into new markets across the United States. These relationships were developed to support our ability to generate significant loan volume across diverse consumer and commercial markets and have been the primary source of our significant growth and superior profitability. Our evolving analytics platform, FinView™, enhances our ability to gather and interpret data and provides us with an

ability to scale more effectively. Our track record has demonstrated that these factors help deliver superior growth and profitability and that the flexibility inherent in our model enhances our ability to manage credit risk. 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.

Our financial condition and results of operations depend primarily on our ability to (i) originate loans using our strategic relationships with third-party loan origination platforms to earn interest and noninterest income, (ii) effectively manage credit and other risks throughout the Bank, (iii) attract and retain low cost, stable deposits, and (iv) efficiently operate in compliance with applicable regulations.

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

## **Executive Summary**

Net income for the three months ended September 30, 2023 increased \$1.1 million to \$4.8 million when compared to the three months ended September 30, 2022. The increase was primarily due to an increase in interest income driven by growth in the Company's loans held for investment portfolio and a decrease in its provision for credit losses and was partially offset by an increase in non-interest expense, lower gain on sale of loans, and lower strategic program fees.

Net income for the nine months ended September 30, 2023 decreased \$5.3 million to \$13.3 million when compared to the nine months ended September 30, 2022 due primarily to a \$12.6 million reduction in total non-interest income due mainly to a decrease in the gain on sale of loans and a reduction in strategic program fees resulting primarily from a decline in loan origination volumes. Partially offsetting these declines were a \$3.8 million reduction in the provision for income taxes, a \$1.9 million increase in net interest income and a \$1.9 million reduction in the provision for credit losses.

The net interest margin was 11.77% for the quarter ended September 30, 2023, compared to 14.93% for the third quarter of 2022. The decline in net interest margin was due primarily to a \$12.1 million decrease in the average balances of loans held for sale along with a shift in the Company's deposit portfolio mix from lower costing deposits to higher costing deposits, partially offset by an increase in average balances in the Company's loans held for investment portfolio.

The net interest margin was 12.11% for the nine months ended September 30, 2023, compared to 13.96% for the nine months ended September 30, 2022. The decline in net interest margin was due primarily to a \$36.2 million decrease in the average balances of loans held for sale along with a shift in the Company's deposit portfolio mix from lower costing deposits to higher costing deposits, partially offset by an increase in average balances in the Company's loans held for investment portfolio.

Total assets increased by \$154.3 million to \$555.1 million as of September 30, 2023 compared to December 31, 2022. This increase was primarily attributable to increased brokered deposits required to fund a \$100.0 million increase in net loans receivable, a \$26.2 million increase in the Company's interest-bearing deposits and a \$22.1 million increase in Strategic Program loans held-for-sale.

Originations decreased by \$0.4 billion to \$1.1 billion for the three months ended September 30, 2023 compared to the three months ended September 30, 2022 and decreased by \$3.0 billion to \$3.1 billion for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 due mainly to more adverse market and economic conditions affecting loan purchasers and borrowers.

## Results of Operations

### Net Income Overview

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

(\$ in thousands)	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
Interest income	\$ 17,212	\$ 12,823	34.2 %	\$ 46,482	\$ 39,059	19.0 %
Interest expense	(2,801)	(304)	821.8 %	(6,290)	(810)	676.4 %
Provision for credit losses	(3,070)	(4,457)	(31.1)%	(8,429)	(10,317)	(18.3)%
Non-interest income	5,229	7,523	(30.5)%	15,044	27,636	(45.6)%
Non-interest expense	(10,070)	(8,469)	18.9 %	(28,806)	(28,536)	0.9 %
Provision for income taxes	(1,696)	(3,462)	(51.0)%	(4,698)	(8,462)	(44.5)%
Net income	\$ 4,804	\$ 3,654	31.5 %	\$ 13,303	\$ 18,570	(28.4)%

Net income for the three months ended September 30, 2023 was \$4.8 million, an increase of \$1.1 million, or 31.5%, from net income of \$3.7 million for the three months ended September 30, 2022. The increase was primarily attributable to an increase of \$4.4 million, or 34.2%, in interest income resulting primarily from growth in the Company's loans held for investment portfolio, a decrease of \$1.8 million, or 51.0%, in provision for income taxes, and a decrease in provision for credit losses of \$1.4 million, or 31.1%. Partially offsetting the increase in net income was an increase of \$2.5 million, or 821.8%, in interest expense associated with a shift in our deposit portfolio mix from lower costing deposits to higher costing deposits, a \$1.6 million, or 81.4%, decrease in gain on sale of loans, and a decrease of \$1.2 million, or 23.2%, in strategic program fees primarily resulting from a decline in loan origination volume.

Net income for the nine months ended September 30, 2023 was \$13.3 million, a decrease of \$5.3 million, or 28.4%, from net income of \$18.6 million for the nine months ended September 30, 2022. The decrease was primarily attributable to an \$8.1 million, or 86.7%, reduction in the gain on sale of loans primarily attributable to the Company's increased retention of the guaranteed portion of SBA loans the Company originates, lower strategic program fees of \$6.3 million, or 35.0%, resulting primarily from a decline in loan origination volume, and an increase of \$5.5 million, or 676.4%, in interest expense primarily associated with a shift in our deposit portfolio mix from lower costing deposits to higher costing deposits. Partially offsetting the decrease in net income were an increase in total interest income of \$7.4 million, or 19.0%, a reduction in provision for income taxes of \$3.8 million, or 44.5%, and a decrease of \$1.9 million, or 18.3%, in provision for credit losses.

### Net Interest Income and Net Interest Margin Analysis

Net interest income was the primary contributor to our earnings in 2023 and 2022. Net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as "volume changes." It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds, referred to as "rate changes."

For the three months ended September 30, 2023, our net interest income increased \$1.9 million, or 15.1%, to \$14.4 million compared to the three months ended September 30, 2022. This increase was primarily due to increases in the Bank's average balances on its loans held for investment portfolio, coupled with increasing yields on variable rate interest earning assets due to the rising rate environment, partially offset by increases in the interest rates being paid and average interest-bearing liability balances over the same periods. Average interest earning assets increased by \$150.4 million, or 44.9%, to \$485.8 million for the three months ended September 30, 2023 compared to the three months ended September 30, 2022, while the related yield on average interest earning assets decreased by 124 basis points to 14.06%. The cost of funds on interest bearing liabilities for the three months ended September 30, 2023 increased by 318 basis points to 4.34%, and the average balance in interest bearing liabilities increased by \$150.9 million, or 143.5%, to \$256.0 million compared to the prior year period. The increase in cost of funds was primarily due to rate increases in time deposits. Our net interest margin decreased to 11.77% for the three months ended September 30, 2023 from 14.93% for the three months ended September 30, 2022.

For the nine months ended September 30, 2023, our net interest income increased \$1.9 million, or 5.1%, to \$40.2 million compared to the nine months ended September 30, 2022. This increase was primarily due to increases in the yields on all interest earnings asset categories and was partially offset by decreases in the loans held-for-sale volume as well as increased rates on our certificate of deposit portfolio. Average interest earning assets increased by \$78.4 million, or 21.5%, to \$443.6 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, while the related yield on average interest earning assets decreased by 25 basis points to 14.01%. The cost of funds on interest bearing liabilities for the nine months ended September 30, 2023 increased by 305 basis points to 3.93%, and the average balance in interest bearing liabilities increased by \$91.8 million, or 75.2%, to \$213.8 million compared to the prior year period. The increase in cost of funds was primarily due to rate increases in time deposits as well as volume growth in our interest bearing demand accounts. Our net interest margin decreased to 12.11% for the nine months ended September 30, 2023 from 13.96% for the nine months ended September 30, 2022.

**Average Balances and Yields.** The following table presents average balances for assets and liabilities, the total dollar amounts of interest income from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting average yields and costs. The yields and costs for the periods indicated are derived by dividing the income or expense by the average balances for assets or liabilities, respectively, for the periods presented. Loan fees are included in interest income on loans and represent net fees of approximately \$0.2 million and \$0.2 million for the three months ended September 30, 2023 and 2022, respectively, and approximately \$0.5 million and \$(0.1) million for the nine months ended September 30, 2023 and 2022, respectively. Average balances have been calculated using daily averages.

(\$ in thousands)	Three Months Ended September 30,					
	2023			2022		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest earning assets:						
Interest bearing deposits	\$ 116,179	\$ 1,569	5.36 %	\$ 59,337	\$ 290	1.95 %
Investment securities	14,958	88	2.34 %	12,418	52	1.67 %
Loans held for sale	38,410	3,823	39.49 %	50,516	4,533	35.89 %
Loans held for investment	316,220	11,732	14.72 %	213,080	7,948	14.92 %
Total interest earning assets	485,767	17,212	14.06 %	335,351	12,823	15.30 %
Non-interest earning assets	27,240			21,858		
Total assets	\$ 513,007			\$ 357,209		
Interest bearing liabilities:						
Demand	\$ 48,303	\$ 483	3.96 %	\$ 11,857	\$ 113	3.81 %
Savings	9,079	17	0.74 %	7,514	1	0.05 %
Money market accounts	15,140	142	3.73 %	20,615	29	0.56 %
Certificates of deposit	183,273	2,159	4.67 %	64,789	160	0.99 %
Total deposits	255,795	2,801	4.34 %	104,775	303	1.16 %
Other borrowings	235	—	0.35 %	360	1	0.35 %
Total interest bearing liabilities	256,030	2,801	4.34 %	105,135	304	1.16 %
Non-interest bearing deposits	92,077			102,575		
Non-interest bearing liabilities	16,299			17,542		
Shareholders' equity	148,601			131,957		
Total liabilities and shareholders' equity	\$ 513,007			\$ 357,209		
Net interest income and interest rate spread		\$ 14,410	9.72 %		\$ 12,519	14.14 %
Net interest margin			11.77 %			14.93 %
Ratio of average interest-earning assets to average interest-bearing liabilities			189.73 %			318.97 %

	For the Nine Months Ended					
	2023			2022		
(\$ in thousands)	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest earning assets:						
Interest bearing deposits	\$ 105,948	\$ 3,993	5.04 %	\$ 73,674	\$ 423	0.77 %
Investment securities	14,415	237	2.20 %	11,844	135	1.52 %
Loans held for sale	36,974	10,744	38.85 %	73,147	17,247	31.44 %
Loans held for investment	286,302	31,508	14.71 %	206,577	21,254	13.72 %
Total interest earning assets	443,639	46,482	14.01 %	365,242	39,059	14.26 %
Non-interest earning assets	24,287			19,215		
Total assets	\$ 467,926			\$ 384,457		
Interest bearing liabilities:						
Demand	\$ 44,669	\$ 1,294	3.87 %	\$ 8,616	\$ 155	2.40 %
Savings	8,245	37	0.61 %	7,211	3	0.06 %
Money market accounts	13,748	310	3.01 %	29,742	71	0.32 %
Certificates of deposit	146,914	4,648	4.23 %	75,836	579	1.02 %
Total deposits	213,576	6,289	3.94 %	121,405	808	0.89 %
Other borrowings	266	1	0.35 %	646	2	0.35 %
Total interest bearing liabilities	213,842	6,290	3.93 %	122,051	810	0.88 %
Non-interest bearing deposits	93,247			120,102		
Non-interest bearing liabilities	15,687			15,857		
Shareholders' equity	145,150			126,447		
Total liabilities and shareholders' equity	\$ 467,926			\$ 384,457		
Net interest income and interest rate spread		\$ 40,192	10.08 %	\$38,249	\$ 38,249	13.38 %
Net interest margin			12.11 %			13.96 %
Ratio of average interest-earning assets to average interest-bearing liabilities			207.46 %			299.25 %

*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,			Nine Months Ended September 30,		
	2023 vs 2022			2023 vs 2022		
	Increase (Decrease) Due to Change in:			Increase (Decrease) Due to Change in:		
	Rate	Volume	Total	Rate	Volume	Total
Interest income:						
Interest-bearing deposits with the Federal Reserve, non-U.S. central banks and other banks	\$ 826	\$ 453	\$ 1,279	\$ 3,309	\$ 261	\$ 3,570
Investment securities	24	12	36	69	33	102
Loans held-for-sale	510	(1,220)	(710)	5,924	(12,427)	(6,503)
Loans held for investment	(108)	3,892	3,784	1,620	8,634	10,254
Total interest income	1,252	3,137	4,389	10,922	(3,499)	7,423
Interest expense:						
Demand	5	365	370	146	993	1,139
Savings	16	—	16	34	—	34
Money market accounts	119	(6)	113	255	(16)	239
Certificates of deposit	1,340	659	1,999	3,135	934	4,069
Other borrowings	—	(1)	(1)	—	(1)	(1)
Total interest bearing liabilities	1,480	1,017	2,497	3,570	1,910	5,480
Change in net interest income	\$ (228)	\$ 2,120	\$ 1,892	\$ 7,352	\$ (5,409)	\$ 1,943

#### Provision for Credit Losses

On January 1, 2023, the Company adopted ASU 2016-13, *Topic 326* which replaced the incurred loss methodology, allowance for loan losses ("ALL"), with CECL for financial instruments measured at amortized cost and other commitments to extend credit. The provision for credit losses is a charge to income to bring our allowance for credit losses ("ACL") to a level deemed appropriate by management and approved by our board of directors. We determine the provision for credit losses monthly in connection with our evaluation of the adequacy of our ACL. For a description of the factors we considered in determining the ACL see Recently adopted accounting pronouncements - Allowance for Credit Losses presented in Note 1 - "Summary of Significant Accounting Policies" in Part I, Item 1 of this Report.

Our provision for credit losses was \$3.1 million and \$4.5 million for the three months ended September 30, 2023 and 2022, respectively, and \$8.4 million and \$10.3 million for the nine months ended September 30, 2023 and 2022, respectively. The decrease from the prior periods was primarily due to a decrease in strategic program loans held for investment, although the provision for the prior year period was calculated under the incurred loss model rather than the current expected credit loss methodology as required under ASU 2016-13 and is not necessarily comparable to the provisions charged in 2023.

#### Noninterest Income

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

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

(\$ in thousands)	For the Three Months Ended September 30,		Change	
	2023	2022	\$	%
Noninterest income:				
Strategic Program fees	\$ 3,945	\$ 5,136	\$ (1,191)	(23.2 %)
Gain on sale of loans	357	1,923	(1,566)	(81.4 %)
SBA loan servicing fees	199	327	(128)	(39.1 %)
Change in fair value on investment in BFG	(500)	(100)	(400)	400.0 %
Other miscellaneous income	1,228	237	991	417.4 %
Total noninterest income	\$ 5,229	\$ 7,523	\$ (2,294)	(30.5 %)

For the three months ended September 30, 2023, total noninterest income decreased \$2.3 million, or 30.5%, to \$5.2 million compared to the three months ended September 30, 2022. This decrease was primarily due to a \$1.6 million, or 81.4%, reduction in the gain on sale of loans primarily attributable to the Company's increased retention of the guaranteed portion of SBA loans and lower strategic program fees of \$1.2 million, or 23.2%, primarily resulting from a decline in loan origination volume.

(\$ in thousands)	For the Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Noninterest income:				
Strategic Program fees	\$ 11,684	\$ 17,980	\$ (6,296)	(35.0 %)
Gain on sale of loans	1,244	9,387	(8,143)	(86.7 %)
SBA loan servicing fees	1,016	1,056	(40)	(3.8 %)
Change in fair value on investment in BFG	(800)	(1,400)	600	(42.9 %)
Other miscellaneous income	1,900	613	1,287	209.8 %
Total noninterest income	\$ 15,044	\$ 27,636	\$ (12,592)	(45.6 %)

For the nine months ended September 30, 2023, total noninterest income decreased \$12.6 million, or 45.6%, to \$15.0 million compared to the nine months ended September 30, 2022. This decrease was primarily due to an \$8.1 million, or 86.7%, reduction in the gain on sale of loans primarily attributable to the Company's increased retention of the guaranteed portion of SBA loans and lower strategic program fees of \$6.3 million, or 35.0%, primarily resulting from a decline in loan origination volume.

### Noninterest Expense

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

(\$ in thousands)	For the Three Months Ended September 30,		Change	
	2023	2022	\$	%
Noninterest expense:				
Salaries and employee benefits	\$ 6,416	\$ 5,137	\$ 1,279	24.9 %
Professional Services	750	1,701	(951)	(55.9 %)
Occupancy and equipment expenses	958	540	418	77.4 %
(Recovery) impairment of SBA servicing asset	337	(127)	464	(365.5 %)
Other operating expenses	1,609	1,218	391	32.1 %
Total noninterest expense	\$ 10,070	\$ 8,469	\$ 1,601	18.9 %

For the three months ended September 30, 2023, total noninterest expense increased \$1.6 million, or 18.9%, to \$10.1 million compared to the three months ended September 30, 2022. This increase was primarily due to an increase in salaries and employee benefits related to a higher number of employees, an impairment on the Company's SBA servicing asset which did not occur in the prior year period, and an increase in other operating expenses primarily related to occupancy and equipment expense and was partially offset by a decrease in professional services expense primarily resulting from a reduction in consulting fees.

(\$ in thousands)	For the Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Noninterest expense:				
Salaries and employee benefits	\$ 18,354	\$ 18,684	\$ (330)	(1.8 %)
Professional Services	3,529	3,845	(316)	(8.2 %)
Occupancy and equipment expenses	2,388	1,261	1,127	89.4 %
(Recovery) impairment of SBA servicing asset	(255)	949	(1,204)	(126.9 %)
Other operating expenses	4,790	3,797	993	26.1 %
Total noninterest expense	\$ 28,806	\$ 28,536	\$ 270	0.9 %

For the nine months ended September 30, 2023, total noninterest expense increased \$0.3 million, or 0.9%, to \$28.8 million compared to the nine months ended September 30, 2022. This increase was primarily due to increased occupancy and equipment expenses related to our increase in commercial operating lease activity and an increase in other operating expenses, and was partially offset by a recovery on the SBA servicing asset during 2023 that did not occur in the prior year period.

## Financial Condition

The following table summarizes selected components of the Company's consolidated balance sheets as of September 30, 2023 and December 31, 2022.

(\$ in thousands)	As of		Change	
	September 30, 2023	December 31, 2022	\$	%
Total assets	\$ 555,056	\$ 400,780	\$ 154,276	38.5 %
Investment securities held to maturity, at cost	15,840	14,292	1,548	10.8 %
Loans receivable, net	324,197	224,217	99,980	44.6 %
Deposits	386,753	242,998	143,755	59.2 %
Total shareholders' equity	150,402	140,459	9,943	7.1 %
Total equity to total assets	27.1 %	34.9 %		22.4 %
Weighted average shares outstanding, basic <sup>(1)</sup>	12,565,218	12,729,898		1.3 %
Weighted average shares outstanding, diluted <sup>(1)</sup>	13,008,833	13,357,022		2.6 %

(1) Average shares presented for September 30, 2023 and December 31, 2022 are for the nine month and annual periods, respectively, ended on those dates.

Total assets at September 30, 2023 were \$555.1 million, an increase of \$154.3 million from December 31, 2022. The increase in total assets was due primarily to increases in loans receivable, net, of \$100.0 million, cash and due from banks of \$26.2 million and Strategic Program loans held-for-sale of \$22.1 million.

### Loan Portfolio

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 business lines. Each loan is assigned a risk grade during the origination and closing process by credit administration personnel based on criteria described later in this section. We analyze the resulting ratings, as well as other external statistics and factors such as delinquency, to track the migration performance of the portfolio balances. This ratings analysis is performed at least quarterly.

### SBA 7(a) Loans

We originate and service loans partially guaranteed by the SBA under its Section 7(a) loan program. SBA 7(a) loans are made to small businesses and professionals throughout the USA. As of September 30, 2023 and December 31, 2022, we had total SBA 7(a) loans of \$219.3 million and \$145.2 million, respectively, representing 65.0% and 61.3% 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 the Company 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, 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, 2023 and December 31, 2022, we had total commercial non-real estate loans of \$34.0 million and \$11.5 million, respectively, representing 10.1% and 4.9% 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, 2023 and December 31, 2022, we had total residential real estate loans of \$34.9 million and \$37.8 million, respectively, representing 10.3% and 16.0% 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 consumer and secured or unsecured 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, 2023 and December 31, 2022, we had total Strategic Program loans held for investment of \$20.0 million and \$24.3 million, respectively, representing 5.9% and 10.2% of our total loans held for investment, respectively. Loans originated through these programs are limited to predetermined Bank underwriting criterion, which has been approved by our board of directors. The primary form of repayment on these loans is from personal or business cash flow. Business loans may be secured by liens on business assets, as applicable. We 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, 2023 and December 31, 2022, we had total commercial real estate loans of \$21.7 million and \$12.1 million, respectively, representing 6.4% and 5.2% of our total loans held for investment, 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, 2023 and December 31, 2022, we had total consumer loans of \$7.7 million and \$5.8 million, respectively, representing 2.3% and 2.4% 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 financing form. Historically, we have retained these loans on our balance sheet for investment.

Loan Portfolio Program Summary

Through our diversification efforts, we have built an SBA 7(a) portfolio that we believe positions us to 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.

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

	As of September 30, 2023		As of December 31, 2022	
	Amount	% of total loans	Amount	% of total loans
(\$s in thousands)				
SBA <sup>(1)</sup>	\$ 219,305	65.0 %	\$ 145,172	61.3 %
Commercial, non real estate	34,044	10.1 %	11,484	4.9 %
Residential real estate	34,891	10.3 %	37,815	16.0 %
Strategic Program loans	20,040	5.9 %	24,259	10.2 %
Commercial real estate	21,680	6.4 %	12,063	5.2 %
Consumer	7,675	2.3 %	5,808	2.4 %
<b>Total</b>	<b>\$ 337,635</b>	<b>100.0 %</b>	<b>\$ 236,601</b>	<b>100.0 %</b>

(1) SBA loans as of September 30, 2023 and December 31, 2022 include \$112.5 million and \$49.5 million, respectively, of SBA 7(a) loan balances that are guaranteed by the SBA.

Loan Maturity and Sensitivity to Changes in Interest Rates

As of September 30, 2023, \$171.3 million, or 50.7%, of the total held for investment loan balance matures in less than five years. Loans maturing in greater than five years totaled \$166.3 million as of September 30, 2023. The variable rate portion of our total held for investment loan portfolio at September 30, 2023 was \$261.2 million, or 77.3%. As of December 31, 2022, \$131.4 million, or 55.5%, of the total held for investment loan balance matures in less than five years. Loans maturing in greater than five years totaled \$105.2 million as of December 31, 2022. The variable rate portion of our total held for investment loan portfolio at December 31, 2022 was \$184.3 million, or 77.9%. The variable rate portion of the total held for investment loans reflects our strategy to minimize interest rate risk through the use of variable rate products.

The following tables detail maturities and sensitivity to interest rate changes for our loan portfolio at September 30, 2023 and December 31, 2022:

As of September 30, 2023

	Remaining Contractual Maturity Held for Investment					
	One Year or Less	Average Yield/Rate	After One Year and Through Five Years	Average Yield/Rate	After Five Years and Through Fifteen Years	Average Yield/Rate
<i>(\$ in thousands)</i>						
<b>Fixed rate loans:</b>						
SBA <sup>(1)</sup>	\$ 320	1.59 %	\$ 239	3.77 %	\$ 52	10.75 %
Commercial, non-real estate	6,731	6.62 %	23,363	6.76 %	3,940	7.35 %
Residential real estate	5,371	6.94 %	4,929	7.43 %	61	4.29 %
Strategic Program loans	14,634	123.02 %	5,399	73.64 %	7	23.78 %
Commercial real estate	2,358	6.29 %	1,621	7.28 %	167	3.37 %
Consumer	2,387	7.74 %	4,640	8.09 %	227	8.94 %
<b>Variable rate loans:</b>						
SBA	14,078	10.62 %	56,018	10.61 %	93,316	10.46 %
Commercial, non-real estate	—	— %	—	— %	—	— %
Residential real estate	21,617	9.15 %	1,492	10.15 %	1,421	10.11 %
Strategic Program loans	—	— %	—	— %	—	— %
Commercial real estate	2,581	10.08 %	3,128	9.12 %	6,659	9.49 %
Consumer	102	2.92 %	319	0.91 %	—	— %
<b>Total</b>	<b>\$ 70,179</b>	<b>32.62 %</b>	<b>\$ 101,148</b>	<b>12.66 %</b>	<b>\$ 105,850</b>	<b>10.26 %</b>

As of September 30, 2023

	Remaining Contractual Maturity Held for Investment			
	After Fifteen Years	Average Yield/Rate	Total	Average Yield/Rate
<i>(\$ in thousands)</i>				
<b>Fixed rate loans:</b>				
SBA	\$ —	— %	\$ 611	3.22 %
Commercial, non-real estate	10	3.77 %	34,044	6.80 %
Residential real estate	—	4.74 %	10,361	7.16 %
Strategic Program loans	—	— %	20,040	109.68 %
Commercial real estate	28	3.64 %	4,174	6.54 %
Consumer	—	— %	7,254	8.00 %
<b>Variable rate loans:</b>				
SBA	55,282	10.24 %	218,694	10.45 %
Commercial, non-real estate	—	— %	—	— %
Residential real estate	—	— %	24,530	9.27 %
Strategic Program loans	—	— %	—	— %
Commercial real estate	5,138	9.98 %	17,506	9.65 %
Consumer	—	— %	421	1.40 %
<b>Total</b>	<b>\$ 60,458</b>	<b>10.21 %</b>	<b>\$ 337,635</b>	<b>15.62 %</b>

As of December 31, 2022

	Remaining Contractual Maturity Held for Investment					
	One Year or Less	Average Yield/Rate	After One Year and Through Five Years	Average Yield/Rate	After Five Years and Through Fifteen Years	Average Yield/Rate
<i>(\$ in thousands)</i>						
<b>Fixed rate loans:</b>						
SBA <sup>(1)</sup>	\$ 272	1.00 %	\$ 354	1.00 %	\$ —	— %
Commercial, non-real estate	2,683	4.97 %	8,395	4.96 %	394	4.79 %
Residential real estate	3,924	5.40 %	3,590	5.50 %	61	4.27 %
Strategic Program loans	16,589	113.89 %	7,669	51.27 %	1	24.56 %
Commercial real estate	1,689	5.39 %	1,102	5.80 %	29	3.87 %
Consumer	1,838	7.57 %	3,597	7.80 %	62	10.31 %
<b>Variable rate loans:</b>						
SBA	9,335	8.53 %	36,741	8.53 %	61,545	8.38 %
Commercial, non-real estate	—	— %	—	— %	—	— %
Residential real estate	29,242	8.08 %	550	9.28 %	445	9.23 %
Strategic Program loans	—	— %	—	— %	—	— %
Commercial real estate	957	8.72 %	2,525	8.32 %	3,909	8.27 %
Consumer	82	4.56 %	229	1.38 %	—	— %
<b>Total</b>	<b>\$ 66,611</b>	<b>34.10 %</b>	<b>\$ 64,752</b>	<b>12.81 %</b>	<b>\$ 66,446</b>	<b>8.36 %</b>

As of December 31, 2022

	Remaining Contractual Maturity Held for Investment			
	After Fifteen Years	Average Yield/Rate	Total	Average Yield/Rate
<i>(\$ in thousands)</i>				
<b>Fixed rate loans:</b>				
SBA	\$ —	— %	\$ 626	1.00 %
Commercial, non-real estate	12	3.78 %	11,484	4.96 %
Residential real estate	3	4.43 %	7,578	5.44 %
Strategic Program loans	—	— %	24,259	94.10 %
Commercial real estate	8	3.50 %	2,828	5.53 %
Consumer	—	— %	5,497	7.75 %
<b>Variable rate loans:</b>				
SBA	36,925	8.20 %	144,546	8.38 %
Commercial, non-real estate	—	— %	—	— %
Residential real estate	—	— %	30,237	8.12 %
Strategic Program loans	—	— %	—	— %
Commercial real estate	1,844	8.15 %	9,235	8.31 %
Consumer	—	— %	311	2.22 %
<b>Total</b>	<b>\$ 38,792</b>	<b>8.20 %</b>	<b>\$ 236,601</b>	<b>16.80 %</b>

### *Nonperforming Assets*

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

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

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

The Company had a total of \$10.7 million in nonperforming assets and \$0.4 million in material loan modifications at September 30, 2023. The amount of nonperforming assets and material loan modifications as of September 30, 2023 include \$4.7 million and \$0.3 million, respectively, of SBA 7(a) loan balances that are guaranteed by the SBA. The Company had no nonperforming assets and \$0.4 million in troubled debt restructurings at December 31, 2022. The amount of troubled debt restructurings as of December 31, 2022 include \$0.3 million of SBA 7(a) loan balances that are guaranteed by the SBA. The increase in nonperforming assets from the prior period was primarily attributable to several loans in the SBA 7(a) loan portfolio moving to nonperforming status due mainly to the negative impact of elevated interest rates and the slowdown of consumer spending on the Bank's small business borrowers.

### *Credit Risk Profile*

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

We are proactive in our approach to identifying and resolving problem loans and are focused on working with the borrowers and guarantors of problem loans to provide loan modifications when warranted. When considering how to best diversify our loan portfolio, we consider several factors including our aggregate and product-line specific concentration risks, our business line expertise, and the ability of our infrastructure to appropriately support the product. While certain product lines generate higher net charge-offs, our exposure is carefully monitored and mitigated by our concentration policies and reserved for by the loan loss allowance we maintain. Specifically, retention of certain Strategic Program loans with higher default rates 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 monthly 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.

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

<i>(\$ in thousands)</i>	<b>Three Months Ended September 30, 2023</b>	<b>Nine Months Ended September 30, 2023</b>
<b>ACL:</b>		
Beginning balance	\$ 12,321	\$ 11,985
Impact of ASU 2016-13 adoption <sup>(1)</sup>	—	257
Adjusted beginning balance	12,321	12,242
Provision for loan losses	2,910	8,253
<b>Charge offs</b>		
Construction and land development	—	—
Residential real estate	—	(121)
Residential real estate multifamily	—	—
Commercial real estate	(31)	(153)
Commercial and industrial	(107)	(191)
Consumer	(28)	(47)
Lease financing receivables	—	—
Strategic Program loans	(2,748)	(8,289)
<b>Recoveries</b>		
Construction and land development	—	—
Residential real estate	3	87
Residential real estate multifamily	—	—
Commercial real estate	389	389
Commercial and industrial	18	21
Consumer	2	2
Lease financing receivables	—	—
Strategic Program loans	257	793
Ending balance	<u>\$ 12,986</u>	<u>\$ 12,986</u>

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

<i>(\$ in thousands)</i>	<b>Three Months Ended September 30, 2022</b>		<b>Nine Months Ended September 30, 2022</b>	
ACL <sup>(2)</sup> :				
Beginning balance	\$	10,602	\$	9,855
Provision for loan losses		4,457		10,317
<b>Charge offs</b>				
SBA		(259)		(392)
Commercial, non-real estate		—		—
Residential real estate		—		—
Strategic Program loans		(3,070)		(8,508)
Commercial real estate		—		—
Consumer		(4)		(4)
<b>Recoveries</b>				
SBA		9		57
Commercial, non-real estate		—		2
Residential real estate		—		—
Strategic Program loans		233		641
Commercial real estate		—		—
Consumer		—		—
Ending balance	\$	11,968	\$	11,968

(2) ASU 2016-13 (CECL) was adopted January 1, 2023. The 2022 amounts presented are calculated under the prior accounting standard.

The following tables show the allocation of the ACL as of September 30, 2023, and allowance for loan losses ("ALL") as of December 31, 2022, among loan categories. The ACL related to Strategic Programs constitutes 55.4% of the total ACL while comprising 5.9% of total loans held for investment as of September 30, 2023. The ALL related to Strategic Programs constitutes 55.9% of the total ALL while comprising 10.3% of total loans held for investment as of December 31, 2022. The percentage of ACL related to Strategic Program loans retained reflects the increased credit risks associated with certain retained Strategic Program loans.

<i>(\$ in thousands)</i>	<b>September 30, 2023</b>	
	<b>Amount</b>	<b>% of Total Allowance</b>
Construction and land development	\$ 293	2.3 %
Residential real estate	934	7.2 %
Residential real estate multifamily	6	— %
Commercial real estate	3,571	27.5 %
Commercial and industrial	349	2.7 %
Consumer	103	0.8 %
Lease financing receivables	534	4.1 %
Strategic Program loans	7,196	55.4 %
Total	\$ 12,986	100.0 %

	December 31, 2022	
	Amount	% of Total Allowance
<i>(\$ in thousands)</i>		
SBA	\$ 4,294	35.8 %
Commercial, non real estate	401	3.4 %
Residential real estate	497	4.2 %
Strategic Program loans	6,701	55.9 %
Commercial real estate	27	0.2 %
Consumer	65	0.5 %
<b>Total</b>	<b>\$ 11,985</b>	<b>100.0 %</b>

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, 2023.

	ACL to Total LHFI	Nonaccrual loans to Total LHFI	ACL to Nonaccrual loans
Construction and land development	1.1 %	— %	— %
Residential real estate	1.9 %	0.2 %	790.8 %
Residential real estate multifamily	1.0 %	— %	— %
Commercial real estate	1.9 %	5.6 %	34.8 %
Commercial and industrial	1.8 %	0.1 %	1659.8 %
Consumer	1.5 %	— %	— %
Lease financing receivables	1.7 %	— %	— %
Strategic Program loans	35.9 %	— %	— %
<b>Total</b>	<b>3.8 %</b>	<b>3.1 %</b>	<b>124.8 %</b>

The following table reflects the ratios of the ALL to total loans held for investment, nonaccrual loans to total loans held for investment, and the ALL to nonaccrual loans by loan category as of December 31, 2022.

	ALL to Total LHFI	Nonaccrual to Total LHFI	ALL to Nonaccrual loans
<i>(\$ in thousands)</i>			
SBA	3.0 %	— %	— %
Commercial, non-real estate	3.5 %	— %	— %
Residential real estate	1.3 %	— %	— %
Strategic Program loans	27.6 %	— %	— %
Commercial real estate	0.2 %	— %	— %
Consumer	1.1 %	— %	— %
<b>Total</b>	<b>5.1 %</b>	<b>— %</b>	<b>— %</b>

The decrease in ACL/ALL to total loans held for investment for the periods presented above was primarily due to growth in the SBA 7(a) loan balances guaranteed by the SBA. The increase in nonaccrual loans to loans held for investment as well as the increase in ACL to nonaccrual loans ratios from December 31, 2022 to September 30, 2023 was primarily related to a small number of large loans that were moved to nonaccrual status after the end of the fiscal year.

Due primarily to the increase in our average loans held for investment balances, the ratio of net charge-offs to average loans outstanding by loan category was lower during the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022. The increase in the ratio for Strategic Programs loans was primarily due to a reduction in the average loan balances in the three and nine months ended September 30, 2023.

(\$ in thousands)	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Net Charge-Offs	Average Loans	NCO to Average Loans	Net Charge-Offs (Recoveries)	Average Loans	NCO (Recovery) to Average Loans
SBA	\$ (272)	\$ 206,553	(0.5)%	\$ 250	\$ 131,879	0.8 %
Commercial, non-real estate	—	27,965	— %	—	9,906	— %
Residential real estate	—	31,930	— %	—	31,889	— %
Strategic Program loans	2,491	21,214	47.1 %	2,837	28,119	40.5 %
Commercial real estate	—	19,840	— %	—	5,684	— %
Consumer	26	8,718	1.2 %	4	5,603	0.3 %
<b>Total</b>	<b>\$ 2,245</b>	<b>\$ 316,220</b>	<b>2.8 %</b>	<b>\$ 3,091</b>	<b>\$ 213,080</b>	<b>5.8 %</b>

(\$ in thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Net Charge-Offs	Average Loans	NCO to Average Loans	Net Charge-Offs (Recoveries)	Average Loans	NCO (Recovery) to Average Loans
SBA	\$ (31)	\$ 185,628	— %	\$ 335	\$ 132,094	0.5 %
Commercial, non-real estate	—	21,493	— %	(2)	6,409	(0.1)%
Residential real estate	—	30,326	— %	—	29,929	— %
Strategic program loans	7,496	22,039	68.6 %	7,867	27,747	57.2 %
Commercial real estate	—	18,843	— %	—	5,334	— %
Consumer	45	7,973	1.1 %	4	5,064	0.2 %
<b>Total</b>	<b>\$ 7,509</b>	<b>\$ 286,302</b>	<b>5.3 %</b>	<b>\$ 8,204</b>	<b>\$ 206,577</b>	<b>8.0 %</b>

#### Interest-Bearing Deposits in Other Banks

Our interest-bearing deposits in other banks increased to \$126.4 million at September 30, 2023 from \$100.2 million at December 31, 2022, an increase of \$26.2 million, or 26.2%. This increase was primarily due to an increase in brokered demand deposit balances. Interest-bearing deposits in other banks have generally been the primary repository of the liquidity we use to fund our operations. Aside from minimal balances held with our correspondent banks, the majority of our interest-bearing deposits in other banks was held directly with the Federal Reserve.

#### Securities

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

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

The following tables summarize the contractual maturities and weighted average yields of investment securities at September 30, 2023, and the amortized cost of those securities as of the indicated dates.

	As of September 30, 2023			
	One Year or Less		After One to Five Years	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
(\$ in thousands)				
Mortgage-backed securities	\$ —	—	\$ —	—
Collateralized mortgage obligations	—	—	—	—
Total	\$ —	—	\$ —	—

	As of September 30, 2023				
	After Five to Ten Years Weighted		After Ten Years Weighted		Total Amortized Cost
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	
(\$ in thousands)					
Mortgage-backed securities	\$ 2,117	2.6 %	\$ 5,113	1.8 %	\$ 7,230
Collateralized mortgage obligations	795	3.2 %	7,815	3.0 %	8,610
Total	\$ 2,912	2.8 %	\$ 12,928	2.5 %	\$ 15,840

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

There were no calls, sales or maturities of securities during the nine months ended September 30, 2023 and September 30, 2022.

At September 30, 2023, there were twenty securities, consisting of eleven collateralized mortgage obligations and nine mortgage-backed securities, in an unrealized loss position at September 30, 2023 and seventeen securities, consisting of eight collateralized mortgage obligations and nine mortgage-backed securities, in an unrealized loss position as of December 31, 2022.

#### Total Liabilities

Total liabilities increased to \$404.7 million, or 55.4%, as of September 30, 2023 from \$260.3 million as of December 31, 2022 primarily due to an increase in brokered deposits utilized in the funding of our lending programs.

#### Deposits

Deposits are the major source of funding for the Company. We offer a variety of deposit products including interest and noninterest bearing demand accounts, HSA demand deposits sourced through Lively, Inc., 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):

(\$ in thousands)	September 30, 2023		December 31, 2022	
	Total	Percent	Total	Percent
<i>Period end:</i>				
Noninterest-bearing demand deposits	\$ 94,268	24.4 %	\$ 78,817	32.5 %
Interest-bearing deposits:				
Demand	87,753	22.7 %	50,746	20.8 %
Savings	8,738	2.2 %	8,289	3.4 %
Money markets	15,450	4.0 %	10,882	4.5 %
Time certificates of deposit	180,544	46.7 %	94,264	38.8 %
Total period end deposits	\$ 386,753	100.0 %	\$ 242,998	100.0 %

(\$ in thousands)	Three Months Ended								
	September 30, 2023			December 31, 2022			September 30, 2022		
	Total	Weighted Average rate paid	Percent of total	Total	Weighted Average rate paid	Percent of total	Total	Weighted Average rate paid	Percent of total
<i>Average:</i>									
Noninterest-bearing demand deposits	\$ 92,077	— %	26.5 %	\$ 96,581	— %	43.4 %	\$ 102,575	— %	49.5 %
Interest-bearing deposits:									
Demand	48,303	3.96 %	13.9 %	44,115	3.40 %	19.8 %	11,857	3.81 %	5.7 %
Savings	9,079	0.74 %	2.6 %	7,605	0.26 %	3.4 %	7,514	0.05 %	3.6 %
Money market	15,140	3.73 %	4.3 %	15,109	1.19 %	6.8 %	20,615	0.56 %	9.9 %
Time certificates of deposit	183,273	4.67 %	52.7 %	59,273	1.34 %	26.6 %	64,789	0.99 %	31.3 %
Total average deposits	\$ 347,872	3.19 %	100.0 %	\$ 222,683	1.12 %	100.0 %	\$ 207,350	0.58 %	100.0 %

For the Nine Months Ended

(\$ in thousands)	September 30, 2023			September 30, 2022		
	Total	Weighted Average rate paid	Percent of total	Total	Weighted Average rate paid	Percent of total
<i>Average:</i>						
Noninterest-bearing demand deposits	\$ 93,247	— %	30.4 %	\$ 120,102	— %	49.7 %
Interest-bearing deposits:						
Demand	44,669	3.87 %	14.5 %	8,616	2.40 %	3.6 %
Savings	8,245	0.61 %	2.7 %	7,211	0.06 %	3.0 %
Money market	13,748	3.01 %	4.5 %	29,742	0.32 %	12.3 %
Time certificates of deposit	146,914	4.23 %	47.9 %	75,836	1.02 %	31.4 %
Total average deposits	\$ 306,823	2.74 %	100.0 %	\$ 241,507	0.45 %	100.0 %

Our deposits increased to \$386.8 million as of September 30, 2023 from \$243.0 million as of December 31, 2022, an increase of \$143.8 million, or 59.2%, and was primarily due to an increase in brokered time deposits utilized in the funding of our lending programs. Our Interest-bearing demand deposits increased to \$87.8 million as of September 30, 2023 from \$50.7 million as of December 31, 2022, an increase of \$37.0 million, or 72.9%. This increase was primarily due to an increase in brokered demand deposits.

As an FDIC-insured institution, our deposits are insured up to applicable limits by the DIF of the FDIC. The Dodd-Frank Act raised the limit for federal deposit insurance to \$250,000 for most deposit accounts and increased the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000. Our total uninsured deposits were \$133.1 million and \$108.4 million as of September 30, 2023 and December 31, 2022, respectively. The maturity profile of our uninsured time deposits, those amounts that exceed the FDIC insurance limit, at September 30, 2023 is as follows:

(\$ in thousands)	September 30, 2023					Total
	Three months or less	More than three months to six months	More than six months to twelve months	More than twelve months		
Time deposits, uninsured	\$ 68	\$ 609	\$ 34	\$ 1,132	\$	1,843

**Liquidity and Capital Resources**

*Liquidity Management*

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

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

Our primary source of funds to originate new loans is derived from deposits. Deposits are comprised of core and noncore deposits. We use brokered deposits and a rate listing service to advertise rates to banks, credit unions, and other institutional entities. We designate deposits obtained from this source as Institutional Deposits. To attract deposits from local and nationwide consumer and commercial markets, we historically paid rates at the higher end of the market, which

we have been able to pay due to our high margin and technology oriented business model. We utilize rate listing services and website advertising to attract deposits from consumer and commercial sources.

We regularly evaluate new, core deposit products and in 2022, we launched an HSA deposit product sourced through Lively, Inc. 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 reduce the risk to our earnings and capital arising from the inability to meet obligations in a timely manner. This entails ensuring sufficient funds are available at a reasonable cost to meet potential demands from both fund providers and borrowers. Liquid assets, defined as cash and due from banks and interest bearing deposits, were 22.8% of total assets at September 30, 2023.

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, 2023, we had the ability to access \$11.6 million from the Federal Reserve Bank's Discount Window and \$0.8 million from the Federal Reserve Bank's Bank Term Funding Program on a collateralized basis. The Bank had an available unsecured line of credit with Bankers' Bank of the West to borrow up to \$1.1 million in overnight funds. We also maintain a \$32.0 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, 2023. In long term borrowings, we had \$0.2 million outstanding at September 30, 2023 related to the PPPLF. The PPPLF is secured by pledged PPP loans.

Our most liquid assets are cash and cash equivalents. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2023, liquid assets (defined as cash and due from banks and interest bearing deposits), consisting of cash and due from banks, totaled \$126.8 million. We believe that our liquid assets combined with the available lines of credit provide adequate liquidity to meet our current financial obligations for at least the next 12 months.

#### *Capital Resources*

Shareholders' equity increased \$9.9 million to \$150.4 million at September 30, 2023 compared to \$140.5 million at December 31, 2022. The increase in shareholders' equity was primarily attributable to net income recognized of \$13.3 million. Stock options exercised, and stock-based compensation increased additional paid-in capital in the aggregate by approximately \$1.6 million while the repurchase of common stock and the adoption of ASC 2016-13 (CECL) reduced additional paid-in capital by approximately \$4.7 million and \$0.2 million, respectively.

We use several indicators of capital strength. The most commonly used measure is total equity to total assets, which was 27.1% and 34.9% as of September 30, 2023 and December 31, 2022, respectively.

Our return on average equity was 12.8% and 11.0% for the three months ended September 30, 2023 and 2022, respectively. Our return on average assets was 3.7% and 3.9% for the three months ended September 30, 2023 and 2022, respectively. Our return on average equity was 12.3% and 19.8% for the nine months ended September 30, 2023 and 2022, respectively. Our return on average assets was 3.8% and 6.5% for the nine months ended September 30, 2023 and 2022, respectively.

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

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

accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

As of September 30, 2023 and December 31, 2022, the most recent notification from the FDIC categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification we believe have changed the Bank’s category). The following table sets forth the actual capital amounts and ratios for the Bank and the amount of capital required to be categorized as well-capitalized as of the dates indicated.

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

<i>Capital Ratios</i>	<b>As of</b>		<b>Well-Capitalized Requirement</b>
	<b>September 30, 2023</b>	<b>December 31, 2022</b>	
Leverage Ratio (under CBLR)	22.1 %	25.1 %	9.0 %

#### *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, 2023.

<i>(\$ in thousands)</i>	<b>Total</b>	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>More Than Five Years</b>
<b>Contractual Obligations</b>					
Deposits without stated maturity	\$ 182,021	\$ 182,021	\$ —	\$ —	\$ —
Time deposits	180,544	71,232	82,179	12,556	14,577
Long term borrowings <sup>(1)</sup>	221	—	221	—	—
Operating lease obligations	6,942	1,118	2,188	2,321	1,315
<b>Total</b>	<b>\$ 369,728</b>	<b>\$ 254,371</b>	<b>\$ 84,588</b>	<b>\$ 14,877</b>	<b>\$ 15,892</b>

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

#### *Off-Balance Sheet Items*

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated statements of financial condition. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit, which involves, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized in our consolidated statements of financial condition. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. We maintain an allowance for off-balance sheet credit risk which is recorded in other liabilities on the consolidated balance sheets. The allowance for credit losses on off-balance sheet credit exposures estimates expected credit losses over the contractual period in which there is exposure to credit risk via a contractual obligation to extend credit, except when an obligation is unconditionally cancellable by the Company. The allowance is adjusted by provisions for credit losses charged to earnings that increase the allowance, or by provision releases returned to earnings that decrease the allowance. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on the commitments expected to fund. The estimate of commitments expected to fund is affected by historical analysis of utilization rates. The expected credit loss

rates applied to the commitments expected to fund are affected by the general valuation allowance utilized for outstanding balances with the same underlying assumptions and drivers. As of September 30, 2023 and December 31, 2022, the Company had \$0.2 million and none, respectively, in allowance for credit losses on off-balance sheet credit exposures.

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

<i>(\$ in thousands)</i>	<b>As of September 30, 2023</b>	<b>As of December 31, 2022</b>
Revolving, open-end lines of credit	\$ 2,237	\$ 1,683
Commercial real estate	20,886	17,886
Other unused commitments	367	253
Total commitments	<u>\$ 23,490</u>	<u>\$ 19,822</u>

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

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

#### **Changes in Internal Control Over Financial Reporting**

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

**PART II****Item 1. Legal Proceedings**

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

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

**Item 1A. Risk Factors**

There are a number of factors that may adversely affect the Company's business, financial results or stock price. Refer to Part I, Item 1A. "Risk Factors" of the 2022 Form 10-K for a discussion of these risks.

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

There were no unregistered sales of the Company's stock during the third quarter of 2023.

During the three months ended September 30, 2023, we repurchased 230,978 shares of our common stock for \$2.4 million (average per share purchase price of \$10.15) pursuant to our common stock repurchase program. As of September 30, 2023, the Company has repurchased a total of 644,241 shares for \$5.9 million and retired them at cost thereby completing the Company's share repurchase program.

*Issuer Purchases of Equity Securities*

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
July 1, 2023 - July 31, 2023	—	\$—	—	230,978
August 1, 2023 - August 31, 2023	230,978	10.15	230,978	—
September 1, 2023 - September 30, 2023	—	—	—	—
<b>Total</b>	<b>230,978</b>	<b>\$10.15</b>	<b>230,978</b>	<b>—</b>

(1) On August 18, 2022, the Company announced that the Board had authorized, effective August 16, 2022, a common stock repurchase program to purchase up to 644,241 shares of the Company's common stock in the aggregate. The repurchase program expires on August 31, 2024, but may be limited or terminated at any time without prior notice. The repurchase program authorized 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 Exchange Act or privately negotiated transactions. The authorization permitted management to repurchase shares of the Company's common stock from time to time at management's discretion. 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 actual means and timing of any shares purchased under the program depended on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory

requirements. As of September 30, 2023, the Company has repurchased a total of 644,241 shares for \$5.9 million, completing the Company's share repurchase program.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibits.

Number	Description
<a href="#">3.1</a>	<a href="#">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)).</a>
<a href="#">3.2</a>	<a href="#">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)).</a>
<a href="#">4.1</a>	<a href="#">Specimen common stock certificate (incorporated by reference to Exhibit 4.1 of the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2023).</a>
<a href="#">10.1</a>	<a href="#">Membership Interest Purchase Agreement, dated as of July 25, 2023, among Business Funding Group, LLC, certain of its members named therein and FinWise Bancorp (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 27, 2023).</a>
<a href="#">31.1*</a>	<a href="#">Rule 13a-14(a) Certification of the Principal Executive Officer.</a>
<a href="#">31.2*</a>	<a href="#">Rule 13a-14(a) Certification of the Principal Financial Officer.</a>
<a href="#">32.1*</a>	<a href="#">Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.</a>
<a href="#">101.INS*</a>	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.
<a href="#">101.SCH*</a>	Inline XBRL Taxonomy Extension Schema Document.
<a href="#">101.CAL*</a>	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
<a href="#">101.DEF*</a>	Inline XBRL Taxonomy Extension Definition Linkbase Document.
<a href="#">101.LAB*</a>	Inline XBRL Taxonomy Extension Label Linkbase Document.
<a href="#">101.PRE*</a>	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
<a href="#">104*</a>	Cover Page Interactive Data File (embedded within the Inline XBRL document in Exhibit 101).

\* Filed herewith.



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

I, Kent Landvatter, certify that:

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

Date: November 13, 2023

/s/ Kent Landvatter

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Kent Landvatter

President and Chief Executive Officer (Principal Executive Officer)

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

I, Javvis Jacobson, certify that:

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

Date: November 13, 2023

/s/ Javvis Jacobson

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Javvis Jacobson

Executive Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of FinWise Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's best knowledge and belief:

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

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

/s/ Kent Landvatter

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Kent Landvatter  
President and Chief Executive Officer

Date: November 13, 2023

/s/ Javvis Jacobson

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Javvis Jacobson  
Executive Vice President and Chief Financial Officer

Date: November 13, 2023