

REFINITIV

DELTA REPORT

10-K

CFCP - COASTAL FINANCIAL CORP
10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	5393
CHANGES	990
DELETIONS	2154
ADDITIONS	2249

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2022** **December 31, 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 **001-38589**

COASTAL FINANCIAL CORPORATION

(Exact name of Registrant as specified in its Charter)

Washington

(State or other jurisdiction of
incorporation or organization)

5415 Evergreen Way, Everett, Washington

(Address of principal executive offices)

56-2392007

(I.R.S. Employer
Identification No.)

98203

(Zip Code)

Registrant's telephone number, including area code: **(425) 257-9000**

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, no par value per share	CCB	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on June 30, 2022 June 30, 2023, was \$407,411,922, \$419,735,528.

The number of shares of Registrant's Common Stock outstanding as of March 7, 2023 March 7, 2024 was 13,215,258 13,382,515.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A for its 2023 2024 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended **December 31, 2022** **December 31, 2023** (this Report on Form 10-K) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events

and our financial performance. Any statements about our management's expectations, beliefs, plans, predictions, forecasts, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipate," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends" and similar words or phrases. Any or all of the forward-looking statements in this Report on Form 10-K may turn out to be inaccurate. The inclusion of or reference to forward-looking information in this Report on Form 10-K should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of several factors more fully described under the caption "Item 1A. Risk Factors" and elsewhere in this Report on Form 10-K;

- changes in business and economic conditions generally and in the financial services industry, nationally and within our market area, particularly in the markets in which we operate and in which our loans are concentrated;
- our expected future financial results;
- the overall health of the local and national real estate market;
- the credit risk associated with our loan portfolio, such as possible additional **loan credit** losses and impairment of collectability of loans and specifically with our commercial real estate loans;
- changes in market interest rates and impacts of such changes on our profits and business;
- our ability to generate and grow revenue through our relationships with broker dealers and digital financial service providers;
- our ability to successfully manage liquidity risk;
- our ability to implement our growth strategy and manage costs effectively;
- our ability to maintain an adequate level of allowance for **loan credit** losses;
- our level of nonperforming assets and the costs associated with resolving problem loans;
- the composition of our senior leadership team and our ability to attract and retain key personnel;
- our ability to raise additional capital to implement our business plan;
- the occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents;
- interruptions involving our information technology and telecommunications systems or third-party **servicers; servicers, including as a result of cybersecurity-related incidents;**
- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board ("FASB"), including additional guidance and interpretation on accounting issues and details of the implementation of new accounting **methods including the adoption of the Current Expected Credit Loss Model ("CECL") on January 1, 2023 as required by the FASB ASU 2016-13; methods;**

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- our ability to maintain our reputation;

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- increased competition in the financial services industry;
- regulatory guidance on commercial lending concentrations;
- the effectiveness of our risk management framework;
- the commencement and outcome of litigation and other legal proceedings and regulatory actions against us or to which we may become subject;

- the soundness of other financial institutions and the impacts related to or resulting from bank failures and other economic and industry volatility, including potential increased regulatory requirements and costs and potential impacts to macroeconomic conditions;
- the impact of recent and future legislative and regulatory changes and economic stimulus programs and other changes in banking, securities and tax laws and regulations, and their application by our regulators;
- the impact on the Company's operations due to epidemic illnesses, natural or man-made disasters, such as earthquakes, tsunamis, wildfires and flooding, the effects of regional or national civil unrest, wars and acts of terrorism, and political developments that may disrupt or increase volatility in securities or otherwise affect economic conditions;
- the impact of benchmark interest rate reform in the U.S. and implementation of alternative reference rates, such as the Secured Overnight Funding Rate ("SOFR"), to the London Interbank Offered Rate ("LIBOR");
- fluctuations in the value of the securities held in our securities portfolio;
- governmental monetary and fiscal policies;
- material weaknesses in our internal control over financial reporting; and
- our success at managing the risks involved in the foregoing items.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Report on Form 10-K. 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 what we anticipate. You are cautioned not to place undue reliance on forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events except as required by law.

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PART I

Item 1. Business

Our Company

Coastal Financial Corporation ("Company") is a registered bank holding company, whose wholly owned subsidiaries are Coastal Community Bank ("Bank") and Arlington Olympic LLC ("LLC"). The Company is a Washington state corporation that was organized in 2003. The Bank was incorporated and commenced operations in 1997 and is a Washington state-chartered commercial bank and Federal Reserve System ("Federal Reserve") member bank. The LLC was formed in 2019 and owns the Company's Arlington branch, which the Bank leases from the LLC. Our executive offices are located at 5415 Evergreen Way, Everett, Washington 98203 and our telephone number is (425) 257-9000. Our website address is www.coastalbank.com. Information on our website should not be considered a part of this Report on Form 10-K.

We are headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. Our business is conducted through two three reportable segments: The community bank, CCBX and CCBX treasury & administration. The primary focus of the community bank is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment has a total of 21 partners, 19 that are active partners with six two more currently in the testing of LOI or implementation stage as of December 31, 2022 December 31, 2023. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments. The Bank's deposits are insured in whole or in part by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to regulation by the Federal Reserve and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has supervisory authority over the Company.

As of December 31, 2022 December 31, 2023, we had total assets of \$3.14 billion \$3.75 billion, total loans receivable of \$2.63 billion \$3.03 billion, total deposits of \$2.82 billion \$3.36 billion and total shareholders' equity of \$243.5 million \$295.0 million.

Throughout this Report on Form 10-K, references to "we," "us" or "our" refer to the Company or the Bank, or both, as the context indicates.

Our Markets

We define our community bank market broadly as the Puget Sound region in the state of Washington, which encompasses King, Kitsap, Pierce, Snohomish, Skagit, Thurston and Island Counties. The Puget Sound region, which comprises over 62% of the population of the state of Washington, and approximately 63% 62% of the number of businesses located therein has a population of approximately 4.9 million 5.0 million, over 164,000 174,000 businesses and \$173.4 billion \$159.5 billion of deposits with us and other banking institutions located in the region.

We are the largest locally headquartered bank by deposit market share in Snohomish County, according to data from the FDIC as of **June 30, 2022** **June 30, 2023**, at which date we had a **13.0%** **15.8%** deposit market share in Snohomish County, which was up from **13.0% in 2022** and **9.0% in 2021** and **7.6% in 2020, 2021**. We aim to continuously enhance our customer base, increase loans and deposits and expand our overall market share in Snohomish County. In light of our market position and our business strategy, we do not regularly compete for commercial or retail deposits in the city of Seattle, and we believe this strategic decision has enabled us to generate low cost core deposits to fund our loan growth.

Our CCBX market extends throughout the United States through our broker dealers and digital financial services partners. Our CCBX partners make our banking products and services available to their consumers, partners and workforce through integration with our banking platform. In doing so, our addressable market expands to a broader spectrum of consumers as well as small businesses. Working with our CCBX partners allows us to provide a broader range of services for different demographics through their offerings. Developing the kind of unique offerings to specific under-served or under-banked populations would be difficult for a bank our size, but through our CCBX partnerships we are able to use our banking charter to support this effort in a much broader scope.

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Segment Reporting

The Company has **two three** reportable segments: The community bank, **CCBX** and **CCBX, treasury & administration**. The **primary focus of the** community bank segment **is includes all community banking activities, with a primary focus** on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of **Washington, Washington and through the Internet and our mobile banking application**. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides BaaS that allows our broker-dealer and digital financial service partners to offer their customers banking services. **The CCBX segment has a total of 21 partners, 19 that are active with two more currently in the testing or implementation stage as of December 31, 2023. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments.** For more information about each of the Company's reportable segments, please refer to "Note 21 – Segment Reporting" of the accompanying notes to the consolidated financial statements included elsewhere in this report.

Our Banking Services

Lending Activities

We focus primarily on commercial lending, with an emphasis on commercial real estate in the community bank. We offer a variety of loans to business owners, including commercial and industrial loans and commercial real estate loans secured by owner-occupied commercial properties. We also offer non-owner occupied commercial real estate loans, multi-family loans, and construction and development loans to investors and developers. We also offer residential real estate loans and to a lesser extent, consumer loans in the community bank. We offer commercial and consumer loans through CCBX.

Commercial and Industrial Loans. As of **December 31, 2022** **December 31, 2023**, we had **\$312.6 million** **\$291.3 million** of commercial and industrial loans, representing **11.8%** **9.6%** of total loans. Included in the commercial and industrial loan balance is **\$151.7 million** **\$149.5 million** in community bank loans and **\$160.9 million** **\$141.8 million** in CCBX commercial loans. We make commercial and industrial loans, including term loans, **Small Business Administration ("SBA")** loans, commercial lines of credit, capital call lines working capital loans, equipment financing, borrowing base loans, **Small Business Administration ("SBA")** loans, and other loan products, that are underwritten on the basis of the borrower's ability to service the debt from income. We take as collateral a lien on general business assets including, among other things, available real estate, accounts receivable, inventory and equipment and generally obtain a personal guaranty from the borrower or principal. Our commercial lines of credit typically have a term of one year and have variable interest rates that adjust monthly based on the prime rate. Other commercial and industrial loans generally have fixed interest rates and terms that typically range from one to five years depending on factors such as the type and size of the loan, the financial strength of the borrower/guarantor and the age, type and value of the collateral. Terms greater than five years may be appropriate in some circumstances, based upon the useful life of the underlying asset being financed or if some form of credit enhancement, such as an SBA guarantee, is obtained.

Commercial and industrial loans are often larger and involve greater risks than other types of lending. Because payments on commercial and industrial loans are often dependent on the operating cash flows of the borrower's business, repayment of these loans is often more sensitive to adverse conditions in the general economy, which in turn increases repayment risk. We also face the risk that losses incurred on a small number of commercial loans could have an adverse impact on our financial condition and results of operations due to (a) the larger average size of commercial loans as compared with other loans, such as residential loans, as well as (b) collateral that is generally less readily marketable than collateral for consumer loans, such as residential real estate and automobiles.

As of **December 31, 2022** **December 31, 2023**, we held **\$146.0 million** **\$87.5 million** in capital call lines provided to venture capital firms through one of our CCBX partners. These loans are secured by the capital call rights and are individually underwritten to the Bank's credit standards and the underwriting is reviewed by the Bank on every loan/line. Capital call lines represent **46.7%** **30.0%** of total commercial and industrial loans, and are included in CCBX commercial and industrial loans.

As of **December 31, 2022** **December 31, 2023**, our total commercial SBA portfolio, excluding PPP loans, was **\$4.7 million** **\$2.7 million**, net of **\$5.2 million** **\$3.5 million** in loans sold, with **\$2.4 million** **\$1.3 million** guaranteed by the SBA. We participate in the SBA 7(a) program in order to meet the needs of our small business community. As an approved participant in the SBA Preferred Lender's Program, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA's 7(a) program provides up to a 75% guaranty for loans greater than **\$150,000**.

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\$150,000. For loans \$150,000 or less, the program provides up to an 85% guaranty. The maximum 7(a) loan amount is \$5 million. 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 and servicing by the lender. As such, prudent underwriting and closing processes are

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essential to effective utilization of the 7(a) program. We typically sell in the secondary market the SBA-guaranteed portion (generally 75% of the principal balance) of the SBA loans we originate.

As of **December 31, 2022** **December 31, 2023**, our commercial and industrial loans included **\$4.7 million** **\$3.0 million** in PPP loans. These are SBA loans that allowed small business owners to apply for financial assistance via the PPP as prescribed in the CARES Act. These loans have a contractual rate of 1.0%, with maturity terms of two to five years, are unsecured, 100% guaranteed and loan proceeds may be forgiven by the SBA if used for certain purposes.

As of **December 31, 2022**, we held a total of \$521,000, and service \$2.1 million on loans sold to others that are guaranteed by the United States Department of Agriculture ("USDA"), classified as commercial and industrial loans. We participate in the USDA Business and Industry and Community Facilities programs. Both loan programs provide up to a 90% guarantee. The guarantee is conditional and covers a portion of the risk of payment default by the borrower but not the risk of improper servicing by the lender. Unlike the SBA 7(a) program, the USDA guarantee is not issued until after the loan closes. USDA issues a conditional commitment prior to loan closing and prudent closing processes are essential to effective utilization of the USDA loan programs. The USDA guaranteed portion of the USDA loans are typically sold in the secondary market.

Commercial Real Estate. As of **December 31, 2022** **December 31, 2023**, we had **\$1.05 billion** **\$1.30 billion** of commercial real estate loans, representing **39.8%** **43.0%** of total loans. We make commercial mortgage loans collateralized by owner- and non-owner-occupied real estate, as well as multi-family residential loans. Loans secured by owner-occupied real estate totaled **\$347.3 million** **\$391.4 million** and comprised **33.1%** **30.0%** of our commercial real estate portfolio at **December 31, 2022** **December 31, 2023**. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as manufacturing and processing facilities, business parks, warehouses, retail centers, convenience stores, hotels and motels, office buildings, mixed-use residential and commercial, and other properties. We originate both fixed- and adjustable-rate loans with terms up to 20 years. Fixed-rate loans typically amortize over a 10-to-25 year period with a final maturity and balloon payment at the end of five to ten years. Adjustable-rate loans are generally based on the prime rate and adjust with the prime rate or are based on term equivalent Federal Home Loan Bank rates. At **December 31, 2022** **December 31, 2023**, approximately **80.5%** **83.6%** of the commercial real estate loan portfolio consisted of fixed rate loans. Loan amounts generally do not exceed 75% of the lesser of the appraised value or the purchase price.

As of **December 31, 2022** **December 31, 2023**, we had a total of **\$2.7 million** **\$2.1 million**, and service **\$6.2 million** **\$4.4 million** in loans sold to others that are guaranteed by the SBA, in commercial real estate SBA loans. Also included in commercial real estate loans was **\$68.4 million** **\$77.9 million**, or 2.6% of total loans, in loans under the SBA 504 program. Under the SBA 504 program we make loans to small businesses to provide funding for the purchase of real estate and we provide up to 90% financing of the total purchase cost, represented by two loans to the borrower. The first lien loan is generally a long-term, fully amortizing, fixed-rate loan made in the amount of 50% of the total purchase cost. The second lien loan is a short-term, interest only, adjustable rate loan made in the amount of 40% of the total purchase cost, which is generally paid off within three to six months after full receipt of loan proceeds from a certified development corporation that provides long-term financing directly to the borrower.

Our multi-family residential loan portfolio is comprised of loans secured by apartment buildings, residential mixed-use buildings and, to a lesser extent, senior living centers. As of **December 31, 2022** **December 31, 2023**, we had **\$241.4 million** **\$369.5 million** on multi-family residential loans, representing **23.0%** **28.3%** of our commercial real estate loans, and **9.2%** **12.2%** of total loans.

Commercial real estate lending with respect to non-owner occupied properties typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. We require that our commercial real estate loans to investors be secured by well-managed properties with adequate margins and generally obtain a guaranty from responsible parties. As of **December 31, 2022** **December 31, 2023**, we held **\$460.1 million** **\$542.6 million** in other non-owner occupied loans, excluding multifamily loans, representing **43.9%** **41.6%** of our commercial real estate loans and **17.4%** **17.9%** of total loans.

Construction, Land and Land Development Loans. As of **December 31, 2022** **December 31, 2023**, we had **\$214.1 million** **\$157.1 million** in construction, land and land development loans, representing **8.1%** **5.2%** of total loans. We make loans to established builders to construct residential properties, to developers of commercial real estate investment properties and residential developments and, to a lesser extent, loans to individual clients for construction of single family homes in our market areas. We also make loans for the acquisition of undeveloped land. Construction loans are typically disbursed as construction progresses and carry either fixed or variable interest rates. Our construction and development loans typically have terms that range from six months to two years depending on factors such as the type and size of the development and the financial strength

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of the borrower/guarantor. Loans are typically structured with an interest only construction period and mature at the completion of construction.

Construction and land development loans typically involve more risk than other types of lending products because repayment of these loans is dependent, in part, on the sale or refinancing of the ultimate project rather than the ability of the borrower or guarantor to repay principal and interest. Moreover, these loans are typically based on future estimates of value

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and economic circumstances, which may differ from actual results or be affected by unforeseen events. If the actual circumstances differ from the estimates made at the time of approval of these loans, we face the risk of having inadequate security for the repayment of the loan. Further, if we foreclose on the loan, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time until the foreclosed property is sold.

Residential Real Estate. As of **December 31, 2022** **December 31, 2023**, we had **\$449.2 million** **\$463.4 million** in residential real estate loans, representing **17.1%** **15.3%** of total loans.

We make one-to-four family loans to investors to finance their rental properties and to business owners to secure their business loans. As of **December 31, 2022** **December 31, 2023**, residential real estate loans made to investors and business owners totaled **\$140.7 million** **\$161.3 million**, or **31.3%** **34.8%** of our residential real estate loans.

CCBX loans totaled **\$244.6 million** **\$238.0 million**, or **54.5%** **51.4%** of residential real estate loans, as of **December 31, 2022** **December 31, 2023**. These loans are home equity line of credits that are accessed through the use of a consumer card.

We originate one-to-four adjustable-rate mortgage ("ARM"), loans for our portfolio and operate as a mortgage broker for mortgage lenders we have agreements with for customers who want a 15-year to 30-year, fixed-rate mortgage loan. As of **December 31, 2022** **December 31, 2023**, the balance of ARM portfolio loans was **\$28.0 million** **\$31.5 million**, or **6.2%** **6.8%** of residential real estate loans. Our ARM loans typically do not meet the guidelines for sale in the secondary market due to characteristics of the property, the loan terms or exceptions from agency underwriting guidelines, which enables us to earn a higher interest rate. We also originate home equity lines of credit and home equity term loans for our portfolio. Home equity lines of credit have variable interest rates, while home equity term loans are fixed for up to 5-1/2 years but can be amortized up to a maximum of 180 months with a balloon payment at maturity.

We also purchase residential mortgages originated through other financial institutions to hold for investment with the intent to diversify our residential mortgage loan portfolio, meet certain regulatory requirements and increase our interest income. As of **December 31, 2022** **December 31, 2023**, we held **\$9.4 million** **\$8.1 million**, representing **2.1%** **1.7%** of our residential real estate loans, in purchased residential real estate mortgage loans. Our last purchase of residential mortgages was in 2018. These purchased loans typically have a fixed rate with a term of 15 to 30 years and are collateralized by one-to-four family residential real estate. We have a defined set of credit guidelines that we use when evaluating these loans. Although purchased loans were originated and underwritten by another institution, our mortgage, credit, and compliance departments conduct an independent review of each underlying loan that includes re-underwriting each of these loans to our credit and compliance standards.

Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

Consumer and Other Loans. As of **December 31, 2022** **December 31, 2023**, we had **\$608.8 million** **\$818.0 million** in total consumer loans, representing **23.2%** **26.9%** of total loans. Consumer loans are primarily originated through our CCBX partners. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than residential real estate mortgage loans. Consumer loan collections are dependent on the borrower's continuing financial stability and are therefore more likely to be affected by adverse personal circumstances, such as a loss of employment, divorce, or unexpected medical costs.

The community bank segment has **\$1.7 million** **\$1.6 million** in consumer loans as of **December 31, 2022** **December 31, 2023**. We make a variety of consumer loans to individuals, mainly business owners and family of business owners, for personal and household purposes, including automobile, boat and recreational vehicle loans and secured term loans. We also offer personal lines of credit including overdraft protection. Consumer loans are underwritten based on the individual borrower's income, current

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debt level, past credit history and the value of any available collateral. The terms of consumer loans vary considerably based upon the loan type, nature of collateral and size of the loan.

Through our CCBX segment we have **\$607.0 million** **\$816.4 million** in consumer and other loans as of **December 31, 2022** **December 31, 2023**. This includes **\$327.4 million** **\$310.6 million** in other consumer loans, **\$145.7 million** **\$40.2 million** of which are purchased loans secured by consumer term loans, and **\$279.6 million** **\$505.8 million** in credit cards. Our CCBX segment includes cash secured and unsecured consumer loans, loan

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products designed to help consumers build credit, credit cards and overdrafts. Consumer loans are made through our CCBX partners to our underwriting standards. The terms of consumer loans vary considerably based upon the loan type, nature of collateral and size of the loan. **As our relationships with CCBX partners continues to increase, we anticipate that our consumer loan portfolio will grow through these offerings.**

Credit Administration and Loan Review

We control credit risk both through disciplined underwriting of each transaction, as well as active credit management processes and procedures to manage risk and minimize loss throughout the life of a loan for community bank and CCBX loans. We seek to maintain a broadly diversified loan portfolio in terms of type of customer, type of loan product, geographic area and industries in which our business customers are engaged. We have developed tailored underwriting criteria and credit management processes and procedures for each of the various loan product types we offer our customers.

Underwriting. In evaluating each potential loan relationship, we adhere to a disciplined underwriting evaluation process that includes the following:

- understanding the customer's financial condition and ability to repay the loan;
- verifying that the primary and secondary sources of repayment are adequate in relation to the amount and structure of the loan;
- observing appropriate loan-to-value guidelines for collateral secured loans;
- obtaining credit enhancements from CCBX partners to reduce the risk of loss
- maintaining our targeted levels of diversification for the loan portfolio, both as to type of borrower and type of collateral; and
- ensuring that each loan is properly documented with perfected liens on collateral.

Loan Approval Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our board of directors and management. We have established several levels of lending authority that have been delegated by the board of directors to our management credit committee, Chief Executive Officer, Chief Credit Officers (community bank and CCBX) Officer and other personnel in accordance with our loan policy. Authority limits are based on the total exposure of the borrower and are conditioned on the loan conforming to the policies contained in the loan policy. Any loan policy exceptions are fully disclosed to the approving authority.

Ongoing Credit Risk Management. In addition to the tailored underwriting process described above, we perform ongoing risk monitoring and review processes for credit exposures. Although we grade and classify our loans internally, we engage an independent third-party professional firm to perform regular loan reviews and confirm loan classifications. We strive to identify potential problem loans early in an effort to actively seek resolution of these situations before they create a loss. We record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan expected credit losses incurred estimated in the loan portfolio.

In general, whenever a particular loan or overall borrower relationship is downgraded from a pass grade to a watch or substandard grade based on one or more standard loan grading factors, our relationship manager (who is typically the loan officer) and credit team members engage in active evaluation of the asset to determine the appropriate resolution strategy. Management regularly reviews the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio.

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Concentrations of Credit Risk

Most of our community bank lending activity is conducted with businesses and individuals in our market area. As of December 31, 2022 December 31, 2023, approximately 86% of the real estate loans in our community bank loan portfolio (measured by dollar amount) were secured by real estate, or made to borrowers who live or conduct business, in the Puget Sound region. A substantial portion of our loan portfolio consists of commercial and industrial loans and real estate loans secured by commercial real estate properties located in the Puget Sound region, and is dependent upon the economic environment of

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the Puget Sound region. We have a limited number of loans secured by properties located outside of the Puget Sound region, most of which are made to borrowers who are well-known to us.

CCBX loans receivable total \$1.01 billion \$1.20 billion, or 88.5% 39.4% of total loans receivable, as of December 31, 2022 December 31, 2023. CCBX loans are originated through our partners and are consistent with our underwriting standards. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by absorbing incurred reimbursing most losses. In accordance with accounting guidance, we estimate and record a provision for probable expected losses for these CCBX loans. loans and reclassified negative deposit accounts. When the provision for loan CCBX credit losses and provision for unfunded commitments is are recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS fees -credit enhancement) credit enhancements. Incurred Expected losses are recorded in the allowance for loan losses, and as the credit losses. The credit enhancement recoveries asset is reduced when credit enhancement payments are received from the CCBX partner or taken from the partner's cash reserve account. CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by reimbursing the Bank for the losses. If the partner is unable to fulfill its contracted obligations then the Bank could be exposed to the loss of the reimbursement and credit enhancement asset is relieved. income, as a result of this counterparty risk. Agreements with our CCBX partners also provide protection to the Bank from fraud by absorbing incurred fraud losses. Fraud losses, which are substantially comprised of first payment defaults on partner loans, are recorded when incurred as losses in noninterest expense, and the recovery received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. Although many agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by absorbing incurred credit and fraud losses and the possibility of writing off the credit enhancement on those loans, if our partner is unable to fulfill their contracted obligations then the Bank would be exposed to additional loan losses, as a result of this counterparty risk.

Our total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans totaled \$1.26 billion \$1.46 billion and represented 269.2% 238.3% of the Bank's total risk-based capital at December 31, 2022 December 31, 2023. Interagency guidance on commercial real estate concentrations describes sound risk management practices, which include board and management oversight, portfolio management, management information systems, market analysis, portfolio stress testing and sensitivity analysis, credit underwriting standards, and credit risk review functions. We believe that we have adequately implemented these practices in order to monitor concentrations in commercial real estate in our loan portfolio.

Lending Limits

Our lending activities are subject to a variety of lending limits imposed by state law. In general, the Bank is subject to a legal lending limit on loans to a single borrower based on the amount of the Bank's capital and surplus. The dollar amounts of the Bank's lending limit increases or decreases as the Bank's capital and surplus increases or decreases. The Bank is able to sell participations in its larger loans to other financial institutions, which allows the Bank to better manage the risk and exposure involved with larger loans and to meet the lending needs of its customers requiring extensions of credit in excess of Bank or regulatory limits.

The Bank's legal lending limit as of **December 31, 2022** **December 31, 2023** on loans to a single borrower was **\$68.3 million** **\$90.2 million**, or 20% of capital and surplus.

Our loan policies provide general guidelines for loan-to-value ratios that restrict the size of loans to a maximum percentage of the value of the collateral securing the loans, which percentage varies by the type of collateral. Our internal loan-to-value limitations also follow all limits established by applicable law.

Deposit Products

Our deposits serve as the primary funding source for lending, investing and other general banking purposes. We provide a full range of deposit products in the community bank and through our CCBX partners that have a wide range of interest rates and terms, including a variety of demand and savings accounts, time deposits, and money market accounts. We also provide a wide range of deposit services, including debit cards, remote deposit capture, online banking, mobile banking, and direct deposit services. We also offer business accounts and cash management services, including business checking and savings accounts, and treasury services. We also offer reciprocal deposits which enables us to extend FDIC

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insurance to customers that have balances in excess of the FDIC insurance limit. This reciprocal deposit service trades our customer's funds in increments under the FDIC insured amount to other participating financial institutions and in exchange we receive customer deposits from participating financial institutions in a reciprocal agreement.

We solicit deposits through our relationship-driven team of dedicated and accessible bankers and through community-focused marketing. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in

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neighboring counties (one in King County and one in Island County). We emphasize obtaining deposit relationships at loan origination. Our focus on relationship banking combined with our robust business banking services has led to approximately **76.9%** **77.6%** of our community bank loan customers having deposit relationships with us as of **December 31, 2022** **December 31, 2023**.

Our CCBX partners originate deposits with many of the same characteristics as our community bank and these deposits are primarily interest bearing to us. **CCBX deposits** are generally classified as interest bearing negotiable order of withdrawal ("NOW") and money market accounts. CCBX deposit products allow us to offer a broader range of partner specific products, which include products designed to reach specific under-served or under-banked populations served by our CCBX partners. The CCBX partner determines the rate paid to the end consumer and we determine the rates paid to the partner as indicated in the partner agreement. Additionally, as of **December 31, 2022** **December 31, 2023** we have access to **\$225.0 million** **\$69.4 million** in CCBX customer deposits that are currently being transferred off the Bank's balance sheet **to other financial institutions on a daily basis**, for FDIC insurance purposes. The Bank **could may be able to** retain **these the transferred** deposits for liquidity and funding purposes, if needed. Depending on the circumstances of how the Bank retains these deposits and its relationship with the customer, these retained deposits could be classified as brokered deposits.

CCBX segment (BaaS)

Our CCBX segment provides BaaS, enabling broker dealers and digital financial service providers to offer **its their** clients banking services. The "X" is indicative of the technology services that our partners provide. Our partners make our banking products and services available to their consumers, partners and workforce through integration with our banking platform. In doing so, our addressable market expands to a broader spectrum of consumers as well as small businesses. We **currently have had** a total of **2721** relationships, which includes 19 active relationships, one in friends and family trials, **zero one** in implementation and **onboarding, five signed letters of intent, and two winding down to exit, and we onboarding**. We continue to maintain a robust pipeline. **refine the criteria for CCBX is supported by staff that we began hiring in late 2019 partnerships and continued throughout 2022 to build the infrastructure, work are exiting relationships where it makes sense and are focusing on expanding and developing relationships with our CCBX larger and more established partners, with experienced management teams, existing customer bases and to execute new contracts, strong financial positions.**

Investments

As of **December 31, 2022** **December 31, 2023**, the fair value of our investment portfolio, which represented **3.1%** **4.0%** of assets, totaled **\$98.2 million** **\$150.5 million** and had an average effective yield of **2.16%** **3.27%** and an estimated **duration weighted average life** of approximately **1.2** **6.1** years. The primary objectives of the investment portfolio are to provide a source of liquidity and provide collateral that can be readily sold or pledged for public deposits or other business purposes. At **December 31, 2022** **December 31, 2023**, **98.7%** **66.1%** of our investment portfolio consisted of U.S. Treasury securities. The remainder of our securities portfolio is invested in **municipal bonds**, U.S. Agency collateralized mortgage and U.S. Agency residential mortgage-backed securities obligations. We regularly evaluate the composition of our investment portfolio as the interest rate yield curve changes and may sell or pledge investment securities from time to time to adjust our exposure to interest rates or to provide liquidity to meet loan demand. **Due to the low interest rate environment, we We** are primarily holding the majority of our on-balance sheet liquidity in interest bearing bank deposits to limit our exposure to interest rate and price risk and to provide readily available funds for loan growth.

As of **December 31, 2022** **December 31, 2023**, we had \$2.6 million in equity investments. The equity investments will be held at cost minus any impairment. This measurement should be applied until the investment has a determinable value or does not qualify for the measurement election (e.g., if the investment has a readily determinable fair value). We will reassess at each reporting period whether our equity investment without a readily determinable fair value qualifies to be measured at cost minus impairment. Our total equity investments as of **December 31, 2022** **December 31, 2023** included a \$2.2 million equity interest in a specialized bank technology company, **and** an equity interest of

\$350,000 in a separate bank technology company. Additionally, company and a contribution of \$50,000 in another technology company during the year ended December 31, 2022, we reassessed the value of an investment and recognized a \$100,000 impairment. This investment has been written off and is no longer carried on the Company's books. December 31, 2023.

We have invested in funds that are accelerating technology for adoption by banks. These equity investments are held at fair value, as reported by the funds. During the year ended December 31, 2022 December 31, 2023, we the Company contributed \$349,000 \$74,500 with investment funds designed to help accelerate technology adoption at banks, and recognized net losses gains of \$53,000, \$278,000, resulting in an equity interest of \$456,000 \$809,000 at December 31, 2022 December 31, 2023. We have The Company has committed up to \$988,000 \$653,000 in capital for these equity funds, however, we are not obligated to fund these commitments prior to a capital call.

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Competition

We operate in a highly competitive industry and in a highly competitive market. Our community bank commercial real estate lending in the Puget Sound region attracts keen competition from large banking institutions with national

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operations, as well as mid-sized regional banking institutions. We compete with other community banks, savings and loan associations, credit unions, mortgage companies, insurance companies, finance companies and other financial intermediaries. The primary factors driving competition for deposits are customer service, interest rates, fees charged, branch locations and hours, online and mobile banking functionality, and the range of products offered. The primary factors driving competition for our lending products are customer service, range of products offered, price, reputation, and quality of execution. Our CCBX segment competes against companies and financial institutions across the retail banking, financial services, transaction processing, consumer technology and financial technology services industries and may compete with others in the market who may in the future provide offerings similar to ours. Our CCBX segment competes primarily on the basis of quality of service, customer satisfaction, compliance and regulatory capabilities, brand recognition and reputation in the BaaS market space, speed and quality of innovation, reliability of system performance and security, scalability of services, and pricing.

We believe the Bank is a strong competitor in our markets, however other competitors have certain advantages over us. Among them, many larger institutions have the ability to finance extensive advertising campaigns, maintain extensive branch networks and make larger technology investments, and to offer services which we do not offer. The higher capitalization of the larger banking institutions permits them to have higher lending limits than those of the Bank. Some of our competitors have other advantages, such as tax exemption in the case of credit unions, and to some extent, lesser regulation in the case of mortgage companies and finance companies.

Information Technology Systems

We have made and continue to make significant investments in our information technology systems and staff for our banking and lending operations, treasury management activities, and CCBX. We believe this investment will support our continued growth and enable us to enhance our capabilities to offer new products and overall customer experience, and to provide scale for future growth and acquisitions. We utilize nationally recognized software vendors, and their support allows us to outsource our data processing.

The majority of our systems including our electronic funds transfer, transaction processing, and our online banking services are hosted by third-party service providers. The scalability of this infrastructure will support our growth strategy. In addition, the tested capability of these vendors to automatically switch over to standby systems should allow us to recover our systems and provide business continuity quickly in case of a disaster.

We continue to adopt scalable and secure cloud technologies in tandem with zero trust networking for applications, email, and data processing. These systems provide redundancy and disaster recovery capabilities.

Emerging Growth Company Status

We are an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, (the "JOBS Act"). An emerging growth company may take advantage of reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. As an emerging growth company:

- we may present as few as two years of audited financial statements and as few as two years of related management's discussion and analysis of financial condition and results of operations;
- we are exempt from the requirement to obtain an attestation report from our auditors on management's assessment of the effectiveness of our internal control over financial reporting under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act;
- we are not required to comply with any requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and our financial statements;
- we are permitted to provide reduced disclosure regarding our executive compensation arrangements pursuant to the rules applicable to smaller reporting companies, which means we do not have to include a

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compensation discussion and analysis and certain other disclosures regarding our executive compensation; and

- we are not required to give our shareholders non-binding advisory votes on executive compensation or golden parachute arrangements.

We will cease to be an "emerging growth company" upon the earliest of:

- the last day of the fiscal year in which we have total annual gross revenues of \$1.235 billion or more;
- the date on which we become a "large accelerated filer" (the fiscal year end on which the total market value of our common equity securities held by non-affiliates is \$700 million or more as of June 30);
- the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; and
- the last day of the fiscal year following the fifth anniversary of the completion of our initial public offering in 2018.

We have elected to adopt certain of the reduced disclosure requirements above with respect to the periodic reports we will file with the Securities and Exchange Commission (the "SEC"), and proxy statements that we use to solicit proxies from our shareholders.

In addition, Section 107 of the JOBS Act permits us to take advantage of an extended transition period for complying with new or revised accounting standards affecting public companies. However, we have irrevocably opted out of the extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Diversity, Equity and Inclusion ("DEI")

We believe that DEI needs to start at the top of an organization. As the Company enters and expands its presence in more complex arenas including BaaS, we seek out diverse and qualified director candidates who bring a background and expertise in the fintech and digital banking sectors regardless of their gender, race, or other personal characteristics. Additionally, those members of we strive for the Company's Company's board of directors would need to be representative of as diverse as the diversity found in the fintech's fintechs themselves. Since beginning this effort the board of directors has added three women and two directors from minority minoritized backgrounds. We strive to maintain a diverse and inclusive work culture in which individual differences and experiences are valued and all employees have the opportunity to contribute and thrive. We believe that leveraging our employees' diverse perspectives and capabilities will enhance innovation, foster a collaborative work culture and enable us to better serve our customers and communities.

We also promote DEI is also achieved by reaching customers through our CCBX partners and the markets they serve. Our reach extends to a diverse and often underserved market through our BaaS relationships. These partners offer access to credit, promote financial well-being, provide financial education, and other services to a variety of markets. Some of the markets segments served through our BaaS partnerships are: women, people of color, young adults, immigrants, small businesses and other underserved populations.

DEI extends to our customers as well. We are focused on supporting small businesses throughout our communities. The COVID-19 pandemic exposed the challenges of small business. We are proud to have participated in the Paycheck Protection Program, originating over 5,800 loans totaling more than \$763 million. During the COVID-19 pandemic, our company financially supported locally-owned restaurants by providing meals and gift cards for our employees.

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Environment and Sustainability

We are focused on the environment and committed to business practices and activities that encourage sustainability and minimize our environmental impact.

We demonstrate environmental responsibility in various ways, including: including practical applications of the 3 R's:

Reduce waste and energy consumption

- using technology that provides for a paperless environment and transactional efficiencies;
- replacing standard light bulbs with LED bulb that have a longer life and use less energy – most notably many of our parking lot lights have been converted to LED;
- utilizing occupancy sensors or timers that automatically shut off lights and reduce power consumption; and
- annual shareholder meetings are virtual and allow for expanded access in a climate friendly manner.

Reuse

- repurposing existing furniture whenever possible instead of buying new.

We are focused on sustainability throughout our everyday business practices by:

- using technology that provides for a paperless environment and transactional efficiencies, Recycle
- eCycling old technology equipment to avoid sending it to landfills.

- installation of occupancy sensors that automatically shut off lights in densely populated buildings; and
- exterior lights are on timers, landfills.

Services like mobile and online banking, remote deposit capture, electronic loan payments, eStatements and combined statements enable us to support all customers in their efforts to consume less fuel and paper. We continue to digitize loan origination and deposit account opening processes, reducing trips to the bank and paper documents for our customers.

Additionally, we work hard to ensure that our lending activities do not encourage business activities that could cause irreparable damage to our reputation or the environment. As a result, we try to conduct business responsibly, with awareness to environmental, social, and human rights issues while also monitoring credit risks. This process involves management and board of director oversight. In general, we evaluate each credit or transaction on its individual merits, with larger deals receiving more attention and deeper analysis.

Human Capital

As of December 31, 2022 December 31, 2023, we had 448 507 full-time equivalent employees, all were located in the United States, however technology has allowed us to expand our reach to include a larger demographic with more remote employees working outside of our physical locations and throughout the country. We seek to attract, retain and develop the most talented employees possible by promoting a strong, positive culture, maintaining a safe and healthy workplace, emphasizing open communication with management and investing in training and education. In 2022, 2023, our retention rate was 88% 85%. We seek to help our employees grow and develop. In 2022, 2023, we had 106 108 internal promotions. None of our employees are parties to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements.

Our commitment to diversity starts with our board of directors, which oversees the culture and holds management accountable to build and maintain a diverse and inclusive environment. We believe a diverse workforce is critical to sustainable success. As of December 31, 2022 December 31, 2023, 64% of our employees were female, 24% 27% were minorities (non-Caucasian) from underrepresented racial and 3% were disabled. ethnic groups and 4% have a disability. We are proud of our workforce and the opportunity to further diversify our team going forward.

Culture

We have always led with people, building our Bank on the diverse perspectives, knowledge, and experiences of our employees. Our employees utilize their strengths to set the course and are empowered to do the right things for our

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clients. We strive to create an inclusive workplace so we can build and maintain a high-performing culture where engaged, satisfied employees embody our core values: stay flexible, take care of each other, embrace gray thinking, be relentless, be the best and be un-bankey.

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We seek out talent that will be a cultural fit to our core values and have backgrounds that are as diverse as the clients we serve in each of our business units.

Pay Equity

We believe our staff should be paid for the roles they fulfill, their experience, and how they do their jobs, and our goal is to attract, retain and develop quality talent. To deliver on that commitment, we benchmark and set pay ranges based on banking market data and consider factors such as an employee's role and experience, the location of their job, and their performance. We also regularly review our compensation practices, both in terms of our overall workforce and individual employees, to ensure our pay is fair and equitable.

Health, Safety and Wellness

Since the onset of the COVID-19 pandemic, we We have taken a people-first approach to help our employees manage their work and personal responsibilities, with a strong focus on employee well-being, health and safety. Our human resource team engages the staff in an evolving wellness program designed to enhance physical, financial, and mental well-being for all our employees. We encourage healthy lifestyle behaviors through regular communications, educational sessions, voluntary progress tracking of beneficial health changes, and wellness challenges.

We value the contributions of our employees, particularly in the face of the challenges posed by the COVID-19 pandemic. Where possible, many employees have been working from home to help maintain their health and safety as well as business continuity. The Bank has accommodated staff who are unable to work on site due to health or family issues, and our human resources department works one-on-one to find solutions that are workable for both staff and the Company.

Community Engagement

We are committed to supporting the communities we serve through donations, sponsorships and employee volunteerism.

We offer employees two options for employees donate As a community-focused bank, we have a unique opportunity to charitable partner with organizations to support and strengthen the Employee Giving Fund communities we serve. In 2023, Coastal Community Bank supported 162 non-profit organizations through donations and the Employee

[Workplace Giving Portal](#), [event sponsorships](#).

The [charities nonprofit organizations](#) that provide critical services in our communities depend on support from donors. [We offer employees two options to support charitable organizations through: the Employee Giving Fund and the Employee Workplace Giving Portal](#). This is a testament to our commitment to helping and supporting our neighbors by encouraging employees to give to their charity of choice – wherever they live and work – through payroll deduction.

The Employee Giving Fund is supported entirely by donations contributed by employees [and directors](#), enabling [staff donors](#) to pool their donations for the greatest impact in the communities served by the [community bank, Bank](#). Employees direct the grants from the fund by serving on [the Bank's grant fund advisory committee](#). Since its inception in 2001, the Employee Giving Fund has awarded [449 461](#) grants totaling more than [\\$747,000 \\$822,741](#) through the end of [2022](#).

[The 2023. In 2023 the Employee Workplace Giving Portal, launched Fund awarded grants in the fourth quarter amount of 2022, allows employees \\$76,240 to support their charity of choice. 12 local non-profit organizations.](#)

With staff in [34 40](#) states, it is important to encourage and enable employees to support their community, wherever they are located. The Employee Workplace Giving Portal allows employees to support their charity of choice through payroll deduction. [The Company pays We pay](#) the administrative fees for the program so 100% of employee donations are directed to their charities of choice.

Volunteering and supporting our communities is an important part of community engagement. We provide 16 hours of paid volunteer hours (for [full time full-time](#) staff) per year to encourage and enable employees to volunteer in their communities. In [2022, 2023](#), employees volunteered [5,545 5,301](#) hours supporting [187 201](#) organizations. [In 2022, the Bank supported 152 organizations through donations and event sponsorships.](#)

Available Information

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), and other filings with the [SEC Securities and Exchange Commission \(the "SEC"\)](#) are available free of charge at <https://ir.coastalbank.com/> under the heading "Financials - SEC Filings" as soon as reasonably

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practicable after the Company electronically files such material with, or furnishes it to, the SEC. These reports are also available for free on the SEC's website at <http://www.sec.gov>.

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www.sec.gov. The information contained on the Company's website as referenced in this Report on Form 10-K should not be considered a part of this Report.

Regulation and Supervision

General

Insured banks, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Washington Department of Financial Institutions ("Washington DFI"), the Board of Governors of the Federal Reserve ("Federal Reserve"), the Federal Deposit Insurance Corporation ("FDIC") and the Consumer Financial Protection Bureau ("CFPB"). Furthermore, tax laws administered by the Internal Revenue Service ("IRS"), and state taxing authorities, accounting rules developed by the FASB, securities laws administered by the SEC and state securities authorities, anti-money laundering laws enforced by the U.S. Department of the Treasury ("Treasury Department") and mortgage related rules, including with respect to loan securitization and servicing by the U.S. Department of Housing and Urban Development and entities such as Ginnie Mae and Freddie Mac, and SBA regulations with respect to small business loans, have an impact on our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of insured banks, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than their shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can impact the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, sensitivity to market risk and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to us and the Bank. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Bank Holding Company Regulation

Since we own all of the capital stock of the Bank, we are a bank holding company under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). As a result, we are primarily subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve.

Acquisition of Banks

The BHC Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will, directly or indirectly, own or control more than 5% of the bank's voting shares;

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- acquiring all or substantially all of the assets of any bank; or

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- merging or consolidating with any other bank holding company.

Additionally, the BHC Act provides that the Federal Reserve may not approve any of the above transactions if such transaction would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of financial resources includes a focus on capital adequacy, which is discussed in the section entitled "*—Bank Regulation and Supervision—Capital Adequacy.*" The Federal Reserve also considers the effectiveness of the institutions in combating money laundering, including a review of the anti-money laundering programs and compliance records of the parties. Finally, the Federal Reserve takes into consideration the extent to which the proposed transaction would result in greater or more concentrated risks to the stability of the U.S. banking or financial system.

Under the BHC Act, if well-capitalized and well-managed, we or any other bank holding company located in Washington may purchase a bank located outside of Washington without regard to whether such transaction is prohibited under state law. Conversely, a well-capitalized and well-managed bank holding company located outside of Washington may purchase a bank located inside Washington without regard to whether such transaction is prohibited under state law. In each case, however, restrictions may be placed under state law on the acquisition of a bank that has only been in existence for a limited amount of time or will result in concentrations of deposits exceeding limits specified by statute. For example, Washington law currently prohibits a bank holding company from acquiring control of a Washington-based financial institution until the target financial institution has been in operation for at least five years.

Change in Bank Control

Subject to various exceptions, the BHC Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Under a rebuttable presumption established by the Federal Reserve pursuant to the Change in Bank Control Act, the acquisition of 10% or more of a class of voting stock of a bank holding company would constitute acquisition of control of the bank holding company if no other person will own, control, or hold the power to vote a greater percentage of that class of voting stock immediately after the transaction or the bank holding company has registered securities under the Exchange Act, as we have. In addition, any company, person or group of persons acting in concert must obtain the approval or non-objection of the Federal Reserve under the BHC Act or Change in Bank Control Act before acquiring 25% or more (more than 5% in the case of an acquirer that is already a bank holding company) of the outstanding voting stock of a bank holding company, the right to control in any manner the election of a majority of the company's directors, or otherwise obtaining control or a "controlling influence" over the bank holding company. Approval of the Washington DFI may also be required under state law before a person can acquire control over us.

Permitted Activities

Under the BHC Act, a bank holding company is generally permitted to engage in or acquire direct or indirect control of the voting shares of any company engaged in the following activities:

- banking or managing or controlling banks; and
- any activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities in connection with the foregoing;

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- leasing personal or real property under certain conditions;

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- operating a non-bank depository institution, such as a savings association;
- engaging in trust company functions in a manner authorized by state law;
- financial and investment advisory activities;
- discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as an agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

The Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries. In addition to the permissible bank holding company activities listed above, a bank holding company may qualify and elect to become a financial holding company, thereby permitting the bank holding company to engage in activities that are financial in nature or incidental or complementary to financial activity, which are broader activities than are otherwise permissible for bank holding companies.

For us to qualify to become a financial holding company, we must be well-capitalized and well-managed. In addition, the Bank and any other depository institution subsidiary we control must be well-capitalized and well-managed and must have a **CRA Community and Reinvestment Act ("CRA")** rating of at least **"satisfactory," "Satisfactory."** Additionally, we must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. We have not elected to become a financial holding company at this time.

Dividends

The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earning retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve also has indicated that it would be inappropriate for a holding company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the prompt corrective action regulations adopted by the Federal Reserve, the Federal Reserve may prohibit a bank holding company from paying any dividends if one or more of the holding company's bank subsidiaries is classified as undercapitalized.

Support of Subsidiary Institutions

The Federal Deposit Insurance Act ("FDIA") and a Federal Reserve regulation require a bank holding company to serve as a source of financial and managerial strength to its bank subsidiaries. In addition, where a bank holding company has more than one FDIC-insured bank or thrift subsidiary, each of the bank holding company's subsidiary FDIC-insured depository institutions is responsible for any losses to the FDIC as a result of an affiliated depository institution's failure. As a result of a bank holding company's source of strength obligation, a bank holding company may be required to provide funds to a bank subsidiary in the form of subordinate capital or other instruments which qualify as capital under bank regulatory rules and at a time when the bank holding company would not otherwise be inclined to do so.

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Repurchase or Redemption of Securities

A bank holding company that is not well capitalized or well managed, or that is subject to any unresolved supervisory issues, is required to give the Federal Reserve prior written notice of any purchase or redemption of its own

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then-outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it

determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. Additionally, under Federal Reserve guidance, a bank holding company is generally expected to consult with Federal Reserve supervisory staff prior to repurchasing or redeeming stock in a number of circumstances, including when the company is considering expansion.

Bank Regulation and Supervision

The Bank is subject to extensive federal and state banking laws and regulations that impose restrictions on and provide for general regulatory oversight of the operations of the Bank. These laws and regulations are generally intended to protect the safety and soundness of the Bank and the Bank's depositors, rather than our shareholders. The following discussion describes the material elements of the regulatory framework that applies to the Bank.

Since the Bank is a commercial bank chartered under the laws of the state of Washington and is a member of the Federal Reserve System, it is primarily subject to the supervision, examination and reporting requirements of the Federal Reserve and the Washington DFI. The Federal Reserve and the Washington DFI regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to take enforcement action to prevent the development or continuance of unsafe or unsound banking practices or other violations of law. The Bank's deposits are insured by the FDIC to the maximum extent provided by law. The Bank is also subject to numerous federal and state statutes and regulations that affect its business, activities and operations.

Branching

Under current Washington law, the Bank may open branch offices throughout Washington with the prior approval of the Washington DFI. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Washington. Under federal law, the Bank may establish branch offices with the prior approval of the Federal Reserve. Federal law allows a bank to branch into a new state by setting up a new branch if, under the laws of the state in which the branch is to be located, a state bank chartered by that state would be permitted to establish the branch, and if the bank meets certain supervisory and financial criteria.

FDIC Insurance and Other Assessments

The Bank's deposits are insured by the FDIC to the full extent provided in the FDIA (currently \$250,000 per deposit account), and the Bank pays assessments to the FDIC for that coverage. Under the FDIC's risk-based deposit insurance assessment system, an insured institution's deposit insurance premium is computed by multiplying the institution's assessment base by the institution's assessment rate. An institution's assessment base equals the institution's average consolidated total assets during a particular assessment period, minus the institution's average tangible equity capital (that is, "Tier 1 capital") during such period. For institutions like the Bank with less than \$10.0 billion in total consolidated assets, the assessment rate is calculated using a financial ratios method based on a statistical model estimating the institution's probability of failure over three years utilizing seven financial ratios (leverage ratio; net income before taxes/total assets; nonperforming loans and leases/gross assets; other real estate owned/gross assets; brokered deposit ratio; one year asset growth; and loan mix index) and a weighted average of supervisory ratings components. Since the outbreak of the COVID-19 pandemic, the amount of total estimated insured deposits has grown rapidly while the funds in the DIF FDIC's Deposit Insurance Fund ("DIF") have grown at a normal rate, causing the DIF reserve ratio to fall below the statutory minimum of 1.35%. The FDIC adopted a restoration plan in September 2020, which it amended in June 2022, to restore the DIF reserve ratio to at least 1.35% by September 30, 2028. On October 18, 2022 the FDIC adopted a final rule to increase initial base deposit insurance assessment rates for insured depository institutions by 2 basis points, beginning with the first quarterly assessment period of 2023. The increased assessment rate schedules will remain in effect unless and until the reserve ratio of the DIF meets or exceeds 2%. As a result of the new rule, the FDIC insurance costs of insured depository institutions, including the Bank, will generally increase. The range of assessment rates effective January 1, 2023, January 1,

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2023, and first applicable on invoices dated June 30, 2023, will fall between 2.5 basis points for an established small institution posing the least risk, to 32 basis points for an established small institution posing the most risk. The FDIC will lower the range of assessment rates if the reserve ratio of the Deposit Insurance Fund ("DIF") DIF increases to 2% or more. The FDIC may also impose special assessments from time to time. As of September 30, 2022 September 30, 2023, which is the most recent information available, the DIF reserve ratio was at 1.26% 1.13%.

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Termination of Deposit Insurance

The FDIC may terminate its insurance of deposits of a bank if it finds that the bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Community Reinvestment Act

The Community Reinvestment Act ("CRA") CRA requires that, in connection with examinations of insured depository institutions within their respective jurisdictions, the federal banking agencies will evaluate the record of each financial institution in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. The Federal Reserve periodically evaluates the Bank's record of performance under the CRA, and these evaluations are publicly available. A bank's CRA performance is considered in evaluating applications seeking approval for mergers, acquisitions, and new offices or facilities. Failure to adequately meet these criteria could result in additional requirements and limitations being imposed on the bank. Certain regulatory advantages, such as expedited processing of applications, are available only to banks with CRA ratings of Satisfactory or Outstanding. Additionally, we must publicly disclose the terms of certain CRA-related agreements. The Bank received a Satisfactory rating at its most recent evaluation dated March 7, 2022.

On May 5, 2022 October 24, 2023, the federal banking agencies issued FDIC, the Federal Reserve and the Office of the Comptroller of the Currency ("OCC") released a proposed final rule revising the framework that would substantially revise how they use to evaluate an insured depository institution's record banks' records of satisfying the credit

needs of its entire communities, including low- and moderate- income individuals and neighborhoods, community reinvestment under the CRA. If this Under the revised framework, banks with assets of at least \$2 billion, such as the Bank, are considered large banks and will have their retail lending, retail services and products, community development financing, and community development services subject to periodic evaluation. Depending on a large bank's geographic concentrations of lending, the evaluation of retail lending may include assessment areas in which the bank extends loans but does not operate any deposit-taking facilities, in addition to assessment areas in which the bank has deposit-taking facilities. The rule becomes effective April 1, 2024. Most provisions of the final rule will apply beginning January 1, 2026, and the remaining provisions will apply beginning January 1, 2027. The Company is finalized as proposed, it may become more challenging and/or costly for insured depository institutions to achieve an "Outstanding" or "Satisfactory" CRA rating, which could negatively evaluating the impact our ability to obtain regulatory approval for an acquisition. of the final rule.

Interest Rate Limitations

Interest and other charges collected or contracted for by the Bank are subject to applicable state usury laws and federal laws concerning interest rates.

Reserves

Pursuant to regulations of the Federal Reserve, an insured depository institution must maintain reserves against its transaction accounts. Because required reserves generally must be maintained in the form of vault cash, with a pass-through correspondent bank, or in the institution's account at a Federal Reserve Bank, the effect of the reserve requirement may be to reduce the amount of an institution's assets available for lending or investment. In March 2020, in response to the COVID-19 pandemic, the Federal Reserve reduced all reserve requirement ratios to zero. The Federal Reserve indicated that it may adjust reserve requirement ratios in the future if conditions warrant.

Federal Laws Applicable to Consumer Credit and Deposit Transactions

The Bank's loan and deposit operations are subject to a number of federal consumer protection laws, including:

- the Federal Truth in Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Real Estate Settlement Procedures Act, imposing requirements on the settlement and servicing of residential mortgage loans;

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- the Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the communities it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, color, religion, national origin, sex, marital status or certain other prohibited factors in all aspects of credit transactions;
- the Fair Credit Reporting Act ("FCRA"), governing the use and provision of information to credit reporting agencies;

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- the Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by debt collectors;
- the Service Members Civil Relief Act, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service;
- the Truth in Savings Act, governing disclosure of account terms and costs to consumer depositors;
- the Gramm-Leach-Bliley Act, governing the disclosure and safeguarding of sensitive non-public personal information of our clients;
- the Right to Financial Privacy Act, imposing a duty to maintain confidentiality of consumer financial records and prescribing procedures for complying with administrative subpoenas of financial records;
- the National Flood Insurance Act, as amended, to provide flood insurance for structures and contents in communities that adopt and enforce an ordinance outlining minimal floodplain management standards and to identify areas of high and low flood hazard and establish flood insurance rates for structures inside each flood hazard area;
- the Electronic Funds Transfer Act governing automatic deposits to and withdrawals from deposit accounts and clients' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the rules and regulations of the CFPB and various federal agencies charged with the responsibility of implementing these federal laws.

Capital Adequacy

The Federal Reserve has adopted risk-based and leverage capital adequacy requirements, pursuant to which they assess the adequacy of bank holding company and bank capital in examinations and in analyzing bank regulatory applications. Risk-based capital requirements determine the adequacy of capital based on credit and certain other risks inherent in various classes of assets and off-balance sheet items. The federal banking regulators have adopted regulations implementing the Basel Capital Adequacy Accord

("Basel III"), an international capital adequacy framework. The U.S. Basel III rule requires a minimum capital to risk-weighted assets requirements are a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. The minimum leverage ratio (Tier 1 capital to total assets) is 4.0%.

In order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must maintain a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. A banking organization with a buffer greater than 2.5% is not subject to limits on capital distributions or discretionary bonus payments; however, a banking organization with a buffer of 2.5% or less would be subject to increasingly stringent limitations as the buffer approaches zero. A banking organization also would be prohibited from making distributions or discretionary bonus payments during any quarter if its eligible retained income is zero or negative in that quarter and its capital conservation buffer ratio was 2.5% or less at the beginning of the quarter. Effectively, the Basel III framework, including the capital conservation buffer, requires the Bank to meet minimum risk-based capital ratios of (i) 7% for common equity Tier 1 capital, (ii) 8.5% Tier 1 capital, and (iii) 10.5% total capital. The eligible retained income of a banking organization is defined as the greater of (1) its net income for the four calendar quarters preceding the

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current calendar quarter, based on the organization's quarterly regulatory reports, net of any distributions and associated tax effects not already reflected in net income, and (2) the average of its net income over the preceding four quarters. The minimum capital requirements plus the capital conservation buffer will exceed the prompt corrective action ("PCA"), well-capitalized thresholds for risk-based capital ratios, which are described below under "*Prompt Corrective Action*."

The U.S. Basel III rule includes stringent criteria for capital instruments to qualify as Tier 1 or Tier 2 capital. For instance, the rule effectively disallows newly-issued trust preferred securities as a component of a holding company's Tier 1 capital. However, depository institution holding companies with less than \$15 billion in total assets generally may include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in Additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature. At **December 31,**

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2022 December 31, 2023 the Company had \$3.5 million of non-qualifying instruments includable in Tier 1 capital that were issued prior to May 19, 2010.

The Company and the Bank are required to meet the generally applicable regulatory capital requirements of the Federal Reserve and the FDIC. Historically, the Company had been operating under the Small Bank Holding Company Policy Statement, which exempts bank holding companies that have total consolidated assets of less than \$3.0 billion and meet other criteria from the Federal Reserve's risk-based- and leverage capital rules. Because the Company's total consolidated assets exceeded \$3.0 billion as of September 30, 2022, the Company is no longer subject to the Federal Reserve's Small Bank Holding Company Policy Statement and **will be is** evaluated relative to the capital adequacy standards established by the Federal **Reserve going forward. Reserve.** A bank holding company that crosses the \$3.0 billion total consolidated assets threshold as of June 30 of a particular year is no longer permitted to file reports as a small holding company beginning the following March. The **Company was not in excess of \$3.0 billion as of June 30, 2022,** and accordingly prepared and filed financial reports with the Federal Reserve as a small bank holding company. Currently, the Federal Reserve assesses the capital position of the **Company based on these reports by reviewing its debt-to-equity ratio and its capacity to serve as a source of strength to the Bank. If the** Company's total consolidated assets **remain were** in excess of \$3.0 billion as of June 30, 2023, **starting and as a consequence, beginning** in March 2024, the Company will **cease filing no longer prepare and file** financial reports with the Federal Reserve as **though it were** a small bank holding company.

The Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA") requires the federal banking agencies to develop a community bank leverage ratio (the "CBLR") (defined as the ratio of tangible equity capital to average total consolidated assets) for certain banks and holding companies with total consolidated assets of less than \$10 billion. Qualifying banks that exceed the minimum CBLR are deemed to be in compliance with all other capital and leverage requirements. The CBLR is currently set at 9.0%. The Company and Bank have not adopted the CBLR.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a banking institution could subject the institution to a variety of enforcement remedies available to federal regulatory authorities, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits, and other restrictions on its business.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of "prompt corrective action" to resolve the problems of undercapitalized insured depository institutions. Under this system, the federal banking regulators have established five capital categories (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized); all insured depository institutions fall into one of these categories. The federal banking agencies have specified by regulation the relevant capital thresholds and other qualitative requirements for each of the categories. For an insured depository institution to be "well-capitalized" under the PCA framework, it must have a common equity Tier 1 capital ratio of 6.50%, Tier 1 capital ratio of 8.00%, a total capital ratio of 10.00%, and a leverage ratio of 5.00%, and must not be subject to any written agreement, order or capital directive, or prompt corrective action directive issued by its primary federal regulator to meet and maintain a specific capital level for any capital measure. At **December 31, 2022 December 31, 2023,** the Bank qualified for the well-capitalized category.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. An undercapitalized institution has a capital ratio below any one of four thresholds: a common equity Tier 1 risk-based capital ratio of 4.5%, a Tier 1 risk-based capital ratio of 6.0%, a total risk-based capital ratio of 8.0%, or a leverage ratio of 4.0%. The severity of the action depends upon the capital category in which the institution is placed. For example, institutions in all three undercapitalized categories are automatically restricted from paying distributions and management fees, whereas only an institution that is significantly undercapitalized or critically undercapitalized is restricted in its compensation paid to senior

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executive officers. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. Such a plan must include a guarantee from the institution's bank holding company that the institution will comply with the plan until the institution has been adequately capitalized on average during each of the four consecutive calendar quarters. The holding company's obligation to fund a capital restoration plan is limited to the lesser of (i) 5% of an undercapitalized subsidiary

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institution's assets at the time it became undercapitalized and (ii) the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with Federal Reserve approval. A critically undercapitalized bank, one with a ratio of tangible equity to total assets of 2% or less, is presumptively subject to a supervisory acquisition or the appointment of a conservator or receiver.

The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

Liquidity

Financial institutions are subject to significant regulatory scrutiny regarding their liquidity positions. Various bank regulatory publications, including Federal Reserve SR 10-6 (Funding and Liquidity Risk Management), address the identification, measurement, monitoring and control of funding and liquidity risk by financial institutions.

The U.S. federal banking regulators have two standardized metrics for large banking organizations. The first metric is the "liquidity coverage ratio," and it aims to require a financial institution to maintain sufficient high-quality liquid resources to survive an acute stress scenario that lasts for one month. The second metric is the "net stable funding ratio," and its objective is to require a financial institution to maintain a minimum amount of stable sources relative to the liquidity profiles of the institution's assets, as well as the potential for contingent liquidity needs arising from off-balance sheet commitments, over a one-year horizon.

While the liquidity coverage ratio and the net stable funding ratio only apply to the largest banking organizations in the country, certain elements may filter down and become applicable to or expected of all insured depository institutions including the Bank.

Payment of Dividends

We are a legal entity separate and distinct from the Bank. Our principal source of cash flow, including cash flow to pay dividends to our shareholders, is from capital raises and dividends the Bank pays to us as the Bank's sole shareholder. Statutory and regulatory limitations apply to the Bank's payment of dividends to us as well as to our payment of dividends to our shareholders. A corollary to the requirement that a bank holding company serve as a source of strength to its subsidiary banks is the Federal Reserve policy that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of its bank subsidiaries or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as such a source of strength. Our ability to pay dividends is also subject to the provisions of Washington corporate law that prevent distributions to shareholders if, after giving effect to the distribution, we would not be able to pay our liabilities as they become due in the usual course of business or our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. In addition, in deciding whether or not to declare a dividend of any particular size, our board of directors must consider our and the Bank's current and prospective capital, liquidity, and other needs.

The Washington DFI and the Federal Reserve also regulate the Bank's dividend payments. Under Washington law, a state-chartered bank may not pay a dividend in an amount greater than its retained earnings without approval of the Washington DFI. Under Federal Reserve regulations, the Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Federal Reserve.

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The Bank's payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividends if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements providing that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

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Restrictions on Transactions with Affiliates and Insiders

The Bank is subject to Section 23A of the Federal Reserve Act, which places limits on the amount of:

- a bank's loans or extensions of credit to affiliates;
- a bank's investment in securities issued by affiliates;
- a bank's purchase of assets from affiliates;
- loans or extensions of credit made by a bank to third parties collateralized by the securities or obligations of affiliates;
- a bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate;
- a bank's transactions with an affiliate involving the borrowing or lending of securities to the extent they create credit exposure to the affiliate; and
- a bank's derivative transactions with an affiliate to the extent they create credit exposure to the affiliate.

Subject to various exceptions, the total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, the above transactions also must meet specified collateral requirements and safety and soundness requirements. Under no circumstances may a bank purchase a low-quality asset from an affiliate.

The Bank is also subject to Section 23B of the Federal Reserve Act, which, among other things, prohibits a bank from engaging in the above transactions with affiliates, as well as other types of transactions set forth in Section 23B, unless the transactions are on terms substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions between the bank and third parties, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. There are also individual and aggregate limitations on loans to insiders and their related interests. The aggregate amount of insider loans generally cannot exceed the institution's total unimpaired capital and surplus. Insiders and banks are subject to enforcement actions for knowingly entering into insider loans in violation of applicable restrictions.

Brokered Deposits

The FDIA prohibits insured banks from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited) unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and that accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDIA on a bank that is "well-capitalized." Further, "undercapitalized" institutions are subject to growth limitations. FDIC rules set forth standards for determining whether a person is a "deposit broker" and whether an insured depository institution must therefore treat deposits placed by that person as brokered deposits. Among other things, these

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rules provides that a person can generally only be a deposit broker if the person places deposits at more than one insured depository institution.

Single Borrower Credit Limits

Under Washington law, total loans and extensions of credit to a borrower may not exceed 20% of the Bank's capital and surplus.

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Commercial Real Estate Concentration Limits

In December 2006, the federal banking regulators issued guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" to address increased concentrations in commercial real estate ("CRE"), loans. In addition, in December 2015, the federal bank agencies issued additional guidance entitled "Statement on Prudent Risk Management for Commercial Real Estate Lending." Together, these guidelines describe the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution's capital, or (iv) total CRE loans representing 300% or more of the institution's capital, and the outstanding balance of the institutions CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk. The Bank's total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represented 269.2% 238.3% and 305.1% 269.2% of its capital, at December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The outstanding balance of the Bank's CRE portfolio has increased by 30.9% 16.8% and 7.8% 30.9%, for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The level of CRE has exceeded regulatory guidelines in the previous 36 months but the growth rate is within regulatory guidelines, however, the Bank maintains enhanced underwriting and monitoring processes and procedures to manage its CRE portfolio.

Privacy

Financial institutions are required to disclose their policies for collecting and protecting nonpublic personal information of their clients. Clients generally may prevent financial institutions from sharing non-public personal information with nonaffiliated third parties except under certain circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly offering a product or service with a nonaffiliated financial institution. Additionally, financial institutions generally are prohibited from disclosing consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

Cybersecurity

Federal banking agencies pay close attention to the cybersecurity practices of banks and their holding companies and affiliates. The interagency council of the agencies, the Federal Financial Institutions Examination Council ("FFIEC"), has issued several policy statements and other guidance for banks as new cybersecurity threats arise. FFIEC has recently focused on such matters as compromised customer credentials and business continuity planning. Examinations by the banking agencies now include review of an institution's information technology and its ability to thwart cyberattacks.

Federal banking agency rules require banking organizations to notify their primary federal regulator of significant security incidents within 36 hours of determining that such an incident has occurred as soon as possible and no later than within 36 hours of a significant cybersecurity incident. In addition, the SEC recently enacted rules, effective as of December 18, 2023, requiring public companies to disclose material cybersecurity incidents that they experience on Form 8-K within four business days of determining that a material cybersecurity incident has occurred and to disclose on annual basis material information regarding their cybersecurity risk management, strategy, and governance.

For further information, see the section titled "Cybersecurity" in Part I, Item 1C of this Annual Report on Form 10-K.

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Consumer Credit Reporting

The FCRA imposes, among other things:

- requirements for financial institutions to develop policies and procedures to identify potential identity theft and, upon the request of a consumer, to place a fraud alert in the consumer's credit file stating that the consumer may be the victim of identity theft or other fraud;
- requirements for entities that furnish information to consumer reporting agencies to implement procedures and policies regarding the accuracy and integrity of the furnished information and regarding the correction of previously furnished information that is later determined to be inaccurate;
- requirements for mortgage lenders to disclose credit scores to consumers in certain circumstances; and
- limitations on the ability of a business that receives consumer information from an affiliate to use that information for marketing purposes.

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Anti-Terrorism, Money Laundering Legislation and OFAC

The Bank is subject to the Bank Secrecy Act and the USA Patriot Act. These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and accounts and other relationships intended to guard against money laundering and terrorism financing. The principal requirements for an insured depository institution include (i) establishment of an anti-money laundering program that includes training and audit components, (ii) establishment of a "know your customer" program involving due diligence to confirm the identities of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities, (iii) the filing of currency transaction reports for deposits and withdrawals of large amounts of cash, (iv) additional precautions for accounts sought and managed for non-U.S. persons and (v) verification and certification of money laundering risk with respect to private banking and foreign correspondent banking relationships. For many of these tasks a bank must keep records to be made available to its primary federal regulator. Anti-money laundering rules and policies are developed by the Treasury Department, including the Financial Crimes Enforcement Network, but compliance by individual institutions is overseen by its primary federal regulator.

The Bank has established appropriate anti-money laundering and customer identification programs. The Bank also maintains records of cash purchases of negotiable instruments, files reports of certain cash transactions exceeding \$10,000 (daily aggregate amount), and reports suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the Bank Secrecy Act. The Bank otherwise has implemented policies and procedures to comply with the foregoing requirements.

The Treasury Department's Office of Foreign Assets Control ("OFAC"), is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If the Company or the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Company or the Bank must freeze or block such account or transaction, file a suspicious activity report, and notify the appropriate authorities.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered, or that file reports, under the Exchange Act. In particular, the act established (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company and new requirements for them to certify the accuracy of periodic reports; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violations of the federal securities laws. The legislation also

established an accounting oversight board to enforce auditing standards and restrict the scope of services that accounting firms may provide to their publicly traded company audit clients.

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Overdraft Fees

Federal Reserve Regulation E restricts banks' abilities to charge overdraft fees. The rule prohibits financial institutions from charging fees for paying overdrafts on ATM and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

The Dodd-Frank Act and the EGRRCPA

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") significantly changed the bank regulatory framework and affected the lending, deposit, investment, trading and operating activities of banks and their holding companies, including in the following ways:

- The Dodd-Frank Act imposed additional requirements regarding the origination and servicing of residential mortgage loans. The law created a variety of consumer protections, including limitations, subject to exceptions, on the manner by which loan originators may be compensated and an obligation on the part of lenders to verify a borrower's "ability to repay" a residential mortgage loan.

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- The Dodd-Frank Act addresses many investor protection, corporate governance and executive compensation matters that affect most U.S. publicly traded companies. The Dodd-Frank Act (i) requires publicly traded companies to give shareholders a non-binding vote on executive compensation and golden parachute payments; (ii) enhances independence requirements for compensation committee members; (iii) requires national securities exchanges to require listed companies to adopt incentive-based compensation clawback policies for executive officers; (iv) authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials; and (v) directs the federal banking regulators to issue rules prohibiting incentive compensation that encourages inappropriate risks.
- Other rules and regulations implementing the Dodd-Frank Act that may be relevant to us and the Bank are described or otherwise accounted for in various parts of this "*Regulation and Supervision*" section.

The EGRRCPA made changes to a variety of rules and regulations, including revisions to the Dodd-Frank Act. For example, the EGRRCPA exempts certain lenders from the "ability to repay" requirements. Other EGRRCPA changes are described elsewhere in this section.

Current Expected Credit Losses Model

The FASB adopted a new accounting standard for GAAP that became effective for us on January 1, 2023. This standard, referred to as CECL, requires FDIC-insured institutions and their holding companies (banking organizations) to recognize credit losses expected over the life of certain financial assets. CECL covers a broader range of assets than the current method of recognizing credit losses and generally results in earlier recognition of credit losses. Upon adoption of CECL, a banking organization must record a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances under the current methodology and the amount required under CECL. For a banking organization, implementation of CECL is generally likely to reduce retained earnings, and to affect other items, in a manner that reduces its regulatory capital.

Consumer Financial Protection Bureau

The Dodd-Frank Act created the CFPB, an independent federal bureau within the Federal Reserve System having broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the consumer financial privacy provisions of the Gramm-Leach-Bliley Act, Truth in Savings Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with more than \$10.0 billion in assets. Smaller institutions, including the Bank, are subject to rules promulgated by the CFPB but continue to be examined and supervised by their primary federal banking agency for compliance with federal consumer protection laws and regulations. The CFPB also has authority to prevent unfair, deceptive or abusive acts or practices in connection with the offering of consumer financial products. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal

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level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The CFPB has proposed or issued a number of important rules affecting a wide range of consumer financial products. The changes resulting from the Dodd-Frank Act and CFPB rulemakings and enforcement policies may impact the profitability of our business activities, limit our ability to make, or the desirability of making, certain types of loans, require us to change our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business or profitability. The changes may also require us to dedicate significant management attention and resources to evaluate and make necessary changes to comply with the new statutory and regulatory requirements.

The CFPB has issued rules related to a borrower’s ability to repay and qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, requirements for high cost mortgages, appraisal and escrow standards and requirements for higher-priced mortgages. The CFPB has also issued rules establishing integrated disclosure requirements for lenders and settlement agents in connection with most closed end, real estate secured consumer loans; and rules which, among other things, expand the scope of information lenders must report in connection with mortgage and other housing-related loan applications under the Home Mortgage Disclosure Act.

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The CFPB’s rulemaking and enforcement activities and strategic priorities have shifted as its leadership has changed, and in the future, the CFPB may take a different approach to its implementation of consumer financial protection laws than it has taken in the recent past.

The Volcker Rule

On December 10, 2013, five U.S. financial regulators, including the Federal Reserve, adopted a final rule implementing the “Volcker Rule.” The Volcker Rule was created by Section 619 of the Dodd-Frank Act and generally prohibits “banking entities,” including insured depository institutions and their affiliates, from engaging in “proprietary trading” and from sponsoring or investing in private equity or hedge funds, or extending credit to or engaging in other covered transactions with private equity or hedge funds that they sponsor or advise. The EGRRCPA amended Section 619 to exempt from the Volcker Rule any insured depository institution that has \$10.0 billion or less in total consolidated assets and whose total trading assets and trading liabilities are 5% or less of total consolidated assets. We are among the exempt institutions.

Limitations on Incentive Compensation

In April 2016, the Federal Reserve and other federal financial agencies re-proposed restrictions on incentive-based compensation pursuant to Section 956 of the Dodd-Frank Act for financial institutions with \$1 billion or more in total consolidated assets. For institutions with at least \$1 billion but less than \$50 billion in total consolidated assets, the proposal would impose principles-based restrictions that are broadly consistent with existing interagency guidance on incentive-based compensation. Such institutions would be prohibited from entering into incentive compensation arrangements that encourage inappropriate risks by the institution (1) by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits, or (2) that could lead to material financial loss to the institution. The proposal would also impose certain governance and recordkeeping requirements on institutions covered by the rule. Whether or when the agencies will finalize the proposal is uncertain.

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Information About Our Executive Officers

The table below provides information about our executive officers. Ages are as of **December 31, 2022** **December 31, 2023**.

Name	Age	Position
Eric M. Sprink	50 51	Chief Executive Officer and Director
Curt T. Queyrrouze	61 62	President
Joel G. Edwards	62 63	Chief Financial Officer, Corporate Secretary
Russ Michael E. Culp	35	Chief Revenue Officer
Tarah M. Hergert	38	CCBX Division Manager
Russell A. Keithley	57 58	Chief Banking Officer
John J. Dickson Jonathan E. Sand	62 53	Chief Operating Credit Officer
Andrew G. Stines	53	Chief Risk Officer

The following is a brief discussion of the business and banking background and experience of our executive officers, including their business experience during the last five years.

Eric M. Sprink serves as our Chief Executive Officer. Mr. Sprink joined the Company in late 2006 as President and Chief Operating Officer and became Chief Executive Officer in 2010. Mr. Sprink began his banking career working for Security Pacific Bank while enrolled at Arizona State University. He assumed increasing levels of responsibility in the areas of retail operations, consumer and commercial lending and wealth management with Security Pacific Bank and its successor, Bank of America. He then moved to Centura Bank, where he held management positions in retail operations and corporate finance. After Centura Bank was acquired, he held senior management positions at Washington Trust Bank and Global Credit Union. Mr. Sprink is active in industry trade groups and is a director and past chairman of the Community **bankers** **Bankers** of Washington. Mr. Sprink received a bachelor’s degree from Arizona State University and an M.B.A. from the University of North Carolina. Mr. Sprink brings to our board of directors leadership experience, significant experience in many facets of the financial services business, and familiarity with our market area. Mr. Sprink has been a member of our board of directors since 2006.

Curt T. Queyrrouze has served as our President since 2022. Mr. Queyrrouze was most recently President and Chief Executive Officer of TAB Bank, UT, from 2016 to 2022 and Chief Credit Officer from 2014 to 2016, where he gained experience in managing a community bank and fintech partnerships through BaaS. Prior to TAB Bank, Mr. Queyrrouze was Senior Vice President Loss Mitigation Manager for Hancock Whitney Bank, from 2009 to 2012. His career includes a

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variety of leadership roles at banks ranging from top-ten and regionals to community institutions, and as Chief Operating Officer of a fintech company. He holds a degree in Accounting from Louisiana State University and is active in his community and banking industry organizations. Mr. Queyrouze has a background with expertise in credit, risk management, and financial technology.

Joel G. Edwards has served as Executive Vice President and Chief Financial Officer of the Company since 2012. Mr. Edwards is also the Executive Vice President and Chief Financial Officer of the Bank. Prior to joining the Company and Bank, Mr. Edwards was a Senior Vice President and Administration Officer at AmericanWest Bank. Prior to that experience, he was Executive Vice President and Chief Financial Officer at Viking Bank, Vice President and Chief Financial Officer at Rainier Pacific Bank, and President of the Washington Credit Union Share Guaranty Association. He also was employed in the Farm Credit System for eight years including positions as vice president responsible for administration, budget and policy. Mr. Edwards graduated magna cum laude with a bachelor's degree in business and concentration in economics from, and completed post-graduate studies in accounting at, Eastern Washington University. He also received an M.B.A. from Eastern Washington University.

Russ Michael E. Culp has served as Executive Vice President and Chief Revenue Officer of the Bank since 2023. Mr. Culp joined the Bank in September 2013. From 2021 to 2023 Mr. Culp was the Senior Vice President and Chief Revenue Officer for the Bank and from 2018 to 2021 he served as the Vice President and Senior Vice President of the Bank's Portfolio Risk Officer. Mr. Culp's responsibilities at the Bank have included budgeting, managing interest rate risk, overseeing the Bank's interest rate swaps, and working on strategic initiatives. Prior to joining the Bank, Mr. Culp was a Portfolio Risk Manager at Premier West Bank. Mr. Culp graduated summa cum laude with a bachelor's degree in economics and a certificate of applied finance and economics. He completed post-graduate studies in accounting. Mr. Culp received an M.B.A. from Washington State University with a concentration in finance.

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Tarah M. Herger has served as Executive Vice President and CCBX Division Manager of the Bank since 2022. Mrs. Herger joined the Bank in 2016 and in 2018 was the first employee assigned to the CCBX Division as Vice President and Strategic Partner Program Manager. Mrs. Herger was responsible for designing and implementing the operational and oversight aspects of the CCBX segment.

Russell A. Keithley has served as Executive Vice President and Chief Banking Officer of the Bank since 2020. From 2015 to 2020, Mr. Keithley held served as the position of Bank's Executive Vice President and Chief Lending Officer. He Mr. Keithley joined the Bank in 2012 and became Senior Vice President and Chief Credit Officer in 2014. Prior to joining the Bank, he served as Senior Vice President and Chief Lending Officer of North County Bank and as the Manager Team Lead at InterWest Bank. Mr. Keithley graduated from the University of Washington with a bachelor's degree in political science. He is an honors graduate of the Pacific Coast Banking School at the University of Washington.

John J. Dickson Jonathan E. Sand joined has served as the Bank in 2010 and currently serves as Executive Vice President and Chief Operating Credit Officer of the Bank. Bank since April of 2020 and as the Chief Credit Officer of the CCBX segment of the Bank since January of 2023. Prior to becoming the Chief Credit Officer, Mr. Sand served as Senior Credit Administrator since 2012. Prior to joining the Bank, he Mr. Sand held the position of Senior Credit Administrator with Cascade Bank after starting his banking career with Frontier Bank. Mr. Sand is a graduate of Central Washington University and Pacific Coast Banking School.

Andrew G. Stines has served as the Bank's Chief Risk Officer since January 2020. From 2013 through 2019, Mr. Stines was an Executive Director with Ernst and Young LLP in its Regulatory Practices Group assisting large financial institutions with their remediation of enforcement actions, compliance program designs and advising on similar regulatory matters. Before joining Ernst and Young, Mr. Stines served as Chief Risk Officer and BSA Officer for Sunwest Bank in California. Mr. Stines has over 20 years of experience working with financial institutions on various roles for Frontier Financial Corporation legal, regulatory and Frontier Bank from 1985 to 2010, most recently serving as President of Frontier Bank from 2008 to 2010. In 2010, Frontier Bank was closed by the Washington DFI, and the FDIC was named receiver, compliance matters. Mr. Dickson received Stines holds a bachelor's degree BS in economics Management from the University of Puget Sound Colorado, a Juris Doctor from Seattle University and graduated with honors a Master in Science and Finance from the Graduate School of Banking at the University of Wisconsin-Madison. Mr. Dickson practiced accounting as a CPA for three years in the audit division of a large accounting firm. Mr. Dickson is a past Chairman of the Washington Bankers Association. Seattle University.

Item 1A. Risk Factors

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the material risks and uncertainties that if realized could have an adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. Consideration should also be given to the other information in this Annual Report on Form 10-K, as well as in the documents incorporated by reference into this Form 10-K. However, other factors not discussed below or elsewhere in this Annual Report on Form 10-K could adversely affect our business, financial condition, results of operations or cash flows and our access to liquidity. Therefore, the risk factors below should not be considered a complete list of potential risks we may face.

Risk Factors Summary

Our business is subject to numerous material risks and uncertainties, including those described in Part I Item 1A. "Risk Factors" in this Report on Form 10-K. You should carefully consider these material risks and uncertainties when investing in our common stock. The principal risks and uncertainties affecting our business include the following:

- Our business and operations are concentrated in the Puget Sound region and we are sensitive to adverse changes in the local economy.
- If our allowance for loan credit losses is insufficient to absorb actual loan credit losses, our results of operations would be negatively affected.
- We operate in a highly competitive market and face increasing competition from traditional and new financial services providers.

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- We are subject to the various risks associated with our banking business and operations, including, among others, credit, market, liquidity, interest rate and compliance risks, which may have an adverse effect on our business, financial condition and results of operations if we are unable to manage such risks.
- We may be unable to effectively manage our growth, which could have an adverse effect on our business, financial condition and results of operations.

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- The success of our relationship with broker dealers, digital financial service providers and other partners to provide BaaS is subject to risks associated with managing such relationships.
- We operate in a highly regulated industry, and the current regulatory framework and any future legislative and regulatory changes, may have an adverse effect on our business, financial condition and results of operations.
- We are subject to regulatory requirements, including stringent capital requirements, consumer protection laws, and anti-money laundering laws, and failure to comply with these requirements could have an adverse effect on our business, financial condition and results of operations.
- We are subject to laws regarding privacy, information security and protection of personal information and any violation of these laws or incidents involving personal, confidential or proprietary information of individuals, including, among others, system failures or cybersecurity breaches of our network security, could damage our reputation and otherwise adversely affect our business, financial condition and results of operation.
- Our charter documents contain certain provisions, including anti-takeover provision, that limit the ability of our shareholders to take certain actions and could delay or discourage takeover attempts that shareholders may consider favorable.

Risks Related to Credit Matters

We are subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings.

The majority of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest-earning assets, such as loans and investment securities, and interest paid by us on our interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international economic weakness and disorder and instability in domestic and foreign financial markets. Our interest rate sensitivity profile was **asset liability** sensitive as of **December 31, 2022** **December 31, 2023**, meaning that we estimate our net interest income would increase more from **rising falling** interest rates than from **falling rising** interest rates. Loans and deposits in our CCBX segment are more sensitive to interest rate changes than our community bank segment. Over time we anticipate that this will increase sensitivity to both increasing and decreasing interest rates.

Interest rates have risen significantly following the historically low levels during the COVID-19 pandemic. **As interest rates have increased, so have competitive pressures on the deposit cost of funds. This has been exacerbated by the bank failures in the first half of 2023 and the resulting heightened competition for deposits, which has also affected the interest we pay on deposits. We expect our funding costs will continue to increase if interest rates continue to remain high if we are required to maintain or increase higher cost deposit products as depositors seek such higher rate products. It is not possible to predict the pace and magnitude of changes in interest rates, or the impact rate changes will have on our results of operations.** Due to elevated levels of inflation and corresponding pressure to raise interest rates, the Federal Reserve announced in January of 2022 that it would be slowing the pace of its bond purchasing and increasing the target range for the federal funds rate over time. The FOMC since has increased the **target range seven times throughout 2022. As federal funds rate to 5.50% as of December 31, 2022, December 31, 2023.** The FOMC stated that recent indicators suggest that economic activity has been expanding at a solid pace, job gains have moderated since early last year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. The economic outlook is uncertain, and the FOMC remains highly attentive to inflation risks. In support of its goals, the FOMC decided to maintain the current target range for the federal funds rate **had been increased to 4.25% to 4.50% and the FOMC signaled that future increases may be appropriate in order to attain a monetary policy sufficiently restrictive to return inflation to more normalized levels.** at its most recent meeting.

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Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower

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rates. In addition, in a low interest rate environment, loan customers often pursue long-term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Our commercial real estate lending activities expose us to increased lending risks and related loan credit losses.

At **December 31, 2022** **December 31, 2023**, our commercial real estate loan portfolio totaled **\$1.05 billion** **\$1.30 billion**, or **39.8%** **43.0%** of our total loan portfolio. Our current business strategy is to continue our originations of commercial real estate loans. Commercial real estate loans generally expose a lender to greater risk of non-payment or late payment and loss than one-to-four family residential mortgage loans because repayment of the loans often depends on the successful operation of the properties and the income stream of the borrowers. These loans involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. To the extent that borrowers have more than one commercial real estate loan outstanding, an adverse development with respect to one loan or one credit relationship could expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential real estate loan. Moreover, if loans that are collateralized by commercial real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for **loan credit losses** and would adversely affect our business, financial condition and results of operations. **Furthermore, should the fundamentals of the commercial real estate market deteriorate due to macroeconomic and other factors, our business, financial condition and results of operations could be adversely affected.**

We may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio.

In the course of our business, we may purchase real estate in connection with our acquisition and expansion efforts, or we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties, we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could adversely affect our business, financial condition and results of operations.

Our commercial business lending activities expose us to additional lending risks.

As of **December 31, 2022** **December 31, 2023**, commercial and industrial loans totaled **\$312.6 million** **\$291.3 million** and represented **11.8%** **9.6%** of total loans. **Included in commercial and industrial loans are \$4.7 million in PPP loans, which are 100% guaranteed by the by the U.S. Government.** We make commercial business loans in our market area to a variety of professionals, sole proprietorships, partnerships and corporations. As compared to commercial real estate loans, which are secured by real property, the value

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of which tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself and the conditions in the general economy. Further, any losses incurred on a small number of

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commercial loans could have an adverse impact on our financial condition and results of operations due to the larger average size of commercial loans as compared with other loans and the risk that collateral securing such loans may depreciate over time, may be difficult to appraise, may fluctuate in value and may depend on the borrower's ability to collect receivables. We have increased our focus on commercial business lending in recent years and intend to continue to focus on this type of lending in the future.

Our concentration of residential mortgage loans exposes us to increased lending risks.

At **December 31, 2022** **December 31, 2023**, **\$449.2 million** **\$463.4 million**, or **17.1%** **15.3%**, of our loan portfolio was secured by one-to-four family real estate. One-to-four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Declines in real estate values could cause some of our residential mortgages to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

As of **December 31, 2022** **December 31, 2023**, **\$204.6 million** **\$225.4 million** of our residential mortgage loans were made through the community bank, and **82.7%** **82.1%** are secured by property in Washington State, and a significant majority of that is located in the Puget Sound region. A decline in residential real estate values as a result of a downturn in the Puget Sound housing market could reduce the value of the real estate collateral securing these types of loans. As of **December 31, 2022** **December 31, 2023**, **\$140.7 million** **\$161.3 million** of our residential mortgage loans made through the community bank were made to investors. These loans may behave more like multi-family loans than individual 1-4 family loans that are occupied by their owners.

As of **December 31, 2022** **December 31, 2023**, **\$244.6 million** **\$238.0 million** of our residential mortgage loans were made through CCBX partners and are located in different regions across the U.S. A decline in residential real estate values across the U.S. would reduce the value of this residential real estate collateral. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card.

Our origination of construction loans exposes us to increased lending risks.

At **December 31, 2022** **December 31, 2023**, **\$214.1 million** **\$157.1 million**, or **8.1%** **5.2%** of our total loans was construction, land and land development loans. We originate commercial construction loans primarily to professional builders for the construction of one-to-four family residences, apartment buildings, and commercial real estate properties. To a lesser degree, we also originate land acquisition loans for the purpose of facilitating the ultimate construction of a home or commercial building. Our construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. In addition, construction costs may exceed original estimates as a result of increased materials, labor or other costs. Construction loans also often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness.

Our focus on lending to the small to medium-sized businesses may adversely affect our business, financial condition and results of operations.

We focus our business development and marketing strategy primarily on small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than larger firms, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management skills, talents and efforts of a small group of people, and the death, disability or resignation of one or more of these people could have an adverse effect on the business and its ability to repay its loan. If our borrowers are unable to repay their loans, our business, financial condition and earnings could be adversely affected.

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We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses.

The business of lending is inherently risky, including risks that the principal or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower's business sector and local, regional and national market and economic conditions. Many of our loans are made to small to medium-sized businesses that may be less able to

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withstand competitive, economic and financial pressures than larger borrowers. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A failure to effectively measure and limit the credit risk associated with our loan portfolio could lead to unexpected losses and adversely affect our business, financial condition and results of operations.

We originate and purchase loans through our CCBX partners, which exposes us to increased lending and compliance risks.

At **December 31, 2022** **December 31, 2023**, **\$1.01 billion** **\$1.20 billion**, or **38.5%** **39.4%** of our total loans were originated or purchased through CCBX partners. Our partners underwrite these loans in compliance with our credit standards and policies. Our CCBX partners service **\$866.5 million** **\$1.11 billion** of these loans. Our partners provide fraud and credit enhancements on many of our CCBX loans, but if they are unable to fulfill their contracted obligations then the Bank would be exposed to writing off all or a part of the credit enhancement asset and to additional **loan credit** losses as a result of this counterparty risk. We are subject to compliance and regulatory risk if partners do not follow our servicing policies, lending laws and regulations.

Our allowance for **loan credit** losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- the cash flow of the borrower, guarantors and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the character and creditworthiness of a particular borrower or guarantor;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Bank must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Bank cannot extend the contractual term of the loan for expected extensions, renewals, and modifications,

unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Bank. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit.

- **Community Bank Portfolio:** The ACL calculation is derived for loan segments utilizing loan level information and relevant information from internal and external sources related to past events and current conditions. In addition, the Company incorporates a reasonable and supportable forecast.
- **CCBX Portfolio:** The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio.

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Also included in the ACL are qualitative reserves to cover losses which is a reserve established through that are expected, but in the Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit rating and the volume and severity of past due loans and non-accrual loans. Based on this analysis, the Company records a provision for loan credit losses charged against earnings, which we believe is to maintain the allowance at appropriate to absorb probable incurred losses in our loan portfolio. The amount of this allowance is determined by our management through a periodic comprehensive review and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience;
- our specific reserve, based on our evaluation of impaired loans and their underlying collateral or discounted cash flows; and
- current macroeconomic factors and regulatory requirements levels.

The determination of the appropriate level of the allowance for loan credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for increases in our allowance for loan credit losses through the provision for losses on loans which is charged against income. Management also recognizes that significant new growth in loan portfolios, through the community bank and/or CCBX, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions.

Many of the agreements with our CCBX partners provide for a credit enhancement which helps protect the Bank by absorbing incurred losses. CCBX credit enhancements are free-standing and are accounted separately from the allowance for loan credit loss. In accordance with accounting guidance, we estimate and record a provision for probable losses for these CCBX loans, without regard to the credit enhancement. If a CCBX lending partner is unable to fulfill their

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its contractual obligations with the Bank, then the Bank would be exposed to additional loan credit losses as a result of this counterparty risk and would have to absorb any loan credit losses associated with the CCBX partner that cannot fulfill its contractual obligations.

Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan credit losses. If current conditions in the housing and real estate markets weaken, we expect we will experience increased delinquencies and credit losses. In addition, bank regulatory agencies periodically review our allowance for loan credit losses and may require an increase in the provision for loan credit losses or the recognition of further loan charge-offs, based on their judgments about information available to them at the time of their examination. In addition, if charge-offs in future periods exceed the allowance for loan credit losses, we will need additional provisions to increase the allowance for loan losses. While credit losses. While we believe that our allowance for loan credit losses was adequate at December 31, 2022 December 31, 2023, there is no assurance that it will be sufficient to cover future loan credit losses, especially if there is a significant deterioration in economic conditions.

The FASB adopted a new accounting standard referred to as CECL which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. This We adopted this accounting pronouncement was adopted by us effective for our fiscal year beginning January 1, 2023. The federal banking regulators, including the Federal Reserve and the FDIC, have adopted a rule that gives a banking organization the option to phase in over a three year period the day one adverse effects of CECL on its regulatory capital. Any increases in the allowance for loan losses due to the one-time cumulative-effect adjustment will result in a decrease in capital and may have a material adverse effect on our financial condition and results of operations.

The current economic condition in the market areas we serve may adversely impact our earnings and could increase the credit risk associated with our loan portfolio.

While there is not a single employer or industry in our market area on which a significant number of our customers are dependent, a substantial portion of our loan portfolio is comprised of loans secured by property located in the Puget Sound region and substantially all of our loan and deposit customers are businesses and individuals in greater Puget Sound region. A deterioration of the economy in the market areas we serve could result in the following consequences, any of which would have an adverse impact, which could be material, on our business, financial condition, and results of operations:

- high short-term interest rates may cause deposits to decline and deposit costs to increase as depositors seek higher returns on their deposits;

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- collateral for loans made may decline in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans;
- certain securities within our investment portfolio could become other than temporarily impaired, requiring a write-down through earnings to fair value, thereby reducing equity;

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- CCBX partners may experience financial difficulties or fail, our BaaS revenue may decrease, and **loan credit** losses could increase if the partner cannot fulfill its credit enhancement obligations;
- low cost or noninterest bearing deposits may decrease; and
- demand for our loan and other products and services may decrease.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as earthquakes and flooding. Further, deterioration in local economic conditions could drive the level of **loan credit** losses beyond the level we have provided for in our allowance for **loan credit** losses, which in turn could necessitate an increase in our provision for **loan credit** losses and a resulting reduction to our earnings and capital.

In addition, weakening in regional and general economic conditions such as inflation, recession, business closings, restrictions on business activity, unemployment, natural disasters, epidemic illness, or other factors beyond our control

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could reduce our growth rate and negatively affect demand for loans, the ability of our borrowers to repay their loans and our financial condition and results of operations.

Our SBA lending program is dependent upon the U.S. federal government, and we face specific risks associated with originating SBA loans.

As of **December 31, 2022** **December 31, 2023**, the balance of owned SBA loans and SBA loans net of the sold portion was **\$12.3 million** **\$8.0 million**, which includes **\$4.7 million** **\$3.0 million** in PPP loans that are 100% guaranteed, and an additional **\$3.1 million** **\$1.9 million** in non-PPP SBA loans which are also guaranteed. As of **December 31, 2022** **December 31, 2023**, the balance of SBA loans sold and serviced was **\$14.3 million** **\$8.7 million**, resulting in **\$69,000** **\$49,000** in servicing income for the year ended **December 31, 2022** **December 31, 2023**. Our SBA lending program is dependent upon the U.S. federal government. As an approved participant in the SBA Preferred Lender's Program, referred to herein as an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender's SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience an adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress or exhaustion of the available funding for SBA programs may also have an adverse effect on our business, financial condition and results of operation. In addition, any default by the U.S. Government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could adversely affect our business, financial condition and results of operations.

Included in this category are PPP loans, which have a contractual rate of 1.0%, with maturity terms of two to five years, are unsecured, 100% guaranteed and the loan proceeds of which may be forgiven by the U.S. Government / SBA if used for certain purposes.

Outside of the PPP, the SBA's 7(a) Loan Program is the SBA's primary program for helping start-up and existing small businesses, with financing guaranteed for a variety of general business purposes. Generally, we sell the guaranteed portion of our non-PPP SBA 7(a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or sell them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7(a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could adversely affect our business, financial condition and results of operations.

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The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business, financial condition and results of operation. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably.

Economic conditions could increase our level of nonperforming loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.

Prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investment securities, and our ongoing operations, costs and profitability. Further, declines in real estate values and sales volumes and elevated unemployment levels may result in higher loan delinquencies, increases in our nonperforming and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and earnings. Reduction in problem assets can be slow, and the process can be exacerbated by the condition of the properties securing nonperforming loans and the lengthy foreclosure

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process in Washington. To the extent that we must work through the resolution of assets, economic problems may cause us to incur losses and adversely affect our capital, business, financial condition, results of operations or cash flows and our access to liquidity.

Nonperforming assets take significant time and resources to resolve and adversely affect our business, financial condition and results of operations.

Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on other real estate owned ("OREO"), or on nonperforming loans, thereby adversely affecting our income and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in our level of nonperforming assets increases our risk profile and may impact the capital levels regulators believe are appropriate in light of the ensuing risk profile. While we seek to reduce problem assets through loan workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, financial condition and results of operations. In addition, the resolution of nonperforming assets requires significant commitments of time from management, which may adversely impact their ability to perform their other responsibilities. We may not experience future increases in the value of nonperforming assets.

Risks Related to Compliance and Operational Matters

Imposition of limits by the bank regulators on commercial real estate lending activities could curtail our growth and adversely affect our earnings.

In 2006, the federal banking regulators issued joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" ("CRE Guidance"). Although the CRE Guidance did not establish specific lending limits, it provides that a bank's commercial real estate lending exposure could receive increased supervisory scrutiny where total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300% or more of an institution's total risk-based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50% or more during the preceding 36 months. Our total non-owner-occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, totaled \$920.1 million \$1.1 billion and represented 269.2% 238.3% and 305.1% 269.2% of its capital, at December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The outstanding balance of the Bank's regulatory CRE portfolio has increased by 30.9% 16.8% and 7.8% 30.9%, for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The level of CRE has exceeded regulatory guidelines in the previous 36 months, it was 305.1% at December 31, 2021, but the growth rate is within regulatory guidelines.

In December 2015, the federal banking regulators released a new statement on prudent risk management for commercial real estate lending, referred to herein as the 2015 Statement. In the 2015 Statement, the federal banking regulators, among other things, indicate their intent to "continue to pay special attention" to commercial real estate lending activities and concentrations going forward. If the Federal Reserve, our primary federal regulator, were to impose restrictions on the amount of commercial real estate loans we can hold in our portfolio, for reasons noted above or otherwise, our earnings would be adversely affected.

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Our business is subject to the risks of epidemic illnesses, earthquakes, tsunamis, floods, fires and other natural catastrophic events or effects of climate change.

A major catastrophe, such as an epidemic illness, earthquake, tsunami, flood, fire or other natural disaster or effects of climate change could result in a prolonged interruption of our business. For example, our headquarters are located in Everett, Washington and we serve the broader Puget Sound region, a geographical region that has been and may continue to be affected by earthquake, tsunami, wildfires and flooding activity. These activities may increase as the effects of climate change increase. Because we primarily serve individuals and businesses in the Northwest, a natural disaster, epidemic illness, significant effect of climate change or other major catastrophe in the Northwest likely would have a greater impact on our business, financial condition and results of operation than if our business were more geographically diverse. The occurrence of any of these natural disasters, epidemic illnesses, effects of climate change or other major catastrophes could negatively impact our performance by disrupting our operations or the operations of our customers, which could adversely affect our business, financial condition, results of operations.

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Appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, OREO and repossessed personal property may not accurately reflect the net value of the asset.

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO, and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our financial statements may not reflect the correct value of our OREO, and our allowance for loan credit losses may not reflect accurate loan impairments. This could adversely affect our business, financial condition and results of operations. As of December 31, 2022 December 31, 2023, we did not hold any OREO or repossessed property and equipment.

We derive a percentage of our deposits, total assets and income from deposit accounts generated through our BaaS relationships.

Deposit accounts acquired through these relationships totaled \$1.28 billion \$1.86 billion, or 45.4% 55.4% of total deposits at December 31, 2022 December 31, 2023. We provide oversight over these relationships, which must meet all internal and regulatory requirements. We may exit relationships where such requirements are not met or be required by our regulators to exit such relationships. Also, our CCBX partner(s) could terminate a relationship with us for many reasons, including being able to obtain better terms from another provider or dissatisfaction with the level or quality of our services. If a relationship were to be terminated, it could materially reduce our deposits, assets and income. We cannot assure you that we could replace such relationship. If we cannot replace such relationship, we may be required to seek higher rate funding sources as compared to the existing relationship and interest expense might increase. We may also be required to sell securities or other assets to meet funding needs which would reduce revenues or potentially generate losses.

Our strategy of partnering with broker dealers and digital financial service providers to offer BaaS has been adopted by other institutions with which we compete.

Several online banking operations as well as the online banking programs of conventional banks have instituted BaaS strategies similar to ours. As a consequence, we have encountered competition in this area and anticipate that we will continue to do so in the future. This competition may increase our costs, reduce our revenues or revenue growth or, because we are a relatively small banking operation without the name recognition of other, more established banking operations, make it difficult for us to compete effectively in obtaining these relationships.

Our agreements with BaaS partners may produce limited revenue and may expose us to liability for compliance violations by BaaS partners.

We have entered into agreements with BaaS partners, which includes broker dealers and digital financial service providers, pursuant to which we will provide certain banking services for the BaaS partner customers, including serving as the issuing bank for debit cards issued to their customers and establishing one or more settlement accounts for the purpose of settling customer transactions in the cash management account program. The agreements have varying terms and may be terminated by the parties under certain circumstances. If our BaaS partners are not successful in achieving customer acceptance of their programs or terminate the agreement before the end of its term, our revenue under the agreement may

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be limited or may cease altogether. In addition, because we will provide banking services with respect to the cash features of our BaaS partner account programs, our bank regulators may hold us responsible for their activities with respect to the marketing or administration of their programs, which may result in increased compliance costs for us or potentially compliance violations as a result of BaaS partner activities.

Uncertainty In recent years, a significant number of banks that provide BaaS have become subject to enforcement actions relating to the LIBOR calculation process their partners' activities, indicating that banking regulators have made banks' oversight over their BaaS partners a supervisory priority and phasing out of LIBOR may adversely affect our results of operations.

On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR to the administrator of LIBOR after 2021. In November 2020, the ICE Benchmark Administration, which administers LIBOR, announced its intention to extend the publication of most tenors of LIBOR through June 30, 2023. The U.S. federal banking agencies encouraged banking organizations to cease entering into new contracts there is an increased risk that use US Dollar LIBOR

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as a reference rate by no later than December 31, 2021, and to ensure existing contracts have robust fallback language that includes a clearly defined alternative reference rate.

Several domestic and international groups, including the Alternative Reference Rate Committee and the International Swaps and Derivatives Association, have developed LIBOR replacements, and a consensus appears to have emerged that the SOFR as observed by the Federal Reserve Bank of New York should be the successor rate. In March 2022, President Biden signed into law the Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act"). The LIBOR Act provides default rules for tough legacy contracts that do not have clearly defined and practicable fallback provisions for replacing LIBOR. The LIBOR Act also establishes a litigation safe harbor for lenders that select a LIBOR replacement under certain situations, including the use of a replacement rate selected by the Federal Reserve. On December 16, 2022, the Federal Reserve adopted a final rule that implements the LIBOR Act by identifying benchmark rates based on SOFR that will replace LIBOR in certain financial contracts after June 30, 2023.

Nevertheless, uncertainty surrounding the transition away from LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans, and debt instruments. If and when LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under our loan agreements with our borrowers or our existing borrowings, we may incur additional expenses in effecting the transition, and may be could similarly become subject to disputes additional regulatory scrutiny or litigation with customers and creditors over the appropriateness enforcement. Additionally, financial weaknesses at our BaaS partners could cause us to record greater expenses or comparability to LIBOR of the substitute indices, which could have an adverse effect on our business, financial condition and results of operations. As of December 31, 2022, we had 51 loans totaling \$206.6 million that are tied to LIBOR. We have \$3.6 million in floating rate junior subordinated debentures to Coastal (WA) Statutory Trust I, which was formed for the issuance of trust preferred securities. These debentures are also tied to LIBOR. The move to an alternate index may impact the rates we receive on loans and rates we pay

on our junior subordinated debentures. We have identified the loans and debt instruments impacted, and we believe we will be able to use the benchmark replacements and transition protections provided by the LIBOR Act, Federal Reserve rule, and relevant FASB guidance to manage through the transition away from LIBOR. See "Note 2 - Recent accounting standards" in the Consolidated Financial Statements, for discussion on ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. We no longer issue any loans losses or debt tied to LIBOR.suffer reputational harm.

We may be adversely affected by changes in U.S. tax laws and regulations.

From time to time, the U.S. Government may introduce new tax laws and regulations, or interpretations of existing income tax laws could change, causing an adverse effect on our business, financial condition and results of operations. For example, changes in tax laws contained in the Tax Cuts and Jobs Act of 2017 (the "Tax Cuts and Jobs Act"), which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 35% to 21%. In addition, other changes included: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes.

We are subject to additional state and local taxes as a result of CCBX operations.

We are subject to additional state and local taxes and related reporting requirements related to our CCBX operations. The added recordkeeping burden as well as additional expense that could result from the expansion of CCBX into new regions may have an adverse impact on our business, financial condition and results of operations.

We expect that the implementation of a new accounting standard could require us to increase our allowance for loan losses and may have an adverse effect on our business, financial condition and results of operations.

The FASB, has adopted a new accounting standard, CECL, which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. We adopted CECL effective January 1, 2023. CECL will change the current method of providing allowances for loan losses that are probable, which we expect could require us to increase our allowance for loan losses, and will likely greatly increase the data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have an adverse effect on our financial condition and results of operations. In addition, new accounting standards are issued or existing standards are revised periodically, changing the methods for preparing our

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financial statements. These changes are not within our control and may significantly impact our business, financial condition and results of operations.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks, including, but not limited to, customer, employee or third-party fraud and data processing system failures and errors.

We rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud or other misconduct by employees or outside persons, the improper use of confidential information, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control system and compliance requirements, high volume of transactions processed for our strategic partners, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions, including claims for negligence, that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulations, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. We maintain a system of internal controls to mitigate operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect us from material losses associated with these risks, including losses resulting from any associated business interruption. It is not always possible to prevent employee or third-party errors or misconduct. Although our control testing has not identified any significant deficiencies material weaknesses in our internal control system, a breakdown in our internal control system, improper operation of our systems or improper employee actions could result in material financial loss to us, the imposition of regulatory action, and damage to our reputation.

We are dependent on the use of data and modeling in our management's decision-making, and faulty data or modeling approaches could negatively impact our decision-making ability or possibly subject us to regulatory scrutiny in the future.

The use of statistical and quantitative models and other quantitative analyses is widespread in bank decision-making, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, and the identification of possible violations of anti-money laundering regulations are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not subject to stress testing under the Dodd-Frank Act, we anticipate that model-derived testing may become more extensively implemented by regulators in the future.

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We anticipate data-based modeling will penetrate further into bank decision-making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision-making, they also create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision-making ability or, if we become subject to regulatory stress testing in the future, adverse regulatory scrutiny. Further, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

We depend on the accuracy and completeness of information provided to us by our borrowers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations.

In deciding whether to approve loans or to enter into other transactions with borrowers and counterparties, we rely on information furnished to us by, or on behalf of, borrowers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of borrowers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected and we may be subject to regulatory action. Whether a misrepresentation is made by the loan applicant, another third party, or one of our employees, we generally bear the risk of loss associated with the misrepresentation. Our controls and processes may not have detected, or may not detect all, misrepresented information in our loan originations or from our business clients. Any such misrepresented information could adversely affect our business, financial condition and results of operations.

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We could recognize losses on investment securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

While we attempt to invest a significant majority of our total assets in loans (our loan-to-asset ratio was ~~83.6%~~ 80.6% as of ~~December 31, 2022~~ December 31, 2023), we invest a percentage of our total assets (~~3.2%~~ 4.0% as of ~~December 31, 2022~~ December 31, 2023) in investment securities with the primary objectives of providing a source of liquidity and meeting pledging requirements. As of ~~December 31, 2022~~ December 31, 2023, the fair value of our available for sale investment securities portfolio was ~~\$97.3 million~~ \$99.5 million, which included a net unrealized loss of ~~\$3.0 million~~, \$537,000, and the fair value of our held to maturity investment securities was ~~\$916,000~~, \$51.0 million, which included a net unrealized ~~loss~~ gain of ~~\$120,000~~, \$181,000. Factors beyond our control can significantly and adversely influence the fair value of securities in our portfolio. For example, fixed-rate securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Although we have not recognized other-than-temporary impairment related to our investment portfolio as of ~~December 31, 2022~~ December 31, 2023, changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, among other factors, may cause us to recognize losses in future periods, which could have an adverse effect on our business, financial condition and results of operations.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosures in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and related notes to those financial statements. Our critical accounting policies, which are included in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report on Form 10-K, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events or regulatory views concerning such analysis differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures, in each case resulting in our needing to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations.

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Dependency on external security systems expose us to greater operational risk.

External security systems with which we are connected, whether directly or indirectly, through the community bank or CCBX, can be sources of risk to us. We may be exposed not only to a systems failure with which we are directly connected, but also to a systems breakdown of a party to CCBX or other relationship to which we are connected. This is particularly the case where activities of customers or those parties are beyond our security and control systems, including through the use of the internet, cloud computing services and personal smart phones and other mobile devices or services.

If that party experiences a breach of its own systems or misappropriates that data, this could result in a variety of negative outcomes for us and our customers, including:

- losses from fraudulent transactions, as well as potential liability for losses that exceed thresholds established in consumer protection laws and regulations,
- increased operational costs to remediate the consequences of the external party's security breach,
- negative impact on future revenues; and
- harm to reputation arising from the perception that our systems may not be secure.

We are highly dependent on the accuracy and effectiveness of ~~its~~ our operational processes and systems and the operational processes and systems of external parties related to the community bank and CCBX.

We rely comprehensively on financial, accounting, transaction execution, data processing and other operational systems to process, record, monitor and report a large number of transactions on a continuous basis, and to do so

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accurately, quickly and securely. In addition to the proper design, installation, maintenance and training of our own operational systems, we rely on the effective functioning of operational systems of external parties related to the community bank and CCBX. Breakdowns in these operational systems could result in:

- the inability to accurately and timely settle transactions,
- the possibility that funds transfers or other transactions are executed erroneously, or with unintended consequences,
- financial losses incurred, or possible restitution to customers, resulting from contractual agreements with external parties related to the community bank and CCBX,
- regulatory issues,
- higher operational costs, associated with replacing or recovering systems that are inoperable or unavailable,
- loss of confidence in our ability to protect against and withstand operational disruptions, thus impacting our ability to market and establish new relationships in the CCBX segment, and
- harm to our reputation.

As the speed, frequency, volume, interconnectivity and complexity of transactions within our CCBX segment continues to increase, it becomes more challenging to effectively maintain systems and mitigate risks such as:

- errors made by us or external parties doing business with the community bank and CCBX, whether inadvertent or malicious; and
- isolated or seemingly insignificant errors or losses, which migrate to other systems or grow in number, to become larger issues or losses.

We may be subject to potential business risk from actions by our regulators related to CCBX relationships.

Our regulators could impose restrictions on the businesses served in our CCBX segment or restrict the number of different relationships the Company can hold. Regulatory restrictions placed on the parties served in the Company's CCBX segment could result in reduced demand for services, reduced future revenue in the CCBX segment, or loss of current relationships. Regulatory restrictions that limit the number of relationships the Company can hold in its CCBX segment would result in reduced future revenue and limit the potential for growth in that segment.

Risks Related to Strategic and Reputational Matters

Our business strategy includes growth, and our business, financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Growing our operations could also cause our expenses to increase faster than our revenues.

Our business strategy includes growth in assets, deposits and the scale of our operations. Achieving such growth will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to

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successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, competition from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in expanding deposit and lending capacity that generally require a period of time to generate the necessary revenues to offset these costs, especially in areas in which we do not have an established presence and that require alternative delivery methods. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in modernizing existing facilities, opening new branches or deploying new services.

Our expansion strategy focuses on organic growth of our community bank and the expansion of our CCBX segment. We may not be able to execute on aspects of our expansion strategy, which may impair our ability to sustain our historical rate of growth or prevent us from growing at all. More specifically, we may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable new strategic partners. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including our ability to adapt our credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to implement one or more aspects of our strategy, we may be unable to maintain our historical earnings trends, which could have an adverse effect on our business, financial condition and results of operations.

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Strong competition within our market area could hurt our profits and slow growth.

Our profitability depends upon our continued ability to compete successfully in our market area. We face intense competition both in making loans and attracting deposits. Our competitors for commercial real estate loans include other community banks and commercial lenders, some of which are larger than us and have greater resources and lending limits than we have and offer services that we do not provide. We face stiff competition for one-to-four family residential loans from other financial service providers, including large national residential lenders and local community banks. Other competitors for one-to-four family residential loans include credit unions and mortgage brokers which keep overhead costs and mortgage rates down by selling loans and not holding or servicing them. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. We expect competition to remain strong in the future.

The Washington DFI has entered into a multi-state agreement with six other states that is intended to streamline the licensing process for money service businesses, which include money transmitters and payment service providers. Increasing the relative ease of obtaining a license to operate a money service business within the state of Washington may encourage financial technology, or fintech, companies to offer services in the state, thereby increasing competition for such services.

We rely heavily on our executive management team and other key employees, and we could be adversely affected by the unexpected loss of their services.

Our success depends in large part on the performance of our executive management team and other key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for qualified employees is intense, and the process of locating key personnel with the combination of skills, attributes and business relationships required to execute our business plan may be lengthy. We may not be successful in retaining our key employees, and the unexpected loss of services of one or more of our key personnel could have an adverse effect on our business because of their skills, knowledge of and business relationships within our primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, or at all, which could have an adverse effect on our business, financial condition and results of operations.

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Anti-takeover provisions in our corporate organizational documents and provisions of federal and state law may make an attempted acquisition or replacement of our board of directors or management more difficult.

Our second amended and restated articles of incorporation and our amended and restated bylaws, ("bylaws"), may have an anti-takeover effect and may delay, discourage or prevent an attempted acquisition or change of control or a replacement of our incumbent board of directors or management. Our governing documents include provisions that:

- empower our board of directors, without shareholder approval, to issue preferred stock, the terms of which, including voting power, are to be set by our board of directors;
- establish a classified board of directors, with directors of each class serving a three-year term;
- provide that directors may be removed from office without cause only by vote of 80% of the outstanding shares then entitled to vote;
- eliminate cumulative voting in elections of directors;
- permit our board of directors to alter, amend or repeal our bylaws or to adopt new bylaws;
- require the request of holders of at least one-third of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting;
- require shareholders that wish to bring business before annual meetings of shareholders, or to nominate candidates for election as directors at our annual meeting of shareholders, to provide timely notice of their intent in writing;

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- require that certain business combination transactions with a significant shareholder be approved by holders of two-thirds of the shares held by persons other than the significant shareholder; and
- enable our board of directors to increase, between annual meetings, the number of persons serving as directors and to fill the vacancies created as a result of the increase by a majority vote of the directors present at a meeting of directors.

In addition, certain provisions of Washington law, including a provision which restricts certain business combinations between a Washington corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or its holding company. These laws include the BHC Act, the Change in Bank Control Act, and comparable banking laws in the State of Washington. These laws could delay or prevent an acquisition.

We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our business, financial condition and earnings.

Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data **services**. **Services to customers and partners**. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. We are subject to complex and increasingly demanding laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). For example, our business is subject to the Gramm-Leach-Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to "opt out" of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity

of customer information we process, as well as plans for responding to data security breaches. Various state and federal laws and regulations impose data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in

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certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs.

Furthermore, While we have implemented a vendor management program with the third-party service providers, to help ensure third party relationships are effectively managed by providing risk-focused controls and processes that are designed to monitor our vendors' compliance with relevant laws, regulations, and industry standards, we may not be able to ensure that all of our clients, suppliers, counterparties, broker dealers and financial providers in CCBX, and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our business, financial condition and earnings.

We are dependent on our information technology and telecommunications systems and third-party service providers; systems failures, interruptions, security breaches and cybersecurity threats could have an adverse effect on our business, financial condition and results of operations.

Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party service providers. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity or such third-party systems fail or experience

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interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have an adverse effect on our business, financial condition and results of operations.

In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our customers and employees. The processing that takes place with our strategic partners could potentially have an adverse impact on us in the event of a security breach of their systems. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. We, our customers, and other financial institutions with which we interact, are subject to increasingly frequent, continuous attempts, including ransomware and malware attacks, to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Our systems and our third-party service providers' systems have been, and will likely continue to be, subject to advanced computer viruses or other malicious codes, ransomware, unauthorized access attempts, denial of service attacks, phishing, social engineering, hacking and other cyber-attacks.

We have a cybersecurity program an Information Security Program that includes internal/external penetration testing, regular vulnerability assessments, detailed vulnerability management, data loss prevention controls, file access and integrity monitoring and reporting and threat intelligence. While we have established policies and procedures to prevent or limit the impact of cyber-attacks, there can be no assurance that such events will not occur or will be adequately addressed if they do. In addition, we also outsource certain cybersecurity functions, such as penetration testing, to third-party service providers, and the failure of these service providers to adequately perform such functions could increase our exposure to security breaches and cybersecurity threats. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other malicious code and cyber-attacks that could have an impact on information security. Any such breach or attacks could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties; disrupt our operations and the services we provide to customers; damage our reputation; and cause a loss of confidence in our products and services, all of which could adversely affect our business, financial condition and results of operations. Further, to the extent that the activities of our third-party service providers or

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the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation costs and other possible liabilities. For further information, see the section titled "Cybersecurity" in Part I, Item 1C of this Annual Report on Form 10-K.

As noted above, federal banking agency rules require banking organizations to notify their primary federal regulator of significant security incidents within 36 hours of determining that such an incident has occurred as soon as possible and no later than within 36 hours of a significant cybersecurity incident. Failure to comply with these requirements in the event of such an incident could result in sanctions by regulatory agencies, civil money penalties, and/or damage to our reputation, all of which could have an adverse effect on our business, financial condition and results of operations. Additionally, the SEC recently enacted rules, effective as of December 18, 2023, requiring public

companies to disclose material cybersecurity incidents that they experience on Form 8-K within four business days of determining that a material cybersecurity incident has occurred and to disclose on an annual basis material information regarding their cybersecurity risk management, strategy and governance. If we fail to comply with these new requirements we could incur regulatory fines in addition to other adverse consequences to our reputation, business, financial condition and results of operations.

Risks Related to Our Capital and Liquidity

Ineffective liquidity management could adversely affect our business, financial condition and results of operations.

Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities are checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial majority of our assets are loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could adversely affect our business, financial condition and results of operations.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding.

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and limit access to certain customary sources of capital or make such capital only available on unfavorable terms, including interbank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have an adverse effect on our business, financial condition and results of operations.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our securities.

We may seek to raise additional capital in the future through equity offerings. The issuance of additional shares of common stock or the issuance of convertible securities would dilute the ownership interest of our existing common shareholders. The market price of our common stock could decline as a result of an equity offering, as well as other sales of a large block of shares of our common stock or similar securities in the market after an equity offering, or the perception that such sales could occur. Both we and our regulators perform a variety of analyses of our assets, including the

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preparation of stress case scenarios, and as a result of those assessments we could determine, or our regulators could require us, to raise additional capital.

Risks Related to Our Industry

Regulation of the financial services industry is intense, and we may be adversely affected by changes in laws and regulations.

We are subject to extensive government regulation, supervision and examination at both the federal and state level. The Bank's deposits are insured in whole or in part by the FDIC. The Bank is subject to regulation by the Federal Reserve and the Washington DFI. The Federal Reserve also has supervisory authority over the Company. Such regulation, supervision and examination govern the activities in which we may engage, and are intended primarily for the protection of the deposit insurance fund and the Bank's depositors, rather than for shareholders.

Compliance with applicable laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance costs. The Dodd-Frank Act, which imposed significant regulatory and compliance changes on financial institutions, is an example of this type of federal law. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or the value of collateral for loans. Future legislative changes could also require changes to business practices and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

Federal regulatory agencies have the ability to take strong supervisory actions against financial institutions that have experienced increased loan production and losses and other underwriting weaknesses or have compliance weaknesses. These actions include entering into formal or informal written agreements and cease and desist orders that place certain limitations on their operations. If we were to become subject to a regulatory action, such action could negatively impact our ability to execute our business plan, and result in operational restrictions, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions. See "Item 1. Business—Regulation and Supervision—Bank Regulation and Supervision—Capital Adequacy" for a discussion of regulatory capital requirements.

Additional increases in Federal Deposit Insurance Corporation insurance premiums could adversely affect our earnings and results of operations.

The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by the level of its assessment base and its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses, as well as by its usage of brokered deposits. Moreover, the FDIC has the unilateral power to change deposit insurance assessment rates and the manner in which deposit insurance is calculated and also to charge special assessments to FDIC-insured institutions. The FDIC utilized all of these powers during the financial crisis for the purpose of restoring the reserve ratios of the Deposit Insurance Fund, and more recently increased assessment rates to address extraordinary growth in the amount of insured deposits resulting from the COVID-19 pandemic.

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Any future special assessments, increases in assessment rates or premiums, or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could adversely affect our business, financial condition, and results of operations.

Federal banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations could adversely affect us.

As part of the bank regulatory process, the Federal Reserve and the Washington DFI periodically conduct comprehensive examinations of our business, including compliance with laws and regulations. If, as a result of an examination, either of these banking agencies were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, asset sensitivity, risk management or other aspects of any of our operations had become unsatisfactory, or that our Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. The Federal Reserve may enjoin "unsafe or unsound" practices or violations of law, require affirmative actions to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in our capital levels, restrict our growth, assess civil monetary penalties against us, the Bank or their respective officers or directors, and

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remove officers and directors. The FDIC also has authority to review our financial condition, and, if the FDIC were to conclude that the Bank or its directors were engaged in unsafe or unsound practices, that the Bank was in an unsafe or unsound condition to continue operations, or the Bank or the directors violated applicable law, the FDIC could move to terminate the Bank's deposit insurance. If we become subject to such regulatory actions, our business, financial condition, and results of operations as well as our reputation could be adversely affected.

Many of our new activities and expansion plans require regulatory approvals, and failure to obtain these approvals may restrict our growth.

We **intend to may** complement and expand our business by growing our BaaS segment, expanding the Bank's banking location network, or *de novo* branching, and pursuing strategic acquisitions of financial institutions and other complementary businesses. Generally, we must receive federal and state regulatory approval before we can acquire a depository institution or related business insured by the FDIC or before we open a *de novo* branch. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects, and the impact of the proposal on U.S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution's record of compliance under the CRA) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all.

Federal bank regulators have increasingly focused on the risks related to bank and fintech company partnerships, raising concerns regarding risk management, oversight, internal controls, information security, change management, **compliance**, and information technology operational resilience. This focus is demonstrated by recent regulatory enforcement actions against other banks that have allegedly not adequately addressed these concerns while growing their BaaS offerings. We could be subject to additional regulatory scrutiny with respect to our CCBX business that could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company.

Financial institutions, such as the Bank, face a risk of noncompliance with and enforcement action under the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act"), and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the Treasury Department to administer the Bank Secrecy Act, has authority to impose significant civil money penalties for violations of these requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, Drug Enforcement Administration and the Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department's Office of Foreign Assets Control.

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In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti-money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and *de novo* branching.

We are subject to numerous laws designed to promote community reinvestment or protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA requires the Federal Reserve to assess the Bank's performance in meeting the credit needs of the communities it serves, including low- and moderate-income neighborhoods, and if the Bank performs unsatisfactorily, various adverse regulatory consequences may ensue, including an inability to secure regulatory approval of expansionary transactions or new branches. Additionally, **in May 2022 on October 24, 2023, the federal banking agencies issued FDIC, the Federal Reserve and the OCC released a proposed final rule revising the framework that they use to evaluate banks' records of community reinvestment under the CRA** that may make it more challenging and/or costly for insured depository institutions to achieve an "Outstanding" or "Satisfactory" CRA rating, which could negatively impact our ability to obtain regulatory approval for an acquisition.

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In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The federal banking agencies, the CFPB, the U.S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services.

A successful regulatory challenge to an institution's performance under fair lending laws or regulations, or other consumer lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations.

Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business.

Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered "predatory." These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make.

The expanding body of federal, state and local regulations and/or the licensing of loan servicing, collections or other aspects of our business and our sales of loans to third parties may increase the cost of compliance and the risks of noncompliance and subject us to litigation.

We service most of our own community bank loans and CCBX partners service most loans originated through them. Loan servicing is subject to extensive regulation by federal, state and local governmental authorities, as well as various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities, including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements, which may further adversely affect us. In addition, were we to be subject to regulatory investigation or regulatory action regarding our loan modification and foreclosure practices, our business, financial condition and results of operations could be adversely affected.

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Our failure to comply with applicable laws and regulations could possibly lead to: civil and criminal liability; loss of licensure; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; and administrative enforcement actions. Any of these outcomes could adversely affect us.

The Federal Reserve may require us to commit capital resources to support the Bank.

The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. Under the "source of strength" doctrine that was codified by the Dodd-Frank Act, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank at times when the bank holding company may not otherwise be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Under the prompt corrective action regime, if the Bank were to become undercapitalized, we would be required to guarantee the Bank's plan to restore its capital subject to certain limits. See *"Item 1. Business—Regulation and Supervision—Bank Regulation and Supervision—Prompt Corrective Action."* Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress.

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A capital injection may be required at a time when our resources are limited, and we may be required to borrow the funds or raise capital to make the required capital injection. Any loan by a bank holding company to its subsidiary bank is subordinate in right of payment to deposits and certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company's general unsecured creditors, including the holders of any note obligations. Thus, any borrowing by a bank holding company for the purpose of making a capital injection to a subsidiary bank often becomes more difficult and expensive relative to other corporate borrowings.

We could be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations. Additionally, we may be adversely affected by the soundness of other financial institutions even when we do not have direct or indirect relationships with those institutions. For example, the failures of Silicon Valley Bank, Signature Bank and First Republic Bank in 2023 resulted in significant disruption in the financial services industry and negative media attention, which has also adversely impacted the volatility and market prices of the securities of financial institutions and resulted in outflows of deposits for many financial institutions.

We could be adversely affected by the soundness of our CCBX partners.

A growing portion of our revenue, deposits and loans are derived from CCBX partner activities. If our partners are not operating soundly, we may be adversely impacted through decreased revenue, increased loan credit losses and reduced deposits. Our CCBX partners originate their loans in compliance with our credit standards and policies. Additionally, partners provide fraud and credit enhancements on many of our CCBX loans. If any CCBX partners encounter operating difficulties, we may experience reduced revenue, increased loan credit losses if credit and fraud enhancement obligations are not met, and reduced deposits, which may impact liquidity. Any such losses could adversely affect our business, financial condition and results of operations.

General Risk Factors

National and global economic and other conditions could adversely affect our future results of operations or market price of our stock.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, changes in government monetary and fiscal policies and inflation, foreign policy, and financial market volatility, all of which are beyond our control. Global economies continue to face significant challenges to achieving normalized economic growth rates and there are continuing concerns related to the level of U.S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Any deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations

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and could also cause the market price of our stock to decline. While it is impossible to predict how long challenging economic conditions may exist, a slow or fragile recovery could continue to present risks into the future for the industry and our company. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, economic conditions in Asia, particularly the economies of China, South Korea and Japan, and GDP, inflation, higher interest rates, unemployment, global unrest, the Russian invasion of Ukraine, conflicts in the Middle East, the political environment, trade issues and resulting economic impact, can impact the economy and financial markets here in the United States. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, and lower home sales and commercial activity. Further, our business could be adversely affected by the effects of a widespread outbreak of epidemic illness in the human population. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by

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macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have an adverse effect on our business, financial condition and results of operations.

We are subject to certain risks in connection with growing through mergers and acquisitions.

It is possible that we could acquire other banking institutions, other financial services companies or branches of banks in the future. Acquisitions typically involve the payment of a premium over book and trading values and, therefore, may result in the dilution of our tangible book value per share and/or our earnings per share. Our ability to engage in future mergers and acquisitions depends on various factors, including: (1) our ability to identify suitable merger partners and acquisition opportunities; (2) our ability to finance and complete transactions on acceptable terms and at acceptable prices; and (3) our ability to receive the necessary regulatory and, when required, shareholder approvals. Our inability to engage in an acquisition or merger for any of these reasons could have an adverse impact on the implementation of our business strategies. Furthermore, mergers and acquisitions involve a number of risks and challenges, including our ability to achieve planned synergies and to integrate the branches and operations we acquire, and the internal controls and regulatory functions into our current operations, as well as the diversion of management's attention from existing operations, which may adversely affect our ability to successfully conduct our business and negatively impact our financial condition and results of operations.

We must keep pace with technological change to remain competitive.

Financial products and services have become increasingly technology-driven. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available, as well as related essential personnel. In addition, technology has lowered barriers to entry into the financial services market and made it possible for financial technology companies and other non-bank entities to offer financial products and services traditionally provided by banks. The ability to keep pace with technological change is important, and the failure to do so, due to cost, proficiency or otherwise, could have an adverse impact on our business, financial condition and results of operations.

Negative public opinion regarding our company or failure to maintain our reputation in the communities we serve could adversely affect our business, financial condition and results of operations and prevent us from growing our business.

As a community bank, our reputation within the communities we serve, including the BaaS space, is critical to our success. We believe we have set ourselves apart from our competitors by building strong personal and professional relationships with our customers and being active members of the communities we serve. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new talent and customers or may lose existing customers, and our business, financial condition and results of operations could be adversely affected. Further, negative public opinion can expose us to litigation and regulatory action and delay and impede our efforts to implement our expansion strategy, which could further adversely affect our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Coastal recognizes the critical importance of identifying, assessing and managing material risks from information security threats. One key way that Coastal mitigates information security threats is through the Company's information security program (the "Information Security Program"). Cybersecurity is an integral subset of information security and the Information Security Program is designed to protect the Company from cybersecurity attacks, breaches, incidents and resulting consequences.

As part of the Information Security Program, the Company has implemented preventative controls to minimize data loss, exposure and misuse. These controls are designed to be implemented prior to a threat event to avoid the likelihood and potential impact of inadvertent or intentional misuse, improper disclosure, damage or loss. In addition, the Information Security Program includes internal and external penetration testing, regular vulnerability assessments, detailed

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vulnerability management, data loss prevention controls, file access and integrity monitoring and reporting and threat intelligence. The Information Security Program is coordinated and primarily executed by our information security, technology, IT and operations personnel. The IT department is responsible for the oversight of all managed systems and implements and maintains appropriate controls to protect the confidentiality, integrity and availability of computerized data and information resources. Coastal applies a layered defense strategy for protecting information systems and customer information, including the implementation of zero-trust principles, which require authenticated, authorized, and validated users and devices to access applications and data. Security logs are correlated and monitored by an internal security team as well as an augmented third-party Security Operation Center. Network vulnerability scans are conducted daily.

Coastal engages third party assessors, consultants and auditors in connection with the Information Security Program, including to conduct external penetration testing, independent audits and risk assessments. Coastal also utilizes third party service providers in the ordinary course of business to provide services to customers and partners. These third-party service providers may store or process confidential information and personally identifiable information related to our customers or on behalf of our partners in order to perform those services for which they were engaged. Coastal has implemented a vendor management program to help ensure third party relationships are effectively managed. Under this program, we have established risk-focused controls and processes that are designed to monitor our vendors' compliance with relevant laws, regulations, and industry standards, such as data privacy regulations and anti-corruption laws, as well as relevant contractual obligations.

Executive Management is responsible for managing the Information Security Program's operations for identifying and assessing external and internal risks to the security, confidentiality, and integrity of nonpublic information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information. Coastal's Information Security Officer ("ISO") is designated by the Board and is responsible for implementing and monitoring the Information Security Program. The ISO is a Senior Vice President and has served in such role since 2010. The ISO has over 38-years of financial institution experience, which includes, compliance, BSA, operations, physical security along with information security. The ISO provides an annual report to the Board on the overall status of the Information Security Program and on information technology incidents as necessary. The SVP of Technology also has responsibility for cybersecurity matters and reports to the Management Risk Committee, which consists of members of senior management. The Technology Subcommittee of the Management Risk Committee focuses on 3 pillars: Technology Strategy, InfoSec/Cyber, and Data.

The SVP of Technology has served in that role since 2005 and the SVP, Head of Technology Operations and Implementation, who also supports the Information Security Program, has 23 years of financial technology experience, including previously as Director, Application Development and Vice President, Integration and Analytics. The Information Security Program is further supported by other members of Coastal's management team, including the President, Chief Risk Officer, and the Chief Audit Executive.

The Board exercises oversight over the Information Security Program and reviews and approves the Information Security Program at least annually. Cybersecurity risk management is also incorporated into Coastal's overall enterprise risk management framework, which is updated on an annual basis and subject to oversight by the Management Risk Committee and the Board.

Although Coastal has not, as of the date of this Annual Report on Form 10-K, experienced a cybersecurity threat or incident that materially affected Coastal's business strategy, results of operations, or financial condition, there can be no guarantee that Coastal will not experience such an incident in the future. For a discussion regarding risks from

cybersecurity threats, see “Item 1A. Risk Factors,” including the risk factors titled “—We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our business, financial condition and earnings” and “—We are dependent on our information technology and telecommunications systems and third-party service providers; systems failures, interruptions, security breaches and cybersecurity threats could have an adverse effect on our business, financial condition and results of operations.” As noted above, we are a regulated financial institution and are subject to financial privacy laws and to oversight by federal banking agencies. For additional information on these laws and oversight, see “Item 1. Business—Regulation and Supervision.”

Item 2. Properties

Our corporate headquarters is located at 5415 Evergreen Way, Everett, WA 98203. In addition to our corporate headquarters, which includes our Evergreen branch, we operated 13 other branch offices as of **December 31, 2022** **December 31, 2023** for our

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community bank and CCBX segments. Twelve of our branches are located in Snohomish County and two of our branches are located in neighboring counties (one in King County and one in Island County). We own our corporate headquarters and **four** **five** of our other branch offices and lease the remainder of our branch offices. The leases, excluding renewal periods, on our branch offices expire in **2023** **2024** through 2044. We believe that these facilities and additional or alternative space available to us are adequate to meet our needs for the foreseeable future.

Item 3. Legal Proceedings

From time to time we are a party to various litigation matters incidental to the conduct of our business. We do not believe that any currently pending legal proceedings will have a material adverse effect on our business, financial condition or operations. Item 103 of the SEC’s Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions unless we reasonably believe the monetary sanctions will not equal or exceed a threshold which we determine is reasonably designed to result in disclosure of any such proceeding that is material to our business or financial condition. We have determined such disclosure threshold to be \$1,000,000.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information, Holders of Common Stock and Dividends

The Company’s common stock, no par value per share, is traded on the Nasdaq Global Select Market under the symbol “CCB.” On **March 7, 2023** **March 7, 2024**, there were **294** **279** holders of record of the Company’s common stock.

Holders of our common stock are only entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. We have not historically declared or paid dividends on our common stock and we do not intend to declare or pay dividends on our common stock in the near-term. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any future determination to pay dividends will be made by our board of directors and will depend on a number of factors, including:

- our historic and projected financial condition, liquidity and results of operations;
- our capital levels and needs;
- tax considerations;
- any acquisitions or potential acquisitions that we may pursue;
- statutory and regulatory prohibitions and other limitations;
- the terms of any credit agreements or other borrowing arrangements that restrict our ability to pay cash dividends;
- general economic conditions; and
- other factors that our board of directors may deem relevant.

We are not obligated to pay dividends on our common stock and are subject to certain restrictions on paying dividends on our common stock.

As a Washington corporation, we are subject to certain restrictions on distributions to shareholders under the Washington Business Corporation Act. Generally, a Washington corporation is prohibited from making a distribution to shareholders if, after giving effect to the distribution, the corporation would not be able to pay its liabilities as they become due in the usual course of business or the corporation's total assets would be less than the sum of its total liabilities plus, unless its articles of incorporation provide otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution. In addition, if required payments on our outstanding junior subordinated debentures are not made or suspended, we may be prohibited from paying dividends on our common stock. We are also subject to certain restrictions on our right to pay dividends on our capital stock in the event we have failed to make any required payment of interest or principal under the terms of our subordinated note.

We are subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. Because we are a bank holding company and do not engage directly in business activities of a material nature, our ability to pay dividends on our common stock depends, in large part, upon our receipt of dividends from the Bank, which is also subject to numerous limitations on the payment of dividends under federal and state banking laws, regulations and policies. See "Item 1. Business—Regulation and Supervision—Bank Holding Company Regulation—Dividends." The present and future dividend policy of the Bank is subject to the discretion of its board of directors. The Bank is not obligated to pay us dividends.

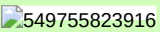
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Securities Authorized for Issuance under Equity Compensation Plan

For information regarding securities authorized for issuance under the Company's equity compensation plans, see subparagraph (d) in Part III, Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" of this Form 10-K , which is incorporated herein by reference.

Performance Graph

The following graph shows the five-year comparison of the total return to shareholders of the Company's common stock as compared to the total returns of the S&P United States SmallCap Banks (Industry Group) Index and S&P 600 Small Cap during the five-year period beginning December 31, 2018 and ending December 31, 2023. Total return includes appreciation or depreciation in market value of the Company's common stock as well as actual cash and stock dividends paid to common shareholders. The graph assumes the value of the investment in Company's common stock and each index was \$100 on December 31, 2018, and all dividends were reinvested. There can be no assurance that our future stock performance will be the same or similar to the historical stock performance shown in the graph below. We neither make nor endorse any predictions as to stock performance.

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	2018	2019	2020	2021	2022	2023
Coastal Financial Corporation	\$ 100.00	\$ 108.14	\$ 137.89	\$ 332.37	\$ 312.02	\$ 291.60
S&P 600 Small Cap	100.00	122.78	136.64	173.29	145.39	168.73
S&P United States SmallCap Banks (Industry Group) Index	100.00	125.46	113.94	158.62	139.85	140.55

Source: S&P Global Market Intelligence

The information set forth under the heading "Performance Graph" shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that such information to be treated as soliciting material or specifically to be incorporated by reference into a filing under the Securities Act of 1933 or the Exchange Act.

Purchases of Equity Securities

The Company did not purchase any shares of its common stock during the year ended **December 31, 2022** [December 31, 2023](#).

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Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a bank holding company that operates through our wholly owned subsidiaries, Coastal Community Bank ("Bank") and Arlington Olympic LLC . We are headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. Our business is conducted through **two three** reportable segments: The community bank, CCBX and **CCBX. treasury & administration**. The community bank segment includes all community banking activities, with a primary focus of the **community bank is** on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in the state of Washington and through the Internet and our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the largest community bank by deposit market share, and two of which are located in neighboring counties (one in King County and one in Island County). The CCBX segment provides banking as a service ("BaaS") that allows our broker-dealer and digital financial service partners to offer their customers banking services. The CCBX segment

had 27 has 21 partners as of December 31, 2022 December 31, 2023. The treasury & administration segment includes investments, debt and other reporting items that are not specific to the community bank or CCBX segments. The Bank's deposits are insured in whole or in part by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to regulation by the Federal Reserve and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has supervisory authority over the Company.

As of December 31, 2022 December 31, 2023, we had total assets of \$3.14 billion \$3.75 billion, total loans receivable of \$2.63 billion \$3.03 billion, total deposits of \$2.82 billion \$3.36 billion and total shareholders' equity of \$243.5 million \$295.0 million.

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relate to activities primarily conducted by the Bank. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and the accompanying notes presented elsewhere in this Annual Report on Form 10-K.

We generate most of our community bank revenue from interest on loans and investments and CCBX revenue from BaaS fee income, income and interest on loans. Our primary source of funding for our loans is commercial and retail deposits from our customer relationships and from our partner deposit relationships. We place secondary reliance on any funding from our CCBX partner deposit relationships that are transferred off our balance sheet and wholesale funding, primarily borrowings from the Federal Home Loan Bank ("FHLB"). Less commonly used sources of funding include borrowings from the Federal Reserve System ("Federal Reserve") discount window, draws on established federal funds lines from unaffiliated commercial banks, brokered funds, which allows us to obtain deposits from sources that do not have a relationship with the Bank and can be obtained through certificate of deposit listing services, via the internet or through other advertising methods, or a one-way buy through an insured cash sweep ("ICS") account, which allows us to obtain funds from other institutions that have deposited funds through ICS. Our largest expenses are provision for credit losses - loans, BaaS loan losses, expense, BaaS fraud expense, salaries and employee benefits, interest on deposits and borrowings, occupancy expense, legal and professional expenses and data processing. Our principal lending products are commercial real estate loans, consumer loans, residential real estate, commercial and industrial loans residential real estate loans, and construction, land and land development loans, and consumer loans.

Coronavirus Aid, Relief, Potential Regulatory Reforms in Response to Bank Failures

The failures of Silicon Valley Bank, Santa Clara, California, Signature Bank, New York, New York, and Economic Security ("CARES") Act First Republic Bank, San Francisco, California, in March and PPP Overview

Our financial results for May, 2023, may lead to regulatory changes and initiatives that could impact the years ended December 31, 2022 and 2021 were impacted by Company. For example, President Biden has encouraged the coronavirus, and variants thereof, federal banking agencies to adopt various reforms, including the Delta and Omicron variants ("COVID-19") pandemic, completion of an incentive compensation rule for bank executives pursuant to Section 956 of the Dodd-Frank Act, in response to these bank failures. On March 27, 2020 April 28, 2023, the CARES Act was enacted, providing wide ranging economic relief Federal Reserve and the FDIC issued reports on the failures of Silicon Valley Bank and Signature Bank, respectively, identifying the potential causes that the federal banking agencies may seek to address through changes to their supervisory and regulatory policies. Agency officials, including the Vice Chair for individuals and businesses impacted by Supervision of the COVID-19 pandemic. Among other things, Board of Governors of the statute created the Paycheck Protection Program ("PPP"), which was a stimulus response Federal Reserve System, have called for changes to the potential economic impacts manner in which banks' capital, interest rate and liquidity risks are supervised and regulated.

In the second half of 2023, the COVID-19 pandemic. The purpose of federal banking agencies issued multiple proposed rules in these areas that would largely apply only to large banking organizations and would not apply to the PPP was to provide forgivable loans to smaller businesses, sole proprietorships, independent contractors, and self-employed individuals that used the proceeds of the loans for payroll and certain other qualifying expenses. Company if finalized as proposed. These proposed

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In rules include a July 2023 interagency proposal to revise the capital framework applicable to banking organizations with total we funded \$763.9 million assets of \$100 billion or more or with significant trading activity, an August 2023 FDIC proposal to require covered insured depository institutions with total assets of \$50 billion or more to develop and submit resolution plans, and an August 2023 interagency proposal to require bank holding companies with total assets of \$100 billion or more to issue and maintain minimum amounts of long-term debt.

The extent of final actions to be taken by the federal banking agencies in PPP loans, since responses to these bank failures, including the first round of PPP loans opened in March 2020 through the close of round three. Total net deferred fees on these loans were \$26.3 million. As of December 31, 2022, there were \$4.7 million in PPP loans outstanding, compared to \$111.8 million as of December 31, 2021.

London Interbank Offered Rate ("LIBOR") Transition

On December 16, 2022, potential changes discussed by the Federal Reserve Board adopted Vice Chair or highlighted in the Federal Reserve and FDIC reports, remain unclear.

Small Business Lending Data Collection Rule

On March 30, 2023, the CFPB finalized a rule under section 1071 of the Dodd-Frank Act requiring lenders to collect and report data regarding small business lending activity. The Company is evaluating the impact of the new rule. The rule requires compliance by October 1, 2024, April 1, 2025, or January 1, 2026, depending on the number of covered small business loans that a covered lender originates.

On July 31, 2023, the U.S. District Court for the Southern District of Texas enjoined the CFPB from implementing and enforcing the rule with respect to American Bankers Association members, which include the Company, pending the U.S. Supreme Court's consideration of the constitutionality of the CFPB's funding structure in a separate case. The court expanded its stay to cover all covered financial institutions in October 2023.

Third Party Risk Management Guidance

On June 6, 2023, the FDIC, the Federal Reserve and the OCC issued final interagency guidance on sound risk management principles that support developing and implementing risk management practices for all stages in the life cycle of third-party relationships. The Bank has evaluated the impact of this guidance, and is making revisions and enhancements to its programs, policies and procedures to address any gaps and maintain compliance.

Community Reinvestment Act Reform

On October 24, 2023, the FDIC, the Federal Reserve and the OCC released a final rule revising the framework that implements they use to evaluate banks' records of community reinvestment under the LIBOR Community Reinvestment Act by identifying benchmark rates based on SOFR (Secured Overnight Financing Rate) that will replace LIBOR formerly known ("CRA"). Under the revised framework, banks with assets of at least \$2 billion, such as the London Interbank Offered Rate, Bank, are considered large banks and will have their retail lending, retail services and products, community development financing, and community development services subject to periodic evaluation. Depending on a large bank's geographic concentrations of lending, the evaluation of retail lending may include assessment areas in certain financial contracts after June 30, 2023 which the bank extends loans but does not operate any deposit-taking facilities, in addition to assessment areas in which the bank has deposit-taking facilities. The rule becomes effective April 1, 2024. Congress enacted the LIBOR Act, which was signed into law in March 2022, to provide a uniform, nationwide solution for so-called tough legacy contracts that do not have clear and practicable Most provisions for replacing LIBOR after June 30, 2023. The LIBOR Act also establishes a litigation safe harbor for lenders that select a LIBOR replacement under certain situations, including the use of a replacement rate selected by the Federal Reserve. As required by the law, the final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, will apply beginning January 1, 2026, and 12-month LIBOR in contracts subject to the Act. These contracts include U.S. contracts that do not mature before LIBOR ends and that lack adequate "fallback" remaining provisions that would replace LIBOR with a practicable replacement benchmark rate.

As will apply beginning January 1, 2027. The Company is evaluating the impact of December 31, 2022, we had 51 loans totaling \$206.6 million that are tied to LIBOR. We have \$3.6 million in floating rate junior subordinated debentures to Coastal (WA) Statutory Trust I, which was formed for the issuance of trust preferred securities. These debentures are also tied to LIBOR. The move to an alternate index may impact the rates we receive on loans and rates we pay on our junior subordinated debentures. We have identified the loans and debt instruments impacted, and we believe we will be able to use other benchmark replacements and transition protections provided by the LIBOR Act, Federal Reserve rule and relevant accounting guidance to manage through the transition away from LIBOR. We no longer issue any loans or debt tied to LIBOR. final rule.

Key Factors Affecting our Business

Average Balances and Interest Rates

Our operating results depend primarily on our net interest income, which is the largest contributor to our net income and is the difference between the interest and fees earned on interest-earning assets (such as loans and securities) and the interest expense incurred in connection with interest-bearing liabilities (such as deposits and borrowings). Net interest income is primarily a function of the average balances of interest-earning assets and interest-bearing liabilities and the yields and costs with respect to these assets and liabilities. Average balances are influenced by internal considerations such as the types of products we offer and the amount of risk that we are willing to assume as well as external influences such as economic conditions, competition for loans and deposits, and interest rates. The yields generated by our loans and securities are typically affected by short-term and long-term interest rates and, in the case of loans, competition for similar products in our market area. Interest rates are often impacted by the actions of the Federal Reserve. Since March 2022, in response to inflation, the FOMC of the Federal Reserve has increased the target range for the federal funds rate by 425 basis points, including 125 basis points during the fourth calendar quarter of 2022, to a range of 4.25% to 4.50% as of December 31, 2022. As it seeks to control inflation without creating a recession, the FOMC has indicated there may be further increases in the federal funds rate during calendar year 2023. The cost of our deposits and short-term borrowings is primarily based on short-term interest rates, which are largely driven by competition and by the actions of the Federal Reserve. The level of net interest income is influenced by movements in interest rates and the pace at which such movements occur, as well as the relationship between short- and long-term interest rates.

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Credit Quality

We have well established loan policies and underwriting practices that have resulted in low levels of charge-offs and nonperforming assets for the community bank. Through our thorough underwriting process, we strive to originate quality loans that will maintain and enhance the overall credit quality of our loan portfolio, and through our careful monitoring of our community bank loan portfolio and prompt attention to delinquencies, we seek to minimize the impact of problem loans. However, credit trends in the markets in which we operate are largely impacted by economic conditions beyond our control and can adversely impact our financial condition. We originate loans through our CCBX partners and while these loans will have higher levels of charge-offs and nonperforming assets, agreements with our CCBX partners provide for a credit enhancement which protects the Bank by absorbing incurred losses. If our partners are unable to fulfill their contracted obligations then the Bank would be exposed to additional loan credit losses as a result of this counterparty risk.

[Table Management regularly evaluates and manages this counterparty risk. The Company is responsible for credit losses on approximately 10% of Contents](#)
a \$288.1 million CCBX loan portfolio. At December 31, 2023, 10% of this portfolio represented \$29.1 million in loans.

Operating Efficiency

The largest component of noninterest expense is salaries BaaS loan and employee benefits. fraud expense. Other significant operating expenses include BaaS expense, salaries and employee benefits, occupancy expense, legal and professional expenses, data processing expense, director and staff expense and marketing expense. Our operating efficiency, as measured by our efficiency ratio, has gradually improved primarily because the growth of our deposits and loans has enabled our net interest income and noninterest income to outpace the growth of our expenses. When we make substantial investments in the infrastructure of new divisions, segments, open new branches or make investments to increase our operating capacity, our operating efficiency decreases until we generate enough revenue growth to offset the increased costs however, prior to making such investments, we focus on how best and most expediently we can achieve the revenue growth necessary to offset the costs of these investments or new branches. Our efficiency ratio has been impacted by the increase in CCBX income and CCBX expense. Our efficiency ratio was 56.26% 45.92% at December 31, 2022 December 31, 2023,

compared to 58.82% 56.26% at December 31, 2021 December 31, 2022. This change is largely due to an increase in net interest income and credit enhancement income for the year ended December 31, 2023 compared to the year ended December 31, 2022.

Economic Conditions

Our business and financial performance are affected by economic conditions generally in the United States and more directly in the markets in the Puget Sound region where we operate. The significant economic factors that are most relevant to our business and our financial performance include, but are not limited to, real estate values, interest rates and unemployment rates. In recent years, the Puget Sound region has experienced significant population gain, fueled in large part by the region's technology industry, low unemployment and rising real estate values, all of which positively impacted our business. The economic environment is continuously changing, due to increased GDP, inflation, higher interest rates, unemployment, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment, and trade issues all contribute to economic uncertainty which has caused increased market volatility and may lead to an economic recession and/or a significant decrease in consumer confidence and business generally.

Critical Accounting Estimates and Significant Accounting Policies

Our accounting policies are integral to understanding our results of operations. Our accounting policies are described in greater detail in Note 1 to our consolidated financial statements included elsewhere in this Report on Form 10-K. Certain accounting policies involve significant judgments and assumptions by us that have a material impact on the carrying value of certain assets and liabilities. We consider these accounting policies, which are the items discussed below to be critical accounting policies, estimates. These assumptions, estimates and judgments we use can be influenced by a number of factors, including the general economic environment. Actual results could differ from these judgments and estimates under different conditions, resulting in a change that could have a material impact on the carrying values of our assets and liabilities and our results of operations. We believe that of our accounting policies, the following accounting policies may involve a higher degree of judgment and complexity:

Securities

Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value. Unrealized gains and losses are excluded from earnings and reported in other comprehensive

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income. Securities within the available for sale portfolio may be used as part of our asset/liability strategy and may be pledged or sold in response to changes in interest rate risk, prepayment risk or other similar economic factors. Securities held to maturity are carried at cost, adjusted for the amortization of premiums and the accretion of discounts and may be pledged.

Interest earned on these assets is included in interest income. Interest income includes amortization of any purchase premium or discount. Premiums and discounts on securities are amortized using the level-yield method, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates debt securities for other-than-temporary impairment ("OTTI"), credit losses, on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is

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split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement, and (2) OTTI related to other factors, which is recognized in other comprehensive income, net of applicable taxes. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the security. For more information and discussion related to securities, see "Note 3 - Investment Securities" in the Consolidated Financial Statements.

Loans Held for Investment

Loans held for investment are those that management has the intent and ability to hold for the foreseeable future or until maturity or payoff at the principal and interest balance outstanding, net of deferred loan fees and costs. Loans are typically secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income using a level yield methodology or a method approximating the level yield methodology.

As of December 31, 2022 December 31, 2023, loans receivable totaled \$2.63 billion \$3.03 billion, an increase of \$884.5 million \$398.8 million, or 50.8% 15.2%, compared to \$1.74 billion \$2.63 billion as of December 31, 2021 December 31, 2022. Total loans receivable is net of \$6.1 million \$7.3 million in net deferred origination fees, \$82,000 \$47,000 of which is attributed to PPP loans. The increase in loans is largely attributed to growth in our CCBX segment as a result of adding growth from existing and new partners, combined with loan growth in the community bank segment, partially slightly offset by forgiveness or principal paydowns on PPP loans. For more information and discussion related to the loans held for investment, see "Note 4 - Loans and Allowance for Loan Credit Losses" in the Consolidated Financial Statements.

Loans Held for Sale

CCBX loans held for sale consist of the portion of CCBX originated loans that the Company intends to sell back to the originating CCBX partner or its affiliate generally at par. The Company sells loans to manage credit positions and concentrations with partners and across loan categories. During the twelve months ended December 31, 2022, December 31, 2023, the Company transferred \$152.5 million \$599.9 million in CCBX loans receivable to loans held for sale and subsequently sold these loans. As of December 31, 2022, December 31, 2023 and 2021, 2022 there were no CCBX loans held for sale.

Community bank loans held-for-sale consist of the guaranteed portion of SBA loans and United States Department of Agriculture ("USDA") loans the Company intends to sell after origination and are reflected at the lower of aggregate cost or fair value. Loans are generally sold with servicing of the sold portion retained by the Company when the sale of the loan occurs, the premium received is combined with the estimated present value of future cash flows on the related servicing asset and recorded as a gain on sale of loans in noninterest income. There were no community bank loans held for sale at December 31, 2022, December 31, 2023 and 2021, 2022.

Equity Investments

Equity investments include amounts invested in stock, venture capital funds, partnerships, and other business ventures. Some of these equity investments are in vendors/suppliers, private companies, government agencies, or government sponsored enterprises. The Company directly holds stock in organizations such as the Federal Reserve Bank, Federal Home Loan Bank of Des Moines, private companies, and venture capital funds. Equity investments are subject to

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the risk of loss if these organizations experience financial difficulties or fall on hard times. The Company carries these investments at market value or cost if market value is not readily determinable. During 2022, 2023, net contributions to private company equity investments totaled \$699,000 \$125,000 and decreased increased in value by \$153,000 \$278,000 in response to a redemption of a fund and to a decline in value in the stock based financial performance and growth rates. In 2021, 2022, net contributions to private company equity investments totaled \$163,000 \$699,000 and increased in value by \$1.5 million \$153,000 (unrealized gain) mostly in response to one company's issuance of common equity awards, identical to the Company's holdings, at a higher value.

The assumptions underlying these valuations represent management's best estimates, which involve inherent uncertainties and the application of management's judgment. While we believe the assumptions and estimates we have made are reasonable and appropriate, different assumptions or estimates could have resulted in materially different fair values for these equity investments. For more information and discussion related to securities, see Note 3 - Investment Securities" in the Consolidated Financial Statements.

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Allowance for Loan Credit Losses

The allowance for loan credit losses represents management's ("ACL") is an estimate of probable and reasonably estimable the expected credit losses inherent on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the loan portfolio. In determining pool and whether it needs to evaluate the allowance on an individual basis. The Company must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Company estimates losses on individual impaired loans, cannot extend the contractual term of the loan for expected extensions, renewals, and modifications, unless the extension or groups of loans which renewal options are included in the contract at the reporting date and are not impaired, where unconditionally cancellable by the probable loss can be identified Company. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit.

- Community Bank Portfolio: The ACL calculation is derived from loan segments utilizing loan level information and reasonably estimated. On a quarterly basis, relevant available information from internal and external sources related to past events and current conditions. In addition, the Company assesses incorporates a reasonable and supportable forecast.

- CCBX Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the Company's loan CCBX portfolio based on qualitative and quantitative trends in the portfolio, including the internal risk classification of loans, historical loss rates, changes portfolio.

Also included in the nature and volume of ACL are qualitative reserves to cover losses that are expected, but in the loan portfolio, industry or borrower concentrations, delinquency trends, detailed reviews of significant loans with identified weaknesses Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit rating and the impacts volume and severity of local, regional past due loans and national economic factors on the quality of the loan portfolio. Community bank loans are assessed at the individual loan level and CCBX loans are pooled and evaluated at both the partner and product level. non-accrual loans. Based on this analysis, the Company records a provision for loan credit losses to maintain the allowance at appropriate levels.

Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and the use of subjective measurements, including management's assessment of overall portfolio quality. The Company maintains the allowance at an amount the Company believes is sufficient to provide for estimated losses inherent expected to occur in the Company's loan portfolio at each balance sheet date, and fluctuations in the provision for loan credit losses may result from management's assessment of the adequacy of the allowance. Changes in these estimates and assumptions are possible and may have a material impact on the Company's allowance, and therefore the Company's financial position, liquidity or results of operations. The Company has elected to exclude accrued interest receivable from the amortized cost basis in its ACL calculation as accrued interest is written off in a timely manner when deemed uncollectable.

The Company increased the allowance from \$28.6 million at December 31, 2021 to \$74.0 million at December 31, 2022 to \$117.0 million at December 31, 2023. The allowance was significantly increased in response to growth in CCBX loans. The Company uses CCBX partner data, industry data and its own loan credit loss data to develop an appropriate allowance for the risk inherent in the CCBX new loan volume. The Company increased the allowance from \$19.3 million \$28.6 million to \$28.6 million \$74.0 million in 2021 2022 largely due to an increase in CCBX consumer loans. For more information and discussion related to the allowance for loan credit losses, see "Note 4 - Loans and Allowance for Loan Credit Losses" in the Consolidated Financial Statements.

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Stock-based Compensation

We grant stock options and restricted stock to our employees and directors. We record the related compensation expense based on the grant date fair value calculated in accordance with the authoritative guidance issued by FASB. We recognize these compensation costs on a straight-line basis over the requisite service period of the award. We estimate the grant date fair value of stock options using the Black-Scholes valuation model. Stock-based compensation expense related to awards of restricted stock and restricted stock units is based on the fair value at the grant date.

The determination of fair value using the Black-Scholes model is affected by the price of our common stock, as well as the input of other subjective assumptions. These assumptions include, but are not limited to, the expected term of stock options and our stock price volatility. The factors considered by our board of directors included the prices of known transactions in our common stock, the book value per share of our common stock, and our board of directors' understanding of pricing multiples for comparable financial institutions that were not publicly traded.

The assumptions underlying these valuations represented management's best estimate, which involved inherent uncertainties and the application of management's judgment. As a result, if we had used different assumptions or estimates, the fair value of our common stock and our stock-based compensation expense could have been materially different. For more information and discussion related to stock-based compensation, see "Note 15 – Stock-based Compensation" in the Consolidated Financial Statements.

Revenue Recognition

We record revenue from contracts with customers in accordance with ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods. A large portion of the Company's revenue are derived from interest and fees earned on loans, investment securities and other financial instruments that are not within the scope of Topic 606. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically

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fixed, charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The recording of BaaS income and expense is dependent upon the contractual agreement with each partner, however in accordance with accounting guidance the recording of certain components of BaaS income are as follows: consistent across agreements. Agreements with many of our CCBX partners provide for a credit enhancement which protects the Bank by absorbing incurred losses. In accordance with accounting guidance, we estimate and record a provision for probable losses for these CCBX loans. When the provision for loan credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS fees - credit credit enhancement). Incurred losses are recorded in the allowance for loan credit losses, the credit enhancement asset is relieved when credit enhancement recoveries are received from the CCBX partner. Many agreements with our CCBX partners also provide protection to the Bank from fraud by absorbing incurred fraud losses. Fraud losses are recorded when incurred in noninterest expense, and the recovery received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. Enhancements that provide protection to the Bank from credit and fraud losses, are not within the scope of Topic 606.

For the year ended December 31, 2022 December 31, 2023, noninterest income subject to Topic 606 increased \$4.3 million \$3.0 million to \$18.2 million \$21.2 million, compared to \$13.9 million \$18.2 million for the year ended December 31, 2021 December 31, 2022. The increase was largely due to an increase in BaaS fee income resulting from growth with active CCBX partners. For more information and discussion related to revenue recognition, see "Note 19 – Revenue Recognition" in the Consolidated Financial Statements.

Emerging Growth Company

The Jumpstart Our Business Startups Act of 2012, (the "JOBS Act") permits an "emerging growth company" to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. However, we have decided not to take advantage of this provision. As a result, we will comply with new or revised accounting standards to the same extent that compliance is required for non-emerging growth companies. Our decision to opt out of the extended transition period under the JOBS Act is irrevocable.

Recent Pronouncements

For a discussion of the expected impact of accounting pronouncements recently adopted and accounting pronouncements recently issued but not yet adopted by us as of December 31, 2022 December 31, 2023, see "Note 2 – Recent Accounting Standards" in the accompanying notes to our audited consolidated financial statements included elsewhere in this Report on Form 10-K.

Results of Operations

The following discussion is intended to assist in understanding the financial condition and results of operations of the Company as of and for the year ended December 31, 2023. The information contained in this section should be read together with the December 31, 2022 audited Consolidated Financial Statements and the accompanying Notes included in Item 8. Financial Statements And Supplementary Data of this Form 10-K.

This section of this Form 10-K generally discusses 2023 and 2022 items and year-to-year comparisons between 2023 and 2022. Discussions of 2021 items and year-to-year comparisons between 2022 and 2021 that are not included in this Form 10-K can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Form 10-K for the fiscal year ended December 31, 2022.

Net Income

Year Ended **December 31, 2022** **December 31, 2023**, Compared to Year Ended **December 31, 2021** **December 31, 2022**. Net income for the year ended **December 31, 2022** **December 31, 2023** was \$44.6 million, or \$3.27 per diluted share, compared to \$40.6 million, or \$3.01 per diluted share, compared to \$27.0 million, or \$2.16 per diluted share, for the year ended **December 31, 2021** **December 31, 2022**. The increase in net income over the prior year was attributable to a **\$92.3 million** **\$67.0 million** increase in net interest income, **\$96.6 million** **\$82.5 million** increase in noninterest income partially offset by a **\$103.5 million increase in noninterest expense** and a **\$69.1 million** **\$104.9 million** increase in the provision for credit losses - loans and a **\$38.0 million** increase in noninterest expense. The increase in noninterest income, provision expense and noninterest expense are largely related to CCBX loan losses, and deposit growth. The increase in interest expense is related to higher average interest bearing deposits and an increase in cost of deposits as a result of higher interest rates.

Net Interest Income

Year Ended **December 31, 2022** **December 31, 2023**, Compared to Year Ended **December 31, 2021** **December 31, 2022**. Net interest income for the year ended **December 31, 2022** **December 31, 2023** was **\$171.8 million** **\$238.7 million**, compared to **\$79.4 million** **\$171.8 million** for the year ended **December 31, 2021** **December 31, 2022**, an increase of **\$92.3 million** **\$67.0 million**, or **116.2%** **39.0%**. Yield on loans receivable was **10.60%** for the year ended **December 31, 2023**, compared to **8.12%** for the year ended **December 31, 2022**, compared to **4.86%** for the year ended **December 31, 2021**. The increase in net interest income compared to the year ended **December 31, 2021** **December 31, 2022** was largely related to increased yield on loans from growth in higher yielding CCBX and community bank loans and interest rate increases on variable rate and new loans. Average loans receivable for the year ended **December 31, 2022** **December 31, 2023** was **\$2.26 billion** **\$2.94 billion**, compared to **\$1.69 billion** **\$2.26 billion** for the year ended **December 31, 2021** **December 31, 2022**.

Interest and fees on loans totaled **\$311.4 million** for the year ended **December 31, 2023** compared to **\$183.4 million** for the year ended **December 31, 2022** compared to **\$82.1 million** for the year ended **December 31, 2021**. The **\$101.2 million** **\$128.1 million** increase in interest and fees on loans for the year ended **December 31, 2022** **December 31, 2023**, compared to the year ended **December 31, 2021** **December 31, 2022**, was largely due to increased yield on loans from growth in higher yielding CCBX and community bank loans and an overall increase in interest rates. Loan growth of **\$884.5 million** **\$398.8 million**, or **50.8%** **15.2%**, for the year ended **December 31, 2022** **December 31, 2023**, compared to **December 31, 2021** **December 31, 2022**, includes a decrease of **\$107.1 million** **\$1.7 million** in PPP loans that were forgiven or repaid. CCBX average loans receivable grew to **\$1.21 billion** for the year ended **December 31, 2023**, compared to **\$742.4 million** for the year ended **December 31, 2022**, compared to **\$146.3 million** for the year ended **December 31, 2021**, an increase of **\$596.1 million** **\$468.0 million**, or **407.4%** **63.0%**. Average CCBX yield of **13.85%** **16.89%** was earned on CCBX loans for the year ended **December 31, 2022** **December 31, 2023**, compared to **4.46%** **13.85%** for the year ended **December 31, 2021** **December 31, 2022**. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. Also impacting the increase in loan interest is the increase in interest rates on variable rate loans resulting from the FOMC raising rates **4.25%** from **4.50%** as of **December 31, 2022** to **5.50%** as of **December 31, 2023**, with the most recent increase during the year ended **December 31, 2022** such period on **July 26, 2023**. We continue to monitor the impact of these increases in interest rates.

Interest income from interest earning deposits with other banks was **\$6.7 million** **\$15.3 million** at **December 31, 2022** **December 31, 2023**, an increase of **\$6.1 million** **\$8.6 million** due to **an increase in balances and** higher interest rates, compared to **December 31, 2021** **December 31, 2022**. The average balance of interest earning deposits invested with other banks for the year ended **December 31, 2022** **December 31, 2023** was **\$516.0 million** **\$295.8 million**, compared to **\$402.1 million** **\$516.0 million** for the year ended **December 31, 2021** **December 31, 2022**. This decrease was the result of increased loan demand. Additionally, the yield on these interest earning deposits with other banks increased **1.15%** **3.88%**, compared to the year ended **December 31, 2021** **December 31, 2022**. Interest income on investment securities increased to **\$1.7 million** **\$3.2 million** at **December 31, 2022** **December 31, 2023**, compared to **\$79,000** **\$1.7 million** at **December 31, 2021** **December 31, 2022**. Average investment securities increased **\$63.2 million** **\$26.9 million** from **\$30.0 million** **\$93.2 million** for the year ended **December 31, 2022** to **\$93.2 million** **\$120.2 million** for the year ended **December 31, 2022**, **December 31, 2023** as a result of purchasing additional securities to hold for CRA purposes, and average yield increased to **2.66%** for the year ended **December 31, 2023**, compared to **1.87%** for the year ended **December 31, 2022**, compared to **0.26%**.

Interest expense was **\$91.6 million** for the year ended **December 31, 2021**.

Interest expense was \$20.4 million for the year ended December 31, 2022 December 31, 2023, a \$16.7 million \$71.2 million increase from the year ended December 31, 2021 December 31, 2022. Interest expense on deposits was \$89.0 million for the year ended December 31, 2023, compared to \$19.0 million for the year ended December 31, 2022, compared to \$2.3 million for the year ended December 31, 2021. The \$16.7 million \$70.0 million increase in interest expense on deposits was primarily due to an increase in average interest bearing deposits of \$813.9 million \$671.0 million. Interest on borrowed funds was \$2.6 million for the year ended December 31, 2023, compared to \$1.4 million for the year ended December 31, 2022, compared to \$1.3 million for the year ended December 31, 2021. The \$72,000 \$1.3 million increase in interest expense on borrowed funds from the year ended December 31, 2021 is December 31, 2022 was the result of a \$16.4 million average balance increase in subordinated debt, which increased during the quarter ended December 31, 2022 partially offset by a decrease in average PPPLF and FHLB borrowings, which were paid off in full during the quarter ended June 30, 2021 and March 31, 2022, respectively, partially offset by a \$12.2 million average balance increase in subordinated debt, which increased during the year ended December 31, 2022. Interest expense is expected to increase as a result of the The FOMC increasing increased the Fed Funds rate 4.25% 1.00% during the year twelve months ended December 31, 2022 December 31, 2023, with the most recent increase during such period on July 26, 2023. In addition, as a result of the Interest expense will be impacted by any additional FOMC rate increase, CCBX deposits that were below their floor to earn interest due to the low interest rate environment and were not earning interest were reclassified to interest bearing deposits from noninterest bearing deposits during the first and second quarters of 2022. We anticipate additional rate increases changes in 2023, which we expect will result in higher interest expense on interest bearing deposits which will be offset by higher interest rates on CCBX loans and excess cash invested in the Federal Reserve Bank or other banks. future periods.

Net interest margin was 7.10% for the year ended December 31, 2023, compared to 5.97% for the year ended December 31, 2022, compared to 3.73% for the year ended December 31, 2021. Interest rate spread was 5.52%, and 3.54% for the years ended December 31, 2022 and 2021, respectively. The increase in net interest margin and spread compared to the year ended December 31, 2021 December 31, 2022 was largely a result of an increase in higher rate loans. Average loans increased \$568.9 million \$679.1 million, compared to the year ended December 31, 2021; the increase includes an average decrease in PPP loans of \$340.3 million December 31, 2022. Also contributing to the increase in net interest margin and spread compared to the year ended December 31, 2021 December 31, 2022 was a \$113.9 million \$8.6 million increase in average interest earned on interest earning deposits invested in other banks. These interest earning deposits earned an average rate of 130 basis points 5.19% for the year ended December 31, 2022 December 31, 2023, compared to an average rate of 15 basis points 1.30% for the year ended December 31, 2021 December 31, 2022. We expect that interest expense will increase and net interest margin will compress as we increase the interest rates on interest bearing deposits to compete with rates offered by our competitors. Additionally, the sale of higher risk and higher yielding loans during the year ended December 31, 2023 in an effort to optimize and strengthen the balance sheet is expected to further impact net interest margin in future quarters.

Cost of funds was 2.91% for the year ended December 31, 2023, compared to 0.75% for the year ended December 31, 2022, compared to 0.18% for the year ended December 31, 2021. Cost of deposits for the year ended December 31, 2022 December 31, 2023 was 0.71% 2.87%, which was a 59 216 basis point increase, from 0.12% 0.71% for the year ended December 31, 2021 December 31, 2022. These increases were largely due to an increase in interest bearing deposits from CCBX rates and an increase in interest rates, bearing deposits. CCBX deposit growth and the aforementioned reclassification of CCBX noninterest bearing deposits to interest bearing deposits significantly also contributed to the increase in interest expense.

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Total yield on loans receivable for the year ended December 31, 2022 December 31, 2023 was 8.12% 10.60%, compared to 4.86% 8.12% for the year ended December 31, 2021 December 31, 2022. This increase in yield on loans receivable is primarily attributed to an increase in higher rate CCBX loans. As of the year ended December 31, 2022 December 31, 2023, average CCBX loans increased \$596.1 million \$468.0 million, or 407.4% 63.0%, with an average CCBX yield of 13.85% 16.89%, compared to 4.46% 13.85% at December 31, 2021 December 31, 2022. CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. The tables later in this section illustrate the impact of BaaS loan expense on CCBX loan yield. In light of our efforts to optimize and strengthen the balance sheet by selling higher yield CCBX loans, total yield on loans may not continue increasing and average CCBX loans may decrease and/or not increase at the rate they previously have as we work to grow the CCBX portfolio with enhanced credit standards and lower potential for future credit deterioration. There was a decrease increase in average community bank loans of \$27.2 million \$211.1 million, or 1.8% 13.9%, which is attributed to net of an average \$340.3 million \$28.6 million decrease in PPP loans as a result of loan forgiveness and repayments, compared to the year ended December 31, 2021 December 31, 2022. Average yield on community bank loans for the year ended December 31, 2022 December 31, 2023 was 5.32% 6.20%. compared to 4.90% 5.32% for the year ended December 31, 2021 December 31, 2022.

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The following tables (1) show the average yield on loans and cost of deposits by segment and also illustrates the impact of (2) illustrate how BaaS loan interest income is affected by BaaS loan expense on CCBX resulting in net BaaS loan income and the associated yield on loans; for the periods indicated:

For the Year Ended												
December 31,												
2022												
December 31,												
2021												
For the Year Ended												
December 31,												
2023												
December 31, 2023												
December 31, 2022												
December 31, 2021												
(unaudited)	(unaudited)	Yield on		Yield on		(unaudited)	Yield on	Cost of	Yield on	Cost of	Yield on	Cost of
		Loans	Cost of	Loans	Cost of							
(2)	(2)	Deposits	(2)	Deposits	(unaudited)	Loans	Deposits	Loans	Deposits	Loans	Deposits	

Community Bank	Community Bank	5.32%	0.18%	4.90%	0.14%	Community Bank	6.20%	1.14%	5.32%	0.18%	4.90%	0.14%
CCBX ⁽¹⁾	CCBX ⁽¹⁾	13.85%	1.57%	4.46%	0.03%	CCBX ⁽¹⁾	16.89%	4.55%	13.85%	1.57%	4.46%	0.03%
Consolidated	Consolidated	8.12%	0.71%	4.86%	0.12%	Consolidated	10.60%	2.87%	8.12%	0.71%	4.86%	0.12%

⁽¹⁾CCBX yield on loans does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. . A reconciliation of this non-GAAP measure is set forth in the section titled "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."

For the Year Ended												
December 31, 2022 December 31, 2021												
For the Year Ended												
December 31, 2023												
December 31, 2023												
December 31, 2022												
December 31, 2021												
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Income / expense divided by average	Income / expense divided by average	(dollars in thousands; unaudited)	Income / expense divided by average	Income / expense divided by average	(dollars in thousands; unaudited)	Income / expense divided by average	Income / expense divided by average	(dollars in thousands; unaudited)	Income / expense divided by average	Income / expense divided by average
BaaS loan interest income	BaaS loan interest income	\$102,808	\$ 6,532	BaaS loan interest income	\$204,458	16.89	BaaS loan interest income	\$102,808	13.85	BaaS loan interest income	\$ 6,532	4.46
Less: BaaS loan expense	Less: BaaS loan expense	53,294	2,976	Less: BaaS loan expense	86,900	7.18	Less: BaaS loan expense	53,294	7.18	Less: BaaS loan expense	2,976	2.03
Net BaaS loan income	Net BaaS loan income	\$ 49,514	\$ 3,556	Net BaaS loan income	\$117,558	9.71	Net BaaS loan income	\$ 49,514	6.67	Net BaaS loan income	\$ 3,556	2.43
⁽¹⁾	⁽¹⁾	6.67 %	2.43 %	⁽¹⁾	9.71 %	9.71 %	⁽¹⁾	6.67 %	6.67 %	⁽¹⁾	2.43 %	2.43 %
Average BaaS Loans	Average BaaS Loans	\$742,392	\$146,304	Average BaaS Loans			Average BaaS Loans			Average BaaS Loans		
Average BaaS Loans ⁽²⁾	Average BaaS Loans ⁽²⁾			Average BaaS Loans ⁽²⁾			Average BaaS Loans ⁽²⁾			Average BaaS Loans ⁽²⁾		

⁽¹⁾A reconciliation of this non-GAAP measure is set forth in the section titled "GAAP "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."

⁽²⁾ Includes loans held for sale.

The following table presents an analysis of the average balances of net interest income, net interest spread and net interest margin for the periods indicated. Loan fees included in interest income totaled **\$3.2 million** **\$4.4 million** and **\$18.4 million** **\$3.2 million** for the years ended **December 31, 2022** **December 31, 2023** and **2021, 2022**, respectively. Of the \$18.4 million in fees recognized in 2021, \$15.5 million were from PPP loans. For the years ended **December 31, 2022** **December 31, 2023** and **2021, 2022**, the amount of interest income not recognized on nonaccrual loans was not material.

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Average Balance Sheets												
For the Year Ended December 31,												
2022 2021												
Average Balance Sheets												
For the Year Ended December 31,												
2023												
(dollars in thousands)	(dollars in thousands)	Average Balance	Interest & Dividends	Yield / Cost ⁽¹⁾	Average Balance	Interest & Dividends	Yield / Cost ⁽¹⁾	(dollars in thousands)	Average Balance	Interest & Dividends	Yield / Cost ⁽¹⁾	Average Balance

Assets	Assets									
Interest earning assets:	Interest earning assets:									
Interest earning assets:										
Interest earning deposits with other banks	Interest earning deposits with other banks	\$	515,967	\$	6,728	1.30 %	\$	402,081	\$	608 0.15 %
Investment securities, available for sale ⁽²⁾			91,970		1,710	1.86		27,908		49 0.18
Investment securities, held to maturity ⁽²⁾			1,266		35	2.76		2,137		30 1.40
Interest earning deposits with other banks										
Interest earning deposits with other banks										
\$295,808										
\$15,346										
5.19 %										
\$										
515,967										
Investment securities, available for sale ⁽¹⁾										
Investment securities, held to maturity ⁽¹⁾										
Other investments	Other investments		10,146		345	3.40		7,052		284 4.03
Loans receivable ⁽³⁾			2,257,787		183,352	8.12		1,688,925		82,112 4.86
Loans receivable ⁽²⁾										
Total interest earning assets	Total interest earning assets		2,877,136		192,170	6.68		2,128,103		83,083 3.90
Noninterest earning assets:	Noninterest earning assets:									
Allowance for loan losses			(46,769)					(19,870)		
Allowance for credit losses										
Allowance for credit losses										
Allowance for credit losses										
Other noninterest earning assets	Other noninterest earning assets		119,817					74,088		
Other noninterest earning assets										
Other noninterest earning assets										
Total assets										
Total assets										
Total assets	Total assets		\$2,950,184					\$2,182,321		
Liabilities and Shareholders' Equity	Liabilities and Shareholders' Equity									
Liabilities and Shareholders' Equity										

Liabilities and Shareholders' Equity														
Equity														
Interest bearing liabilities:	Interest bearing liabilities:													
Interest bearing liabilities:														
Interest bearing liabilities:														
Interest bearing deposits														
Interest bearing deposits														
Interest bearing deposits	Interest bearing deposits	\$ 1,724,020	\$ 19,004	1.10 %	\$ 910,106	\$ 2,327	0.26 %		\$ 2,395,012	\$ \$ 89,000	3.72	3.72	%	\$ 1,724,020
PPPLF borrowings	PPPLF borrowings	—	—	—	68,699	240	0.35							
FHLB advances and borrowings	FHLB advances and borrowings	6,029	69	1.14	24,999	284	1.14							
Subordinated debt	Subordinated debt	27,626	1,179	4.27	15,379	711	4.62							
Junior subordinated debentures	Junior subordinated debentures	3,587	143	3.99	3,585	84	2.34							
Total interest bearing liabilities	Total interest bearing liabilities	1,761,262	20,395	1.16	1,022,768	3,646	0.36							
Noninterest bearing deposits	Noninterest bearing deposits	942,087			989,945									
Other liabilities	Other liabilities	24,097			12,926									
Other liabilities														
Other liabilities														
Total shareholders' equity														
Total shareholders' equity														
Total shareholders' equity	Total shareholders' equity	222,738			156,682									
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$ 2,950,184			\$ 2,182,321									
Total liabilities and shareholders' equity														
Total liabilities and shareholders' equity														
Net interest income														
Net interest income														
Net interest income	Net interest income		\$ 171,775			\$ 79,437								
Interest rate spread	Interest rate spread			5.52 %			3.54 %							
Net interest margin ⁽⁴⁾				5.97 %			3.73 %							
Interest rate spread														
Interest rate spread														
Net interest margin ⁽³⁾														
Net interest margin ⁽³⁾														

The following table presents an analysis of certain average balances, interest income and interest expense that are specific to each segment. The segment structure changed after 2021, therefore some items are reported as "n/a" for the year ended December 31, 2021. Items are that not directly attributed to the segment are not listed:

		For the Year Ended															
		December 31, 2022			December 31, 2021												
		For the Year Ended															
		December 31, 2023						December 31, 2023						December 31, 2022			
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost	Average Balance	Interest & Dividends	Yield / Cost	(dollars in thousands; unaudited)	Average Balance	Interest & Dividends	Yield / Cost		Average Balance	Interest & Dividends	Yield / Cost		
Community Bank	Community Bank																
Assets	Assets																
Assets																	
Assets																	
Interest earning assets:																	
Interest earning assets:																	
Interest earning assets:																	
Loans receivable (1)	Loans receivable (1)	\$1,515,395	\$ 80,544	5.32 %	\$1,542,621	\$75,580	4.90 %										
Loans receivable (1)	Loans receivable (1)																
Loans receivable (1)									\$1,726,495	\$106,983	6.20 %		\$1,515,395	\$ 80,544	5.32 %	\$1,515,395	
Intrabank asset, net (6)								Intrabank asset, net (6)									
									—	—	—		123,156	796	0.65		
Total interest earning assets																	
Liabilities	Liabilities																
Interest bearing liabilities:																	
Interest bearing liabilities:																	
Interest bearing liabilities:																	
Interest bearing deposits	Interest bearing deposits	905,447	2,896	0.32	877,389	2,228	0.25										
Interest bearing deposits																	
Interest bearing deposits																	
Intrabank liability, net (6)								Intrabank liability, net (6)	198,176	10,404	5.25		—	—	—		
Total interest bearing liabilities																	
Noninterest bearing deposits	Noninterest bearing deposits	733,104			674,509												
Total deposits		\$1,638,551	\$ 2,896	0.18	\$1,551,898	\$ 2,228	0.14										
Interest rate spread				5.14 %			4.76 %										
Net interest income																	
Net interest income																	
Net interest income																	
Net interest margin(2)																	
Net interest margin(2)																	
Net interest margin(2)														4.59 %			

CCBX	CCBX									
CCBX										
CCBX										
Assets	Assets									
Loans receivable (1)(2)		\$ 742,392	\$102,808	13.85 %	\$ 146,304	\$ 6,532	4.46 %			
Assets										
Assets										
Interest earning assets:										
Interest earning assets:										
Interest earning assets:										
Loans receivable (1)(3)										
Loans receivable (1)(3)										
Loans receivable (1)(3)		\$1,210,413	\$204,458	16.89 %	\$ 742,392	\$102,808	13.85 %	\$		
Intrabank asset, net (6)		Intrabank asset, net (6)								
		363,921	19,071	5.24	285,164	4,106	1.44			
Total interest earning assets										
Liabilities	Liabilities									
Interest bearing liabilities:										
Interest bearing liabilities:										
Interest bearing liabilities:										
Interest bearing deposits	Interest bearing deposits	818,573	16,108	1.97	32,717	99	0.30			
Interest bearing deposits										
Interest bearing deposits										
Total interest bearing liabilities										
Total interest bearing liabilities										
Total interest bearing liabilities										
Noninterest bearing deposits	Noninterest bearing deposits	208,983			315,436					
Total deposits		\$1,027,556	\$ 16,108	1.57	\$ 348,153	\$ 99	0.03			
Interest rate spread				12.28 %	4.43 %					
Net BaaS loan income interest rate spread (3)				5.10 %	2.40 %					
Net interest income										
Net interest income										
Net interest income										
Net interest margin(2)										
Net interest margin(2)										
Net interest margin(2)										
Net interest margin(2)										
Net interest margin(2)										
Net interest margin, net of Baas loan expense (4)										
Net interest margin, net of Baas loan expense (4)										

	For the Year Ended								
	December 31, 2023			December 31, 2022			December 31, 2021		
	Average Balance	Interest & Dividends	Yield / Cost	Average Balance	Interest & Dividends	Yield / Cost	Average Balance	Interest & Dividends	Yield / Cost
(dollars in thousands; unaudited)									
Treasury & Administration									
Assets									
Interest earning assets:									
Interest earning deposits with									
other banks	\$ 295,808	\$ 15,346	5.19 %	\$ 515,967	\$ 6,728	1.30 %	\$ 402,081	\$ 608	0.15 %
Investment securities, available for									
sale ⁽⁵⁾	100,260	2,158	2.15	91,970	1,710	1.86	27,908	49	0.18
Investment securities, held to									
maturity ⁽⁵⁾	19,918	1,039	5.22	1,266	35	2.76	2,137	30	1.40
Other investments	11,512	387	3.36	10,146	345	3.40	7,052	284	4.03
Total interest earning assets	427,498	18,930	4.43	619,349	8,818	1.42	439,178	971	0.22
Liabilities									
Interest bearing liabilities:									
PPPLF borrowings				—	—	—	68,699	240	0.35
FHLB advances and borrowings	—	—	— %	6,029	69	1.14 %	24,999	284	1.14 %
Subordinated debt	44,066	2,373	5.39	27,626	1,179	4.27	15,379	711	4.62
Junior subordinated debentures	3,589	271	7.55	3,587	143	3.99	3,585	84	2.34
Intrabank liability, net ⁽⁶⁾	165,745	8,667	5.23	408,320	4,902	1.20	n/a	n/a	n/a
Total interest bearing liabilities	213,400	11,311	5.30	445,562	6,293	1.41	112,662	1,319	1.17
Net interest income	\$ 7,619			\$ 2,525			\$ (348)		
Net interest margin ⁽²⁾	1.78 %			0.41 %			(0.08)%		

(1) Includes loans held for sale and nonaccrual loans.

(2) Net interest margin represents net interest income divided by the average total interest earning assets.

(3) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. See the section titled "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for a reconciliation of the impact of BaaS loan expense on CCBX loan yield.

(4) Net interest margin, net of BaaS loan expense includes the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements, and servicing CCBX loans. A reconciliation of the this non-GAAP measures are measure is set forth in the section titled "GAAP "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."

(5) For presentation in this table, average balances and the corresponding average rates for investment securities are based upon historical cost, adjusted for amortization of premiums and accretion of discounts.

(6) Intrabank assets and liabilities are consolidated for period calculations and presented as intrabank asset, net or intrabank liability, net in the table above.

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The following table presents information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes attributable to changes in volume and changes attributable to changes in interest rates. The table illustrates the \$55.0 million \$56.1 million increase in loan interest income that is attributable to an increase in loan rates and \$46.2 million \$72.0 million increase in loan interest income that is attributable to an increase in loan volume. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to volume.

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021		Year Ended December 31, 2023 Compared to Year Ended December 31, 2022	
Increase (Decrease)		Increase (Decrease)	
Due to		Due to	
Year Ended December 31, 2023 Compared to Year Ended December 31, 2022	Total Increase (Decrease)	Year Ended December 31, 2023 Compared to Year Ended December 31, 2022	Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

		Increase (Decrease)			Increase (Decrease)		Increase (Decrease)	
		Due to			Due to		Due to	
(dollars in thousands)	(dollars in thousands)	Volume	Rate	Total Increase (Decrease)		Total Increase (Decrease)		Total Increase (Decrease)
Interest income:	Interest income:							
Interest income:								
Interest income:								
	Interest earning deposits							
	Interest earning deposits							
Interest earning deposits	Interest earning deposits	\$ 1,485	\$ 4,635	\$ 6,120				
Investment securities, available for sale	Investment securities, available for sale	1,191	470	1,661				
Investment securities, held to maturity	Investment securities, held to maturity	(24)	29	5				
Other Investments	Other Investments	105	(44)	61				
Loans receivable	Loans receivable	46,197	55,043	101,240				
Total increase in interest income	Total increase in interest income	48,954	60,133	109,087				
Interest expense:	Interest expense:							
Interest expense:								
Interest expense:								
	Interest bearing deposits							
	Interest bearing deposits							
Interest bearing deposits	Interest bearing deposits	8,972	7,705	16,677				
PPPLF borrowings	PPPLF borrowings	(240)	—	(240)				
FHLB advances	FHLB advances	(217)	2	(215)				
Subordinated debt	Subordinated debt	523	(55)	468				
Junior subordinated debentures	Junior subordinated debentures	—	59	59				
Total increase in interest expense	Total increase in interest expense	9,038	7,711	16,749				
Increase in net interest income	Increase in net interest income	\$39,916	\$52,422	\$92,338				

Provision for **Loan Credit** Losses

The provision for **loan credit** losses - **loans** is an expense we incur to maintain an allowance for **loan credit** losses at a level that is deemed appropriate by management to absorb **inherent expected** losses on existing loans. For a description of the factors taken into account by our management in determining the allowance for **loan credit** losses see "Item 7. Management's Discussion and Analysis of Financial Condition and Operations—Financial Condition—Allowance for **Loan Credit** Losses."

The economic environment is continuously changing, due to increased GDP, inflation, higher interest rates, unemployment, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment and trade issues that may impact the provision and therefore the allowance. Gross loans, excluding loans held for sale, totaled \$2.63 billion \$3.03 billion at December 31, 2022 December 31, 2023 and included \$4.7 million \$3.0 million in PPP loans, which are 100% guaranteed, and are excluded from the provision for loan credit losses - loans calculation. The allowance for loan credit losses as a percentage of loans was 2.82% 3.86% at December 31, 2022 December 31, 2023, compared to 1.64% 2.82% at December 31, 2021 December 31, 2022.

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Agreements with our CCBX partners provide for an indemnification of loan losses, also known as a credit enhancement provided by the partner which protects the Bank by absorbing indemnifying or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for probable expected losses for these CCBX loans and reclassified negative deposit overdrafts, accounts. When the provision for loan credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded in other assets on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner partner's legal commitment to cover the Bank's loan losses related to loans they originate on behalf of the Bank. Incurred loan losses are recorded in the allowance for loan losses, and as the indemnify or reimburse losses. The credit enhancement obligations asset is relieved as credit enhancement payments are received from the CCBX partner or taken from the credit enhancement asset is relieved. partner's cash reserve account.

The Company adopted the Current Expected Credit Loss ("CECL") accounting standard effective January 1, 2023. The CECL allowance model which calculates reserves over the life of the loan and is largely driven by portfolio

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characteristics, economic outlook, and other key methodology assumptions versus the current prior accounting practice that utilizes utilized the incurred loss model. The adoption of this ASU will result resulted in a one-time cumulative-effect adjustment to the allowance for loan credit losses as of the day of adoption. The Company currently estimates a combined increase to our allowance for credit losses and reserve for unfunded loan commitments of 3% to 10%. This change will decrease the opening retained earnings balance as of January 1, 2023. The above range is disclosed due to the fact that the Company is still in the process of finalizing the CECL allowance model, including the review of assumptions related to qualitative adjustments and economic forecasts; finalizing the execution of internal controls; and evaluating the impact to our financial statement disclosures.

Year Ended December 31, 2022 December 31, 2023, Compared to Year Ended December 31, 2021 December 31, 2022. The provision for loan credit losses - loans for the year ended December 31, 2022 December 31, 2023, was \$79.1 million \$184.0 million compared to \$9.9 million \$79.1 million for the year ended December 31, 2021 December 31, 2022. The increase in the Company's provision for loan credit losses - loans during the year ended December 31, 2022 December 31, 2023, is largely related to the provision for CCBX partner loans. During the year ended December 31, 2022 December 31, 2023, a \$78.3 million \$182.7 million provision for loan credit losses - loans was recorded for loans originated through CCBX partners based on management's analysis. The factors used in management's analysis for community bank loan credit losses indicated that a provision for loan loss credit losses- loans of \$719,000 \$1.3 million was needed for the year ended December 31, 2022 December 31, 2023.

The \$78.3 million provision on CCBX loans includes \$76.9 million for partner loans with credit enhancement on them and \$1.4 million is attributed to loans originated through one CCBX partner for which the Company is responsible for credit losses. In accordance with the program agreement and for one CCBX partner only, the Company is responsible for credit losses on approximately 10% of a \$114.5 million loan portfolio, or \$11.5 million of that loan portfolio at December 31, 2022.

The following table shows the provision expense by segment for the periods indicated:

Year Ended		Year Ended		Year Ended	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Community bank	Community bank	\$ 719	\$ 1,275		
CCBX	CCBX	78,345	8,640		
Total provision expense	Total provision expense	\$79,064	\$ 9,915		

Net charge-offs for the year ended December 31, 2022 December 31, 2023 totaled \$33.7 million \$145.0 million, or 1.49% 4.94% of total average loans, as compared to net charge-offs of \$545,000, \$33.7 million, or 0.03% 1.49% of total average loans, for the year ended December 31, 2021 December 31, 2022. Net charge-offs were up significantly in 2022 2023 compared to 2021 due to 2022 as a result of the growth in loans originated through CCBX partners. In accordance with GAAP, CCBX losses are recorded as charge-offs, but CCBX partner agreements provide for a credit enhancement that indemnifies and as a result CCBX partners reimburse the Bank for net-charge-offs on CCBX loans and negative deposit accounts, except in accordance with the program agreement for one partner where the Company is responsible for credit losses on approximately 10% of a \$288.1 million loan portfolio. At December 31, 2023, our portion of this portfolio represented \$29.1 million in loans. Provision expense on these loans was \$5.1 million and \$1.4 million for the years ended December 31, 2023 and 2022, respectively, with net charge-offs of \$3.6 million in 2023 and \$216,000 in 2022. In 2023, \$52,000 of net charge-offs were recognized for community bank loans and \$144.9 million of net-charge-offs were recognized for CCBX loans. In 2022, \$382,000 in of net charge-offs were recognized for the community bank loans and \$33.3 million were for CCBX. In 2021, \$172,000 were for the community bank and \$373,000 of the charge-offs were recognized for CCBX loans. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the CCBX. Bank from credit and fraud losses by indemnifying or reimbursing incurred credit and

fraud losses, if our partner is unable to fulfill their contracted obligations to replenish their cash reserve account then the Bank would be exposed to additional losses, as a result of this counterparty risk. If a CCBX partner does not replenish their cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped.

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The following table show the total charge-off activity by segment for the periods indicated:

Year Ended December 31, 2022								Year Ended December 31, 2021												
Year Ended December 31, 2023								Year Ended December 31, 2023				Year Ended December 31, 2022				Year Ended December 31, 2021				
(dollars in thousands)	(dollars in thousands)	Community			Community			(dollars in thousands)	Community			Community			Community			Community		
		Bank	CCBX	Total	Bank	CCBX	Total		Bank	CCBX	Total	Bank	CCBX	Total	Bank	CCBX	Total	Bank	CCBX	Total
Gross charge-offs	Gross charge-offs	\$ 428	\$33,321	\$33,749	\$ 255	\$385	\$640													
Gross recoveries	Gross recoveries	(46)	(36)	(82)	(83)	(12)	(95)													
Net charge-offs	Net charge-offs	\$ 382	\$33,285	\$33,667	\$ 172	\$373	\$545													
Net charge-offs to average loans	Net charge-offs to average loans	0.03 %	4.48 %	1.49 %	0.01 %	0.25 %	0.03 %	Net charge-offs to average loans	0.00 %	11.97 %	4.94 %	0.03 %	4.48 %	1.49 %	0.01 %	0.25 %	0.03 %			
% of CCBX charge-offs covered by credit enhancement																				

Noninterest Income

Our primary sources of recurring noninterest income are BaaS indemnification income, Baas program income and deposit service charges and fees. Noninterest income does not include loan origination fees, which are generally recognized over the life of the related loan as an adjustment to yield using the interest or similar method.

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For the year ended December 31, 2022 December 31, 2023, noninterest income totaled \$124.7 million \$207.2 million, an increase of \$96.6 million \$82.5 million, or 343.4% 66.2%, compared to \$28.1 million \$124.7 million for the year ended December 31, 2021 December 31, 2022. The following table presents, for the periods indicated, the major categories of noninterest income:

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

Year Ended December 31,																
Year Ended December 31,				Increase (Decrease)	Percent Change								Year Ended December 31,			
(dollars in thousands)	(dollars in thousands)	2022	2021			(dollars in thousands)	2023		2022		2021				Increase (Decrease)	Percent Change
Deposit service charges and fees	Deposit service charges and fees	\$ 3,804	\$ 3,698			Deposit service charges and fees	\$3,854	\$	\$3,804	\$	\$3,698	\$	\$50	1.3		
Loan referral fees	Loan referral fees	810	2,126	(1,316)	(61.9)											

Mortgage broker fees		257	920	(663)	(72.1)
Gain on sale of bank branch including deposits and loans, net					
Gain on sale of bank branch including deposits and loans, net					
Gain on sale of bank branch including deposits and loans, net	Gain on sale of bank branch including deposits and loans, net	—	1,263	(1,263)	(100.0)
Gain on sales of loans, net	Gain on sales of loans, net	—	396	(396)	(100.0)
Unrealized (loss) gain on equity securities, net		(153)	1,469	(1,622)	(110.4)
Unrealized gain (loss) on equity securities, net					
Other	Other	1,087	939	148	15.8
Noninterest income, excluding BaaS program income and BaaS indemnification income	Noninterest income, excluding BaaS program income and BaaS indemnification income	5,805	10,811	(5,006)	(46.3)
Servicing and other BaaS fees	Servicing and other BaaS fees	4,408	4,467	(59)	(1.3)
Transaction fees	Transaction fees	3,211	544	2,667	490.3
Interchange fees	Interchange fees	2,583	701	1,882	268.5
Reimbursement of expenses	Reimbursement of expenses	2,732	1,004	1,728	172.1
BaaS program income	BaaS program income	12,934	6,716	6,218	92.6
BaaS credit enhancements	BaaS credit enhancements	76,374	9,086	67,288	740.6
BaaS fraud enhancements	BaaS fraud enhancements	29,571	1,505	28,066	1,864.9
BaaS indemnification income	BaaS indemnification income	105,945	10,591	95,354	900.3
Total BaaS income					
Total noninterest income	Total noninterest income	\$124,684	\$28,118	\$96,566	343.4 %
	Total noninterest income	\$207,175	\$	\$124,684	\$
				\$28,118	\$
					\$82,49

A description of our largest noninterest income categories are below:

BaaS Fees. Income. Our CCBX segment provides BaaS offerings that enable our **broker-dealer broker dealer** and digital financial service providers to offer their customers banking services. In exchange for providing these services, we earn fixed fees, volume-based fees and reimbursement of costs depending on the program agreement. In accordance with GAAP, we recognize the reimbursement of noncredit fraud losses on loans and deposits originated through partners and credit enhancements related to the allowance for **loan credit** losses and reserve for unfunded commitments provided by the partner as revenue in BaaS income. CCBX credit losses are recognized in the allowance for **loan loss credit losses - loans** and **noncredit** fraud losses are expensed in noninterest expense under BaaS fraud expense. Also in accordance with GAAP, we establish a credit enhancement asset for expected future **loan credit** losses through the recognition of BaaS credit enhancement revenue at the same time we establish an allowance for those loans though a provision for **loan losses, credit losses - loans**. For more information on the accounting for BaaS allowance for **loan credit** losses, reserve for unfunded commitments, credit enhancements and fraud enhancements see the section titled "**CCBX** "CCBX – BaaS Reporting Information."

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For the year ended **December 31, 2022** **December 31, 2023**, we earned **\$118.9 million** **\$201.2 million** in BaaS fees, which was an increase of **\$101.6 million** **\$82.3 million**, or **586.9%** **69.3%**, over the year ended **December 31, 2021** **December 31, 2022**, where we earned **\$17.3 million** **\$118.9 million** in BaaS fees. The increase over the year ended **December 31, 2021** **December 31, 2022** was primarily due to an increase of **\$6.2 million** **\$101.4 million** in BaaS credit enhancements related to the allowance for credit losses and reserve for unfunded commitments partially offset by \$22.4 million less in BaaS fraud enhancements as a result of lower reported fraud, and an increase of \$3.4 million in total BaaS fee program income, which was the result of increased relationships with broker dealers and digital financial service providers, \$67.3 million in BaaS fees – credit enhancements related to the allowance for loan losses and reserve for unfunded commitments, \$28.1 million in BaaS fees – fraud recovery, and \$1.7 million increase in reimbursement of expenses.

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The following table presents the BaaS fee income for the periods indicated:

(dollars in thousands)	Year Ended		Increase (Decrease)
	December 31,		
	2022	2021	
Program income:			
Servicing and other BaaS fees	\$ 4,408	\$ 4,467	(59)
Transaction fees	3,211	544	2,667
Interchange fees	2,583	701	1,882
Reimbursement of expenses	2,732	1,004	1,728
Program income	12,934	6,716	6,218
Indemnification income:			
Credit enhancements	76,374	9,086	67,288
Fraud enhancements	29,571	1,505	28,066
Indemnification income	105,945	10,591	95,354
Total BaaS income	\$ 118,879	\$ 17,307	101,572

activity.

Our CCBX segment continues to evolve, and we now **has 27** **have 21** relationships, at varying stages, as of **December 31, 2022** **December 31, 2023**. **As of December 31, 2022**, we had 19 active relationships. We continue to refine the criteria for CCBX partnerships and are exiting relationships where it makes sense for both parties and are focusing on selecting expanding and developing relationships with larger and more established partners, with experienced management teams, teams, existing customer bases and strong financial positions. The sale of \$599.9 million in CCBX loans during the year ended December 31, 2023 is part of our strategy to strengthen the balance sheet and lower the overall potential credit risk in our loan portfolio. We expect net interest margin will tighten as higher quality loans yield less than higher risk loans and we also expect the size of our CCBX loan portfolio will be smaller than in previous quarters while we work to grow the portfolio with loans that are winding down two partner relationships; these programs are not material in terms of income, deposits subject to increased underwriting standards. We expect this process to take another quarter or loans, two. At the same time we will be focused on increasing our efficiency and using technology to reduce future expense growth.

The following table illustrates the activity and evolution in CCBX relationships for the periods indicated:

As of		As of		As of	
(unaudited)	(unaudited)	December		(unaudited)	December 31, 2022
		31, 2022	31, 2021		
Active	Active	19	19	Active	19
Friends and family / testing	Friends and family / testing	1	1	Friends and family / testing	1
Implementation / onboarding	Implementation / onboarding	0	5	Implementation / onboarding	0
Signed letters of intent	Signed letters of intent	5	3	Signed letters of intent	5
Wind down - preparing to exit relationship	Wind down - preparing to exit relationship	2	0	Wind down - preparing to exit relationship	2

Total CCBX relationships	Total CCBX relationships	27	28	Total CCBX relationships	21	27
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Deposit Service Charges and Fees. Deposit service charges and fees include service charges on accounts, point-of-sale fees, merchant services fees and overdraft fees. Together they constitute the largest component of our noninterest income, outside of BaaS fee income. Deposit service charges and fees were **\$3.8 million** **\$3.9 million** for the year ended **December 31, 2022** **December 31, 2023**, an increase of **\$106,000**, **\$50,000**, or **2.9%** **1.3%**, over the prior year primarily due to increases in point-of-sale fees of **\$96,000** **\$121,000** and service charges on deposit accounts of **\$58,000**, **\$32,000**, partially offset by decreases **a decrease** in merchant services revenue of **\$60,000**, ATM fees of **\$9,000**, and overdraft fees of **\$6,000**. NSF and overdraft fees were **\$310,000** for the year ended December 31, 2022, compared to **\$316,000** for the year ended December 31, 2021. During 2022 consumer overdraft fees were eliminated. Consumer overdraft fees are not a significant source of income, and the elimination of these fees will not have a significant impact on income. **\$97,000**.

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The following table presents deposit service charges and fees for the periods indicated:

		Year Ended December 31,		Increase (Decrease)	Percent Change			Year Ended December 31,		Increase (Decrease)	Percent Change
(dollars in thousands)	(dollars in thousands)	2022	2021			(dollars in thousands)	2023	2022	2021		
Point of sale fees	Point of sale fees	\$2,055	\$1,959			Point of sale fees	\$2,176	\$2,055	\$1,959	121	121
				Increase (Decrease)	Percent Change					5.9	5.9 %
Service charges on accounts	Service charges on accounts	468	410	58	14.1						
Merchant services	Merchant services	508	568	(60)	(10.6)						
Overdraft and NSF fees	Overdraft and NSF fees	310	316	(6)	(1.9)						
ATM fees	ATM fees	218	227	(9)	(4.0)						
Cash management fees	Cash management fees	118	113	5	4.4						
Other	Other	127	105	22	21.0						
		<u>\$3,804</u>	<u>\$3,698</u>	<u>\$ 106</u>	<u>2.9 %</u>						
		<u>\$</u>					<u>\$3,854</u>	<u>\$3,804</u>	<u>\$ 3,698</u>	<u>\$50</u>	

Loan Referral Fees. We earn loan referral fees when we originate a variable rate loan and the borrower enters into an interest rate swap agreement with a third party to fix the interest rate for an extended period, usually 20 or 25 years. We recognize the loan referral fee for arranging the interest rate swap. By facilitating interest rate swaps to our clients, we are able to provide them with a long-term, fixed interest rate without assuming the interest rate risk. Interest rate volatility, swap rates, and the timing of loan closings all impact the demand for long-term fixed rate swaps. The recognition of loan referral fees fluctuates in response to these market conditions and as a result we may recognize more or less, or may not recognize any, loan referral fees in some periods. Current market conditions are making interest rate swap agreements less attractive in the higher rate environment. Loan referral fees were **\$810,000** **\$683,000** for the year ended **December 31, 2022** **December 31, 2023**, a decrease of **\$1.3 million**, **\$127,000**, or **61.9%** **15.7%**, over the year ended **December 31, 2021** **December 31, 2022**. Interest rate volatility, swap rates, and the timing of loan closings all impact the demand for long-term fixed rate swaps.

Mortgage Broker Fees. We earn mortgage broker fees for residential mortgage loans that we broker through mortgage lenders. Mortgage broker fees decreased **\$663,000**, or **72.1%**, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The mortgage market is slowing down as a result of higher interest rates on mortgages.

Gain on Sale of Branch, net. The sale of our Freeland branch closed on April 30, 2021. Noninterest income included **\$1.3 million** gain from sale of the branch in 2021, there was no similar income in 2022.

Gain on Sale of Loans, net. Gain on sales of loans occurs when we sell certain CCBX loans to the originating partner, in accordance with partner agreements. We sold **\$599.9 million** in CCBX loans during the year ended December 31, 2023 and expect to continue selling CCBX loans over the next several months in an effort to optimize and strengthen our portfolio. Gain on sale of loans may also occur when we sell in the secondary market the guaranteed portion (generally 75% of the principal balance) of the SBA and

USDA U.S. Department of Agriculture ("USDA") loans that we originate. This activity fluctuates based on SBA and USDA loan activity. Gain on sale of loans decreased \$396,000, or 100.0%, to zero for the year ended December 31, 2022 compared to the prior year, due to decreased activity.

Unrealized gain (loss) on equity securities, net. During the year ended December 31, 2022 December 31, 2023, we recognized an unrealized loss gain on equity securities of \$153,000, \$279,000, compared to the year ended December 31, 2021 December 31, 2022, when we recognized a \$1.5 million \$153,000 unrealized holding gain loss on an equity security as a result of an observable price change securities. We hold \$3.0 million in equity securities focused on entities providing products to the BaaS and financial services space.

Other. This category includes a variety of other income-producing activities, annuity broker credit card fee income, wire transfer fees, interest earned on bank owned life insurance ("BOLI"), and SBA and USDA servicing fees. Other noninterest income increased \$148,000, decreased \$460,000, or 15.8% 34.2%, for the year ended December 31, 2022 December 31, 2023 compared to the year ended December 31, 2021. December 31, 2022, due in part to the one-time cost of converting an existing BOLI policy to one that will yield higher returns in the future, which reduced BOLI earnings by \$212,000.

Noninterest Expense

Generally, noninterest expense is composed of all employee expenses and costs associated with operating our facilities, obtaining and retaining customer relationships and providing bank services. The largest components of noninterest expense are BaaS loan and fraud expense combined and salaries and employee

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benefits. Noninterest expense also includes operational expenses, such as legal and professional expenses, data processing and software licenses, occupancy, FDIC assessment, points point of sale expense, excise taxes, FDIC assessment, director and staff expenses, excise taxes, marketing and other expenses.

For the year ended December 31, 2022 December 31, 2023, noninterest expense totaled \$166.8 million \$204.8 million, an increase of \$103.5 million \$38.0 million, or 163.6% 22.8%, compared to \$63.3 million \$166.8 million for the year ended December 31, 2021 December 31, 2022. Noninterest expense, excluding BaaS loan and BaaS fraud expense totaled \$83.9 million \$110.7 million and increased \$25.1 million \$26.8 million or 42.7% 31.9%.

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

Year Ended December 31,											
		Year Ended December 31,		Increase (Decrease)	Percent Change						
(dollars in thousands)	(dollars in thousands)	2022	2021			(dollars in thousands)	2023		2022	2021	Ir (D)
Salaries and employee benefits	Salaries and employee benefits	\$ 52,228	\$37,101	Increase (Decrease)	Percent Change	\$66,461	\$	\$52,228	\$	\$37,101	\$
Legal and professional expenses											
Data processing and software licenses											
Occupancy	Occupancy	4,548	4,128	420	10.2						
Data processing and software licenses		6,487	4,951	1,536	31.0						
Point of sale expense	Point of sale expense	2,109	671	1,438	214.3						
Legal and professional expenses		6,760	3,133	3,627	115.8						
FDIC assessments	FDIC assessments	2,859	1,632	1,227	75.2						

expenses were \$6.8 million \$3.5 million for the year ended December 31, 2022 December 31, 2023, compared to \$3.1 million for the year ended December 31, 2021, an increase of \$3.6 million, or 115.8%. The increase in legal and professional expenses were primarily focused on building infrastructure for future growth.

Data Processing and Software Licenses. Data processing and software licenses includes expenses related to obtaining and maintaining software required for our various functions. Data processing costs include all of our customer transaction processing and data storage, computer processing, and network costs. Data processing costs grow as we grow and add new products, customers and branches. Additionally, CCBX data processing expenses and software that aids in the reporting of CCBX activities and monitoring of transactions that helps to automate and create other efficiencies in reporting have resulted in increased expenses in the category. These expenses are expected to increase as we invest more in

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automated processing and as we grow product lines and our CCBX segment. Data processing costs were \$6.5 million \$2.1 million for the year ended December 31, 2022, compared to \$5.0 million for the year ended December 31, 2021, an increase of \$1.5 million \$1.4 million, or 31.0% 67.6%.

FDIC Assessments. FDIC assessments are assessed to fund the Deposit Insurance Fund ("DIF") to insure and protect the depositors of insured banks and to resolve failed banks. The assessment rate is based on a number of factors and recalculated each quarter. As deposits increase, the FDIC assessment expense will generally increase. FDIC assessments were \$2.8 million for However, our rate has decreased in 2023 as a result of improvement in the year ended December 31, 2022, various ratios that determine the rate at which insured deposits are assessed, compared to \$1.6 million for the comparable prior year ended December 31, 2021, an increase of \$1.2 million, or 75.2%. Deposit growth in the community bank and CCBX contributed to this increase. period. On October 18, 2022 the FDIC finalized an increase of 2 basis points in the initial base deposit insurance assessment rates Schedules. schedules, beginning with the first quarterly assessment period of 2023. The rise is intended to increase the reserve ratio of the Deposit Insurance Fund which was at 1.26% as of September 30, 2022, to 1.35%, the statutory requirement. The increase in the base rates will remain in place until the reserve ratio reaches or exceeds 2.0%. The increase will take effect in the first quarterly assessment period of 2023 and will increase the FDIC assessment expense assessments were \$2.5 million for the Bank, year ended December 31, 2023, compared to \$2.9 million for the year ended December 31, 2022, a decrease of \$335,000, or 11.7%.

Director and Staff Expenses. Director and staff expenses includes compensation for director service, continuing education for employees and other director and staff related expenses. Director and staff expenses were \$2.2 million for the year ended December 31, 2023 compared to \$1.7 million for the year ended December 31, 2022, an increase of \$441,000, or 25.8%. In 2023 we saw an increase in these expenses as the number of employees increased.

Excise Taxes. Excise taxes are assessed on Washington state income and are based on gross income. Gross income is reduced by certain allowed deductions and income attributed to other states is also removed to arrive at the taxable base. Excise taxes were \$2.0 million for the year ended December 31, 2023, compared to \$2.2 million for the year ended December 31, 2022, compared to \$1.6 million for the year ended December 31, 2021, an increase decrease of \$615,000, \$228,000, or 38.7% 10.3%. Excise taxes increased as a result of increased income subject to excise taxes. Partially offsetting that increase is a credit we received in 2022 against excise taxes owed in the amount of \$109,000 as a result of our participation in the Washington State Main Street Program, which reduced our calculated 2022 expense. Excise taxes are based on gross income of \$316.9 million and \$111.2 million for the years ended December 31, 2022 and 2021, respectively. Gross income is reduced by certain allowed deductions to arrive at the taxable base; however, as gross income increases, so does the excise tax expense.

Director and Staff Expenses. Director and staff expenses includes compensation for director service, continuing education for employees and other director and staff related expenses. Director and staff expenses were \$1.7 million for the year ended December 31, 2022 compared to \$1.2 million for the year ended December 31, 2021, an increase of \$506,000, or 42.0%. In 2022 we saw an increase in employee travel and training return to a more typical level after a year of reduced activity in 2021 as a result of restrictions related to the COVID-19 pandemic.

Marketing and promotion. Marketing and promotion costs were \$517,000 for the year ended December 31, 2023, compared to \$351,000 for the year ended December 31, 2022, compared to \$451,000 for the year ended December 31, 2021, a decrease increase of \$100,000, \$166,000, or 22.2% 47.3%. Marketing and promotion costs decreased because we are using more cost-effective advertising options; however, we expect starting to see advertising expenses increase as we deploy more branding and targeted advertising for the community bank and CCBX. We are using more cost-effective advertising options, but expect costs to increase as we expand our marketing plan.

Other. This category includes dues and memberships, office supplies, mail services, telephone, examination fees, internal loan expenses, services charges from banks, operational losses, directors and officer's insurance, donations, provision for unfunded commitments, and miscellaneous other expenses. The provision for unfunded commitments has increased with the addition of CCBX loan partners. Other noninterest expense increased to \$5.2 million for the year ended December 31,

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2023, compared to \$4.7 million for the year ended December 31, 2022, compared to \$3.9 million for the year ended December 31, 2021, an increase of \$731,000, \$572,000, or 18.6% 12.3%. The increase was largely due to a \$551,000 increase in dues and memberships and \$91,000 increase in business development and overall increases resulting from growth for the year ended December 31, 2022 December 31, 2023, as compared to the same period last year.

BaaS loan and fraud expense. Our CCBX segment provides BaaS offerings that enable our broker dealer and digital financial service providers to offer their customers banking services. Included in BaaS loan and fraud expense is partner loan expense including overdraft balances and partner BaaS fraud expense. Partner loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. Partner BaaS fraud expense represents noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred as losses in noninterest expense, and the reimbursement from the CCBX partner is

recorded in noninterest income, resulting in a net impact of zero to the income statement. For the year ended [December 31, 2022](#) [December 31, 2023](#), BaaS loan and fraud expense was [\\$82.9 million](#) [\\$94.1 million](#), compared to [\\$4.5 million](#) [\\$82.9 million](#) for the year ended [December 31, 2021](#) [December 31, 2022](#) as a result of increased partner activity. For more information on the accounting for BaaS loan and fraud expenses see the section titled “CCBX – BaaS Reporting Information.”

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The following table presents, for the periods indicated, the BaaS loan and fraud expenses:

		Year Ended December 31,			Increase (Decrease)										
		Year Ended December 31,		Increase (Decrease)		Year Ended December 31,					2023 compared to 2022		2022 compared to 2021		
(dollars in thousands)	(dollars in thousands)	2022	2021		Increase (Decrease)	(dollars in thousands)	2023	2022	2021	Increase (Decrease)	Increase (Decrease)				
BaaS loan expense	BaaS loan expense	\$53,294	\$2,976	Increase (Decrease)											
BaaS fraud expense	BaaS fraud expense	29,571	1,505		28,066										
Total BaaS loan and fraud expense	Total BaaS loan and fraud expense	\$82,865	\$4,481		\$78,384										

Income Tax Expense

The amount of income tax expense we incur is impacted by the amounts of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities are reflected at current income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce our deferred tax assets to the amount expected to be realized. The Company is subject to various state taxes that are assessed as CCBX activities and employees expand into other states, which has increased the overall tax rate used in calculating the provision for income taxes in the current and future periods. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022, which, among other things, implements a new 15% corporate alternative minimum tax for certain large corporations, a 1% excise tax on stock buybacks, and several tax incentives to promote clean energy and climate initiatives. These provisions [are were](#) effective beginning January 1, 2023. [Based on its current analysis of the provisions, we do](#) [This legislation did not expect this legislation to](#) have a material impact on our consolidated financial statements.

Year Ended [December 31, 2022](#) [December 31, 2023](#), Compared to Year Ended [December 31, 2021](#) [December 31, 2022](#). For the year ended [December 31, 2022](#) [December 31, 2023](#), income tax expense totaled [\\$10.0 million](#) [\\$12.6 million](#), compared to [\\$7.4 million](#) [\\$10.0 million](#) for the year ended [December 31, 2021](#) [December 31, 2022](#). Our effective tax rates for the years ended [December 31, 2022](#) [December 31, 2023](#), and [2021, 2022](#), was [19.7%](#) [22.0%](#) and [21.4%](#) [19.7%](#), respectively. [The effective tax rate was lower for 2022 due to an update in the state apportionment](#)

[Table of the revenues in the states in which we operate combined with tax benefits that resulted from stock based compensation activity](#)[Contents](#)

Segment Information

For financial reporting purposes our Company has two reportable [Based on the criteria of ASC 280, Segment Reporting, we have identified three segments:](#) [The the](#) community bank, [CCBX and CCBX, which has been determined based upon treasury & administration. The primary focus of the Company's relationship with the end customer. This determination also gave consideration to the structure and management of our various products. The community bank segment includes is on providing a wide range of banking products and services to consumers and small to medium sized businesses in the operations broader Puget Sound region in the state of Washington and through the Bank, Internet and excludes our mobile banking application. We currently operate 14 full-service banking locations, 12 of which are located in Snohomish County, where we are the CCBX BaaS operations. The largest community bank segment derives its revenue primarily from interest on loans by deposit market share, and investments as well as noninterest income typical for the banking industry, two of which are located in neighboring counties \(one in King County and one in Island County\). The CCBX segment includes BaaS operations. The CCBX segment derives its revenue from BaaS partnerships provides banking as a service \("BaaS"\) that allow allows our broker-dealer and digital financial service partners to offer their customers banking services such services. The CCBX segment has 21 partners, 19 that are active with two more currently in the testing or implementation stage as loans of](#) [December 31, 2023. The treasury & administration segment includes treasury management, overall administration and deposits. all other aspects of the Company.](#)

[Reported](#) [The Company's reported](#) segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Additionally, because of the interrelationships of the various segments, the information presented is not indicative of how the segments would perform if they operated as independent entities. Changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. The Company continues to evaluate its methodology on allocating items to the Company's various segments to support strategic business decisions by the Company's executive leadership. The difference in total loans receivable and total deposits in the community bank and CCBX segments is recorded on the balance sheet of each segment as an intrabank asset or intrabank liability, with the treasury & administration segment as the offset to those entries. Income and expenses that are specific to a segment

are directly posted to each segment. Additionally, certain indirect expenses are allocated to each segment utilizing various metrics, such as number of employees, utilization of space, and allocations based on loan and deposit balances. We have implemented a transfer pricing process that credits or charges the community bank and CCBX segments with intrabank interest income or expense for the difference in average loans and average deposits, with the treasury & administration segment as the offset for those entries. The accounting policies of the segments are the same as those described in "Note 1 – Description of Business and Summary of Significant Accounting Policies Policies" in the accompanying notes to the consolidated financial statements included elsewhere in this report.

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The following table presents summary financial information for each segment for the periods indicated:

(dollars in thousands; unaudited)	December 31, 2023				December 31, 2022			
	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX	Treasury & Administration	Consolidated
Assets								
Cash and due from banks	\$ 4,702	\$ 9,601	\$ 468,825	\$ 483,128	\$ 4,603	\$ 12,899	\$ 324,637	\$ 342,139
Intrabank asset	\$ —	\$ 653,178	\$ (653,178)	\$ —	\$ —	\$ 254,096	\$ (254,096)	\$ —
Securities	—	—	150,364	150,364	—	—	98,353	98,353
Loans held for sale	—	—	—	—	—	—	—	—
Total loans receivable	1,830,154	1,195,938	—	3,026,092	1,614,752	1,012,504	—	2,627,256
Allowance for credit losses	(21,595)	(95,363)	—	(116,958)	(20,636)	(53,393)	—	(74,029)
All other assets	30,169	136,931	43,640	210,740	25,508	76,111	49,129	150,748
Total assets	\$ 1,843,430	\$ 1,900,285	\$ 9,651	\$ 3,753,366	\$ 1,624,227	\$ 1,302,217	\$ 218,023	\$ 3,144,467
Liabilities								
Total deposits	\$ 1,497,601	\$ 1,862,762	\$ —	\$ 3,360,363	\$ 1,538,218	\$ 1,279,303	\$ —	\$ 2,817,521
Total borrowings	—	—	47,734	47,734	—	—	47,587	47,587
Intrabank liability	\$ 338,614	\$ —	\$ (338,614)	\$ —	\$ 80,392	\$ —	\$ (80,392)	\$ —
All other liabilities	7,215	37,523	5,553	50,291	5,617	22,914	7,334	35,865
Total liabilities	\$ 1,843,430	\$ 1,900,285	\$ (285,327)	\$ 3,458,388	\$ 1,624,227	\$ 1,302,217	\$ (25,471)	\$ 2,900,973

Community bank total assets as of December 31, 2022 decreased \$184.6 million December 31, 2023 increased \$219.2 million, or 8.1% 13.5%, to \$2.10 billion \$1.84 billion, compared to \$2.28 billion \$1.62 billion as of December 31, 2021 December 31, 2022. Total Loans receivable net of deferred fees for the community bank loans receivable segment increased \$218.7 million \$215.4 million, or 15.7% 13.3%, to \$1.83 billion as of December 31, 2023, compared to \$1.61 billion as of December 31, 2022. The increase in community bank loans receivable is the result of gross loan growth of \$216.4 million. Total community bank deposits decreased \$40.6 million, or 2.64%, to \$1.50 billion, as of December 31, 2023, compared to \$1.40 billion \$1.54 billion as of December 31, 2021 December 31, 2022. The decrease in community bank deposits was a result of pricing disciplines as some customers sought higher rate products elsewhere. Our cost of deposits for the community bank was 1.57% for the three months ended December 31, 2023. The intrabank liability, which is the difference in total community bank assets and total community bank liabilities, increased \$258.2 million, or 321.2%, to \$338.6 million at December 31, 2023, compared to \$80.4 million at December 31, 2022. This increase is the result of the increase in community bank loans and the decrease in community bank deposits discussed above.

CCBX total assets as of December 31, 2023 increased \$598.1 million, or 45.9%, to \$1.90 billion, compared to \$1.30 billion as of December 31, 2022. During the twelve months ended December 31, 2023, \$599.9 million in CCBX loans were transferred to loans held for sale, with \$599.9 million in loans sold and no loans remaining in loans held for sale as of December 31, 2023 and December 31, 2022. A portion of these loans were sold at par and a portion were sold with a gain on sale. Pricing is dependent upon the agreement with the partner. The Company sells CCBX loans to manage loan portfolio size by partner and by loan category, with such limits established and documented in the relevant partner agreements. Total CCBX loans receivable increased \$183.4 million, or 18.1%, to \$1.20 billion as of December 31, 2023, compared to \$1.01 billion as of December 31, 2022. The increase in loans receivable is the result of strong increased activity with CCBX partners. During the quarter ended December 31, 2023, we deliberately reduced our other consumer and other loans growth net portfolio in an effort to optimize loan portfolio and will work to continue growing the CCBX portfolio in future quarters with loans that have lower potential risk of \$107.1 million in PPP loan forgiveness credit deterioration and paydowns during the year ended are more aligned with our long term objectives. CCBX allowance for credit losses increased to \$95.4 million as of December 31, 2023, compared to \$53.4 million as of December 31, 2022. Non-PPP community bank loan growth was \$325.8 million, or 25.4%, as a result of increased loan activity. Total community bank deposits decreased \$109.3 million, or 6.6%, to \$1.54 billion, as of December 31, 2022, compared to \$1.65 billion as of December 31, 2021. The decrease in deposits is largely due our decision to let some deposits runoff instead of retaining them based loss rates and balances on price. The overall increase in deposits was achieved CCBX loans which has increased the allowance calculation/requirement. CCBX partner agreements provide credit enhancements that cover the \$144.9

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despite million in net charge-offs on CCBX loans for the twelve months ended months ended December 31, 2023. Total CCBX deposits increased \$583.5 million, or 45.6%, to \$1.86 billion, compared to \$1.28 billion as of December 31, 2022 as a decrease result of \$25.6 million growth within the CCBX relationships. This does not include an additional \$69.4 million in CCBX deposits that were transferred off balance sheet to provide for increased FDIC insurance coverage to certain customers. The intrabank asset, which is the difference in total CCBX assets and total CCBX liabilities, increased \$399.1 million, or 157.1%, to \$653.2 million at December 31, 2023, compared to \$254.1 million at December 31, 2022.

This increase is the result of the increase in CCBX deposits due to partially offset by the sale of our Freeland branch, which were included increase in the CCBX loans receivable as discussed above.

Treasury & administration total deposits assets as of December 31, 2023 decreased \$208.4 million, or 95.6%, to \$9.7 million, compared to \$218.0 million as of December 31, 2022. Total securities increased \$52.0 million, or 52.9%, to \$150.4 million as of December 31, 2023, compared to \$98.4 million as of December 31, 2022, as we increased the amount of CRA qualified securities we hold. Total borrowings were \$47.7 million as of December 31, 2023 and \$47.6 million as of December 31, 2022. The intrabank asset and intrabank liability are part of the transfer pricing process. The treasury & administration segment offsets intrabank asset and/or intrabank liability at the community bank and CCBX segments.

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The following table presents summary financial information for each segment for the periods indicated. The segment structure changed after 2021, therefore some items are reported as "N/A" for the year ended December 31, 2021.

(dollars in thousands)	Year Ended											
	December 31, 2023				December 31, 2022				December 31, 2021			
	Community		Treasury &		Community		Treasury &		Community		Treasury &	
	Bank	CCBX	Administration	Total	Bank	CCBX	Administration	Total	Bank	CCBX	Administration	Total
INTEREST INCOME AND EXPENSE												
Interest income	\$ 106,983	\$ 204,458	\$ 18,930	\$ 330,371	\$ 80,544	\$ 102,808	\$ 8,818	\$ 192,170	\$ 76,551	\$ 6,532	N/A	\$ 83,083
Interest income (expense)												
intrabank transfer	(10,404)	19,071	(8,667)	—	796	4,106	(4,902)	—	N/A	N/A	N/A	—
Interest expense	17,354	71,646	2,644	91,644	2,896	16,108	1,391	20,395	3,547	99	N/A	3,646
Net interest income	79,225	151,883	7,619	238,727	78,444	90,806	2,525	171,775	73,004	6,433	N/A	79,437
Provision for credit losses - loans	1,322	182,721	—	184,043	719	78,345	—	79,064	1,275	8,640	N/A	9,915
(Recapture)/Provision for unfunded commitments	(211)	160	—	(51)	—	—	—	—	—	—	N/A	—
Net interest income after provision (recovery) for credit losses - loans and unfunded commitments	78,114	(30,998)	7,619	54,735	77,725	12,461	2,525	92,711	71,729	(2,207)	N/A	69,522
NONINTEREST INCOME												
Deposit service charges and fees	3,810	44	—	3,854	3,757	47	—	3,804	3,698	—	N/A	3,698
Other income	1,165	433	501	2,099	1,411	356	234	2,001	7,015	98	N/A	7,113
BaaS program income	—	16,293	—	16,293	—	12,934	—	12,934	—	6,716	N/A	6,716
BaaS indemnification income	—	184,929	—	184,929	—	105,945	—	105,945	—	10,591	N/A	10,591
Noninterest income	4,975	201,699	501	207,175	5,168	119,282	234	124,684	10,713	17,405	N/A	28,118

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(dollars in thousands)	Year Ended											
	December 31, 2023				December 31, 2022				December 31, 2021			
	Community		Treasury &		Community		Treasury &		Community		Treasury &	
	Bank	CCBX	Administration	Total	Bank	CCBX	Administration	Total	Bank	CCBX	Administration	Total
NONINTEREST EXPENSE												
Salaries and employee benefits	24,104	25,159	17,198	66,461	20,476	18,007	13,745	52,228	32,562	4,539	N/A	37,101
Occupancy	3,815	339	772	4,926	3,956	317	275	4,548	4,039	89	N/A	4,128

Data processing and software licenses	4,521	2,303	1,771	8,595	3,172	1,746	1,569	6,487	4,509	442	N/A	4,951
Legal and professional expenses	1,580	9,645	3,578	14,803	213	3,163	3,384	6,760	2,654	479	N/A	3,133
Other expense	3,954	6,812	5,161	15,927	5,202	3,026	5,658	13,886	7,783	1,686	N/A	9,469
BaaS loan expense	—	86,900	—	86,900	—	53,294	—	53,294	—	2,976	N/A	2,976
BaaS fraud expense	—	7,165	—	7,165	—	29,571	—	29,571	—	1,505	N/A	1,505
Total noninterest expense	37,974	138,323	28,480	204,777	33,019	109,124	24,631	166,774	51,547	11,716	N/A	63,263
Net income before income taxes	\$ 45,115	\$ 32,378	\$ (20,360)	\$ 57,133	\$ 49,874	\$ 22,619	\$ (21,872)	\$ 50,621	\$ 30,895	\$ 3,482	N/A	\$ 34,377
Income taxes	9,913	7,116	(4,475)	12,554	10,068	4,248	(4,320)	9,996	6,638	734	N/A	7,372
Net Income	35,202	25,262	(15,885)	44,579	39,806	18,371	(17,552)	40,625	24,257	2,748	N/A	27,005

Net interest income for the community bank was ~~\$85.1 million~~ \$79.2 million for the year ended ~~December 31, 2022~~ December 31, 2023, an increase of ~~\$12.1 million~~, \$781,000, or ~~16.5%~~ 1.0%, compared to ~~\$73.0 million~~ \$78.4 million for the year ended ~~December 31, 2021~~ December 31, 2022. The increase in net interest income is largely due to loan growth and increased interest rates on new and variable rate loans. As a result of the community bank having higher average loans than deposits for the twelve months ended December 31, 2023 compared to the twelve months ended December 31, 2022, intrabank interest expense for the community bank was \$10.4 million for the twelve months ended December 31, 2023, compared to intrabank interest income of \$796,000 for the twelve months ended December 31, 2022. Increased interest rates also contributed to the increase in intrabank interest expense. Provision for ~~loan~~ credit losses - loans for the community bank was \$1.3 million for the year ended December 31, 2023, compared to \$719,000 for the year ended December 31, 2022, compared to \$1.3 million for the year ended December 31, 2021. The provision for loan losses was increased in 2021 as a result of ~~economic uncertainties~~ of loan growth. Net charge-offs to average loans for the ~~COVID-19 pandemic~~ community bank segment have remained consistently low and ~~loan growth~~, however losses have not realized as anticipated, were 0.00% and 0.03% for the twelve months ended December 31, 2023, and 2022, respectively. Noninterest income for the community bank was ~~\$5.7 million~~ \$5.0 million, for the year ended ~~December 31, 2022~~ December 31, 2023, a decrease of ~~\$5.1 million~~, \$193,000, or ~~47.2%~~ 3.7%, compared to ~~\$10.7 million~~ \$5.2 million for the year ended December 31, 2021. In 2021, there was a \$1.5 million unrealized holding gain on an equity investment and \$1.3 million gain on sale of a branch, December 31, 2022. Loan referral fees decreased \$127,000 for the twelve months ended December 31, 2023 compared to \$153,000 unrealized loss on equity securities, no ~~gain on sale~~ the twelve months ended December 31, 2022. The recognition of ~~branch~~ loan referral fees fluctuates in response to market conditions and ~~\$1.3 million~~ as a result we may recognize more or less, in or may not recognize any, loan referral fees in 2022, some periods. Noninterest expenses for the community bank increased ~~\$12.6 million~~ \$5.0 million, or ~~24.4%~~ 15.0%, to ~~\$64.1 million~~ \$38.0 million as of December 31, 2023, compared to \$33.0 million as of December 31, 2022, compared to ~~\$51.5 million~~ as of December 31, 2021. The increase in noninterest expense is largely due to increased salaries and employee benefits as a result of growth, higher ~~data processing and software licenses~~ maintenance and subscription licensing costs related to new reporting software that helps monitor and assess risk and to automate and create efficiencies in reporting, and other ~~expense increases related~~ increased legal and professional fees associated with our infrastructure enhancement projects to ~~growth~~, improve processing, automate processes, reduce compliance costs, and enhance our data management.

CCBX total assets as of December 31, 2022 increased \$693.6 million, or 196.5%, to \$1.05 billion, compared to \$353.0 million as of December 31, 2021. Total CCBX loans receivable increased \$665.8 million, or 192.1%, to \$1.01 billion as of December 31, 2022, compared to \$346.7 million as of December 31, 2021. The increase in loans receivable is the result of growth in CCBX relationships. CCBX allowance for loan losses increased to \$53.4 million as of December 31, 2022, compared to \$8.3 million as of December 31, 2021 as a result of loan growth and portfolio mix. Total CCBX deposits increased \$563.0 million, or 78.6%, to \$1.28 billion, compared to \$716.3 million as of December 31, 2021 as a result of growth in CCBX.

Included in noninterest expense for the community bank is administrative overhead of \$27.2 million and \$19.0 million for the year ended December 31, 2022 and December 31, 2021, respectively. Both the community bank and the CCBX segment benefit from this administrative overhead and services, which includes shared operational activities such as data management, compliance monitoring and other administration functions.

Net interest income for CCBX was ~~\$86.7 million~~ \$151.9 million for the year ended ~~December 31, 2022~~ December 31, 2023, an increase of ~~\$80.3 million~~ \$61.1 million, or ~~1,247.7%~~ 67.3%, compared to ~~\$6.4 million~~ \$90.8 million for the year ended ~~December 31, 2021~~ December 31, 2022. The increase in net interest income is due largely to loan growth from CCBX relationships. During the year ended December 31, 2023, we sold \$599.9 million in higher yielding CCBX loans that have a greater potential for credit deterioration in an effort to optimize our CCBX loan portfolio. The impact of these sales and the changes we are making in an effort to optimize and strengthen the balance sheet are expected to be reflected in our earnings in future periods. We expect

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to see lower net income in the short term with lower loan yields and compressed margins but we will work to continue growing the CCBX portfolio with loans that we believe will strengthen the balance sheet and provide for long term stability and profitability. As a result of having higher average deposits than loans for the twelve months ended December 31, 2023 compared to the twelve months ended December 31, 2022 intrabank interest income for CCBX was \$19.1 million for the twelve months ended December 31, 2023, compared to \$4.1 million for the twelve months ended December 31, 2022. Increased interest rates also contributed to the increase in intrabank interest income. Provision for ~~loan~~ credit losses - loans for CCBX was \$182.7 million for the year ended December 31, 2023, compared to \$78.3 million for the year ended December 31, 2022, compared to ~~\$8.6 million~~ for the year ended December 31, 2021, as a result of loan growth and higher loss rates from CCBX partners. Noninterest income for CCBX was \$119.0 million \$201.7 million for the year ended December 31, 2023, an increase of \$82.4 million, or 69.1%, compared to \$119.3 million for the year ended December 31, 2022, an increase of \$101.6 million, or 583.9%, compared to \$17.4 million for the year ended December 31, 2021, due to an increase of ~~\$6.2 million~~ \$3.4 million in BaaS fee program income, which was the result of increased activity with broker dealers and digital financial service providers, \$67.3 million BaaS partners, including \$101.4 million in BaaS fees - credit enhancements related to the allowance for

loan credit losses, and reserve for unfunded commitments, and \$28.1 million \$22.4 million in BaaS fees – fraud enhancements. Noninterest expenses for CCBX increased \$90.9 million \$29.2 million, or 776.2% 26.8%, to \$102.7 million \$138.3 million as of December 31, 2023, compared to \$109.1 million as of December 31, 2022, compared to \$11.7 million as of December 31, 2021. The increase in noninterest expense is largely due to growth from active CCBX relationships resulting in an increase in BaaS loan expense, BaaS fraud expense and increased salaries and benefits, for the year twelve months ended December 31, 2022 December 31, 2023, compared to the year twelve months ended December 31, 2021 December 31, 2022. Also contributing to the increase in noninterest expense is higher legal and professional fees associated with our infrastructure enhancement projects to improve processing, automate processes, reduce compliance costs, and enhance our data management. For more information on the accounting for BaaS income and expenses see the section titled “CCBX – BaaS Reporting Information.”.

The following tables present summary financial information Net interest income for each segment treasury & administration was \$7.6 million for the periods indicated:

(dollars in thousands)	December 31, 2022			December 31, 2021		
	Bank	CCBX	Total	Bank	CCBX	Total
Total assets	\$ 2,097,885	\$ 1,046,582	\$ 3,144,467	\$ 2,282,514	\$ 353,003	\$ 2,635,517
Total loans receivable	1,614,751	1,012,505	2,627,256	1,396,060	346,675	1,742,735
Allowance for loan losses	(20,636)	(53,393)	(74,029)	(20,299)	(8,333)	(28,632)
Total deposits	1,538,218	1,279,303	2,817,521	1,647,529	716,258	2,363,787

twelve months ended December 31, 2023, an increase of \$5.1 million, or 201.7%, compared to \$2.5 million for the twelve months ended December 31, 2022, as a result of increased interest rates. Noninterest income increase \$267,000, or 114.1%, to \$501,000 for the twelve months ended December 31, 2023, compared to \$234,000 for the twelve months ended December 31, 2022. Noninterest expense increased \$3.8 million, or 15.6%, to \$28.5 million for the twelve months ended December 31, 2023, compared to \$24.6 million for the twelve months ended December 31, 2022, largely as a result of increased salaries and employee benefits and legal and professional fees as a result of growth.

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(dollars in thousands)	Year Ended					
	December 31, 2022			December 31, 2021		
	Bank	CCBX	Total	Bank	CCBX	Total
Net interest income	\$ 85,075	\$ 86,700	\$ 171,775	\$ 73,004	\$ 6,433	\$ 79,437
Provision for loan losses	\$ 719	\$ 78,345	\$ 79,064	\$ 1,275	\$ 8,640	\$ 9,915
Noninterest income	\$ 5,652	\$ 119,032	\$ 124,684	\$ 10,713	\$ 17,405	\$ 28,118
Noninterest expense	\$ 64,114	\$ 102,660	\$ 166,774	\$ 51,547	\$ 11,716	\$ 63,263

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Financial Condition

Our total assets increased \$509.0 million \$608.9 million to \$3.14 billion \$3.75 billion, or 19.3% 19.4% at December 31, 2022 December 31, 2023, compared to \$2.64 billion \$3.14 billion at December 31, 2021 December 31, 2022. This increase was largely the result of a \$884.5 million \$398.8 million increase in loans receivable, combined with a decrease increase of \$489.2 million \$142.4 million in interest earning deposits with other banks.

Loans Held For Sale

During the year ended December 31, 2022 December 31, 2023, \$152.5 million \$599.9 million in CCBX loans were transferred to loans held for sale, with \$152.5 million \$599.9 million in loans sold at par, during the year ended December 31, 2022 December 31, 2023 and zero remaining in loans held for sale as of December 31, 2022 December 31, 2023. A portion of these loans were sold at par and a portion were sold with a gain on sale of \$253,000.

Loan Portfolio

Our primary source of income is derived through interest earned on loans. A substantial portion of our loan portfolio consists of commercial real estate loans and commercial and industrial loans primarily in the Puget Sound region. Our consumer and other loans also represent a significant portion of our loan portfolio with the growth of our CCBX segment. Our loan portfolio represents the highest yielding component of our earning assets.

As of December 31, 2022 December 31, 2023, loans receivable totaled \$2.63 billion \$3.03 billion, an increase of \$884.5 million \$398.8 million, or 50.8% 15.2%, compared to December 31, 2021 December 31, 2022. Total loans receivable is net of \$6.1 million \$7.3 million in net deferred origination fees, \$82,000 of which is attributed to PPP loans. fees. The increase includes CCBX loan growth of \$665.8 million \$183.4 million, or 192.1% 18.1%, and community bank loan growth of \$215.9 million \$216.4 million, or 15.4%, which includes a \$107.1 million, or 95.8%, reduction in PPP loans due to forgiveness and principal paydowns. Additionally, unused loan commitments increased including unused

commitments on capital call lines which increased \$356.8 million to \$772.7 million at December 31, 2022, compared to \$416.0 million at December 31, 2021, which may translate into loan growth as the commitments are utilized. 13.3%.

Loans as a percentage of deposits were 90.1% as of December 31, 2023, compared to 93.2% as of December 31, 2022, compared to 73.7% as of December 31, 2021. We remain focused on serving our communities and markets by growing loans and funding those loans with customer deposits. The increase in the loan to deposit ratio was due to loan growth.

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

		As of December 31,												
		2022		2021										
		As of December 31,				As of December 31,								
		2023						2023		2022				
(dollars in thousands)	(dollars in thousands)	Amount	Percent	Amount	Percent	(dollars in thousands)	Amount	Percent		Percent		Amount	Percent	
Commercial and industrial loans:	Commercial and industrial loans:													
PPP loans	PPP loans													
PPP loans	PPP loans													
PPP loans	PPP loans	\$ 4,699	0.2 %	\$ 111,813	6.4 %		\$3,033	0.1	0.1 %			\$4,699	0.2	0.2 %
Capital call lines	Capital call lines	146,029	5.5	202,882	11.5									
All other commercial & industrial loans	All other commercial & industrial loans	161,900	6.1	104,365	6.0									
Total commercial and industrial loans:	Total commercial and industrial loans:	312,628	11.8	419,060	23.9									
Real estate loans:	Real estate loans:													
Construction, land and land development	Construction, land and land development													
Construction, land and land development	Construction, land and land development													
Construction, land and land development	Construction, land and land development	214,055	8.1	183,594	10.5									
Residential real estate	Residential real estate	449,157	17.1	204,389	11.7									
Commercial real estate	Commercial real estate	1,048,752	39.8	835,587	47.7									
Consumer and other loans	Consumer and other loans	608,771	23.2	108,871	6.2									
Gross loans receivable	Gross loans receivable	2,633,363	100.0 %	1,751,501	100.0 %	Gross loans receivable	3,033,392	100.0	100.0 %			2,633,363	100.0	100.0 %
Net deferred origination fees - PPP loans	Net deferred origination fees - PPP loans	(82)		(3,633)										
Net deferred origination fees - all other loans	Net deferred origination fees - all other loans	(6,025)		(5,133)										
Net deferred origination fees - all other loans	Net deferred origination fees - all other loans													

Net deferred origination fees - all other loans			
Loans receivable			
Loans receivable			
Loans receivable	Loans receivable	\$2,627,256	\$1,742,735
Loan Yield	Loan Yield	8.12 %	4.86 %
Loan Yield			
Loan Yield			

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The following tables detail the loans by segment which are included in the total loan portfolio table above:

Community Bank	Community Bank	As of				Community Bank	As of						
		December 31, 2022		December 31, 2021									
		December 31, 2023							December 31, 2023		December 31, 2022		
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	Balance	% to Total	Balance	% to Total	(dollars in thousands; unaudited)	Balance		% to Total		Balance		% to Total
Commercial and industrial loans:	Commercial and industrial loans:												
PPP loans	PPP loans	\$ 4,699	0.3 %	\$ 111,813	8.0 %								
PPP loans	PPP loans												
PPP loans	PPP loans						\$ 3,033		0.2 %		\$ 4,699		0.3 %
All other commercial & industrial loans	All other commercial & industrial loans	146,982	9.1	104,365	7.4								
Real estate loans:	Real estate loans:												
Construction, land and land development loans	Construction, land and land development loans												
Construction, land and land development loans	Construction, land and land development loans												
Construction, land and land development loans	Construction, land and land development loans	214,055	13.2	183,594	13.1								
Residential real estate loans	Residential real estate loans	204,581	12.6	167,502	11.9								
Commercial real estate loans	Commercial real estate loans	1,048,752	64.7	835,587	59.5								
Consumer and other loans:	Consumer and other loans:												
Other consumer and other loans	Other consumer and other loans	1,725	0.1	2,034	0.1								
Other consumer and other loans	Other consumer and other loans												
Other consumer and other loans	Other consumer and other loans												

Gross Community Bank loans receivable	Gross Community Bank loans receivable	1,620,794	100.0 %	1,404,895	100.0 %	Gross Community Bank loans receivable	1,837,154	100.0	100.0 %	1,620,794	100.0	100.0 %
Net deferred origination fees	Net deferred origination fees	(6,042)		(8,835)								
Loans receivable	Loans receivable	\$1,614,752		\$1,396,060								
Loans receivable	Loans receivable											
Loan Yield	Loan Yield	5.32 %		4.90 %								
Loan Yield												
Loan Yield												

CCBX	CCBX					As of					As of									
	December 31, 2022					December 31, 2021														
December 31, 2023																December 31, 2022				
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)		% to		% to	(dollars in thousands; unaudited)			% to				% to		% to					
		Balance	Total	Balance	Total		Balance		Total		Balance		% to Total		% to Total					
Commercial and industrial loans:	Commercial and industrial loans:																			
Capital call lines	Capital call lines																			
Capital call lines	Capital call lines	\$ 146,029	14.4 %	\$202,882	58.6 %		\$87,494	7.3	7.3	%	\$146,029	14.4	14.4	%	%					
All other commercial & industrial loans	All other commercial & industrial loans	14,918	1.5	—	0.0															
Real estate loans:	Real estate loans:																			
Residential real estate loans	Residential real estate loans	244,576	24.2	36,887	10.6															
Residential real estate loans	Residential real estate loans																			
Consumer and other loans:	Consumer and other loans:																			
Credit cards	Credit cards																			
Credit cards	Credit cards	279,644	27.6	11,429	3.3															
Other consumer and other loans	Other consumer and other loans	327,402	32.3	95,408	27.5															
Gross CCBX loans receivable	Gross CCBX loans receivable	1,012,569	100.0 %	346,606	100.0 %	Gross CCBX loans receivable	1,196,238	100.0	100.0 %		1,012,569	100.0	100.0 %		%					

Net deferred origination (fees) costs	Net deferred origination (fees) costs	(65)	69
Loans receivable	Loans receivable	\$1,012,504	\$346,675

Loans receivable	
Loans receivable	

Loan Yield ⁽¹⁾	Loan Yield ⁽¹⁾	13.85 %	4.46 %
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Loan Yield ⁽¹⁾

Loan Yield ⁽¹⁾

(1) CCBX yield does not include the impact of BaaS loan expense. BaaS loan expense represents the amount paid or payable to partners for credit enhancements, fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned from CCBX loan relationships, the Company takes BaaS loan interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can be compared to interest income on the Company's community bank loans. Net BaaS loan income is a non-GAAP measure. See the reconciliation of non-GAAP measures set forth in the section titled "GAAP GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures" for the impact of BaaS loan expense on CCBX yield.

Commercial and Industrial Loans. Commercial and industrial loans decreased \$106.4 million \$21.3 million, or 25.4% 6.8%, to \$291.3 million as of December 31, 2023, from \$312.6 million as of December 31, 2022, from \$419.1 million as of December 31, 2021. The decrease in commercial and industrial loans receivable over December 31, 2021 December 31, 2022 was due to \$107.1 million a decrease of \$58.5 million in capital call lines and \$1.7 million in forgiven and repaid PPP loans and a decrease of \$56.9 million in capital call lines, partially offset by a \$57.5 million \$38.9 million increase in other commercial and industrial loans. Included in the commercial and industrial loan balance is \$146.0 million \$87.5 million and \$202.9 million \$146.0 million in capital call lines resulting from relationships with our CCBX partners as of December 31, 2022, December 31, 2023 and December 31, 2021 December 31, 2022, respectively. As of December 31, 2022 December 31, 2023, there were \$14.9 million \$54.3 million in CCBX other commercial loans, compared to zero \$14.9 million at December 31, 2021 December 31, 2022.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and effectively. These loans are primarily made based on the borrower's ability to service the debt from

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income. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable, inventory or equipment, and we generally obtain personal guarantees on these loans. Commercial and industrial loans includes \$45.1 million \$48.6 million and \$20.2 million \$45.1 million in loans to financial institutions as of December 31, 2022 December 31, 2023, and December 31, 2021 December 31, 2022, respectively.

Also included in commercial and industrial loans is \$4.7 million \$3.0 million and \$111.8 million \$4.7 million in PPP loans as of December 31, 2022 December 31, 2023, and December 31, 2021 December 31, 2022, respectively. As of December 31, 2022, \$4.7 million in PPP loans remained with \$82,000 in net deferred fees, which will be recognized in interest income in future periods. The impact of PPP loans on the Company's financial statements has significantly decreased lessened as nearly all of the PPP loans have been paid off and/or forgiven.

Construction, Land and Land Development Loans. Construction, land and land development loans increased \$30.5 million decreased \$57.0 million, or 16.6% 26.6%, to \$157.1 million as of December 31, 2023, from \$214.1 million as of December 31, 2022, from \$183.6 million as of December 31, 2021. The increase decrease is attributed in part to growth in the completion of projects related to these community bank primarily for commercial construction and some land and land development loans.

Unfunded loan commitments for construction, land and land development loans were \$142.5 million \$113.5 million at December 31, 2022 December 31, 2023, compared to \$134.3 million \$142.5 million at December 31, 2021 December 31, 2022. Although we have seen a strong commercial and residential real estate market in the Puget Sound region thus far in 2022, 2023, the economic environment is continuously changing and is impacted by increased GDP, unemployment, inflation, higher interest rates, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment and trade issues that have resulted in some economic uncertainty and slowing in construction lending.

Construction, land and land development loans are comprised of loans to fund construction, land acquisition and land development construction. The properties securing these loans are primarily located in the Puget Sound region and are comprised of both residential and commercial properties, including owner occupied properties and investor properties. As of December 31, 2022 December 31, 2023, construction, land and land development loans included \$81.5 million in commercial construction loans, \$7.9 million in undeveloped land loans, \$34.2 million in residential construction loans and \$33.5 million in other construction, land and land development loans, compared to \$100.7 million in commercial construction loans, \$44.6 million in undeveloped land loans, \$32.9 million in residential construction loans and \$35.9 million in other construction, land and land development loans compared to \$82.8 million in commercial construction loans, \$37.8 million in undeveloped land loans, \$28.9 million in residential construction loans and \$34.1 million in other construction, land and land development loans as of December 31, 2021 December 31, 2022.

Residential Real Estate Loans. Our one-to-four family residential real estate loans increased \$244.8 million \$14.3 million, or 119.8% 3.2%, to \$463.4 million as of December 31, 2023, from \$449.2 million as of December 31, 2022, from \$204.4 million as of December 31, 2021 largely due to an increase of \$207.7 million \$20.8 million in community bank loans partially offset by a decrease of \$6.5 million in CCBX loans.

As of December 31, 2023, there were \$238.0 million in CCBX home equity loans included in residential real estate, compared to \$244.6 million at December 31, 2022. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card.

We originate one-to-four family sold \$321.5 million in CCBX residential real estate adjustable-rate mortgage ("ARM"), loans for our portfolio and operate as a mortgage broker for mortgage lenders during the year ended December 31, 2023.

In the past, we have agreements with for customers who want a 15-year to 30-year, fixed-rate mortgage loan. As of December 31, 2022, the balance of our ARM portfolio loans was \$28.0 million, compared to \$22.2 million at December 31, 2021. Our ARM loans typically do not meet the guidelines for sale in the secondary market due to characteristics of the property, the loan terms or exceptions from agency underwriting guidelines, which enables us to earn a higher interest rate. We also purchase purchased residential mortgages originated through other financial institutions to hold for investment with the intent to diversify for purposes of diversifying our residential mortgage loan portfolio, meet meeting certain regulatory requirements and increase increasing our interest income. We last purchased residential mortgage loans in 2018. As of December 31, 2023 and December 31, 2022, we held \$8.1 million and \$9.4 million, respectively, in purchased residential real estate mortgage loans. These loans compared purchased typically have a fixed rate with a term of 15 to \$11.9 million at December 31, 2021. These purchased loans typically are variable rate 30 years and are collateralized by one-to-four family residential real estate. We have a defined set of credit guidelines that we use when evaluating these loans. Although purchased loans were originated and underwritten by another institution, our mortgage, credit, and compliance departments conduct an independent review of each underlying loan that includes re-underwriting each of these loans to our credit and compliance standards. We also make one-to-four family loans to investors to finance their rental properties and to business owners to secure their business loans. As of December 31, 2022, residential real estate loans made to investors and business owners totaled \$140.7 million. As of December 31, 2021, residential real estate loans made to investors and business owners totaled \$114.0 million.

As of December 31, 2022, there were \$244.6 million in CCBX home equity loans included in residential real estate, compared to \$36.9 million at December 31, 2021, as a result of increased activity. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card.

Like our commercial real estate loans, our residential real estate loans are secured by real estate, the value of which may fluctuate significantly over a short period of time as a result of market conditions in the area in which the real estate is

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located. Adverse developments affecting real estate values in our market areas could therefore increase the credit risk associated with these loans, impair the value of property pledged as collateral on loans, and affect our ability to sell the collateral upon foreclosure without a loss or additional losses.

Commercial Real Estate Loans. Commercial real estate loans increased \$213.2 million \$254.8 million, or 25.5% 24.3%, to \$1.30 billion as of December 31, 2023, from \$1.05 billion as of December 31, 2022, from \$835.6 million as .

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These increases, which occurred across the various segments of our portfolio, were due to our commitment to continue growing the portfolio in the Puget Sound region. We actively seek commercial real estate loans in our markets and our lenders are experienced in competing for these loans and managing these relationships.

We make commercial mortgage loans collateralized by owner-occupied and non-owner-occupied real estate, as well as multi-family residential loans. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as manufacturing and processing facilities, business parks, warehouses, retail centers, convenience stores, hotels and motels, office buildings, mixed-use residential and commercial, and other properties. We originate both fixed- and adjustable-rate loans with terms up to 20 years. Fixed-rate loans typically amortize over a 10 to 25 year period with balloon payments due at the end of five to ten years. Adjustable-rate loans are generally based on the prime rate and adjust with the prime rate or are based on term equivalent FHLB rates. At December 31, 2022 December 31, 2023, approximately 30.5% 33.6% of the commercial real estate loan portfolio consisted of fixed rate loans. Commercial real estate loans represented 39.8% 43.0% of our loan portfolio at December 31, 2022 and are historically our largest source of revenue. December 31, 2023. As of December 31, 2022 December 31, 2023, we held \$42.4 million \$43.0 million in purchased commercial real estate loans, compared to \$35.9 million \$42.4 million at December 31, 2021 December 31, 2022. Our credit administration team has substantial experience in underwriting, managing, monitoring and working out commercial real estate loans, and remains diligent in communicating and proactively working with borrowers to help mitigate potential credit deterioration.

Consumer and Other Loans. Consumer and other loans increased \$499.9 million \$209.3 million, or 459.2% 34.4%, to \$608.8 million \$818.0 million, from \$108.9 million \$608.8 million as of December 31, 2021 December 31, 2022, as a result of growth in CCBX loans originated through our partners. We sold \$278.4 million in CCBX consumer and other loans during the year ended December 31, 2023. We intentionally reduced the CCBX portfolio in an effort to optimize and strengthen our balance sheet and expect that additional loans will be sold in the coming months as we continue working to optimize our balance sheet. We will continue growing our CCBX portfolio with loans that we believe are lower risk and more aligned with our long term portfolio and profitability objectives.

CCBX consumer loans totaled \$607.0 million \$816.4 million as of December 31, 2022 December 31, 2023, compared to \$106.8 million \$607.0 million at December 31, 2021 December 31, 2022. CCBX consumer loans include installment loans, credit cards, lines of credit and other loans. Our community bank consumer and other loans totaled \$1.7 million \$1.6 million as of December 31, 2022 December 31, 2023, compared to \$2.0 million \$1.7 million at December 31, 2021 December 31, 2022 and are comprised of personal lines of credit, automobile, boat, and recreational vehicle loans, and secured term loans.

Contractual Maturity Ranges. The contractual maturity ranges of loans in our loan portfolio and the amount of such loans with fixed and floating interest rates in each maturity range as of date indicated are summarized in the following tables:

As of December 31, 2022		As of December 31, 2023

(dollars in thousands)	(dollars in thousands)	Due after Five Years					(dollars in thousands)	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years Through Fifteen Years	Due After Fifteen Years	Gross Loans
		Due in One Year or Less	Due after One Year Through Five Years	Through Fifteen Years	Due After Fifteen Years	Gross Loans						
Commercial and industrial loans:	Commercial and industrial loans:											
PPP loans	PPP loans	\$ —	\$ 4,699	\$ —	\$ —	\$ 4,699						
PPP loans	PPP loans											
PPP loans	PPP loans											
All other commercial and industrial loans	All other commercial and industrial loans	180,872	53,895	73,162	—	307,929						
Real estate loans:	Real estate loans:											
Construction, land and land development loans	Construction, land and land development loans											
Construction, land and land development loans	Construction, land and land development loans											
Construction, land and land development loans	Construction, land and land development loans											
Construction, land and land development loans	Construction, land and land development loans											
Residential real estate loans	Residential real estate loans	24,700	276,526	106,163	41,768	449,157						
Commercial real estate loans	Commercial real estate loans	71,517	221,532	618,269	137,434	1,048,752						
Consumer and other loans	Consumer and other loans	30,377	519,167	59,227	—	608,771						
Total	Total	\$456,378	\$1,112,740	\$867,935	\$196,310	\$2,633,363						

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The following table sets forth all loans at [December 31, 2022](#) [December 31, 2023](#), that are due after [December 31, 2023](#) [December 31, 2024](#), and have either fixed interest rates or floating or adjustable interest rates:

(dollars in thousands)	(dollars in thousands)	Fixed Rates	Floating or Adjustable Rates	Total	(dollars in thousands)	Fixed Rates	Floating or Adjustable Rates	Total
Commercial and industrial loans:	Commercial and industrial loans:							
PPP loans	PPP loans	4,699	\$ —	\$ 4,699				
PPP loans	PPP loans							
PPP loans	PPP loans							
All other commercial and industrial loans	All other commercial and industrial loans	72,829	235,100	307,929				
Real estate loans:	Real estate loans:							
Construction, land and land development loans	Construction, land and land development loans							

Construction, land and land development loans				
Construction, land and land development loans	Construction, land and land development loans	69,209	144,846	214,055
Residential real estate loans	Residential real estate loans	61,636	387,521	449,157
Commercial real estate loans	Commercial real estate loans	320,049	728,703	1,048,752
Consumer and other loans	Consumer and other loans	324,991	283,780	608,771
Total	Total	\$853,413	\$1,779,950	\$2,633,363

Industry Exposure and Categories of Loans

We have a diversified loan portfolio, representing a wide variety of industries. Our major categories of loans are commercial real estate, consumer and other loans, residential real estate, commercial and industrial, and construction, land and land development loans. Together they represent \$2.63 billion\$3.03 billion in outstanding loan balances. When combined with \$2.20 billion\$2.34 billion in unused commitments the total of these categories is \$4.83 billion\$5.38 billion. However, total exposure on CCBX loans is subject to portfolio and partner maximum limits. See "Material Cash Requirements and Capital Resources" for maximum limits on CCBX loans by category.

The following table summarizes our exposure by industry for our commercial real estate portfolio as of December 31, 2022December 31, 2023:

		Outstanding	Available	Total	% of Total Loans (Outstanding Balance & Available Commitment)	Average Loan	Number of								
(dollars in thousands; unaudited)		Balance	Loan Commitments	Exposure		Balance	Loans								
									Total Outstanding Balance & Available Commitment						
(dollars in thousands)									(dollars in thousands)	Outstanding Balance		Available Loan Commitments			
Community bank commercial real estate loans									Community bank commercial real estate loans						
Apartments	Apartments	\$ 215,371	\$ 5,912	\$ 221,283	4.6	% \$2,564	84	Apartments	\$ 356,046	\$	\$ 10,783	\$	\$ 366,829		
Hotel/Motel	Hotel/Motel	160,938	4,101	165,039	3.4	5,961	27	Hotel/Motel	172,437	2,345	2,345	174,782	174,782		
Retail		82,257	4,116	86,373	1.8	904	91								
Office		101,205	3,744	104,949	2.2	1,043	97								
Mixed use		83,640	4,632	88,272	1.8	950	88								
Convenience Store	Convenience Store	91,075	3,586	94,661	2.0	1,822	50	Convenience Store	132,007	1,086	1,086	133,093	133,093		
Warehouse	Warehouse	77,716	1,862	79,578	1.6	1,439	54	Warehouse	114,572	2,166	2,166	116,738	116,738		
Retail								Retail	101,688		719		102,407		
Mixed use								Mixed use	93,850		3,475		97,325		
Office								Office	89,007		3,447		92,454		
Mini Storage	Mini Storage	47,380	1,287	48,667	1.0	2,961	16	Mini Storage	65,731	23,979	23,979	89,710	89,710		
Strip Mall	Strip Mall	45,873	—	45,873	0.9	5,734	8	Strip Mall	44,590	—	—	44,590	44,590		
Manufacturing	Manufacturing	38,694	1,780	40,474	0.8	1,138	34	Manufacturing	37,946	1,514	1,514	39,460	39,460		
Groups < 0.70% of total	Groups < 0.70% of total	104,603	4,004	108,607	2.2	1,260	83	Groups < 0.70% of total	95,659	4,775	4,775	100,434	100,434		
Total	Total	\$1,048,752	\$ 35,024	\$1,083,776	22.3	% \$1,659	632	Total	\$1,303,533	\$	\$ 54,289	\$	\$1,357,822		

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As illustrated in the table below, our CCBX partners originate a large number of mostly smaller dollar loans, resulting in an average consumer loan balance of just \$1,400, \$1,200.

The following table summarizes our exposure by category for our consumer and other loan portfolio as of December 31, 2022 December 31, 2023:

					% of Total Loans (Outstanding Balance & Available Commitment)		Average Loan Number																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
(dollars in thousands; unaudited)					Outstanding Balance	Available Loan Commitments	Total Exposure ⁽¹⁾			Balance																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																											

(1) Total exposure on CCBX loans is subject to portfolio maximum limits. See "Material Cash Requirements and Capital Resources" for maximum limits on CCBX loans by category.

The following table summarizes our concentration by industry for our commercial and industrial loan portfolio as of December 31, 2022 December 31, 2023:

(1) Total exposure on CCBX loans is subject to portfolio maximum limits. See "Material Cash Requirements and Capital Resources" for maximum limits on CCBX loans by category.

The following table details our concentration by category for our construction, land and land development loan portfolio as of December 31, 2022 December 31, 2023.

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Community bank construction, land and land development loans																
Commercial construction	Commercial construction	\$100,714	\$100,647	\$201,361	4.2	%	\$4,196	24	Commercial construction	\$81,489	\$	\$	\$85,584	\$	\$167,073	3.1
Residential construction	Residential construction	32,879	26,708	59,587	1.2		865	38	Residential construction	34,213	16,687		16,687	50,900		50,900
Undeveloped land loans	Undeveloped land loans	44,578	7,653	52,231	1.1		2,972	15	Undeveloped land loans	7,890	4,391		4,391	12,281		12,281
Developed land loans	Developed land loans	20,167	4,315	24,482	0.5		672	30	Developed land loans	20,515	2,734		2,734	23,249		23,249
Land development	Land development	15,717	3,219	18,936	0.4		827	19	Land development	12,993	4,138		4,138	17,131		17,131
Total	Total	\$214,055	\$142,542	\$356,597	7.4	%	\$1,699	126	Total	\$157,100	\$	\$	\$113,534	\$	\$270,634	5.0

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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 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 applicable regulations. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection of principal or interest is in doubt. Installment (closed end) consumer loans and revolving (open-ended loans, such as credit cards) originated through CCBX partners continue to accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards). These consumer loans are reported out as substandard loans, 90+ days past due and still accruing. As a result of the type of loans (primarily consumer loans) originated through our CCBX partners, we anticipate that balances 90 days past due or more and still accruing will increase as those loans grow.

When loans are placed on nonaccrual status, all unpaid accrued interest is reversed from income and all interest accruals are stopped. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal balance. Loans are returned to accrual status if we believe that all remaining principal and interest is fully collectible and there has been at least six months of sustained repayment performance since the loan was placed on nonaccrual status. We define nonperforming loans as loans on nonaccrual status and accruing loans 90 days or more past due. Nonperforming assets also include other real estate owned and repossessed assets.

We believe our lending practices and active approach to managing nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have procedures in place to assist us in maintaining the overall credit quality of our loan portfolio. We have established underwriting guidelines, concentration limits and we also monitor our delinquency levels for any negative or adverse trends. We actively manage problem assets to reduce our risk for loss.

We had \$33.2 million \$53.8 million in nonperforming assets as of December 31, 2022 December 31, 2023, compared to \$1.7 million \$33.2 million as of December 31, 2021 December 31, 2022. This includes \$26.1 million \$46.5 million in CCBX loans more than 90 days past due and still accruing interest as of December 31, 2022 December 31, 2023, compared to \$1.5 million \$26.1 million at December 31, 2021 December 31, 2022. All of our nonperforming assets were nonperforming loans as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. Our nonperforming loans to loans receivable ratio was 1.26% 1.78% at December 31, 2022 December 31, 2023, compared to 0.10% 1.26% at December 31, 2021 December 31, 2022. The increase in nonperforming assets was due to a \$24.6 million \$20.4 million increase in CCBX partner loans that are 90 days or more past due and still accruing interest. Community Additionally, community bank nonaccrual loans increased \$6.9 million \$235,000 during the year twelve months ended December 31, 2022 primarily due December 31, 2023 to the addition of one new nonaccrual \$7.3 million and includes a multifamily loan partially offset by other nonaccrual principal reductions/charge-offs. The for \$6.9 million nonaccrual balance in commercial real estate loans shown below consists of one loan, which we believe is well secured with an original loan to value ratio of 62%, and an updated loan to value ratio of 75% as of January 2023. Management anticipates this loan being resolved in the first half of 2023, secured.

Our community bank credit quality remains strong, as demonstrated by the low level of community bank charge-offs and nonperforming loan balance for the year ended December 31, 2022 December 31, 2023. CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for loan credit losses. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by absorbing indemnifying or reimbursing incurred losses. Consumer losses, when accruing consumer loans originated through CCBX partners are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards).

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The following table presents information regarding community bank and CCBX nonperforming assets at the dates indicated:

		As of December 31, 2022	As of December 31, 2021		As of December 31, 2023	As of December 31, 2022
(dollars in thousands)	(dollars in thousands)			(dollars in thousands)		
Nonaccrual loans:	Nonaccrual loans:					
Commercial and industrial loans	Commercial and industrial loans	\$ 113	\$ 166			
Commercial and industrial loans						
Commercial and industrial loans						
Real estate loans:	Real estate loans:					
Construction, land and land development						
Construction, land and land development						
Construction, land and land development	Construction, land and land development	66	—			
Residential real estate	Residential real estate	—	55			
Commercial real estate	Commercial real estate	6,901	—			
Total nonaccrual loans	Total nonaccrual loans	7,080	221			
Accruing loans past due 90 days or more:	Accruing loans past due 90 days or more:					
Commercial & industrial loans	Commercial & industrial loans	404	—			
Commercial & industrial loans						
Commercial & industrial loans						
Real estate loans:	Real estate loans:					
Residential real estate loans	Residential real estate loans	876	39			
Residential real estate loans						
Residential real estate loans						
Consumer and other loans:	Consumer and other loans:					
Credit cards						
Credit cards						
Credit cards	Credit cards	10,570	155			
Other consumer and other loans	Other consumer and other loans	14,245	1,312			
Total accruing loans past due 90 days or more	Total accruing loans past due 90 days or more	26,095	1,506			
Total nonperforming loans	Total nonperforming loans	33,175	1,727			
Real estate owned	Real estate owned	—	—			
Reposessed assets	Reposessed assets	—	—			
Troubled debt restructurings, accruing		—	—			

Modified loans for borrowers experiencing financial difficulty									
Total nonperforming assets	Total nonperforming assets	\$33,175	\$1,727						
Total nonaccrual loans to loans receivable	Total nonaccrual loans to loans receivable	0.27 %	0.01 %	Total nonaccrual loans to loans receivable	0.24	%	0.27	%	
Total nonperforming loans to loans receivable	Total nonperforming loans to loans receivable	1.26 %	0.10 %	Total nonperforming loans to loans receivable	1.78	%	1.26	%	
Total nonperforming assets to total assets	Total nonperforming assets to total assets	1.06 %	0.07 %	Total nonperforming assets to total assets	1.43	%	1.06	%	

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The following tables detail the community bank and CCBX nonperforming assets which are included in the total nonperforming assets table above.

Community Bank	Community Bank	As of		Community Bank	As of	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	December 31, 2022	December 31, 2021	(dollars in thousands; unaudited)	December 31, 2023	December 31, 2022
Nonaccrual loans:	Nonaccrual loans:					
Commercial and industrial loans	Commercial and industrial loans	\$ 113	\$ 166			
Commercial and industrial loans						
Commercial and industrial loans						
Real estate:	Real estate:					
Construction, land and land development						
Construction, land and land development						
Construction, land and land development	Construction, land and land development	66	—			
Residential real estate	Residential real estate	—	55			
Commercial real estate	Commercial real estate	6,901	—			
Total nonaccrual loans	Total nonaccrual loans	7,080	221			
Accruing loans past due 90 days or more:	Accruing loans past due 90 days or more:					
Accruing loans past due 90 days or more:						
Accruing loans past due 90 days or more:						
Total accruing loans past due 90 days or more						
Total accruing loans past due 90 days or more						

Total accruing loans past due 90 days or more	Total accruing loans past due 90 days or more	—	—
Total nonperforming loans	Total nonperforming loans	7,080	221
Other real estate owned	Other real estate owned	—	—
Reposessed assets	Reposessed assets	—	—
Total nonperforming assets	Total nonperforming assets	\$ 7,080	\$ 221

Total nonperforming community bank loans to total loans receivable	Total nonperforming community bank loans to total loans receivable	0.24	%	0.27	%
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CCBX	As of	
	December 31, 2023	December 31, 2022
(dollars in thousands; unaudited)		
Nonaccrual loans	\$ —	\$ —
Accruing loans past due 90 days or more:		
Commercial & industrial loans	2,086	404
Real estate loans:		
Residential real estate loans	1,115	876
Consumer and other loans:		
Credit cards	34,835	10,570
Other consumer and other loans	8,488	14,245
Total accruing loans past due 90 days or more	46,524	26,095
Total nonperforming loans	46,524	26,095
Other real estate owned	—	—
Reposessed assets	—	—
Total nonperforming assets	\$ 46,524	\$ 26,095
Total nonperforming CCBX loans to total loans receivable	1.54 %	0.99 %

As of December 31, 2023, \$44.3 million of the \$46.5 million in nonperforming CCBX loans were covered by CCBX partner credit enhancements. Agreements with our CCBX partners provide for a credit enhancement which protects the Bank by indemnifying or reimbursing incurred losses. Under the agreement, the CCBX partner will indemnify or reimburse the Bank for its loss/charge-off on these loans.

Allowance for Credit Losses - Loans

The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Bank must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Bank

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CCBX	As of	
	December 31, 2022	December 31, 2021
(dollars in thousands; unaudited)		
Nonaccrual loans	\$ —	\$ —
Accruing loans past due 90 days or more:		

Commercial & industrial loans	404	—
Real estate loans:		
Residential real estate loans	876	39
Consumer and other loans:		
Credit cards	10,570	155
Other consumer and other loans	14,245	1,312
Total accruing loans past due 90 days or more	26,095	1,506
Total nonperforming loans	26,095	1,506
Other real estate owned	—	—
Reposessed assets	—	—
Total nonperforming assets	\$ 26,095	\$ 1,506

Potential Problem Loans

From a credit risk standpoint, we classify most categories of our loans in one of five categories: pass, other loans especially mentioned, substandard, doubtful or loss. Within cannot extend the pass category, we classify loans into one contractual term of the following five subcategories based on perceived loan for expected extensions, renewals, and modifications, unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Bank. Because expected credit risk, including repayment capacity and collateral security: minimal risk, low risk, modest risk, average risk and acceptable risk. For consumer loans we follow losses are estimated over the uniform retail credit classification approach, where we classify loans into three categories: pass, substandard (over 90 days and still accruing) and loss (installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending partners more than 120 and 180 days past due, respectively). contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The classifications of loans reflect a judgment about Company has chosen to segment its portfolio consistent with the risks of default and loss given default. We review manner in which it manages the risk ratings of our credits on an annual basis, or more frequently if circumstances warrant. Risk ratings are adjusted to reflect the degree type of risk and loss that is believed to be inherent in each credit as of each monthly reporting period. Our methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss), credit.

- Credits rated as other loans especially mentioned show clear signs of financial weaknesses or deterioration in creditworthiness; however, such concerns are not so pronounced that we generally expect Community Bank Portfolio: The ACL calculation is derived for loan segments utilizing loan level information and relevant information from internal and external sources related to experience significant loss within past events and current conditions. In addition, the short-term. Such credits typically maintain the ability to perform within standard credit terms Company incorporates a reasonable and credit exposure is not as prominent as credits with a lower rating.
- Credits rated as substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses in the collateral for the loan. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.
- Credits rated as doubtful have weaknesses of substandard assets that are sufficient to make collection or liquidation in full questionable and there is a high probability of loss based on currently existing facts, conditions and values.
- Credits rated as loss are charged-off. We have no expectation of the recovery of any payments in respect of credits rated as loss. supportable forecast.
- CCBX credits Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio.

Also included in the ACL are rated following qualitative reserves to cover losses that are expected, but in the uniform retail Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower's financial condition, credit classification approach, where we classify loans into three categories: pass, substandard (over 90 days rating and still accruing) the volume and loss (installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending partners more than 120 and 180 days severity of past due respectively). Installment/closed-end, loans and revolving/open-end consumer non-accrual loans. Based on this analysis, the Company records a provision for credit losses - loans originated through CCBX lending partners will continue to accrue interest until 120 and 180 days past due, respectively and an

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allowance is recorded through provision expense for these probable incurred losses. For installment/closed-end and revolving/open-end consumer loans originated through CCBX lending partners with balances outstanding beyond 120 days and 180 days, respectively, principal and capitalized interest outstanding is charged off against maintain the allowance and accrued interest outstanding is reversed against interest income, at appropriate levels.

The following table summarizes the internal ratings As of our loans as of the dates indicated:

As of December 31, 2022

	Other Loans Especially Mentioned					Sub- Standard		Doubtful		Total
	Pass									
	(dollars in thousands)									
Commercial and industrial loans	\$ 304,840	\$ 7,219	\$ 569	\$ -	\$ 312,628					
Real estate loans:										
Construction, land, and land development	206,304	7,685	66	-	214,055					
Residential real estate	448,185	96	876	-	449,157					
Commercial real estate	1,030,650	11,201	6,901	-	1,048,752					
Consumer and other loans	583,956	-	24,815	-	608,771					
	<u>\$ 2,573,935</u>	<u>\$ 26,201</u>	<u>\$ 33,227</u>	<u>\$ -</u>	<u>2,633,363</u>					
Less net deferred origination fees					(6,107)					
Loans receivable					<u>\$ 2,627,256</u>					

	As of December 31, 2021									
	Other Loans Especially Mentioned					Sub- Standard		Doubtful		Total
	Pass									
	(dollars in thousands)									
Commercial and industrial loans	\$ 416,642	\$ 2,180	\$ 238	\$ -	\$ 419,060					
Real estate loans:										
Construction, land, and land development loans	183,594	-	-	-	183,594					
Residential real estate loans	204,173	122	94	-	204,389					
Commercial real estate loans	824,676	10,911	-	-	835,587					
Consumer and other loans	107,404	-	1,467	-	108,871					
	<u>\$ 1,736,489</u>	<u>\$ 13,213</u>	<u>\$ 1,799</u>	<u>\$ -</u>	<u>1,751,501</u>					
Less net deferred origination fees					(8,766)					
Loans receivable					<u>\$ 1,742,735</u>					

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of December 31, 2023, the allowance for loan credit losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts. In determining the allowance for loan losses, we estimate losses on specific loans, totaled \$117.0 million, or groups 3.86% of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, and current economic factors. See "—Critical Accounting Policies—Allowance for Loan Losses."

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In connection with our allowance for loan loss review, we consider risk elements applicable to particular loan types or categories in assessing the quality of individual total loans. Some of the risk elements we consider include:

- for commercial and industrial loans, the debt service coverage ratio (income from the business in excess of operating expenses compared to loan repayment requirements), the operating results of the commercial, professional or agricultural enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral;
- for commercial real estate loans, the debt service coverage ratio, operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- for residential real estate loans, the borrower's ability to repay the loan, including a consideration of the debt-to-income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral; and
- for construction, land and land development loans, the perceived market feasibility of the project including the ability to sell developed lots or improvements constructed for resale or the ability to lease property constructed for lease, the quality and nature of contracts for presale or prelease, if any, experience and ability of the developer

and loan-to-value ratio.

- for consumer and other loans, the borrower's ability to repay the loan, including a consideration of delinquency status, consumer credit scores, debt-to-income ratio and employment and income stability, and loan-to-value ratios, as applicable.

As of December 31, 2022, the allowance for loan losses totaled \$74.0 million, or 2.82% of total loans. Effective January 1, 2023 the Company implemented the CECL allowance model which calculates reserves over the life of the loan and is largely driven by portfolio characteristics, economic outlook, and other key methodology assumptions versus the incurred loss model, which is what we were previously using. As a result of December 31, 2021, implementing CECL, there was a one-time adjustment to the 2023 opening allowance balance of \$3.9 million. The day one CECL adjustment for community bank loans included a reduction of \$310,000 to the community bank allowance driven by the reversal of the unallocated balance and a reduction of \$340,000 related to the community bank unfunded commitment reserve also driven by the reversal of the unallocated balance. This was offset by an increase to the CCBX allowance for loan losses totaled \$28.6 million, or 1.64% \$4.2 million. With the mirror image approach accounting related to the contingent credit enhancement asset for CCBX partner loans, there was a CECL day one increase to the indemnification asset in the amount of total loans. \$4.5 million. Net, the day one impact to retained earnings for the Bank's transition to CECL was an increase of \$954,000, excluding the impact of income taxes.

The increase in the Company's allowance for loan credit losses for the year ended December 31, 2022 December 31, 2023 compared to December 31, 2021 December 31, 2022, is largely related to the provision for CCBX partner loans. During the year ended December 31, 2022 December 31, 2023, a \$78.3 million \$182.7 million provision for loan credit losses - loans was recorded for CCBX partner loans based on management's analysis. The factors used in management's analysis for community bank loan credit losses indicated that a provision for loan credit losses - loans of \$719,000 \$1.3 million was needed for the year ended December 31, 2022 December 31, 2023. . The economic environment is continuously changing with increased the GDP, inflation, higher interest rates, unemployment, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment, including a potential shutdown of the U.S. government, and trade issues that have resulted in some economic uncertainty. As described above, CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for loan credit losses.

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Agreements with our CCBX partners provide for a credit enhancement provided by the partner which protects the Bank by absorbing indemnifying and/or reimbursing incurred losses. In accordance with accounting guidance, we estimate and record a provision for probable expected losses for these CCBX loans and reclassified negative deposit accounts. When the provision for loan credit losses - loans and provision for unfunded commitments is recorded, a credit enhancement asset is also recorded on the balance sheet through noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's legal commitment to cover indemnify or reimburse losses. The credit enhancement asset is relieved as credit enhancement payments and recoveries are received from the CCBX partner, partner or taken from the partner's cash reserve account. BaaS fraud includes noncredit fraud losses on loans and deposits originated through partners. Agreements with our CCBX partners also provide protection to the Bank from fraud by indemnifying and/or reimbursing incurred fraud losses. Fraud losses are recorded when incurred as losses in noninterest expense, and the enhancement received from the CCBX partner is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserve account at the Bank which the Bank can collect from when losses occur that occur. That account is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank from credit and fraud losses by absorbing indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill its contracted obligations to replenish its cash reserve account then the Bank would be exposed to additional loan and deposit losses, as a result of this counterparty risk. If a CCBX partner does not replenish their its cash reserve account then the Bank can declare the agreement in default, take over servicing and cease paying the partner for servicing the loan and providing credit enhancements. The Bank would write-off any remaining receivable credit enhancement asset from the CCBX partner but would retain the full yield and any fee income on the loan portfolio going forward, and BaaS loan expense would decrease once default occurred and payments to the CCBX partner were stopped. The Company adopted the CECL accounting standard effective January 1, 2023 and accounted for the allowance for credit losses under the incurred loss model at December 31, 2022 and for prior periods.

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The following table presents, the loans receivable as of and allowance for loan losses by segment for the period indicated: periods indicated, net charge-off information by segment:

(dollars in thousands)	As of December 31, 2022			As of December 31, 2021		
	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Loans receivable	\$ 1,614,751	\$ 1,012,505	\$ 2,627,256	\$ 1,396,060	\$ 346,675	\$ 1,742,735
Allowance for loan losses	(20,636)	(53,393)	(74,029)	(20,299)	(8,333)	(28,632)
Allowance for loan losses to total loans receivable	1.28 %	5.27 %	2.82 %	1.45 %	2.40 %	1.64 %

(dollars in thousands; unaudited)	Year Ended					
	December 31, 2023			December 31, 2022		
	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	\$ 64	\$ 151,933	\$ 151,997	\$ 428	\$ 33,321	\$ 33,749
Gross recoveries	(12)	(7,019)	(7,031)	(46)	(36)	(82)
Net charge-offs	\$ 52	\$ 144,914	\$ 144,966	\$ 382	\$ 33,285	\$ 33,667

Net charge-offs to average loans	0.00 %	11.97 %	4.94 %	0.03 %	4.48 %	1.49 %
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(dollars in thousands; unaudited)	Year Ended		
	December 31, 2021		
	Community Bank	CCBX	Total
Gross charge-offs	\$ 255	\$ 385	\$ 640
Gross recoveries	(83)	(12)	(95)
Net charge-offs	\$ 172	\$ 373	\$ 545
Net charge-offs to average loans	0.01 %	0.25 %	0.03 %

The following tables present, as of and for the periods indicated, an analysis of the allowance for **loan** credit losses and other related data:

		As of or for the Year Ended	
		December 31,	
(dollars in thousands)		2022	2021
As of or for the Year Ended December 31,			
(dollars in thousands; unaudited)		(dollars in thousands; unaudited)	
		2023	2022
		2021	
Allowance at beginning of period	Allowance at beginning of period	\$28,632	\$ 19,262
Provision for loan losses		79,064	9,915
Impact of adopting CECL (ASC 326)			
Provision for credit losses			
Charge-offs:	Charge-offs:		
Commercial and industrial loans			
Commercial and industrial loans			
Commercial and industrial loans	Commercial and industrial loans	555	222
Residential real estate	Residential real estate	452	79
Consumer and other	Consumer and other	32,742	339
Total charge-offs	Total charge-offs	33,749	640
Recoveries:	Recoveries:		
Commercial and industrial loans	Commercial and industrial loans	40	67
Commercial and industrial loans			
Commercial and industrial loans			
Residential real estate			
Consumer and other	Consumer and other	42	28
Total recoveries	Total recoveries	82	95
Net charge-offs	Net charge-offs	33,667	545
Allowance at end of period	Allowance at end of period	\$74,029	\$ 28,632

Allowance for loan losses to nonaccrual loans		1045.61 %	12955.66 %				
Allowance for credit losses to nonaccrual loans		Allowance for credit losses to nonaccrual loans		1598.88 %	1045.61 %	12955.66 %	
Allowance to nonperforming loans	Allowance to nonperforming loans	223.15 %	1657.90 %	Allowance to nonperforming loans	217.24 %	223.15 %	1657.90 %
Allowance to loans receivable	Allowance to loans receivable	2.82 %	1.64 %	Allowance to loans receivable	3.86 %	2.82 %	1.64 %
Net charge-offs to average loans		1.49 %	0.03 %				

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The allowance for loan credit losses to nonaccrual loans ratio decreased increased as of December 31, 2022 December 31, 2023, compared to December 31, 2021 December 31, 2022 as a result of an increase of \$6.9 million \$235,000 in nonaccrual community bank loans, combined with an increase of \$45.4 million \$42.9 million in the allowance for loan credit losses. The decrease in the allowance to nonperforming loans ratio is due to an increase in CCBX loans 90+ days past due and accruing as a result of growth in the CCBX loan portfolio. The increase in the allowance for loan credit losses for the year twelve months ended December 31, 2022 months ended December 31, 2023 compared to the year twelve months ended December 31, 2021 months ended December 31, 2022, is largely related to the increase in the allowance for loans originated through our CCBX partners. CCBX partner agreements provide for, and the Company has collected in full, credit enhancements that cover the \$33.3 million \$144.9 million in net-charge-offs net charge-offs on CCBX loans for the year twelve months ended December 31, 2022 months ended December 31, 2023. At December 31, 2022 December 31, 2023, the allowance for loan credit losses for CCBX partner loans totaled \$53.4 million \$95.4 million, compared to \$8.3 million \$53.4 million at December 31, 2021 December 31, 2022.

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The following table presents as of the loans receivable and allowance for credit losses by segment for the periods indicated, net charge-off information by segment period indicated:

(dollars in thousands; unaudited)	Year Ended					
	December 31, 2022			December 31, 2021		
	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Gross charge-offs	\$ 428	\$ 33,321	\$ 33,749	\$ 255	\$ 385	\$ 640
Gross recoveries	(46)	(36)	(82)	(83)	(12)	(95)
Net charge-offs	\$ 382	\$ 33,285	\$ 33,667	\$ 172	\$ 373	\$ 545
Net charge-offs to average loans	0.03 %	4.48 %	1.49 %	0.01 %	0.25 %	0.03 %

(dollars in thousands; unaudited)	As of December 31, 2023			As of December 31, 2022		
	Community Bank	CCBX	Total	Community Bank	CCBX	Total
Loans receivable	\$ 1,830,154	\$ 1,195,938	\$ 3,026,092	\$ 1,614,752	\$ 1,012,504	\$ 2,627,256
Allowance for credit losses	(21,595)	(95,363)	(116,958)	(20,636)	(53,393)	(74,029)
Allowance for credit losses to total loans receivable	1.18 %	7.97 %	3.86 %	1.28 %	5.27 %	2.82 %

Although we believe that we have established our allowance for loan credit losses in accordance with GAAP and that the allowance for loan credit losses was adequate to provide for known and inherent expected losses in the portfolio at all times shown above, future provisions for loan credit losses will be subject to ongoing evaluations of the risks in our loan portfolio. We continue to have not seen an increase in community bank loan losses due to COVID-19 as originally anticipated, as evidenced by the low level levels of charge-offs and nonperforming community bank loans, however, the economic environment is continuously changing with increased inflation, higher interest rates, GDP, unemployment, global unrest, the war in Ukraine, conflicts in the Middle East, the political environment and trade issues that have resulted in some economic uncertainty. If economic conditions worsen then the U.S., Washington state and Puget Sound region may experience a more severe economic downturn, and our asset quality could deteriorate, which may require material additional provisions for loan credit losses.

The following table shows the allocation of the allowance for loan credit losses among loan categories and certain other information as of the dates indicated. The allocation of the allowance for loan credit losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods

will necessarily occur in these amounts or in the indicated proportions. The total allowance is available to absorb losses from any loan category.

		At December 31,												
		2022		2021										
		At December 31,												
		2023												
		Loan		Loan				Loan		2023		2022		
		Allowance	Category	Allowance	Category			Allowance		Allowance		Allowance	Category	
		Allocated	as a % of	Allocated	as a % of			Allocated	as a % of	Allocated		Allocated	as a % of	
(dollars in thousands)	(dollars in thousands)	to Loan Portfolio	Total Loans	to Loan Portfolio	Total Loans	(dollars in thousands)		to Loan Portfolio	Total Loans	to Loan Portfolio		Total Loans		
Commercial and industrial loans	Commercial and industrial loans	\$ 4,831	11.8 %	\$ 3,221	23.9 %	Commercial and industrial loans	\$	8,877	9.6	9.6 %	\$	4,831	11.8	11.8 %
Real estate loans:	Real estate loans:													
Construction, land and land development loans														
Construction, land and land development loans														
Construction, land and land development loans	Construction, land and land development loans	7,425	8.1	6,984	10.5									
Residential real estate loans	Residential real estate loans	4,142	17.1	4,598	11.7									
Commercial real estate loans	Commercial real estate loans	5,470	39.8	6,590	47.7									
Consumer and other loans	Consumer and other loans	50,996	23.2	7,092	6.2									
Total allocated	Total allocated	72,864		28,485										
Unallocated	Unallocated	1,165		147										
Total allowance for loan losses		\$74,029		\$28,632										
Unallocated														
Unallocated														
Total allowance for credit losses														
Total allowance for credit losses														
Total allowance for credit losses														

Securities

We use our securities portfolio primarily as a source of liquidity and collateral that can be readily sold or pledged for public deposits or other business purposes. At **December 31, 2022** **December 31, 2023**, **98.7%** **66.1%** of our investment portfolio consisted primarily of U.S. Treasury securities. The remainder of our securities portfolio was invested in **municipal bonds**, U.S. Agency collateralized mortgage

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obligations and U.S. Agency residential mortgage-backed securities. Because we target a loan-to-deposit ratio in the range of 90% to 100%, we prioritize liquidity over the earnings of our securities portfolio. At **December 31, 2022** **December 31, 2023**, our loan-to-deposit ratio was **93.2%** **90.1%** due to our **significant** **strong** growth in both loans and deposits. Our

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Our investment portfolio consists of securities classified as available for sale and, to a lesser amount, held to maturity. The carrying values of our investment securities classified as available for sale are adjusted for unrealized gain or loss, and any gain or loss is reported on an after-tax basis as a component of other comprehensive income in shareholders' equity. As of **December 31, 2022** **December 31, 2023**, our available for sale portfolio has an unrealized loss of **\$3.0 million**, **\$537,000**, compared to an unrealized loss of **\$38,000** **\$3.0 million** as of **December 31, 2021** **December 31, 2022**.

As of December 31,										
2022			2021							
As of December 31,										
2023			2022							
(dollars in thousands)	(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	(dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available-for-sale:	Securities available-for-sale:									
U.S. Treasury securities	U.S. Treasury securities	\$ 99,967	\$97,015	\$34,999	\$34,998					
U.S. Treasury securities	U.S. Treasury securities									
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations									
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations									
U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations	54	51	68	70					
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	1	1	3	3					
Municipal bonds	Municipal bonds	250	250	252	256					
Total available-for-sale securities	Total available-for-sale securities	100,272	97,317	35,322	35,327					
Securities held-to-maturity:	Securities held-to-maturity:									
U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	1,036	916	1,296	1,348					

U.S. Agency residential mortgage-backed securities					
U.S. Agency residential mortgage-backed securities					
Total held-to-maturity securities	Total held-to-maturity securities	1,036	916	1,296	1,348
Total investment securities	Total investment securities	\$101,308	\$98,233	\$36,618	\$36,675

All of our U.S. Agency residential mortgage-backed securities and U.S. Agency collateralized mortgage obligations are U.S. Government agency securities. As of **December 31, 2022** **December 31, 2023**, we did not hold any Fannie Mae or Freddie Mac preferred stock, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, or second lien elements in our investment portfolio.

Our management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

As of **December 31, 2022** **December 31, 2023** and **2021** **2022**, we did not own securities of any one issuer, other than the U.S. Government and its agencies, for which aggregate adjusted cost exceeded 10.0% of consolidated shareholders' equity.

Restricted equity securities totaled **\$6.8 million** as of **December 31, 2023** and **\$7.5 million** as of **December 31, 2022** and **\$6.0 million** as of **December 31, 2021**. The **increase** **decrease** was attributable to **net additions** **a reduction** of **Federal Reserve** and the amount of **FHLB stock**, **stock that we are required to hold**. Federal Reserve and FHLB stock are carried at par and do not have a readily determinable fair value. Ownership of FHLB stock is restricted to the FHLB and member institutions, and can only be purchased and redeemed at par.

The Company has the following equity investments which do not have a readily determinable fair value and are held at cost minus impairment if any, plus or minus observable price changes in orderly transactions for an identical or similar investment of the same issuer. This method will be applied until the investments do not qualify for the measurement election (e.g., if the investment has a readily determinable fair value). The Company will reassess at each reporting period whether the equity investments without a readily determinable fair value qualifies to be measured at cost minus impairment.

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- As of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** the Company **held** **has** a \$2.2 million equity interest in a specialized bank technology **company** which consists of 1.6 million shares of common stock and 873,853 preferred shares. During the year ended **December 31, 2021**, the **company**.
- The Company **reassessed the value and recognized** **has** a \$1.5 million unrealized holding gain as a

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result of an observable price change. During the year ended 2022, the Company reviewed the carrying value of \$2.2 million and determined it was still the appropriate carrying value.

During the year ended **December 31, 2022**, the Company re-evaluated the value on a **\$500,000** **\$350,000** equity investment **interest** in a technology company **as of the years ended December 31, 2023** and **recorded an impairment of \$100,000**. This equity investment consists of 9,000 shares of stock and is carried at cost less impairment, which approximates its fair value. **December 31, 2022.**

Additionally, the • The Company contributed **\$350,000** **\$50,000** in a technology company during the year ended **December 31, 2022** **December 31, 2023**. There was no equity ownership **in this company** as of **December 31, 2021** **December 31, 2022**.

The following table shows the activity in equity investments without a readily determinable fair value for the dates shown:

(dollars in thousands)	For the Twelve Months Ended		
	December 31,		
	2023	2022	2021
Carrying value, beginning of period	\$ 2,572	\$ 2,322	850
Purchases	50	350	—
Observable price change	—	(100)	1,472
Carrying value, end of period	\$ 2,622	\$ 2,572	\$ 2,322

The Company **invests** has **invested** in **investment** funds that are **designed to help accelerate accelerating** technology **for** adoption at banks and has **invested** in **three** separate funds, by banks. These funds equity investments are **carried** held at fair value, as reported by the funds funds. During the year ended **December 31, 2022** December 31, 2023, the Company contributed **\$349,000** \$74,500 with investment funds designed to help accelerate technology adoption at banks, and recognized **losses** net gains of \$53,000, \$278,000, resulting in an equity interest of **\$456,000** \$809,000 at **December 31, 2022** December 31, 2023. The Company has committed up to **\$988,000** \$653,000 in capital for these **investment funds, however,** equity funds. One firm decided to wind down their technology fund and their fund balance decreased \$176,000 in 2023, leaving \$22,000 in that fund as of December 31, 2023.

The following table shows the **Company is not obligated to** activity in equity fund **these commitments prior to a capital call,** investments held at fair value for the dates shown:

(dollars in thousands)	For the Twelve Months Ended December 31,		
	2023	2022	2021
Carrying value, beginning of period	456	160	—
Purchases/capital calls/capital returns, net	75	349	163
Net change recognized in earnings	278	(53)	(3)
Carrying value, end of period	809	456	160

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The following table sets forth the amortized cost of held to maturity securities and the fair value of available for sale securities, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio as of the dates indicated. The contractual maturity of a mortgage-backed security is the date at which the last underlying mortgage matures.

One Year or Less	As of December 31, 2022									
	More than One									
	As of December 31, 2023									
	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years			
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Carrying Value
(dollars in thousands)										
Securities available-for-sale:										
U.S. Treasury securities	\$ 99,461	2.138 %	\$ -	0.000 %	\$ 97,015	2.153 %	\$ -	0.000 %	\$ -	\$ -
U.S. Agency collateralized mortgage obligations	-	0.000 %	-	0.000 %	43	2.924 %	—	0.000 %	—	5
51 Total available-for-sale	99,461	3.190 2.138 %	—	0.000 %	43	2.924 %	—	0.000 %	—	99
Securities held to maturity:										
U.S. Agency residential mortgage-backed securities	1 -	2.751 %	—	0.000 %	-	0.000 %	-	0.000 %	-	1 51
Municipals 51,041	250	3.750 %	—	0.000 %	-	0.000 %	-	0.000 %	-	—
Total available-for-sale	251	3.746 %	97,015	2.153 %	-	0.000 %	51	3.190 %	—	97
Securities held to maturity:										

	U.S. Agency						Foreign Government					
	residential mortgage-backed securities		commercial mortgage-backed securities		other		sovereign		supranational		multilateral development banks	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Total held to maturity	-	0.000 %	-	0.000 %	-	0.000 %	916	2.657 %	51,041	5.489 %	916	5.489 %
Total	\$ 251,994,461	3.746 %	\$ 97,015—	2.153 %	\$ —	0.000 %	\$ 967,433	2.924 %	\$ 98,233,511	2.924 %	\$ 98,233,511	2.924 %

Deposits

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Included in total deposits is \$1.28 billion \$1.86 billion in CCBX deposits, an increase of \$563.0 million \$583.5 million, or 78.6% 45.6%, compared to \$716.3 million \$716.3 million. CCBX customer deposit relationships include deposits with CCBX end customers, operating and non-operating deposit accounts. The deposits from our CCBX segment are primarily for market accounts, and a portion accounts. Our cost of such deposits for the CCBX deposits may be classified as brokered deposits as a result of segment was 4.55% for the 12 months ended December 31, 2023. Of 2022, the majority of CCBX deposits were reclassified from noninterest bearing to interest bearing. This is because the current rate exceeds the minimum interest rate set by the FOMC. year ended December 31, 2023.

Total interest bearing account balances, excluding time deposits, as of **December 31, 2022** **December 31, 2023** were **\$2.01 billion** **\$2.72 billion**, an increase of **\$1.05 billion** **\$2.01 billion** as of **December 31, 2021** **December 31, 2022**. The **\$1.05 billion** **\$703.7 million** increase is the result due in part to former BaaS-brokered deposits now relationship agreement with one of reclassifying CCBX noninterest bearing deposits to interest bearing as a result our partners in the first quarter of the increases in interest interest bearing deposits partially offset by and a community bank decrease **increase** in interest bearing deposits of **\$70.2 million** **\$103.1 million**. Included in interest bearing deposits, an increase of **\$30.8 million** from **December 31, 2021**. Also included in interest bearing total deposits is **\$12.5 million** **\$340.1 million** in IntraFi network reciprocal **December 31, 2023**, which provides our customers with fully insured deposits through a sweep and exchange of deposits with other financial institutions.

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As of December 31,

		2022	2021							
		As of December 31,								
		2023								
(dollars in thousands)	(dollars in thousands)	Amount	Percent of Total Deposits	Amount	Percent of Total Deposits	(dollars in thousands)	Amount		Percent of Total Deposits	
Demand, noninterest bearing	Demand, noninterest bearing	\$ 775,012	27.5 %	\$1,355,908	57.4 %	Demand, noninterest bearing	\$ 625,202	18.6	18.6	% of deposits
NOW and money market	NOW and money market	1,804,399	64.0	789,709	33.4					
Savings	Savings	107,117	3.8	103,956	4.4					
Total core deposits	Total core deposits	2,686,528	95.3	2,249,573	95.2					
BaaS-brokered deposits		101,546	3.6	70,757	3.0					
Brokered deposits										
Time deposits less than \$100,000	Time deposits less than \$100,000	12,596	0.5	14,961	0.6					
Time deposits \$100,000 and over	Time deposits \$100,000 and over	16,851	0.6	28,496	1.2					
Total	Total	\$2,817,521	100.0 %	\$2,363,787	100.0 %	Total	\$ 3,360,363	100.0	100.0	% of deposits
Cost of deposits	Cost of deposits	1.56 %		0.09 %						

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The following table presents the community bank deposits which are included in the total deposit portfolio table above:

Community Bank	Community Bank	As of		As of		Community Bank		As of	
		December 31, 2022		December 31, 2021				December 31, 2023	
(dollars in thousands)	(dollars in thousands)	Balance	% to Total	Balance	% to Total	(dollars in thousands)	Balance	% to Total	
Demand, noninterest bearing	Demand, noninterest bearing	\$ 694,179	45.2 %	\$ 719,233	43.7 %	Demand, noninterest bearing	\$ 561,572	37.5	37.5 %
NOW and money market	NOW and money market	709,490	46.1	780,884	47.4				
Savings	Savings	105,101	6.8	103,954	6.3				
Total core deposits	Total core deposits	1,508,770	98.1	1,604,071	97.4				
Brokered deposits	Brokered deposits	1	0.0	1	0.0				

Time deposits less than \$100,000	Time deposits less than \$100,000	12,596	0.8	14,961	0.9				
Time deposits and over \$100,000	Time deposits and over \$100,000	16,851	1.1	28,496	1.7				
Total Community Bank deposits	Total Community Bank deposits	\$1,538,218	100.0 %	\$1,647,529	100.0 %	Total Community Bank deposits	\$ 1,497,601	100.0	100.0
Cost of deposits	Cost of deposits	0.37 %		0.12 %					

The following table presents the CCBX deposits which are included in the total deposit portfolio table above:

CCBX	As of	
	December 31, 2022	
(dollars in thousands)	Balance	% to Total
Demand, noninterest bearing	\$ 80,833	6.3 %
NOW and money market	1,094,909	85.6
Savings	2,016	0.2
Total core deposits	1,177,758	92.1
BaaS-brokered deposits	101,545	7.9
Total CCBX deposits	\$ 1,279,303	100.0 %
Cost of deposits	3.13 %	

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CCBX	As of	
	December 31, 2023	
(dollars in thousands)	Balance	% to Total
Demand, noninterest bearing	\$ 63,630	3.4 %
NOW and money market	1,794,168	96.3
Savings	4,964	0.3
Total core deposits	1,862,762	100.0
BaaS-brokered deposits	—	—
Total CCBX deposits	\$ 1,862,762	100.0 %
Cost of deposits	4.90 %	

The following table sets forth the Company's time deposits of \$100,000 or more by time remaining until maturity as of the dates indicated:

As of December 31,		As of		As of	
		December 31,		December 31,	
(dollars in thousands)	(dollars in thousands)	2022	2021	(dollars in thousands)	2023
Maturity Period:	Maturity Period:				
Three months or less					
Three months or less					

Three months or less	Three months or less	\$ 4,067	\$ 8,106		
Over three through six months	Over three through six months	2,957	6,520		
Over six through twelve months	Over six through twelve months	5,892	8,925		
Over twelve months	Over twelve months	3,935	4,945		
Total	Total	\$ 16,851	\$ 28,496		
Weighted average maturity (in years)	Weighted average maturity (in years)	0.76	0.73	Weighted average maturity (in years)	0.75

Average deposits for the year ended December 31, 2022 December 31, 2023, were \$2.67 billion \$3.10 billion, an increase of \$766.1 million \$436.5 million, or 40.3% 1 ended December 31, 2021 December 31, 2022. The increase in average deposits was primarily due to an increase in core deposits, both in noninterest bearing deposits and growth in CCBX deposits. We expect deposits to increase with continued growth in CCBX as well as in the community bank through our primary market areas, the increase in deposit balances and the results of business development efforts by branch managers, treasury service personnel and lenders.

The average rate paid on total interest-bearing deposits was 2.87% for the year ended December 31, 2023, compared to 0.71% for the year ended December 31, 2021. The average rate paid on total interest-bearing deposits was 3.72% for the

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year ended December 31, 2023, compared to 1.10% for the year ended December 31, 2022, compared to 0.26% for the year ended December 31, 2021. The average rate paid on deposit accounts for the year ended December 31, 2022, compared to December 31, 2021, and NOW and money market accounts account interest rates increased 0.93% 2.72%, for the year ended December 31, 2022 December 31, 2023, is the result of the increased Fed funds interest rates throughout 2022. An increase in interest rate and rate pressure from market competition is expected to continue to impact future cost of deposits and our pricing strategies.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

For the Year Ended December 31,															
2022								2021							
For the Year Ended December 31,															
2023								2022							
(dollars in thousands)	(dollars in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	(dollars in thousands)	Average Balance	Average Rate	(dollars in thousands)	Average Balance	Average Rate	(dollars in thousands)	Average Balance	Average Rate	
Demand, noninterest bearing	Demand, noninterest bearing	\$ 942,087	0.00 %	\$ 989,945	0.00 %	Demand, noninterest bearing	\$ 707,641	0.00	0.00 %	\$ 942,087	0.00	0.00 %	\$ 942,087	0.00	0.00 %
NOW and money market	NOW and money market	1,509,492	1.17	740,045	0.24	NOW and money market	2,254,138	3.89	3.89	1,509,492	1,509,492	1.17	1,509,492	1,509,492	1.17
Savings	Savings	106,061	0.05	93,409	0.03	Savings	90,705	0.25	0.25	106,061	106,061	0.05	106,061	106,061	0.05
BaaS-brokered deposits	BaaS-brokered deposits	71,532	1.46	26,020	0.35	BaaS-brokered deposits	25,969	4.08	4.08	71,532	71,532	1.46	71,532	71,532	1.46
Time deposits less than \$100,000	Time deposits less than \$100,000	13,980	0.28	16,838	1.06	Time deposits less than \$100,000	9,999	0.35	0.35	13,980	13,980	0.28	13,980	13,980	0.28

(dollars in thousands)

Maximum amount outstanding at any month-end during period:	\$
Average outstanding balance during period:	\$
Weighted average interest rate during period:	
Balance outstanding at end of period:	\$
Weighted average interest rate at end of period:	

Federal Home Loan Bank Advances. The FHLB allows us to borrow against our line of credit, which is collateralized by certain loans. As of **December 31, 2022**, we had borrowing capacity of **\$120.8** million and **\$120.4** million, respectively, with the FHLB. During the year ended December 31, 2022, we repaid a total of \$10.0 million advance that would have matured in March of 2023 and \$15.0 million advance that would have matured in March 2025. We have sufficient liquidity for our current operations.

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with no prepayment penalty for early repayment, management opted to repay these term advances and save the unnecessary interest expense.

The following table presents details on FHLB advance borrowings for the periods indicated:

		As of and For the Years Ended December 31,					
		As of and For the Years Ended December 31,					
(dollars in thousands)	(dollars in thousands)	2022	2021	(dollars in thousands)		2023	
Maximum amount outstanding at any month-end during period:	Maximum amount outstanding at any month-end during period:	\$24,999	\$24,999				
Average outstanding balance during period:	Average outstanding balance during period:	\$ 6,029	\$24,999				
Weighted average interest rate during period:	Weighted average interest rate during period:	1.13 %	1.13 %	Weighted average interest rate during period:		5.60	%
Balance outstanding at end of period:	Balance outstanding at end of period:	\$ —	\$24,999				
Weighted average interest rate at end of period:	Weighted average interest rate at end of period:	n/a	1.13 %	Weighted average interest rate at end of period:		0.00%	

Junior Subordinated Debentures. In 2004, we issued \$3.6 million in junior subordinated debentures to Coastal (WA) Statutory Trust (the "Trust"), of which we own all the shares. The debentures are secured by the proceeds from the issuance of its underlying common securities and preferred securities to purchase the debentures issued by the Company. These debentures are the Trust's only source of funds to finance the distributions paid on the preferred securities. The debentures bear interest at a rate per annum equal to the 3-month LIBOR rate as of June 30, 2023, the rate is based off three-month CME Term SOFR plus 0.26%. The effective rate as of **December 31, 2022**, **December 31, 2023** and **2021, 2022** generally have the right to defer payment of interest on the debentures at any time or from time to time for a period not exceeding five years provided that no extension period is in effect.

During any such extension period, distributions on the Trust's preferred securities will also be deferred, and our ability to pay dividends on our common stock will be restricted until the Trust's preferred securities are redeemed, or upon earlier redemption as provided in the indenture, subject to Federal Reserve approval. If the debentures are not redeemed, we will not be able to pay dividends on our common stock until the principal amount and any accrued but unpaid interest. We unconditionally guarantee payment of accrued and unpaid distributions required to be paid on the Trust Securities; however, we do not have any assets or other resources that we can use to pay dividends on our common stock or to pay principal with respect to any Trust securities called for redemption and amounts due if the Trust is liquidated or terminated.

Subordinated Debt. In August 2021, the Company issued a subordinated note in the amount of \$25.0 million. The note matures on September 1, 2031, and bears interest at the rate of 3.375% per annum, repriced quarterly beginning September 1, 2026, at a rate equal to the three-month SOFR plus 2.76%. The five-year 3.375% interest period ends on September 1, 2026, in part, without premium or penalty, in principal redemption multiples of \$1,000, after August 18, 2026, subject to any required regulatory approvals. Proceeds were used to redeem the debt on August 9, 2021 and \$11.5 million was contributed to the Bank as capital.

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In November 2022, the Company issued a subordinated note in the amount of \$20.0 million. The note matures on November 1, 2032, and bears interest at the rate of 7.00% per annum, repriced quarterly beginning November 1, 2027, at a rate equal to the three-month SOFR plus 2.90%. The five-year 7.00% interest period ends on November 1, 2027. We may redeem the note, without premium or penalty, in principal redemption multiples of \$1,000, after November 1, 2027, subject to any required regulatory approvals.

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Liquidity and Capital Resources

Liquidity Management

Liquidity refers to our capacity to meet our cash obligations when they come due at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to meet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities and other contractual cash obligations. In managing our cash flows, management monitors liquidity risk. These include funding mismatches, market constraints in accessing sources of funds and the ability to convert assets into cash. Changes in economic conditions, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity management. The Company considers various scenarios in its liquidity management process including that all community bank uninsured deposits exit the Bank in an economic downturn. Deposits obtained through our CCBX segment are a significant source of liquidity. If a partner terminates, the exit of those deposits could have an adverse impact on liquidity. liquidity so we model a deposit run-off scenario that simulates the loss of deposit agreements govern the relationship and are valid for a given period of time. Prior to exiting, the partner would need to provide us adequate notice as stipulated in the agreement and intend to move the deposits. The movement to an alternate BaaS provider is cumbersome and would be over a period of time, which would allow us the opportunity to more fully discussed below. As of December 31, 2022 December 31, 2023, we have 1 partner 2 partners with deposits that are in excess of 10% of total deposits and represent the immediate loss Our deposit concentration limit for any one partner is 30% of a significant deposit partner as a liquidity scenario in its liquidity management process. total c

We continually monitor our liquidity position to ensure that our assets and liabilities are managed in a manner to meet all reasonably foreseeable short-term, long-term and established a comprehensive process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and a committee of policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems that are commensurate with the nature of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of readily available cash, deposits and high quality liquid assets; operational impediments, that can be used to meet liquidity needs in stressful situations; contingency funding policies and plans that sufficiently address potential adverse liquidity risk internal controls and internal audit processes sufficient to determine the adequacy of the Bank's liquidity risk management process. Unlike many industrial companies, sensitivity to interest rates. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met by principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third-party banks, investments available-for-sale and maturing or other sources of our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail, commercial, and BaaS deposits, advances from the FHLB and other sources of funding include borrowings from the Federal Reserve discount window, draws on established federal funds lines from unaffiliated commercial banks, funds from CCBX through an ICS account, and the issuance of debt or equity securities. Additionally, the Bank, as of December 31, 2022, has access to \$225.0 million in CCBX customer deposits on its balance sheet to other financial institutions on a daily basis. The Bank could retain these deposits for liquidity and funding purposes if needed. We believe we have ample liquidity to meet our needs as necessary and are closely monitoring liquidity in this uncertain economic environment.

The Company has pledged loans and securities totaling \$1.03 billion and \$220.1 million at December 31, 2023 and December 31, 2022, respectively, for borrowing capacity during 2023 to significantly increase the borrowing capacity of the Bank in the event of a liquidity crisis. The Bank had the ability and capacity to borrow up to \$640.1 million from the FHLB during 2023. There were no borrowings taken under these facilities during the twelve-months ended December 31, 2023 so the Bank has the maximum capacity in the event of a liquidity crisis.

The Bank's current liquidity position is supported by liquid assets (cash and investments on the balance sheet), liabilities (capacity to borrow funds the same day), loans and investments, as of December 31, 2023.

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and alternative sources of funds including the capacity to borrow up to \$640.1 million from FHLB, the FRB discount window on a same day basis and a \$50.0 million line of credit from the FHLB. The borrowing capacity of \$1.17 billion represented 34.9% of total deposits and exceeded the \$558.6 million in uninsured deposits as of December 31, 2023. The board of directors

deposits and has used fully insured IntraFi Network reciprocal deposits to reduce uninsured deposit. Fully insured IntraFi network reciprocal deposits totaled \$340.1 million in 2022, respectively. Uninsured deposits totaled \$558.6 million at December 31, 2023 and totaled \$835.8 million at December 31, 2022. The Bank significantly increased its help it prepare and avoid the liquidity events that besieged regional banks during the liquidity crisis in March 2023 which resulted in two bank failures due to liquidity.

The board of directors adopted a policy requiring management take various actions, in its discretion, to return the liquidity ratio 10% or greater within 10 business days. The liquidity contingency funding plan would be invoked. If the liquidity ratio goes below 7.5% then the board of directors will be notified immediately, and the liquidity contingency plan will be activated. These liquidity risk measures provide the board of directors and management with a framework for managing liquidity risk and taking action early so liquidity events can be avoided.

The Company is a corporation separate and apart from our Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service obligations on subordinated debentures. The Company's main source of cash flow has been through equity and debt offerings. The Company has consistently retained a portion of the funds for its operating and debt costs. During the year ended December 31, 2022, the Company contributed \$21.0 million in capital to the Bank. During the year ended December 31, 2023, the Company contributed \$15.0 million to the Bank in cash for debt servicing and operating purposes. In addition, the Bank can

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declare and pay dividends to the Company if needed, to meet the Company's debt and operating expenses. There are statutory and regulatory limitations that affect the ability of the Company to pay dividends. These limitations will not impact the ability of the Bank to pay dividends to the Company if needed, to meet ongoing operating needs.

For contingency purposes, the Company maintains a minimum level of cash to fund one year's projected operating cash flow needs and the Bank established a minimum level of assets, 10%, and usually maintains targets a liquidity ratio in excess of 10% between 12% and 15%. Both of these minimum liquidity levels are on-balance sheet sources. In the event of a liquidity emergency the Bank can utilize wholesale funds in an amount up to 30% of assets. Since the Bank uses only a small portion of its borrowing or wholesale funds in a liquidity emergency.

Capital Adequacy

Capital management consists of providing equity and other instruments that qualify as regulatory capital to support current and future operations. Banking regulators evaluate the financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital levels relative to the amount of assets on their balance sheet to meet the generally applicable regulatory capital requirements of the Federal Reserve and the FDIC at the bank and holding company and bank level. Historically, the Company has been exempt from the Company Policy Statement, which exempts bank holding companies that have total consolidated assets of less than \$3.0 billion and meet other criteria from the Federal Reserve's capital requirements.

Because the Company's total consolidated assets exceeded \$3.0 billion as of September 30, 2022, the Company is no longer subject to the Federal Reserve's Small Bank Holding Company Rule. The Company is evaluated relative to the capital adequacy standards established by the Federal Reserve going forward. Reserve. A bank holding company that crosses the \$3.0 billion total consolidated assets threshold in any year is no longer permitted to file reports as a small holding company beginning the following March. The Company was not a small holding company as of September 30, 2022. As a consequence, beginning in March 2024, the Company will no longer prepare and file financial reports with the Federal Reserve as a small bank holding company. The Company's capital position of the Company based on these reports by reviewing its debt-to-equity ratio and its capacity to serve as a source of strength to the Bank. If the Company's total consolidated assets exceed \$3.0 billion as of June 30, 2023, starting in March 2024 the Company will cease filing financial reports with the Federal Reserve as though it were a small bank holding company.

As of December 31, 2023, and December 31, 2022, the Company was in compliance with all applicable regulatory capital requirements. As of December 31, 2022, the Company was in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized" for purposes of the Federal Reserve's prompt corrective action regulations. If the Company's regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance. In addition, the Company maintains an effective registration statement on Form S-3 with the Securities and Exchange Commission that would allow the Company to raise up to \$100 million. The Company raised \$34.5 million in December 2021. The Company, through a private placement, raised \$25.0 million in subordinated debt in 2021 and repaid \$10.0 million of the debt in 2022. The remainder for general corporate purposes. On November 1, 2022 the

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Company, through a private placement, raised \$20.0 million of subordinated debt with the proceeds to be used for general corporate purposes.

[Table The Company contributed \\$15.0 million of Contents](#)
the capital raised to the Bank in March 2023.

The following table presents the Company's and the Bank's regulatory capital ratios as of the dates presented, as well as the regulatory capital ratios that are required for "well capitalized" status:

	Actual	Minimum Required for Capital Adequacy Purposes	(1)	Required to be Well Capitalized Under the Prompt Corrective Action Provisions

Actual								Actual							
(dollars in thousands)	(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	(dollars in thousands)	Amount	Ratio		Amount			
December 31, 2022															
Leverage Capital (to average assets)															
December 31, 2023															
Tier 1 Leverage Capital (to average assets)															
Tier 1 Leverage Capital (to average assets)															
Tier 1 Leverage Capital (to average assets)															
Company															
Company															
Company	Company	\$249,250	7.97 %	\$125,141	4.00 %	N/A	N/A	\$ 298,920	8.10		8.10 %	\$147,616	4.00		
Bank	Bank							Bank							
Only	Only	267,699	8.56 %	125,025	4.00 %	156,281	5.00 %	Only	333,848	9.06		9.06 %	147,469	4.00	
Common Equity Tier I Capital (to risk-weighted assets)															
Common Equity Tier 1 Capital (to risk-weighted assets)															
Company															
Company															
Company	Company	245,750	8.92 %	124,027	4.50 %	N/A	N/A	295,450	9.10		9.10 %	146,137	4.50		
Bank	Bank							Bank							
Only	Only	267,699	9.73 %	123,822	4.50 %	178,854	6.50 %	Only	333,848	10.30		10.30 %	145,875	4.50	
Tier I Capital (to risk-weighted assets)															
Tier 1 Capital (to risk-weighted assets)															
Company															
Company															
Company	Company	249,250	9.04 %	165,370	6.00 %	N/A	N/A	298,920	9.20		9.20 %	194,849	6.00		
Bank	Bank							Bank							
Only	Only	267,699	9.73 %	165,096	6.00 %	220,128	8.00 %	Only	333,848	10.30		10.30 %	194,500	6.00	
Total Capital (to risk-weighted assets)															
Total Capital (to risk-weighted assets)															
Company															
Bank Only															
		302,595	11.00 %	220,128	8.00 %	275,160	10.00 %								
December 31, 2021															

Leverage Capital (to
average assets)

Company													
Company	Company	\$204,585	8.07 %	\$101,460	4.00 %	N/A	N/A	385,464	11.87	11.87	%	259,799	8.00
Bank	Bank							Bank					
Only	Only	201,783	7.96 %	101,350	4.00 %	126,687	5.00 %	Only	375,320	11.58	11.58 %	259,334	8.00

Common Equity Tier I
Capital (to risk-weighted
assets)

December
31, 2022

Tier 1 Leverage Capital
(to average assets)

Tier 1 Leverage Capital
(to average assets)

Tier 1 Leverage Capital
(to average assets)

Company													
Company	Company	201,085	11.06 %	81,834	4.50 %	N/A	N/A	\$ 204,585	8.07	8.07	%	\$101,460	4.00
Bank	Bank							Bank					
Only	Only	201,783	11.12 %	81,623	4.50 %	117,900	6.50 %	Only	201,783	7.96	7.96 %	101,350	4.00

Tier I Capital (to risk-
weighted assets)

Common

Equity Tier
1 Capital
(to risk-
weighted
assets)

Company													
Company	Company							201,085		11.06 %		81,834	
Bank	Bank							Bank					
Only	Only							Only	201,783	11.12 %		81,623	

Tier 1 Capital
(to risk-
weighted
assets)

Company													
Company	Company	204,585	11.25 %	109,112	6.00 %	N/A	N/A	204,585	11.25	11.25	%	109,112	6.00
Bank	Bank							Bank					
Only	Only	201,783	11.12 %	108,830	6.00 %	145,107	8.00 %	Only	201,783	11.12	11.12 %	108,830	6.00

Total Capital
(to risk-
weighted
assets)

Company													
Company	Company	252,405	13.88 %	145,483	8.00 %	N/A	N/A						
Company	Company							252,405		13.88 %		145,483	
Bank	Bank							Bank					
Only	Only	224,545	12.38 %	145,107	8.00 %	181,384	10.00 %	Only	224,545	12.38	12.38 %	145,107	8.00

(1) This table presents the minimum capital adequacy requirements that apply to the Bank (excluding the capital conservation buffer) and the Company. The capital conservation buffer is a risk-based capital requirements for total, tier 1, and common equity tier 1 risk-based capital. Prior to September 30, 2022, the Company operated under the Small Bank Holding Company Pol

adequacy requirements.

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Material Cash Requirements and Capital Resources

The following table provides the material cash requirements from known contractual and other obligations as of **December 31, 2022** **December 31, 2023**:

(dollars in thousands)	Total	Less than 1 Year
Cash requirements		
Time Deposits	\$ 29,447	\$ 22,219
Subordinated notes	45,000	—
Junior subordinated debentures	3,609	—
Deferred compensation plans	935	175
Operating leases	6,058	1,272
Non-maturity deposits	2,788,074	—
Equity investment commitment	988	988

(dollars in thousands)	Total	Less than 1 Year
Cash requirements		
Time Deposits	\$ 18,358	\$ 13,999
Subordinated notes	45,000	—
Junior subordinated debentures	3,609	—
Deferred compensation plans	760	175
Operating leases	7,335	1,016
Non-maturity deposits	3,342,005	—
Equity investment commitment	653	653

- (1) Represents the undefined maturity of non-maturing deposits, including noninterest bearing demand deposits, interest bearing demand deposits, money market accounts, generally be withdrawn on demand.

We maintain sufficient cash and cash equivalents and investment securities to meet short-term cash requirements and the levels of these assets are dependent on a given period. Cash on hand, cash at third-party banks, investments available-for-sale and maturing or prepaying balances in our investment and loan portfolios are our most available to us include funds from retail, commercial, and BaaS deposits, advances from the FHLB and proceeds from the sale of loans. Less commonly used sources of funding window, draws on established federal funds lines from unaffiliated commercial banks, funds from online rate services, brokered funds, a one-way buy through an ICS account

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated balance sheets. We enter into transactions with customers. These transactions include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit risk in our consolidated balance sheets.

Our commitments associated with outstanding commitments to extend credit and standby and commercial letters of credit are summarized below. Since commitment of credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

As of December 31, 2022, **December 31, 2023** we had **\$2.20 billion** **\$2.34 billion** in commitments to extend credit, compared to **\$909.6 million** **\$2.20 billion** as of **December 31, 2022**. The **\$144.3 million** increase is largely attributed to growth in our CCBX segment, due to the addition of new partners, resulting in an increase of **\$1.25 billion** **\$222.2 million** increase in credit on CCBX consumer loans, **\$163.9 million** decrease in commercial and industrial capital call line commitments, **\$17.0 million** decrease in commercial construction commitments, related to CCBX loans. The following

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The following table presents commitments associated with outstanding commitments to extend credit, standby and commercial letters of credit and equity investment

(dollars in thousands)	(dollars in thousands)	As of December 31, 2022	As of December 31, 2021	(dollars in thousands)	As of December 31, 2023
------------------------	------------------------	-------------------------------	-------------------------------	------------------------	-------------------------

Commitments to extend credit:

Commitments to extend credit:

Commercial and industrial loans

Commercial and industrial loans

Commercial and industrial loans	Commercial and industrial loans	\$ 81,568	\$ 70,848
---------------------------------	---------------------------------	-----------	-----------

Commercial and industrial loans - capital call lines	Commercial and industrial loans - capital call lines	772,732	415,956
--	--	---------	---------

Construction – commercial real estate loans	Construction – commercial real estate loans	109,715	90,946
---	---	---------	--------

Construction – residential real estate loans	Construction – residential real estate loans	32,827	43,339
--	--	--------	--------

Residential real estate loans	Residential real estate loans	374,735	101,715
-------------------------------	-------------------------------	---------	---------

Commercial real estate loans	Commercial real estate loans	35,024	23,248
------------------------------	------------------------------	--------	--------

Consumer and other loans	Consumer and other loans	793,563	163,510
--------------------------	--------------------------	---------	---------

Total commitments to extend credit	Total commitments to extend credit	\$2,200,164	\$909,562
------------------------------------	------------------------------------	-------------	-----------

Standby letters of credit	Standby letters of credit	\$ 3,064	\$ 3,040
---------------------------	---------------------------	----------	----------

Equity investment commitment	Equity investment commitment	\$ 988	\$ 1,090
------------------------------	------------------------------	--------	----------

Commitments to extend credit on CCBX loans are included in the table above and are summarized below:

(dollars in thousands)	(dollars in thousands)	As of December 31, 2022	As of December 31, 2021	(dollars in thousands)	As of December 31, 2023
------------------------	------------------------	-------------------------------	-------------------------------	------------------------	-------------------------

Commitments to extend credit:

Commitments to extend credit:

Commercial and industrial loans

Commercial and industrial loans

Commercial and industrial loans	Commercial and industrial loans	\$ 773,684	\$415,956
---------------------------------	---------------------------------	------------	-----------

Residential real estate loans	Residential real estate loans	329,193	71,453
-------------------------------	-------------------------------	---------	--------

Residential real estate loans

Residential real estate loans

Consumer and other loans	Consumer and other loans	792,447	162,266
Total commitments to extend credit	Total commitments to extend credit	\$1,895,324	\$649,675

We have portfolio limits with our each of our partners to manage loan concentration risk, liquidity risk, and counter-party partner risk. For example, as of **December 31, 2022**, our total loan balance totaled **\$146.0 million** **\$87.5 million**, and while commitments totaled **\$772.7 million** **\$608.8 million** the commitments are cancelable, and are also limited to a maximum of **\$100.0 million** **\$50.0 million** per customer.

The following table shows the CCBX maximum portfolio sizes by loan category as of **December 31, 2022** **December 31, 2023**.

(dollars in thousands; unaudited)	Type of Lending
Commercial and industrial loans:	
Capital call lines	Business - Venture Capital
All other commercial & industrial loans	Business - Small Business
Real estate loans:	
Home equity lines of credit	Home Equity - Secured Credit Cards
Consumer and other loans:	
Credit cards	Credit Cards - Primarily Consumer
Installment loans	Consumer
Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer

(dollars in thousands)	Type of Lending	As of December 31, 2023
		Maximum
Commercial and industrial loans:		
Capital call lines	Business - Venture Capital	\$ 350,0
All other commercial & industrial loans	Business - Small Business	305,9
Real estate loans:		
Home equity lines of credit	Home Equity - Secured Credit Cards	375,0
Consumer and other loans:		
Credit cards	Credit Cards - Primarily Consumer	756,6
Installment loans	Consumer	933,3
Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer	709,1
		\$ 3,430,0
Total Existing Portfolio Size		\$ 1,195,9

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have a maximum term of 12 months and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. by us, upon extension of credit, is based on management's credit evaluation of the customer. As of **December 31, 2022** **December 31, 2023**, **\$1.57 billion** **\$1.63 billion** in commitments to extend credit compared to **\$162.3 million** **\$1.57 billion** at **December 31, 2021** **December 31, 2022**. The increase in unconditionally cancelable commitments is attributed to growth in CCE and the ability to better manage loan growth, credit concentrations and liquidity. We also limit CCBX partners to a maximum aggregate customer loan balance originated and held at the end of the reporting period of **\$100.0 million** **\$50.0 million** per customer.

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Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonpayment by the customer, the issuer of the letter of credit is required to pay the beneficiary of the letter of credit. Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonpayment by the customer, the issuer of the letter of credit is required to pay the beneficiary of the letter of credit. Standby and commercial letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. In the event of nonpayment by the customer, the issuer of the letter of credit is required to pay the beneficiary of the letter of credit.

the risk involved in extending loan facilities to our customers.

We believe that we will be able to meet our long-term cash requirements as they come due. Adequate cash levels are generated through profitability, repayments from borrowing sources and periodic loan sales.

Selected Financial Information

The following table shows the Company's key performance ratios for the periods indicated.

	Twelve Months Ended		
	December 31, 2023	December 31, 2022	December 31, 2021
Return on average assets	1.28 %	1.38 %	1.38 %
Return on average equity	16.41 %	18.24 %	18.24 %
Yield on earnings assets	9.82 %	6.68 %	6.68 %
Yield on loans receivable	10.60 %	8.12 %	8.12 %
Cost of funds	2.91 %	0.75 %	0.75 %
Cost of deposits	2.87 %	0.71 %	0.71 %
Net interest margin	7.10 %	5.97 %	5.97 %
Noninterest expense to average assets	5.90 %	5.65 %	5.65 %
Noninterest income to average assets	5.97 %	4.23 %	4.23 %
Efficiency ratio	45.92 %	56.26 %	56.26 %
Loans receivable to deposits ⁽¹⁾	90.1 %	93.2 %	93.2 %

(1) Including loans held for sale

CCBX – BaaS Reporting Information

During the year ended December 31, 2022, December 31, 2023, \$76.4 million \$177.8 million was recognized in noninterest income BaaS credit enhancements related to future loan credit losses indemnified by our strategic partners and reserve reserved for unfunded commitments for CCBX partner loans and deposits. Agreements with our CCBX partner which protects the Bank by absorbing indemnifying and/or reimbursing incurred losses on accounts originated through the partner. losses. In accordance with accounting standards, probable expected losses on for these CCBX loans, unfunded commitments and negative deposit overdrafts. accounts. When the provision for loan credit losses - loans and deposits is recorded, the credit enhancement asset is also recorded on the balance sheet through the recognition of noninterest income (BaaS credit enhancements) in recognition of the CCBX partner's in coverage indemnify or reimburse losses. Incurred credit losses are recorded in the allowance for loan losses, and as the The credit enhancement asset is relieved as credit enhanced CCBX partner or taken from the credit enhancement asset is relieved. partner's cash reserve account. Agreements with our CCBX partners also provide protection to the Bank against incurred fraud losses. BaaS fraud

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includes noncredit fraud losses on loans and deposits originated through partners. Fraud losses are recorded when incurred as losses in noninterest expense, and the recovery is recorded in noninterest income, resulting in a net impact of zero to the income statement. CCBX partners also pledge a cash reserves in a restricted deposit reserve account which occurs that is then replenished by the partner on a regular interval. Although agreements with our CCBX partners provide for credit enhancements that provide protection to the Bank by absorbing indemnifying or reimbursing incurred credit and fraud losses, if our partner is unable to fulfill its contracted obligations beyond to replenish its cash reserve account for deposit losses, as a result of this counterparty risk. If a CCBX partner does not adequately replenish their cash reserve account then the Bank can declare the agreement in default for servicing the loan and providing credit and fraud enhancements. The Bank would write-off any remaining receivable credit enhancement asset from the CCBX partner not full yield and any fee income on the loan going forward, and BaaS loan expense for that CCBX partner would decrease cease once default occurred and payments to the CCBX partner

For CCBX partner loans the Bank records contractual interest earned from the borrower on loans in interest income, adjusted for origination costs which are paid to the partner. represents the amount paid or payable to partners for credit enhancements, and fraud enhancements and servicing CCBX loans. To determine net BaaS loan income earned, the Bank takes interest income and deducts BaaS loan expense to arrive at net BaaS loan income which can then be compared to interest income on the Company's community bank loans

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The following table illustrates how CCBX partner loan income and expenses are recorded in the financial statements:

Loan income and related loan expense	Loan income and related loan expense	Year Ended		Loan income and related loan expense	Year Ended	
		December			December 31,	
(dollars in thousands; unaudited)		December 31, 2022	31, 2021			
(dollars in thousands)		(dollars in thousands)			December 31, 2023	Dec
BaaS loan interest income	BaaS loan interest income	\$102,808	\$6,532	BaaS loan interest income	\$ 204,458	\$
Less: BaaS loan expense	Less: BaaS loan expense	53,294	2,976	Less: BaaS loan expense	86,900	53,294
Net BaaS loan income ⁽¹⁾	Net BaaS loan income	49,514	3,556	Net BaaS loan income ⁽¹⁾	117,558	49,514
Net BaaS loan income divided by average BaaS loans ⁽¹⁾	Net BaaS loan income divided by average BaaS loans	6.67 %	2.43 %	Net BaaS loan income divided by average BaaS loans ⁽¹⁾	9.71 %	
Yield on loans	Yield on loans	13.85 %	4.46 %	Yield on loans	16.89 %	
⁽¹⁾ A reconciliation of this non-GAAP measure is set forth in the section titled "GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures."						
The addition increased activity of new CCBX partners has resulted in increases in direct fees, expenses and interest for the year ended December 31, 2022. The following tables are a summary of the direct fees, expenses and interest components of BaaS for the periods indicated and are not inclusive of						
Interest income	Interest income	Year Ended		Interest income	Year Ended	
(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	December 31, 2022	December 31, 2021	(dollars in thousands; unaudited)	December 31, 2023	De
Loan interest income	Loan interest income	\$102,808	\$ 6,532			
Total BaaS interest income	Total BaaS interest income	\$102,808	\$ 6,532			
Interest expense						
(dollars in thousands; unaudited)						
BaaS interest expense						\$
Total BaaS interest expense						\$

(dollars in thousands; unaudited)

Program income:

Servicing and other BaaS fees

\$

Transaction fees

Interchange fees

Reimbursement of expenses

Program income

Indemnification income:

Credit enhancements

Fraud enhancements

Indemnification income

Total BaaS income

\$

Interest expense

(dollars in thousands; unaudited)

December 31,
2023

BaaS interest expense

\$ 71,646 \$

Total BaaS interest expense

\$ 71,646 \$

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(dollars in thousands; unaudited)

BaaS loan expense

\$

BaaS fraud expense

Total BaaS loan and fraud expense

\$

(dollars in thousands; unaudited)

December 31,
2023

BaaS program income:

Servicing and other BaaS fees

\$ 3,855 \$

Transaction fees

4,011

Interchange fees

4,252

Reimbursement of expenses

4,175

BaaS program income

16,293

BaaS indemnification income:

BaaS credit enhancements

177,764

BaaS fraud enhancements

7,165

BaaS indemnification income

184,929

Total noninterest BaaS income

\$ 201,222 \$

	December 31, 2023	
(dollars in thousands; unaudited)		
BaaS loan expense	\$	86,900 \$
BaaS fraud expense		7,165
Total BaaS loan and fraud expense	\$	94,065 \$

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to performance.

However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. As other companies may use different presentation may not be comparable to other similarly titled adjusted measures reported by other companies.

The following non-GAAP financial measures are presented to illustrate the impact of BaaS loan expense on net loan income and yield on CCBX loans and Net BaaS loan income divided by average CCBX loans is a non-GAAP measure that includes the impact BaaS loan expense on net BaaS loan income and the yield measure is yield on CCBX loans.

The following non-GAAP measure is presented to illustrate the impact of BaaS loan expense on net interest income and net interest rate spread margin. Net interest income net of BaaS loan expense is a non-GAAP measure that includes the impact BaaS loan expense on net interest income. The most directly comparable Net interest margin, net of BaaS loan expense is a non-GAAP measure that includes the impact of BaaS loan expense on net interest rate spread margin. The most spread margin.

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Reconciliations of the GAAP and non-GAAP measures are presented in the following table.

		As of and for the Year Ended								
		December 31,		December 31,						
(dollars in thousands; unaudited)		2022		2021						
		As of and for the Year Ended								
(dollars in thousands)		(dollars in thousands)						December 31, 2023		
Net BaaS										
loan income	Net BaaS									
divided by	loan income									
average	divided by									
CCBX	average									
loans:	CCBX loans:									
CCBX loan yield (GAAP)										
CCBX loan yield (GAAP)										
CCBX loan yield (GAAP)	CCBX loan yield (GAAP)	13.85	%	4.46	%		16.89	%	13.85	%
Total average CCBX loans receivable	Total average CCBX loans receivable	\$	742,392	\$	146,304	Total average CCBX loans receivable	\$	1,210,413	\$	
Interest and earned fee income on CCBX loans (GAAP)	Interest and earned fee income on CCBX loans (GAAP)		102,808		6,532	Interest and earned fee income on CCBX loans (GAAP)		204,458		
Less: loan expense on CCBX loans			(53,294)		(2,976)					

BaaS loan expense		BaaS loan expense				(86,900)		
Net BaaS loan income	Net BaaS loan income	\$	49,514	\$	3,556	Net BaaS loan income	\$	117,558
Net BaaS loan income divided by average CCBX loans	Net BaaS loan income divided by average CCBX loans	6.67	%	2.43	%	Net BaaS loan income divided by average CCBX loans	9.71	%
								6.6

Net BaaS loan income

interest rate spread:

CCBX interest rate spread (GAAP)	12.28	%	4.43	%
Net BaaS loan income divided by average CCBX loans	6.67	%	2.43	%
CCBX cost of funds	1.57	%	0.03	%
Net BaaS loan income interest rate spread	5.10	%	2.40	%

Net interest margin, net of BaaS loan expense:

CCBX interest margin	9.65 %
CCBX earning assets	1,574,334
Net interest income	151,883
Less: BaaS loan expense	(86,900)
Net interest income, net of BaaS loan expense	\$ 64,983
CCBX net interest margin, net of BaaS loan expense	4.13 %

Quantitative and Qualitative Disclosures about Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset liability and funds management policy provides management with the established a measurement system for monitoring our net interest rate sensitivity position. We have historically managed our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-bearing assets and liabilities.

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which have a short term to maturity. Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss in current fair market values. Our objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time remain in compliance with the FOMC raised interest rates 0.25% in mid-March 2022, 1.25% in the second quarter of 2022, 1.50% in the third quarter of 2022, and 1.50% 1.25% in the fourth quarter 2023, and 0.25% in the second quarter 2023 and 0.25% in the third quarter of 2023 and then pausing at an upper Fed Funds target range of 5.50% through the fourth quarter of 2023. The impact of this and any future increases changes will impact financial results.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. We do not enter into instruments such as leveraged derivatives or forward delivery contracts for the purpose of reducing interest rate risk. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk.

Our exposure to interest rate risk is managed by the Asset Liability Committee ("ALCO"), of the Bank and reviewed by the Asset Liability and Investment Committee and approved by our board of directors. ALCO formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, ALCO considers the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. ALCO meets regularly to review, and adjust, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the ALCO reviews liquidity, cash flows, maturities of deposits and consumer and commercial deposit activity. Management employs various methodologies to manage interest rate risk on interest earning assets and interest bearing liabilities and interest rate risk.

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simulations using a model. The Asset Liability and Investment Committee of our board of directors meets regularly to review the Bank's interest rate risk profile, liquidity position and capital resources.

We use interest rate risk simulation models to test interest rate sensitivity of net interest income and fair value of equity, and the impact of changes in interest rates on pricing opportunities of loans are incorporated in the model, as are prepayment assumptions, maturity data and call options within the investment portfolio. Average life of nonaccrual loans and assumptions and are incorporated into the model. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate fluctuations in market interest rates on net interest income. To help ensure the accuracy of the model, we perform a quarterly back test against our actual results.

On a quarterly basis, we run multiple simulations under two different premises of which one is a static balance sheet and the other is a dynamic growth balance sheet. The static balance sheet shows the interest risk currently inherent in our balance sheet at that point in time. The dynamic balance sheet includes our projected growth levels going forward and produces interest risk change based on our projected growth. These simulations test the impact on net interest income and fair value of equity from changes in market interest rate approaches, rates are shocked instantaneously and ramped over a 12-month horizon assuming parallel yield curve shifts. Parallel shock scenarios assume instantaneous parallel yield curve scenario. Non-parallel simulations are also conducted and involve analysis of net interest income and expense under various changes in the shape of the yield curve in an inverted curve. Our internal policy regarding interest rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net interest income should not decline by more than 10% for a 100 basis point shift, 15% for a 200 basis point shift, 20% for a 300 basis point shift, and 25% for a 400 basis point shift.

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The following tables summarize the simulated change in net interest income over a 12-month horizon as of the dates indicated:

(unaudited) (unaudited)

		Twelve Month Projection As of December 31, 2022	Twelve Month Projection As of December 31, 2021		
Change in Market Interest Rates	Change in Market Interest Rates				
				Twelve Month Projection As of December 31, 2023	
Static Balance Sheet and Rate Shifts	Static Balance Sheet and Rate Shifts				
+400 basis points	+400 basis points	15.2%	36.7%	(6.2)%	
+300 basis points	+300 basis points	11.4%	27.2%	+300 basis points	(4.6)%
+200 basis points	+200 basis points	7.6%	17.9%	+200 basis points	(3.0)%
+100 basis points	+100 basis points	3.8%	8.5%	+100 basis points	(1.4)%
-100 basis points	-100 basis points	(4.1)%	(9.7)%	-100 basis points	1.1%
-200 basis points	-200 basis points	(8.5)%	(15.4)%	-200 basis points	1.8%

-300 basis points	-300 basis points	(13.0)%	(19.9)%	-300 basis points	2.1%
-400 basis points	-400 basis points			-400 basis points	2.2%
Dynamic Balance Sheet and Rate Shifts					
Dynamic Balance Sheet and Rate Shifts					
+400 basis points					
+400 basis points					
+400 basis points	+400 basis points	17.6%	38.5%		(1.3)%
+300 basis points	+300 basis points	13.2%	28.7%	+300 basis points	(0.9)%
+200 basis points	+200 basis points	8.8%	18.8%	+200 basis points	(0.5)%
+100 basis points	+100 basis points	4.4%	9.1%	+100 basis points	(0.2)%
-100 basis points	-100 basis points	(4.6)%	(11.8)%	-100 basis points	(0.1)%
-200 basis points	-200 basis points	(9.5)%	(19.4)%	-200 basis points	(0.6)%
-300 basis points	-300 basis points	(14.5)%	(23.0)%	-300 basis points	(1.5)%
-400 basis points	-400 basis points			-400 basis points	(2.8)%

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The results illustrate that the Company's static balance sheet has shifted to liability sensitive, however, the dynamic balance sheet is asset sensitive and generally neutral to rate environment shifts. As the Company's composition has shifted over time due to the growth of the CCBX segment to more variable/adjustable in nature, our interest rate variability in both rising and falling rate environments, as the community bank and CCBX segments work to offset one another. The community bank segment remains asset sensitive to interest rate environment. For the community bank, the drivers are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. When community bank deposits change more slowly than changes in short-term market rates. For the CCBX segment, the offering rates on the loan portfolio are modeled using parallel shifts. For this CCBX portfolio, the offering rates on both the majority of the loans and the deposits nearly fully reprice with changes in market rates. However, during the fourth quarter, contractual yields converted to a fixed rate product, continuing to reduce the overall variability in the Company's balance sheet. As of December 31, 2023 the overall Comparison of CCBX deposits which are primarily variable rate deposits aiding with the neutrality of the balance sheet and the overall shift to liability sensitive. The assumptions incorporated as a result, the model cannot precisely measure future net interest income or precisely predict the impact that fluctuations in market interest rates have on net interest income results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions, the shape of the interest yield curve, and the application of

Impact of Inflation

Our consolidated financial statements and related notes to those financial statements included elsewhere in this Report on Form 10-K have been prepared in accordance with the financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our financial position. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect changes in interest rates.

For further discussion of the risks to our business resulting from inflation, see “Item 1A. Risk Factors” and the section captioned “Risks Related to Credit Matters—We believe that increases in interest rates may adversely affect our earnings.”

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Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The information required by this item is incorporated herein by reference to the section captioned “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Disclosures about Market Risk.”

Item 8. Financial Statements and Supplementary Data

The information required by this item follows.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Coastal Financial Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coastal Financial Corporation and Subsidiary subsidiaries (the “Company”) as of December 31, 2022 and December 31, 2021, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for each of the three years then ended in the period ended December 31, 2023, and “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022, and the consolidated results of its operations and its cash flows for each of the three years then ended in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, and the consolidated results of its operations and its cash flows for each of the three years then ended in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America. Our audit of the Company’s internal control over financial reporting was performed on a basis that did not require us to perform a full scope audit of the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, in the year ended December 31, 2023, the Company adopted new accounting guidance Accounting Standards Update (Topic 326): Measurement of Credit Losses on Financial Statements.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are an independent member firm of the PCAOB and are required to be independent with respect to the Company and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting as part of our audits. We are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles and methods, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The matter was communicated to the audit committee in a separate communication, and we are not, by communicating the critical audit matter below, providing a separate opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the consolidated financial statements, taken as a whole.

As described in Notes 1 and 4 to the consolidated financial statements, the balance of the Company's allowance for credit losses – loans was \$117 million at December 31, 2023, that is deducted from the amortized cost basis of loans held for investment to present the net carrying value at the amount expected to be collected. The allowance for credit losses is based on expected credit losses over the lives of the loans based on evaluating historical credit loss experience and making qualitative reserve factor adjustments to historical loss experience based on specific risk characteristics in the current loan portfolio based on reasonable and supportable forecasts. These qualitative reserve factors include:

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borrower's financial condition and credit rating, volume and severity of delinquent and classified loans, and environmental business conditions to capture general and economic conditions.

We identified the estimation of qualitative reserve factors used in the allowance for credit losses – loans, as a critical audit matter. The qualitative reserve factors are used to estimate expected credit losses captured in the historical loss component of the allowance for credit losses – loans, and are based on management's evaluation of available internal and external data. Audit procedures applied to the allowance for credit losses – loans involved especially challenging and subjective auditor judgment when performing audit procedures and evaluating the qualitative reserve factors.

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of controls relating to management's calculation of the allowance for credit losses – loans, including controls over the qualitative reserve factors used.
- Obtaining management's analysis and supporting documentation related to the qualitative reserve factors, and testing whether the factors used in the calculation of the allowance for credit losses – loans are consistent with the analysis provided by management.
- Testing the appropriateness of the methodology and significant assumptions used in the calculation of the allowance for credit losses – loans, testing completeness and accuracy of the estimation and application of the qualitative reserve factors determined by management and used in the calculation, and recalculating the balance of the allowance for credit losses – loans.

/s/ Moss Adams LLP

Everett, Washington,
March 15, 2024

We have served as the Company's auditor since 2016.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Coastal Financial Corporation

Opinion on Internal Control over Financial Reporting

We have audited Coastal Financial Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2023, based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years ended December 31, 2023, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 15, 2024 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a registered public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Company's internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances to support our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the authorization, recording, processing, summarizing, and reporting of transactions and events, and (2) provide reasonable assurance that transactions are recorded as necessary to accurately and fairly reflect the transactions and dispositions of the assets of the company; (3) provide reasonable assurance that transactions are recorded as necessary to

with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial s

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to fut become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

Everett, Washington,
March 15, 2024

We have served as the Company's auditor since 2016.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

		ASSETS	
		December 31, 31, 2022	December 31, 31, 2021
December 31, 2023		December 31, 2023	
Cash and due from banks	Cash and due from banks	\$ 32,722	\$ 14,496
Interest earning deposits with other banks	Interest earning deposits with other banks	309,417	798,665
Investment securities, available for sale, at fair value	Investment securities, available for sale, at fair value	97,317	35,327
Investment securities, held to maturity, at amortized cost	Investment securities, held to maturity, at amortized cost	1,036	1,296
Other investments	Other investments	10,555	8,478
Loans receivable	Loans receivable	2,627,256	1,742,735
Allowance for loan losses		(74,029)	(28,632)
Loans receivable			
Loans receivable			
Allowance for credit losses			
Total loans receivable, net	Total loans receivable, net	2,553,227	1,714,103
CCBX credit enhancement asset	CCBX credit enhancement asset	53,377	8,712
CCBX receivable	CCBX receivable	10,416	1,266
Premises and equipment, net	Premises and equipment, net	18,213	17,219
Operating lease right-of-use assets	Operating lease right-of-use assets	5,018	6,105
Accrued interest receivable	Accrued interest receivable	17,815	8,105
Bank-owned life insurance, net	Bank-owned life insurance, net	12,667	12,254

Deferred tax asset, net	Deferred tax asset, net	18,458	6,818
Other assets	Other assets	4,229	2,673
Total assets	Total assets	\$3,144,467	\$2,635,517

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES	LIABILITIES		
Deposits	Deposits	\$2,817,521	\$2,363,787
Federal Home Loan Bank ("FHLB") advances		—	24,999
Deposits			
Deposits			
Subordinated debt, net	Subordinated debt, net		
Principal amount \$45,000 and \$25,000 (less unamortized debt issuance costs of \$1,001 and \$712) at December 31, 2022 and December 31, 2021, respectively		43,999	24,288
Subordinated debt, net			
Subordinated debt, net			
Principal amount \$45,000 (less unamortized debt issuance costs of \$856 and \$1,001) at December 31, 2023 and December 31, 2022, respectively			
Principal amount \$45,000 (less unamortized debt issuance costs of \$856 and \$1,001) at December 31, 2023 and December 31, 2022, respectively			
Principal amount \$45,000 (less unamortized debt issuance costs of \$856 and \$1,001) at December 31, 2023 and December 31, 2022, respectively			
Junior subordinated debentures, net	Junior subordinated debentures, net		
Principal amount \$3,609 (less unamortized debt issuance costs of \$21 and \$23 at December 31, 2022 and December 31, 2021, respectively)		3,588	3,586
Principal amount \$3,609 (less unamortized debt issuance costs of \$19 and \$21 at December 31, 2023 and December 31, 2022, respectively)			
Principal amount \$3,609 (less unamortized debt issuance costs of \$19 and \$21 at December 31, 2023 and December 31, 2022, respectively)			
Principal amount \$3,609 (less unamortized debt issuance costs of \$19 and \$21 at December 31, 2023 and December 31, 2022, respectively)			
Deferred compensation	Deferred compensation	616	744
Accrued interest payable	Accrued interest payable	684	357

Operating lease liabilities	Operating lease liabilities	5,234	6,320
CCBX payable	CCBX payable	20,419	1,841
Other liabilities	Other liabilities	8,912	8,373
Total liabilities	Total liabilities	2,900,973	2,434,295
SHAREHOLDERS' EQUITY	SHAREHOLDERS' EQUITY		
Preferred stock, no par value:	Preferred stock, no par value:		
Authorized: 25,000,000 shares at December 31, 2022 and December 31, 2021; issued and outstanding: zero shares at December 31, 2022 and December 31, 2021		—	—
Preferred stock, no par value:			
Preferred stock, no par value:			
Authorized: 25,000,000 shares at December 31, 2023 and December 31, 2022; issued and outstanding: zero shares at December 31, 2023 and December 31, 2022			
Authorized: 25,000,000 shares at December 31, 2023 and December 31, 2022; issued and outstanding: zero shares at December 31, 2023 and December 31, 2022			
Authorized: 25,000,000 shares at December 31, 2023 and December 31, 2022; issued and outstanding: zero shares at December 31, 2023 and December 31, 2022			
Common stock, no par value:	Common stock, no par value:		
Authorized: 300,000,000 shares at December 31, 2022 and December 31, 2021; 13,161,147 shares at December 31, 2022 issued and outstanding and 12,875,315 shares at December 31, 2021 issued and outstanding		125,830	121,845
Authorized: 300,000,000 shares at December 31, 2023 and December 31, 2022; 13,304,339 shares at December 31, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding			
Authorized: 300,000,000 shares at December 31, 2023 and December 31, 2022; 13,304,339 shares at December 31, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding			
Authorized: 300,000,000 shares at December 31, 2023 and December 31, 2022; 13,304,339 shares at December 31, 2023 issued and outstanding and 13,161,147 shares at December 31, 2022 issued and outstanding			
Retained earnings	Retained earnings	119,998	79,373
Accumulated other comprehensive income, net of tax	Accumulated other comprehensive income, net of tax	(2,334)	4
Accumulated other comprehensive loss, net of tax			

Total shareholders' equity	Total shareholders' equity	243,494	201,222
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	<u>\$3,144,467</u>	<u>\$2,635,517</u>

See accompanying Notes to Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except for per share data)

		Year Ended December 31,			
		2022	2021		
		Year Ended December 31,		Year Ended De	
		2023		2023	2022
INTEREST AND DIVIDEND INCOME	INTEREST AND DIVIDEND INCOME				
Interest and fees on loans					
Interest and fees on loans					
Interest and fees on loans	Interest and fees on loans	\$183,352	\$82,112		
Interest on interest earning deposits with other banks	Interest on interest earning deposits with other banks	6,728	608		
Interest on investment securities	Interest on investment securities	1,745	79		
Dividends on other investments	Dividends on other investments	345	284		
Total interest income	Total interest income	192,170	83,083		
INTEREST EXPENSE	INTEREST EXPENSE				
Interest on deposits	Interest on deposits	19,004	2,327		
Interest on deposits					
Interest on deposits					
Interest on borrowed funds	Interest on borrowed funds	1,391	1,319		
Total interest expense	Total interest expense	20,395	3,646		
Net interest income	Net interest income	171,775	79,437		
PROVISION FOR LOAN LOSSES		79,064	9,915		
Net interest income after provision for loan losses		92,711	69,522		
PROVISION FOR CREDIT LOSSES					
Net interest income after provision for credit losses - loans and unfunded commitments					

Net interest income after provision
for credit losses - loans
and unfunded commitments

Net interest income after provision
for credit losses - loans
and unfunded commitments

NONINTEREST INCOME

NONINTEREST INCOME

Deposit service charges and fees

Deposit service charges and fees

Deposit service charges and fees	Deposit service charges and fees	3,804	3,698
Loan referral fees	Loan referral fees	810	2,126
Gain on sales of loans, net	Gain on sales of loans, net	—	396
Mortgage broker fees		257	920
Unrealized (loss) gain on equity securities, net		(153)	1,469

Unrealized gain (loss) on equity securities, net

Unrealized gain (loss) on equity securities, net

Unrealized gain (loss) on equity securities, net

Gain on sale of bank branch including deposits and loans, net	Gain on sale of bank branch including deposits and loans, net	—	1,263
Other income	Other income	1,087	939

Noninterest income, excluding BaaS program income and BaaS indemnification income	Noninterest income, excluding BaaS program income and BaaS indemnification income	5,805	10,811
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Servicing and other BaaS fees	Servicing and other BaaS fees	4,408	4,467
Transaction fees	Transaction fees	3,211	544
Interchange fees	Interchange fees	2,583	701
Reimbursement of expenses	Reimbursement of expenses	2,732	1,004

BaaS program income	BaaS program income	12,934	6,716
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BaaS credit enhancements	BaaS credit enhancements	76,374	9,086
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BaaS fraud enhancements	BaaS fraud enhancements	29,571	1,505
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BaaS indemnification income	BaaS indemnification income	105,945	10,591
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Total noninterest income	Total noninterest income	124,684	28,118
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NONINTEREST EXPENSE

NONINTEREST EXPENSE

Salaries and employee benefits	Salaries and employee benefits	52,228	37,101
Salaries and employee benefits			
Salaries and employee benefits			
Occupancy	Occupancy	4,548	4,128
Data processing and software licenses	Data processing and software licenses	6,487	4,951
Legal and professional expenses	Legal and professional expenses	6,760	3,133
Point of sale expense	Point of sale expense	2,109	671
Excise taxes	Excise taxes	2,204	1,589
Federal Deposit Insurance Corporation ("FDIC") assessments	Federal Deposit Insurance Corporation ("FDIC") assessments	2,859	1,632
Director and staff expenses	Director and staff expenses	1,711	1,205
Marketing	Marketing	351	451
Other expense	Other expense	4,652	3,921
Noninterest expense, excluding BaaS loan and BaaS fraud expense		83,909	58,782
BaaS loan expense		53,294	2,976
BaaS fraud expense		29,571	1,505
BaaS loan and fraud expense		82,865	4,481
Total noninterest expense		166,774	63,263
Income before provision for income taxes		50,621	34,377
PROVISION FOR INCOME TAXES		9,996	7,372

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Noninterest
expense,
excluding
BaaS loan
and BaaS
fraud
expense

BaaS loan
expense

BaaS fraud
expense

BaaS loan
and fraud
expense

Total
noninterest
expense

Income
before
provision for
income
taxes

PROVISION FOR INCOME TAXES

NET INCOME	NET		
	INCOME	\$ 40,625	\$ 27,005
Basic earnings per common share	Basic earnings per common share	\$ 3.14	\$ 2.25
Diluted earnings per common share	Diluted earnings per common share	\$ 3.01	\$ 2.16
Weighted average number of common shares outstanding:	Weighted average number of common shares outstanding:		
Basic	Basic	12,949,266	12,022,954
Basic			
Basic			13,261,664
Diluted	Diluted	13,514,952	12,521,426
	Diluted		13,640,182

See accompanying Notes to Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (dollars in thousands)

NET INCOME	\$
OTHER COMPREHENSIVE LOSS, before tax	
Securities available-for-sale	
Unrealized holding (loss) income during the period	
Income tax benefit related to unrealized holding loss	
OTHER COMPREHENSIVE LOSS, net of tax	
COMPREHENSIVE INCOME	\$

	2023	
NET INCOME	\$ 44,579	\$
OTHER COMPREHENSIVE INCOME (LOSS), before tax		
Securities available-for-sale		
Unrealized holding income (loss) during the period	2,418	
Income tax (expense) benefit related to unrealized holding gain/loss	(553)	
OTHER COMPREHENSIVE INCOME (LOSS), net of tax	1,865	
COMPREHENSIVE INCOME	\$ 46,444	\$

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands)

		Shares of Common Stock	Amount of Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	
		Shares of Common Stock			Shares of Common Stock	Amount of Common Stock	Retained Earnings
BALANCE, December 31, 2020	BALANCE, December 31, 2020	11,954,327	\$ 87,815	\$ 52,368	\$ 34	\$140,217	
Net income	Net income	—	—	27,005	—	27,005	
Issuance of restricted stock awards	Issuance of restricted stock awards	10,714	—	—	—	—	
Vesting of restricted stock units	Vesting of restricted stock units	7,851	—	—	—	—	
Exercise of stock options	Exercise of stock options	50,570	359	—	—	359	
Stock-based compensation	Stock-based compensation	—	1,284	—	—	1,284	
Stock issuance and net proceeds from public offering	Stock issuance and net proceeds from public offering	851,853	32,387	—	—	32,387	
Other comprehensive loss, net of tax	Other comprehensive loss, net of tax	—	—	—	(30)	(30)	
BALANCE, December 31, 2021	BALANCE, December 31, 2021	12,875,315	\$121,845	\$ 79,373	\$ 4	\$201,222	
BALANCE, December 31, 2021	BALANCE, December 31, 2021	12,875,315	\$121,845	\$ 79,373	\$ 4	\$201,222	
BALANCE, December 31, 2021							
BALANCE, December 31, 2021							
Net income	Net income	—	—	40,625	—	40,625	
Issuance of restricted stock awards	Issuance of restricted stock awards	10,396	—	—	—	—	
Vesting of restricted stock units	Vesting of restricted stock units	28,215	—	—	—	—	
Exercise of stock options	Exercise of stock options	247,221	1,468	—	—	1,468	
Stock-based compensation	Stock-based compensation	—	2,517	—	—	2,517	
Stock issuance and net proceeds from public offering							

Other comprehensive loss, net of tax	Other comprehensive loss, net of tax	—	—	—	(2,338)	(2,338)
BALANCE, December 31, 2022	BALANCE, December 31, 2022	13,161,147	\$125,830	\$119,998	\$ (2,334)	\$243,494
BALANCE, December 31, 2022						
BALANCE, December 31, 2022						
Net income						
Adjustment to retained earnings; adoption of ASU 2016- 13						
Issuance of restricted stock awards						
Vesting of restricted stock units						
Exercise of stock options						
Stock-based compensation						
Other comprehensive income, net of tax						
BALANCE, December 31, 2023						

See accompanying Notes to Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

		Year Ended December 31,			
		2022	2021		
		Year Ended December 31,		Year Ended December 31,	
		2023	2022	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES	CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	Net income	\$ 40,625	\$ 27,005		
Net income					
Net income					
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:				

Provision for loan losses		79,064	9,915
Provision for credit losses			
Provision for credit losses			
Provision for credit losses			
Depreciation and amortization	Depreciation and amortization	1,809	1,587
Loss on disposition of fixed assets	Loss on disposition of fixed assets	35	—
Decrease in operating lease right-of-use assets		1,087	1,056
Decrease in operating lease liabilities		(1,086)	(1,044)
Increase in operating lease right-of-use assets			
Increase in operating lease liabilities			
Gain on sales of loans	Gain on sales of loans	—	(396)
Net (discount accretion)/premium amortization on investment securities		(50)	32
Unrealized holding loss (gain) on equity investment		153	(1,469)
Net discount accretion on investment securities			
Unrealized holding (gain) loss on equity investment			
Stock-based compensation	Stock-based compensation	2,517	1,284
Gain on sale of bank branch, including deposits and loans	Gain on sale of bank branch, including deposits and loans	—	(1,263)
Increase in bank-owned life insurance value	Increase in bank-owned life insurance value	(360)	(172)
Deferred tax benefit		(11,018)	(3,011)
Deferred tax benefit (expense)			

Net change in CCBX receivable	Net change in CCBX receivable	(9,150)	(1,096)
Net change in CCBX credit enhancement asset	Net change in CCBX credit enhancement asset	(44,665)	(8,712)
Net change in CCBX payable	Net change in CCBX payable	18,578	1,841
Net change in other assets and liabilities	Net change in other assets and liabilities	(10,441)	4,290
Total adjustments	Total adjustments	26,473	2,842
Net cash provided by operating activities	Net cash provided by operating activities	67,098	29,847

CASH FLOWS FROM INVESTING ACTIVITIES	CASH FLOWS FROM INVESTING ACTIVITIES
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Purchase of investment securities available for sale	Purchase of investment securities available for sale	(134,912)	(117,493)
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Purchase of investment securities available for sale

Purchase of investment securities available for sale

Purchase of investment securities held for investment

Change in other investments, net	Change in other investments, net	(2,230)	(950)
Principal paydowns of investment securities available-for-sale	Principal paydowns of investment securities available-for-sale	17	33
Principal paydowns of investment securities held-to-maturity	Principal paydowns of investment securities held-to-maturity	256	1,515
Maturities and calls of investment securities available-for-sale	Maturities and calls of investment securities available-for-sale	70,000	102,500
Purchase of bank owned life insurance	Purchase of bank owned life insurance	(53)	(5,000)
Proceeds from sales of loans held for sale	Proceeds from sales of loans held for sale	152,546	—

Proceeds from sales of loan participations	Proceeds from sales of loan participations	10,300	—
Purchase of loans	Purchase of loans	(168,464)	(60,260)
Purchase of loan participations	Purchase of loan participations	(52)	—
Proceeds from sale of loans related to sale of bank branch	Proceeds from sale of loans related to sale of bank branch	—	4,092
Increase in loans receivable, net	Increase in loans receivable, net	(912,518)	(141,503)
Net cash transfer for branch sale	Net cash transfer for branch sale	—	(19,980)
Purchases of premises and equipment, net	Purchases of premises and equipment, net	(2,838)	(2,593)
Net cash used by investing activities	Net cash used by investing activities	(987,948)	(239,639)

CASH FLOWS FROM FINANCING

ACTIVITIES

Net increase in demand deposits, NOW and money market, and savings	467,744	980,766
Net decrease in time deposits	(14,010)	(14,223)
Net repayment from long term FHLB borrowing	(24,999)	—
Increase from subordinated debt proceeds	19,625	24,263
Decrease from subordinated debt repayment	—	(10,000)
Net advances from Paycheck Protection Program Liquidity Facility	—	(153,716)
Proceeds from exercise of stock options	1,468	359
Proceeds from public offering	—	32,387
Net cash provided by financing activities	449,828	859,836

NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH	(471,022)	650,044
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CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year	813,161	163,117
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CASH, DUE FROM BANKS AND RESTRICTED CASH, end of year	\$342,139	\$813,161
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SUPPLEMENTAL SCHEDULE OF

OPERATING AND INVESTING ACTIVITIES

Interest paid	\$ 20,068	\$ 3,820
Income taxes paid	\$ 23,498	\$ 8,759

SUPPLEMENTAL SCHEDULE OF

NONCASH TRANSACTIONS

Fair value adjustment of securities available-for-sale, gross	\$ (2,959)	\$ (37)
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In conjunction with ASU 2016-02 as detailed in Note 6 to the Unaudited Consolidated Financial Statements, the following assets and liabilities were recognized:

Operating lease right-of-use assets	\$	—	\$	41
Operating lease liabilities	\$	—	\$	(41)
Transfer from loans to loans held for sale	\$152,546	\$	—	

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CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in demand deposits, NOW and money market, and savings		553,932	
Net decrease in time deposits		(11,089)	
Net repayment from long term FHLB borrowing		—	
Increase from subordinated debt proceeds		—	
Decrease from subordinated debt repayment		—	
Net advances from Paycheck Protection Program Liquidity Facility		—	
Proceeds from exercise of stock options		618	
Proceeds from public offering		—	
Net cash provided by financing activities		543,461	
NET CHANGE IN CASH, DUE FROM BANKS AND RESTRICTED CASH		140,989	
CASH, DUE FROM BANKS AND RESTRICTED CASH, beginning of year		342,139	
CASH, DUE FROM BANKS AND RESTRICTED CASH, end of quarter	\$	483,128	\$
SUPPLEMENTAL SCHEDULE OF OPERATING AND INVESTING ACTIVITIES			
Interest paid	\$	91,436	\$
Income taxes paid	\$	6,843	\$
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS			
Fair value adjustment of securities available-for-sale, gross	\$	2,418	\$
Operating lease right-of-use assets	\$	1,747	\$
Operating lease liabilities	\$	(1,747)	\$
Transfer from loans to loans held for sale	\$	599,946	\$
Adjustment to retained earnings - adoption of ASU 2016-13, net of deferred tax	\$	(734)	\$

See accompanying Notes to Consolidated Financial Statements.

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COASTAL FINANCIAL CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Description of Business and Summary of Significant Accounting Policies

Nature of operations - Coastal Financial Corporation ("Corporation" or "Company") is a registered bank holding company whose wholly owned subsidiaries are Coastal Financial Bank, N.A. and Coastal Financial Services, LLC. The Company is a Washington state corporation that was organized in 2003. The Bank was incorporated and commenced operations in 1997 and is a Washington state-chartered ("Federal Reserve") state member bank. Arlington Olympic LLC was formed in 2020 and owns the Arlington branch site, which the Bank leases from the LLC.

The Company operates through the Bank and is headquartered in Everett, Washington, which by population is the largest city in, and the county seat of, Snohomish County. The Company has two reportable segments: The community bank, CCBX and CCBX treasury & administration. The community bank offers a full range of banking services to small and medium-sized businesses throughout the greater Puget Sound region through its 14 branches in Snohomish, Island and King Counties, the Internet, and its mobile banking application. The Company also provides a "Bank as a Service" ("BaaS") enabling third-party broker dealers and digital financial service providers to offer their clients banking services. Through CCBX's partnership with various fintech companies, the Company provides a variety of products across the nation. The treasury & administration segment includes treasury management, overall administration and all other aspects of the Company.

The Bank's deposits are insured in whole or in part by the Federal Deposit Insurance Corporation ("FDIC"). The community bank's loans and deposits are primarily with small and medium-sized businesses and are dependent upon the partner's market. The Bank's primary funding source is deposits from customers. The Bank is subject to regulation and supervision by the Federal Reserve and the Washington State Department of Financial Institutions Division of Banks. The Federal Reserve also has regulatory and supervisory authority over the Company.

Financial statement presentation - The accompanying audited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and practices within the banking industry. Amounts presented in the consolidated financial statements and footnote tables are rounded and presented in thousands of dollars. In the narrative footnote discussion, amounts are rounded to thousands and presented in dollars.

In management's opinion, all accounting adjustments necessary to accurately reflect the financial position and results of operations on the accompanying consolidated financial statements include normal and recurring accruals considered necessary for a fair and accurate presentation.

Principles of consolidation - The consolidated financial statements include the accounts of the Company, the Bank and the LLC. All significant intercompany accounts and transactions have been eliminated.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that its credit allowance for loan credit losses, the fair value of the Company's financial instruments, and the valuation of deferred tax assets, financial instruments, and other fair value measurements are those estimates.

Subsequent Events - The Company has evaluated events and transactions subsequent to **December 31, 2022** through **December 31, 2023** for potential recognition or disclosure of subsequent events. The lease agreement for the Everett location. This renewal was for less square footage, at reduced monthly expense and was extended for an additional ten years. As discussed in the **disclosure**.

Cash equivalents and cash flows - For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks and interest-bearing deposits with other financial institutions, federal funds sold and cash flows from loans and deposits are reported as net increases or decreases under cash flows from investing activities.

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The Company maintains its cash in depository institution accounts, which, at times, may exceed federally insured limits. The Company monitors these institutions and the amounts deposited to ensure compliance with applicable regulations.

Investment securities - Debt securities that management has the ability and intent to hold to maturity are classified as held-to-maturity and carried at amortized cost and are recognized in interest income using the interest method or methods approximating the interest method over the period to maturity.

Debt securities not classified as held-to-maturity are classified as available-for-sale. Such securities may be sold to facilitate the Company's asset/liability management and similar forces. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on sales of securities are reported as a reclassification adjustment in other comprehensive income. Gains and losses on sales of securities are recorded on the trade date.

Declines in fair value - For available-for-sale debt securities, if fair value is below amortized cost, the security is considered impaired. When the Company does not intend to sell the security before recovery of its cost basis, then the Company assesses the security for potential expected credit losses. Impairment related to debt securities is recognized in other comprehensive income using the cost method. Credit loss recognition is limited to the fair value of individual securities. The impairment is recognized by establishing an ACL through provision for credit losses. In other comprehensive income, net of applicable taxes. The Company evaluates AFS security impairment on a quarterly basis.

For held-to-maturity debt securities, expected losses are evaluated and available-for-sale calculated on a collective basis for those securities below their amortized cost which share risk characteristics. The Company aggregates similar securities and reports the individual securities to their fair value. security portfolio segments based on share characteristics included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time held-to-maturity portfolio has been in a loss position and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the investment in the issuer were purchased for a period of time sufficient to allow for any anticipated recovery in fair value. CRA purposes.

Other investments - Other investments on the balance sheet consists of direct equity investments in stock of the Federal Home Loan Bank of Des Moines ("FHLB") and Pacific Coast Banker's Bancshares, as well as investments in bank technology funds.

As a Federal Reserve member bank, the Bank is required to own stock in the FRB in an amount based on the Bank's capital. The recorded amount of the FRB stock owned by the FRB at their par value. The Bank's investment in FRB stock was \$4.8 million and \$4.3 million at December 31, 2023 and \$2.8 million at December 31, 2022.

The Bank, as a member of the FHLB, is required to maintain an investment in capital stock of FHLB in an amount equal to 4% 4.5% of advances outstanding, plus 0. The recorded amount of FHLB stock equals its fair value because the shares can only be redeemed by FHLB at the \$1 per share par value. The investment in FHLB stock was \$3.1 million at December 31, 2022 and 2021, 2022, respectively.

The investment in Pacific Coast Banker's Bancshares ("PCBB") stock consists of an equity security. This investment is carried at its cost of \$100,000 at December 31, 2022 and approximates its fair value.

The Company has the following equity investments which do not have a readily determinable fair value and are held at cost minus impairment if any, plus or minus of changes in fair value. This method will be applied until the investments do not qualify for the measurement election (e.g., if the investment has a readily determinable fair value at each reporting period whether the equity investments without a readily determinable fair value qualifies to be measured at cost minus impairment. These equity investments are:

- As of December 31, 2022 and December 31, 2021 the Company has a \$2.2 million equity interest in a specialized bank technology company. During the year ended December 31, 2022, the Company value company as of December 31, 2023 and recognized a \$1.5 million unrealized holding gain as a result of an observable price change. December 31, 2022 .
- During the year ended December 31, 2022 the Company re-evaluated the value and recorded an impairment of \$100,000 on has a \$500,000 \$350,000 equity investment. The investment was carried at \$100,000 on December 31, 2021, bringing the carrying value to zero as of the years ended December 31, 2023 and December 31, 2022. This investment has been recorded in the books.

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- The Company contributed \$350,000 in \$50,000 to a technology company during the year ended December 31, 2022. There December 31, 2023, there was no equity 2021 December 31, 2022.

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The following table shows the activity in equity investments without a readily determinable fair value for the dates shown:

		For the Twelve Months Ended December 31,		For the Twelve Months Ended December 31,		
(dollars in thousands)	(dollars in thousands)	2022	2021	(dollars in thousands)	2023	2022
Carrying value, beginning of period	Carrying value, beginning of period	\$2,322	\$ 850			
Purchases	Purchases	350	—			
Observable price change	Observable price change	(100)	1,472			
Carrying value, end of period	Carrying value, end of period	\$2,572	\$2,322			

The Company has invested in funds that are accelerating technology for adoption by banks. These equity investments are held at fair value, as reported by the funds. In 2023, the Company contributed \$349,000 \$74,500 with investment funds designed to help accelerate technology adoption at banks, and recognized net losses gains of \$53,000 \$456,000 \$809,000 at December 31, 2022 December 31, 2023. The Company has committed up to \$988,000 \$653,000 in capital for these equity funds. One firm decided to decrease \$176,000 in 2023, leaving \$22,000 in that fund as of December 31, 2023.

The following table shows the activity in equity fund investments held at fair value for the dates shown:

		For the Twelve Months Ended December 31,		For the Twelve Months Ended December 31,		
(dollars in thousands)	(dollars in thousands)	2022	2021	(dollars in thousands)	2023	2022
Carrying value, beginning of period	Carrying value, beginning of period	\$160	\$ —			
Purchases/capital calls, net	Purchases/capital calls, net	349	163			
Net change recognized in earnings	Net change recognized in earnings	(53)	(3)			
Carrying value, end of period	Carrying value, end of period	\$456	\$160			

Loans and allowance for loan credit losses – Loans are stated at the principal amount outstanding less the allowance for loan credit losses and net of any deferred premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest

that approximates the level yield methodology. Interest income on loans is recognized based upon the principal amounts outstanding.

The accrual of interest on community bank loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or interest, unless they are well secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed against current income of principal or interest is in doubt, cash receipts on nonaccrual loans are applied to reduce the principal balance on a cash-basis method, until the loans qualify for return to a to accrual status when all principal and interest amounts contractually due are brought current, borrower has demonstrated ability to make regular payments, generally a period reasonably assured.

For installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending partners loans will accrue interest until 120 and 180 days past guidelines for consumer loans of this nature, and an allowance is recorded through provision expense for these probable incurred expected losses. For installment/closed-end through CCBX lending partners with balances outstanding beyond 120 days and 180 days, respectively, principal and capitalized interest outstanding is charged off against the against interest income.

The allowance for loan credit losses is comprised of amounts charged against income in the form of the provision for loan credit losses, less charged-off loans, net of specific loans or portions

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thereof are uncollectible, identified amounts are charged against the allowance for loan credit losses. The existence of some or all of the following criteria will generally confirm delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; (2) the Company has no recourse to the borrower or if it does, the borrower has value of the loan collateral

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is significantly below the current loan balance; and (4) there is little or no near-term prospect for improvement. Subsequent recoveries, if any, are credited to the allowance for

The allowance for loan credit losses ("ACL") is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated based upon management's periodic review of those loans which share similar risk characteristics. At each reporting period, the collectability of Company evaluates whether continue to exhibit similar risk characteristics as the nature other loans in the pool and volume whether it needs to evaluate the allowance on an individual basis. The Company contractual terms, adjusted for expected prepayments. In estimating the life of the loan, portfolio, adverse situations that the Company cannot extend the contractual term of the modifications, unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Company. Because expected adjusted for estimated prepayments, determination of the life of the loan may significantly affect the borrower's ability ACL. The Company has chosen to repay, estimated value conditions. This evaluation is inherently subjective as segment its portfolio consistent with the manner in which it requires estimates that are susceptible to significant revision

The allowance consists of specific and general components. The specific component relates to loans that are determined to be impaired. For such loans (including those when manages the discounted cash flows (or collateral value or observable market price) risk of the impaired type of credit.

- **Community Bank Portfolio:** The ACL calculation is derived from loan is lower than segments utilizing loan level information and relevant available information and current conditions. In addition, the carrying value of that loan. Company incorporates a reasonable and supportable forecast.
- **CCBX Portfolio:** The general component covers various Bank calculates the ACL on loans and is on an aggregate basis based on each partner and product level default, type of loan, peer information, risk rating and adjusted for inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio, including the inter changes portfolio.

Also included in the nature and volume of ACL are qualitative reserves to cover losses that are expected, but in the loan portfolio, industry or borrower concentrations with identified weaknesses Company's assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include condition, credit rating and the impacts volume and severity of local, regional and national economic factors on the quality of the loan portfolio. Community bank and CCBX loans pooled, depending on loan type and characteristics of the loan. Consumer past due loans and smaller balance loans are typically assessed as homogeneous loan pools. non Company records a provision for loan credit losses to maintain the allowance at appropriate levels.

CCBX lending partners originate various Determining the amount of the allowance is considered a critical accounting estimate, as it requires significant judgment and management's assessment of overall portfolio quality. The Company maintains the allowance at an amount the Company believes is sufficient to provide for estimated losses at each balance sheet date, and as fluctuations in the provision for credit losses may result from management's assessment of December 31, 2022, include consumer, commercial estimates and home equity loans. CCBX consumer loans typically assumptions are possible and may have a higher level material impact on the Company's allowance, and the results of expected losses than community bank loans which operations. The Company has elected to exclude accrued interest receivable from the amortized cost basis in its in the higher loss factors for a timely manner when deemed uncollectible.

For more information and discussion related to the allowance for loan losses. Estimated loss rates credit losses on loans, see "Note 4 - Loans and Allowance for Credit Statements.

In addition to the ACL on loans vary held for investment, CECL requires a balance sheet liability for expected losses on unfunded commitments, which is recognized has a present contractual obligation to extend credit; and (2) the obligation is not unconditionally cancellable by partner, the Company. Loan commitments may have a funded unfunded commitments is derived based on actual partner experience, realized losses or upon the commitments to extend credit to a borrower. The expected credit losses for portions are reported in the Company's previously discussed ACL.

The unfunded commitments that are not unconditionally cancelable by the Company are allowed for using the same loss rate for similar loans. Many of the agreements enhance which helps protect the Bank by absorbing incurred losses. CCBX credit enhancements are free-standing and are accounted separately from the allowance for estimate and record a provision for probable losses for these CCBX loans, without regard to the credit enhancement. When the provision for loan losses is recorded, a free-s balance sheet through noninterest income (BaaS fees -credit enhancement). Charge-offs of CCBX partner loans are recorded funded commitment applied against the allowance enhancement cash reserve account or the CCBX partner, the credit enhancement asset is relieved. If a CCBX lending partner is unable to fulfill its contractual obligations and exposed to additional loan losses as a result estimated utilization of this counterparty risk and would have to absorb any loan losses associated with the CCBX partner that it believes the balance would be recoverable in the event of bankruptcy of the partner, but there are no guarantees that bankruptcy court will rule in the Company's favor. Additionally regularly replenish funding in their cash reserve accounts. Credit-worthiness of CCBX partners are evaluated as part of initial due diligence and quarterly thereafter. The Company

A community bank loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, these commitments and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines this on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. CCBX loans are treated as homogenous pools and are not

A troubled debt restructuring ("TDR") is a loan for which the Company, for reasons related to the borrower's financial difficulties, grants a concession to the borrower individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows. If the loan is considered to be a collateral-dependent loan, the loan is reported, net, at the fair value of the collateral. For TDRs that subsequently default,

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the Company determines the amount of allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired. The Company's experience with TDRs including the performance of TDRs that subsequently default into the calculation of the allowance by loan portfolio segment. funding.

Loans held-for-sale - During the year ended December 31, 2022 December 31, 2023, the Company transferred \$152.5 million \$599.9 million in CCBX loans received. These loans consist of the portion of loans originated by CCBX partners that the Company intends to sell back to the CCBX partner or affiliated entity generally at par. The loans sold to third parties

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agreements and are primarily sold for credit risk and concentration management and other purposes. management. As of December 31, 2022 December 31, 2023 and 2021, the

Community bank loans held-for-sale consist of the guaranteed portion of SBA loans and USDA loans the Company intends to sell after origination and are reflected as loans. These loans are generally sold with servicing of the sold portion retained by the Company when the sale of the loan occurs, the premium received is combined with the estimated present value of the sold portion and recorded as a gain on sale of loans in noninterest income. There were no loans held for sale at December 31, 2022 December 31, 2023 and 2021, 2022.

Loan sales recognition - The Company recognizes a sale on loans if the transferred portion (or portions) and any portion that continues to be held by the transferor are accounted for as a portion of a financial asset that (a) conveys proportionate ownership rights with equal priority to each participating interest holder, (b) involves no recourse (other than standard recourse to the transferor to the extent of any deficiency in the principal and interest payments on the loan), and (c) entitles any participating interest holder to receive cash before any other participating interest holder. The transfer of the participating interest (or participating interests) must be complete.

To determine the gain or loss on sale of loans, the Company's investment in the loan is allocated among the retained portion of the loan, the servicing retained, and the sold portion. The gain or loss on the sold portion of the loan is based on the difference between the sale proceeds and the allocated investment in the sold portion of the loan. The gain or loss on the retained portion of the loan is based on the difference between the allocated investment in the retained portion of the loan and the fair value of the retained portion of the loan to offset the decrease in the fair value allocation of said retained portion.

The Company retains the servicing on the sold guaranteed portion of SBA and USDA loans. The Company receives a fee for servicing the loan. The Company also receives a fee for the MSLP Main Street Lending Program ("MSLP") loans. The net deferred fee on the sold portion of the loan is recognized when sold. The Company does not retain the servicing on the sold portion of the loan.

SBA and USDA servicing - The Company accounts for SBA and USDA servicing rights as separately recognized servicing rights and initially measures them at fair value. The Company's servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Company's servicing assets are amortized using the amortization method. Under the amortization method, servicing assets are amortized into noninterest income in proportion to, and over the period of, the estimated cash flows. If the servicing assets are assessed for impairment or increased obligations, at the loan level, based on the fair value of each reporting date. As of December 31, 2022 and 2021, SBA and USDA servicing assets are included in other assets on the consolidated balance sheets, and SBA and USDA loans serviced totaled \$14.3 million and \$19.3 million, as of December 31, 2022 and 2021, respectively.

Reserve for unfunded commitments - A reserve The Company maintains a balance sheet liability for expected losses on unfunded commitments, which is recognized when the Company has a present contractual obligation to extend credit; and (2) the obligation is not unconditionally cancellable by the Company. Loan commitments may have a funding commitment that is maintained at derived based upon the commitments to extend credit to a level that, in the opinion of management, is sufficient to cover the Company's commitment to lend funds under existing agreements, such as letters or lines of credit. Management determines the adequacy of the reserve not established for individual loan commitment that are unconditionally cancellable by the Company. The expected credit facilities, current economic conditions, and risk characteristics of the various loan commitments are considered. The reserve is based on estimates, and ultimate losses may vary from the current estimates. These estimates are evaluated on a regular basis and adjustments for funded commitments are made as they become known. Draws previously discussed ACL. The Company segments its unfunded commitment portfolio consistent with the ACL calculation, separating between unfunded commitments that are not unconditionally cancellable by the Company and those that are. The Company incorporates the probability of funding (i.e. estimate of utilization) for each segment and then utilizes the ACL loss rates for each segment on unfunded commitments that are not unconditionally cancellable by the Company. The Company's reserve for unfunded commitments is calculated on an aggregate basis to calculate the allowance for loan losses. Provision for unfunded commitments losses are added to the reserve for unfunded commitments, and the reserve is adjusted for changes in the estimate of the allowance for loan losses.

consolidated balance sheets. commitments. The reserve for unfunded commitments was \$974,000 \$582,000 and \$1.3 million \$974,000 as of December 31, 2022 December 31, 2023 and 2021, 2022. The Company has determined that no allowance is necessary for the portion of the unfunded commitment of the loan portfolio.

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Additionally, agreements with our CCBX partners provide for a credit enhancement against losses. When the provision for unfunded commitments is recorded, a credit enhancement asset is recorded through noninterest income (BaaS fees -credit enhancement). Any incurred losses would be recorded in the allowance for loan losses, and as the credit enhancement asset on the balance sheet is relieved.

Premises and equipment - Premises and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method. Asset lives range from three to thirty-nine years. Leasehold improvements are amortized over the expected term of the lease including options to extend which are reasonable, whichever is less.

The Company capitalizes internal and external costs related to internal-use software during the application development stage, including consulting costs and compensation for the development of the projects. The Company records capitalized software development costs in premises and equipment in the Consolidated Balance Sheets. Costs incurred for implementation activities are expensed in the period incurred. The Company may also capitalize costs related to specific upgrades and enhancements when it is probable that the software is substantially complete and ready for its intended use, capitalization ceases and the asset is amortized straight line over its estimated useful life, which is typically five years.

Maintenance and repairs are charged to operating expenses. Renewals and betterments are added to the asset accounts and depreciated over the periods benefited. The asset and related accumulated depreciation accounts and any gain or loss is reflected in the income statement. These assets are

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reviewed for impairment when events indicate their carrying value may not be recoverable. If management determines impairment exists, the asset is reduced with an offsetting entry.

Transfers of financial assets - Transfers of an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over the entire group of financial assets or a participating interest in an entire financial asset has been isolated from the Company, (2) the transferee obtains the right (free of conditions that restrict the transferee) to exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Other real estate owned and repossessed assets - Other real estate owned and repossessed assets are foreclosed property held pending disposition and are initially recorded at fair value when acquired, establishing a new cost basis. At foreclosure, if the fair value of the asset acquired less estimated selling costs is less than the Company's recorded investment, a charge is made to the allowance for loan credit losses. Costs of significant property improvements that increase the value of the property are capitalized, whereas costs relating to holding and maintenance are expensed. A valuation allowance is established for subsequent declines, which are recorded as a charge to income, if necessary, to reduce the carrying amount to fair value less costs to sell.

Leases - The Company accounts for its leases in accordance with ASC 842 - Leases. Most leases are recognized on the balance sheet by recording a right-of-use asset and a lease liability. An asset represents the right to use the asset under lease for the lease term, and the lease liability represents the contractual obligation to make lease payments. The right-of-use asset and lease liability are measured at the present value of the lease payments, discounted using the incremental borrowing rate. Changes in circumstances indicate the carrying amount may not be recoverable.

As a lessee, the Company enters into operating leases for certain Bank branches. The right-of-use assets and lease liabilities are initially recognized based on the present value of the lease payments, discounted using the incremental borrowing rate. The net present value is determined using the incremental collateralized borrowing rate. The right-of-use asset and lease liability is amortized over the lease term. The right-of-use asset and lease liability is amortized over the lease term. The right-of-use asset and lease liability is amortized over the lease term. For additional information regarding leases, see Note 6.

Income taxes - The Company and the Bank file a consolidated federal income tax return and state tax returns as applicable. Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities, and their reported amounts in the financial statements. Deferred taxes are temporary differences that will be recognized in future periods. As changes in tax law or rates are enacted, the deferred tax asset or liability is adjusted through the provision for income taxes. Federal taxes are paid by the Bank to the Company based on the separate taxable income of the Bank. The Company and the Bank account for financial reporting and for income tax reporting purposes.

As of December 31, 2022 December 31, 2023 and 2021, 2022, the Company had no material unrecognized income tax benefits. The Company recognizes interest and penalties as a component of other noninterest expense. There were no interest and penalties assessed on income taxes during 2022 2023 or 2021.

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2022.

Stock-based compensation - Compensation expense is recognized for stock options and restricted stock, based on the fair value of these awards at the grant date. The fair value of stock options is determined using the Black-Scholes model. The market price of the Company's common stock at the grant date is used for restricted stock awards and restricted stock units and is determined at the grant date. Compensation cost is recognized over the requisite service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized over the entire award.

Earnings per common share - Earnings per common share ("EPS") is computed under the two-class method. Pursuant to the two-class method, nonvested stock based dividends or dividend equivalents are participating securities and are included in the computation of EPS. The two-class method is an earnings allocation formula that determines the amount of earnings to be allocated to participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Application of the two-class method resulted in the following:

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Basic earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding, excluding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation, plus the treasury stock method. Stock options that are anti-dilutive are not included in the calculation of diluted EPS.

Comprehensive income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in fair value of available-for-sale investments, are reported as a separate component of the shareholders' equity section of the balance sheets. Accumulated other comprehensive income or losses on investment securities available-for-sale.

Business Segments - For financial reporting purposes, the Company has **two** segments: The community bank, CCBX and CCBX. **treasury & administration**. The community bank, gathering deposits and originating loans for portfolio in its market areas. The community bank offers a wide variety of deposit products to their customers. Lending and industrial, and consumer loans. Interest income on loans is the Company's primary source of revenue, and is supplemented by interest income from investment securities. In addition to traditional banking services the Company also has a **The CCBX segment** which provides BaaS offerings **banking as a service ("BaaS")** that enable **banking service providers** to offer their clients **customers** banking services. **The CCBX segment has 21 partners as of December 31, 2023. The treasury & administration segment and all other aspects of the Company.** The performance of the Company is reviewed and monitored by the Company's executive management on a daily basis and the Board of Directors at minimum, on a monthly basis. For additional information regarding the business segments, see Note 21.

Advertising costs - Advertising costs are expensed as incurred or over the period of the campaign/promotion. Advertising costs in the amount of **\$351,000** and **\$517,000** for the periods ended **December 31, 2022** and **December 31, 2023** and **2021**, respectively.

Reclassifications - Certain amounts reported in prior years' consolidated financial statements may have been reclassified to conform to the current presentation with the following:

Note 2 - Recent accounting standards

Recent Accounting Guidance Not Yet Effective

In September 2016, Implementation of ASU 2016-13 - On January 1, 2023, the FASB issued Company adopted ASU 2016-13, *Financial Instruments-Credit Instruments- Losses on Financial Instruments*. The amendments replace **which replaces** the incurred loss impairment methodology in current GAAP with a **an expected loss** methodology (**"CECL"**) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including **maturity debt securities**. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, certain leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require increases or decreases in credit losses to be recognized in earnings. **broader range** write-down on available-for-sale debt securities management does not intend to sell or believe it is more likely than not the Company will be required to sell the information to inform credit loss estimates. **the amortized cost basis.**

The amendment is effective **Company adopted ASC 326 using the modified retrospective method. Results for annual the reporting periods beginning after December 15, 2019, or the end of the reporting period, but not earlier than the first reporting period within those annual periods.** Our implementation was effective January 1, 2023 and was determined when we were amounts continue to be reported under the current methodology. **day one CECL adjustment for community bank loans included a smaller reporting company. The Company is reduction of \$310,000 to the community bank allowance in the first quarter of 2023.** of \$340,000 related to the community bank unfunded commitment reserve in the first quarter of 2023. This was offset by an increase to the CCBX allowance for \$4.2 million in the first quarter of 2023, which calculates reserves over the life of the loan and is largely driven by portfolio characteristics, economic outlook, and other key methodology assumptions versus the current methodology. The adoption of this ASU will result in a one-time cumulative-effect adjustment **day one increase** to the allowance **indemnification asset** in the amount of \$4.5 million and a reduction in the allowance for loan losses as of CCBX loans. Net, the day one impact for the Bank's transition to CECL was an increase of adoption. The Company currently estimates a net impact of \$220,000, resulting in an increase to retained earnings of \$734,000, net of income taxes.

Management has separately evaluated its held-to-maturity investment securities and determined that no loss reserves were required.

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increase to our allowance for credit losses and reserve for unfunded loan commitments from 3% to 10%. This change will decrease **The following table illustrates the open**

	January 1, 2023	
	As reported under ASC 326	Pre-ASC 326 Adoption
Assets:		
Allowance for credit losses	\$ 77,881	\$
CCBX credit enhancement asset	57,842	

Deferred tax asset	18,238
Liabilities:	
Unfunded commitment reserve	634
Shareholders' Equity:	
Retained earnings	120,732

Implementation of ASU 2022-02 - On January 1, 2023. The above range is disclosed due to the fact that, the Company is still in the process of finalizing the CECL allowance to qualitative adjustments and economic forecasts; finalizing the execution of internal controls; and evaluating the impact to our financial statement disclosures.

The Company does not expect a material allowance for credit losses to be recorded on its available-for-sale debt securities for losses expected over the life of the security impairment model, as the majority of these securities are government agency-backed securities for which the risk of credit loss is minimal.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, to align the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interest rates to the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls reference rate reform. This election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional exceptions for hedging relationships affected by reference rate reform, if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. The Company expects to be able to use other exceptions away from LIBOR, specifically as they relate to loans and borrowing relationships. The adoption of this accounting guidance is not expected to have a material impact on the Company's consolidated financial statement disclosures.

In March 2022, the FASB issued **adopted** ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings ("TDR") and Vintage Disclosures*, to require entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. This ASU is **was** effective upon adoption of ASU 2022-02 on a prospective basis. See "Note 4 - Loans and Allowance for Credit Losses ("ACL")" for more information on loans that were modified to borrowers experiencing financial difficulty. The Company is evaluating the impact adoption will have on the Company's consolidated financial statement disclosures. **twelve months ended months ended December 31, 2023.**

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Note 3 - Investment Securities

The following table summarizes the amortized cost, fair value, and fair values allowance for credit losses and the corresponding amounts of investment gross unrealized gains and losses indicated are as follows: recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses of held-to-maturity securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
(dollars in thousands; unaudited)			
December 31, 2023			
Available-for-sale			
U.S. Treasury securities	\$ 99,996	\$ —	\$ (535)
U.S. Agency collateralized mortgage obligations	45	—	(2)
Total available-for-sale securities	100,041	—	(537)
Held-to-maturity			
U.S. Agency residential mortgage-backed securities	50,860	467	(286)
Total investment securities	\$ 150,901	\$ 467	\$ (823)

	Amortized Cost	Gross Unrealized Gains
(dollars in thousands; unaudited)		
December 31, 2022		
Available-for-sale		
U.S. Treasury securities	\$ 99,967	\$ —
U.S. Agency collateralized mortgage obligations	54	—

U.S. Agency residential mortgage-backed securities	1	—
Municipal bonds	250	—
Total available-for-sale securities	100,272	—
Held-to-maturity		
U.S. Agency residential mortgage-backed securities	1,036	—
Total investment securities	\$ 101,308	\$ — \$

Amortized Cost	Gross Unrealized Gains
-------------------	------------------------------

(dollars in thou

December 31, 2021

Available-for-sale				
U.S. Treasury securities	\$ 34,999	\$ —	\$	\$
U.S. Agency collateralized mortgage obligations	68	2		
U.S. Agency residential mortgage-backed securities	3	—		
Municipal bonds	252	4		
Total available-for-sale securities	35,322	6		
Held-to-maturity				
U.S. Agency residential mortgage-backed securities	1,296	52		
Total investment securities	\$ 36,618	\$ 58	\$	\$

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The amortized cost and fair value of debt securities at **December 31, 2022** **December 31, 2023**, by contractual maturity, are shown below. Expected maturities will dif mortgage backed securities or

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obligations may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations a maturity date.

Available-for-Sale		Held-to-Maturity	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

(dollars in thousands)

December 31, 2022

Available-for-Sale		Available-for-Sale	
Amortized Cost	Fair Value	Amortized Cost	Fair Value

(dollars in thousands)

December 31, 2023

Amounts maturing in

Amounts maturing in

Amounts maturing in

One year or less One year or less \$ 250 \$ 250 \$ — \$ —

One year or less

One year or less

		99,996					
U.S. Agency residential mortgage- backed securities and collateralized mortgage obligations	U.S. Agency residential mortgage- backed securities and collateralized mortgage obligations		55	51	1,036	916	
			<u>\$100,272</u>	<u>\$97,317</u>	<u>\$ 1,036</u>	<u>\$916</u>	
	\$						

Investment securities with amortized cost of \$21.8 million and \$37.8 million at December 31, 2023 and \$36.0 million at December 31, 2022 and December 31, 2021, for other purposes as required or permitted by law. In addition, \$25.0 million in securities were pledged for borrowing lines at December 31, 2023, with no securities pledged at December 31, 2022. During the year ended December 31, 2023, a total of five 16 U.S. Treasury Bills Agency mortgage backed securities were purchased for a total of \$135.0 million as security for public deposits, and \$70.0 million in U.S. Treasury securities matured during the year ended December 31, 2023.

There were no sales of investments during the year ended December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022.

Information pertaining to At December 31, 2023 and December 31, 2022, there were nine and six securities, with respectively, in an unrealized loss position. The following table provides information regarding the securities in an unrealized loss position at the dates indicated, and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position following their acquisition:

12 Months or					
Less Than 12 Months		Greater		Total	
Gross		Gross		Gross	
Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Value	Losses	Value	Losses	Value	Losses
(dollars in thousands)					

December 31, 2022

	Less Than 12 Months		Less Than 12 Months		12 Months
			Gross		Gross
Fair		Fair	Unrealized	Fair	Unrealized
Value		Value	Losses	Value	Losses
(dollars in thousands)					

December 31,
2023

Available-for-sale

Available-for-sale

Available-for-sale

U.S. Treasury securities	U.S. Treasury securities
--------------------------	--------------------------

U.S. Treasury securities

U.S. Treasury securities

U.S. Agency collateralized mortgage obligations

U.S. Agency collateralized mortgage obligations

U.S. Agency collateralized mortgage obligations	U.S. Agency collateralized mortgage obligations

Total available- for-sale securities	Total available- for-sale securities	97,065	2,955	—	—	97,065	2,955
Total available-for-sale securities							
Total available-for-sale securities							
Held-to-maturity	Held-to-maturity						
U.S. Agency residential mortgage- backed securities	U.S. Agency residential mortgage- backed securities	916	120	—	—	916	120
U.S. Agency residential mortgage-backed securities							
U.S. Agency residential mortgage-backed securities							
Total investment securities	Total investment securities	\$97,981	\$ 3,075	\$—	\$ —	\$97,981	\$ 3,075

At December 31, 2022

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Management has evaluated the above securities and December 31, 2021, there were six and four securities, respectively, in an does not believe that any individual u recognized into income. Unrealized losses have not been recognized into income because management does not intend to sell and does not expect it will be required to sell market conditions and interest rates, rather than credit quality. The fair value is expected to recover as the underlying securities in the portfolio approach maturity date and m believes there is a high probability of collecting all contractual amounts due, because the majority of the securities in the portfolio are backed by government agencies or gov value may not consider occur for some time, if at all, and may be delayed for greater than the one year time horizon or perhaps even until maturity. Based on management's ; these securities to be other than temporarily impaired at December 31, 2022. securities.

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Note 4 - Loans and Allowance for Loan Credit Losses ("ALL" ACL")

During the year ended December 31, 2023, \$599.9 million in CCBX loans were transferred to loans held for sale, with \$599.9 million in loans sold. A portion of these on sale of \$253,000. Pricing is dependent upon the agreement with the partner. The Company sells CCBX loans to manage loan portfolio size by partner and by loan categor the relevant partner agreement. As of December 31, 2023 and December 31, 2022, there were no loans held for sale.

The Company adopted the CECL methodology for measuring credit losses as of January 1, 2023. All disclosures as of and for the twelve months ended months end Topic 326. The Company did not recast comparative financial periods and has presented those disclosures under previously applicable GAAP.

The composition of the loan portfolio is as follows as of the periods indicated:

Community Bank

Commercial and industrial loans	\$
Real estate loans:	
Construction, land and land development loans	
Residential real estate loans	
Commercial real estate loans	
Consumer and other loans:	
Other consumer and other loans	
Gross Community Bank loans receivable	

CCBX

Commercial and industrial loans:	
Capital call lines	\$
All other commercial & industrial loans	
Real estate loans:	
Residential real estate loans	
Consumer and other loans:	
Credit cards	
Other consumer and other loans	
Gross CCBX loans receivable	
Total gross loans receivable	
Net deferred origination fees and premiums	
Loans receivable	\$

Commercial and industrial loans	\$
Real estate loans:	
Construction, land, and land development	
Residential real estate	
Commercial real estate	
Consumer and other loans	
Gross loans receivable	
Net deferred origination fees and premiums	
Loans receivable	\$

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Consolidated

Commercial and industrial loans

\$

Real estate loans:

Construction, land, and land development

Residential real estate

Commercial real estate

Consumer and other loans

Gross loans receivable

Net deferred origination fees and premiums

Loans receivable

\$

Accrued interest on loans, which is excluded from the balances in the preceding table of loans receivable, was \$25.6 million and \$17.0 million at December 31, 2023 and December 31, 2022, respectively. Accrued interest receivable on the Company's consolidated balance sheets.

Included in commercial and industrial loans is \$146.0 million \$87.5 million and \$202.9 million \$146.0 million in capital call lines, as of December 31, 2022 December 31, 2023, respectively, provided to venture capital firms through one of our BaaS clients. These loans are secured by the capital call rights and are individually underwritten to the Bank on every line. Also included in commercial and industrial loans are Paycheck Protection Program ("PPP") loans of \$3.0 million and \$4.7 million at December 31, 2023 and December 31, 2022, respectively. PPP loans are 100% guaranteed by the SBA.

Consumer and other loans includes overdrafts of \$2.8 million and \$2.7 million at December 31, 2023 and \$1.3 million at December 31, 2022 and December 31, 2021, respectively, and \$94,000 at December 31, 2023 and \$13,000 at December 31, 2022 and December 31, 2021, respectively and CCBX overdrafts were \$2.5 million and \$2.6 million at December 31, 2023 and December 31, 2022, respectively.

The Company has pledged loans totaling \$1.01 billion and \$220.1 million at December 31, 2023 and \$183.5 million at December 31, 2022 and December 31, 2021, respectively.

The balance of SBA and USDA loans and participations serviced for others totaled \$8.7 million and \$14.3 million at December 31, 2023 and \$19.3 million at December 31, 2022, respectively.

The balance of Main Street Lending Program ("MSLP") MSLP loans participated and serviced for others totaled \$53.4 million and \$58.0 million at December 31, 2023 and December 31, 2022, respectively, with \$3.1 million \$2.8 million and \$4.8 million \$3.1 million outstanding and included in commercial and industrial loans as of December 31, 2023 and December 31, 2022, respectively.

The Company, through the community bank, at times, purchases individual loans through the community bank at fair value as of the acquisition date. The Company held \$8.1 million and \$12.8 million \$9.6 million as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. Unamortized premium is included in commercial and industrial loans, compared to \$59.4 million \$146.1 million in consumer and other loans and \$281,000 \$11.3 million in commercial and industrial loans at December 31, 2023 and December 31, 2022, respectively. These loans are included in the applicable loan category depending upon the collateral and purpose of the individual loan.

The Company, through the community bank, has purchased participation loans with remaining balances totaling \$63.9 million \$53.5 million and \$27.9 million \$63.9 million at December 31, 2023 and December 31, 2022, respectively. These loans are included in the applicable loan category depending upon the collateral and purpose of the individual loan.

The Company, through the community bank, purchased loans from CCBX partners, at par, through agreements with those CCBX partners, and those loans had a remaining balance of \$157.4 million as of December 31, 2022 and \$59.7 million as of December 31, 2021. As of December 31, 2022 December 31, 2023, \$146.1 million \$40.2 million is included in commercial and industrial loans, compared to \$59.4 million \$146.1 million in consumer and other loans and \$281,000 \$11.3 million in commercial and industrial loans at December 31, 2023 and December 31, 2022, respectively.

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The following is a summary of the Company's loan portfolio segments:

Commercial and industrial loans - Commercial and industrial loans are secured by business assets including inventory, receivables and machinery and equipment of the market area and capital calls on venture and investment funds. Also included in commercial and industrial loans are \$14.9 million \$54.3 million in unsecured loans originated in 2022 December 31, 2023, compared to zero \$14.9 million as of December 31, 2021 December 31, 2022. Loan types in this segment include PPP loans, revolving lines of credit as cash deposits or marketable securities. Also included in commercial and industrial loans are loans to other financial institutions. Additionally, the Company issues loans primarily due to the difference between expected and actual cash flows of the borrowers. In addition, the recoverability of the Company's investment in these loans is also dependent upon the collateral securing these loans. The fair value of the collateral securing these loans may fluctuate as market conditions change. In the case of loans secured by accounts receivable, the recoverability of the Company's investment in these loans is also dependent upon the borrower's ability to collect amounts due from its customers.

For the year ended December 31, 2022 December 31, 2023, \$146.0 million \$87.5 million in CCBX capital call lines are included in commercial and industrial loans compared to \$14.9 million as of December 31, 2021 December 31, 2022. Capital call lines are provided to venture capital firms. These loans are secured by the capital call rights and are individually underwritten to the Bank on every line/loan.

Residential real estate - Residential real estate includes various types of loans for which the Company holds real property as collateral. Included in this segment are residential mortgage loans, home equity lines of credit and rental portfolios secured by one-to-four family homes. The Company occasionally purchases to diversify its loan portfolio, home equity lines of credit and rental portfolios secured by one-to-four family homes. The primary risks of residential real estate are changes in interest rates, changes in the ability of borrowers to pay, material decreases in the value of the collateral, and significant increases in interest rates which may make the loan unprofitable.

As of December 31, 2022 December 31, 2023, \$244.6 million \$238.0 million in loans originated through CCBX partners are included in residential real estate loans, c

Commercial real estate (includes owner occupied and nonowner occupied) - Commercial real estate loans include various types of loans for which the Company holds mortgage loans collateralized by owner-occupied and non-owner-occupied real estate, as well as multi-family residential loans. The primary risks of commercial real estate loans are decreases in the value of the collateralized real estate and significant increases in interest rates, which may make the real estate loan unprofitable. Commercial real estate loans are sensitive to changes in real estate markets or in the general economy.

Consumer and other loans – The community bank originates a limited number of consumer loans, generally for banking customers only, which consist primarily of line of credit, credit cards, and consumer term loans. CCBX originates consumer loans including credit cards, consumer term loans and secured and unsecured lines of credit. This loan category also includes overdrafts. Repayment is made in monthly installments over the term of the loan, plus interest, principal, and any applicable fees. The fair value of the loans is determined by discounting the expected cash flows to pay and the fair value of the underlying collateral.

As of December 31, 2022 \$607.0 million December 31, 2023 \$816.4 million in CCBX loans are included in consumer and other loans, compared to \$106.8 million \$607.0 million

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Past due and Nonaccrual Loans

The following table illustrates an age analysis of past due loans as of the dates indicated:

	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current
	(dollars in thousands)			
December 31, 2022				
Commercial and industrial loans	\$ 393	\$ 486	\$ 879	\$ 3,114
Real estate loans:				
Construction, land and land development	—	66	66	2,114
Residential real estate	1,016	876	1,892	4,414
Commercial real estate	95	6,901	6,996	1,044
Consumer and other loans	37,932	24,815	62,747	54,114
	<u>\$ 39,436</u>	<u>\$ 33,144</u>	<u>\$ 72,580</u>	<u>\$ 2,566</u>
Less net deferred origination fees and premiums				
Loans receivable				

					Recorded
					Investment
					90 Days or
30-89					More Past
Days	90 Days				Due and
Past	or More	Total		Total	Still
Due	Past Due	Past Due	Current	Loans	Accruing

(dollars in thousands)

December 31, 2021

		30-89 Days Past Due			30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current
(dollars in thousands; unaudited)								
December 31, 2023								
Community Bank								
Community Bank								
Community Bank								
Commercial and industrial loans								
Commercial and industrial loans								
Commercial and Commercial and industrial loans industrial loans								
		\$ 259	\$ 38	\$ 297	\$ 418,763	\$ 419,060	\$ —	
Real estate Real estate loans: loans:								
Construction, land and land development								
Construction, land and land development								
Construction, land and land development								
		—	—	—	183,594	183,594	—	
Residential real estate								
		809	94	903	203,486	204,389	39	
Commercial real estate								
		—	—	—	835,587	835,587	—	
Consumer and other loans								
		3,901	1,467	5,368	103,503	108,871	1,467	
		\$4,969	\$1,599	\$6,568	\$1,744,933	\$1,751,501	\$ 1,506	
Total community bank								
CCBX								
Commercial and industrial loans:								
Commercial and industrial loans:								
Commercial and industrial loans:								
Capital call lines								
Capital call lines								
Capital call lines								
All other commercial & industrial loans								
Real estate loans:								
Residential real estate loans								
Residential real estate loans								
Residential real estate loans								

Consumer and other loans:	
Credit cards	
Credit cards	
Credit cards	
Other	
consumer and other loans	
Total CCBX	
Total Consolidated	
Less net deferred origination fees and premiums	
Less net deferred origination fees and premiums	(8,766)
Loans receivable	\$1,742,735
Loans receivable	
Loans receivable	

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Consolidated	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current
(dollars in thousands)				
December 31, 2022				
Commercial and industrial loans	\$ 393	\$ 486	\$ 879	\$ 3
Real estate loans:				
Construction, land and land development	—	66	66	2
Residential real estate	1,016	876	1,892	4
Commercial real estate	95	6,901	6,996	1,0
Consumer and other loans	37,932	24,815	62,747	5
	<u>\$ 39,436</u>	<u>\$ 33,144</u>	<u>\$ 72,580</u>	<u>\$ 2,5</u>
Less net deferred origination fees and premiums				
Loans receivable				

There were \$26.1 million \$46.5 million in loans past due 90 days or more and still accruing interest as of December 31, 2022 December 31, 2023, and \$1.5 million \$2. The increase is attributed to loans originated through CCBX lending partners which continue to accrue interest up to 180 days past due.

The following table is a summary of information pertaining to impaired loans as of the period indicated. Loans originated through CCBX partners are reported using p analysis, therefore CCBX loans are not included in this table.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance
(dollars in thousands)			
December 31, 2022			
Commercial and industrial loans	\$ 124	\$ —	\$ 113
Real estate loans:			
Construction, land and land development	67	66	—

Residential real estate	—	—	—
Commercial real estate	6,901	6,901	—
Total	<u>\$ 7,092</u>	<u>\$ 6,967</u>	<u>\$ 113</u>
December 31, 2021			
Commercial and industrial loans	\$ 173	\$ —	\$ 166
Real estate loans:			
Residential real estate	69	55	—
Total	<u>\$ 242</u>	<u>\$ 55</u>	<u>\$ 166</u>

The following tables summarize the average recorded investment and interest income recognized on impaired loans by loan class for the year ended December 31, 2022 and December 31, 2021.

	December 31, 2022	
	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)	
Commercial and industrial loans	\$ 121	\$ —
Real estate loans:		
Construction, land and land development	40	—
Residential real estate	32	—
Commercial real estate	1,395	—
Total	<u>\$ 1,588</u>	<u>\$ —</u>

In some circumstances, the Company grants restructurings in response to borrower financial difficulty, and generally provides for a temporary modification of loan repayment terms. These modifications are typically made on a good faith basis in response to the COVID-19 pandemic and represent the only impaired loans accruing interest. In order for a restructured loan to be considered for accrual status, the loan's collateral coverage generally will be greater than the loan balance, the borrower must be current on payments, and the borrower must either prefund an interest reserve or demonstrate the ability to make payments from a verified source of cash flow for an extended period.

No loans were restructured in the year ended December 31, 2022 and December 31, 2021 that qualified as troubled debt restructurings. The Company has no commitments to provide additional financing to borrowers that have been restructured. There were no troubled debt restructurings at December 31, 2022 and December 31, 2021.

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Pursuant to guidance from the federal bank regulatory agencies, the Company deferred or modified payments on existing loans to assist customers financially during the COVID-19 pandemic. During the year ended December 31, 2022 all deferred and modified loans during the COVID-19 pandemic have either returned to active status or paid off. In accordance with GAAP, the CARES Act, and interagency guidance issued on March 22, 2020 and April 7, 2020, these short-term modifications, made on a good faith basis in response to the COVID-19 pandemic, are not considered TDRs.

The accrual of interest on community bank loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due or interest, unless they are well secured and in the process of collection. Installment/closed-end, and revolving/open-end consumer loans originated through CCBX lending programs are placed on nonaccrual status when they are 90 days past due, respectively and an allowance is recorded through provision expense for these probable incurred **expected** losses. For installment/closed-end and revolving/open-end consumer loans, principal and capitalized interest outstanding is charged off against the allowance for credit losses when the loan is 180 days past due, respectively. These consumer loans are reported as **nonperforming**/substandard, 90 days or more days past due and still accruing.

When loans are placed on nonaccrual status, all accrued interest is reversed from current period earnings. Payments received on nonaccrual loans are generally applied to principal. When the likelihood of further loss is removed, the Company will recognize interest on a cash basis only. Loans may be returned to accruing status if the Company believes that all remaining principal has been at least six months of sustained repayment performance since the loan was placed on nonaccrual.

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An analysis of nonaccrual loans by category consisted of the following at the periods indicated:

December 31, 2022	December 31, 2021
(dollars in thousands)	

December 31,				December 31,			
2023				2023			
Total Nonaccrual				Nonaccrual with No ACL			
(dollars in thousands; unaudited)				Total			
Community Bank							
Commercial and industrial loans							
Commercial and industrial loans							
Commercial and industrial loans	Commercial and industrial loans	\$ 113	\$ 166				
Real estate loans:	Real estate loans:						
Construction, land and land development	Construction, land and land development	66	—				
Construction, land and land development							
Construction, land and land development							
Residential real estate	Residential real estate	—	55				
Commercial real estate	Commercial real estate	6,901	—				
Consumer and other loans							
Total nonaccrual loans	Total nonaccrual loans	\$ 7,080	\$ 221				

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In some circumstances, the Company modifies loans in response to borrower financial difficulty, and generally provides for a temporary modification of loan repayment status, the loan's collateral coverage generally will be greater than or equal to 100% of the loan balance, the loan is current on payments, and the borrower must either make payments from a verified source of cash flow for an extended period of time, usually at least six months in duration.

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02") for TDRs while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance

No loans were modified for community bank borrowers experiencing financial difficulty in the twelve months ended months ended December 31, 2023.

The following table presents the CCBX loans at December 31, 2023 that were both experiencing financial difficulty and were modified during the year ended December 31, 2023. The percentage of the loans that were modified to borrowers in financial distress as compared to the total of each class of loans is also presented below.

	Principal Forgiveness	Term Extension	Interest Rate Reduction	Principal Forgiveness & Payment Delay
(dollars in thousands; unaudited)				
CCBX				
Commercial and industrial loans:				
All other commercial & industrial loans	\$ —	\$ 1,247	\$ —	\$ 27
Consumer and other loans:				

Credit cards	1	—	4,201	—
Other consumer and other loans	—	13,571	—	3,836
Total	\$ 1	\$ 14,818	\$ 4,201	\$ 3,865

The Company has committed to lend additional amounts totaling \$320,000 to the borrowers included in the previous table.

The performance of loans modified is monitored to understand the effectiveness of the modification efforts. The following table presents the performance of such loans.

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	30-89 Days Past Due
CCBX	
Commercial and industrial loans:	
All other commercial & industrial loans	\$
Consumer and other loans:	
Credit cards	1
Other consumer and other loans	3
Total CCBX	\$ 5

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023.

	Principal Forgiveness
CCBX	
Commercial and industrial loans:	
All other commercial & industrial loans	\$
Real estate loans:	
Residential real estate loans	
Consumer and other loans:	
Credit cards	
Other consumer and other loans	
Total CCBX	\$

The following table presents the total of loans that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to the end of the reporting period.

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	Term Extension	Interest Rate Reduction	Principal & Fees
			(dollars in thousands)
CCBX			
Commercial and industrial loans:			
All other commercial & industrial loans	\$ 487	\$ —	\$
Consumer and other loans:			
Credit cards	—	3,924	
Other consumer and other loans	3,155	—	
Total	\$ 3,642	\$ 3,924	\$

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off as an uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Credit Quality and Credit Risk

Federal regulations require that the Company periodically evaluate the risks inherent in its loan portfolio. In addition, the Company's regulatory agencies have authorized them to be reclassified. The Company establishes loan grades for loans at the origination of the loan. Changes to community bank loan grades are considered at the time new information is available, including the receipt of updated financial information from the borrower and after loan reviews. For consumer loans, the Bank follows the Federal Financial Institutions Examination Board's Classification and Account Management Policy for subsequent classification in the event of payment delinquencies or default. Typically, an individual loan grade will not be changed until there is an indication of credit deterioration or improvement. Credit deterioration is evidenced by delinquency, direct communications with the borrower or other borrower information that are evidenced by known facts regarding the borrower or the collateral property. The Company classifies some loans as Watch or Other Loans Especially Mentioned ("OLEM") which have elements of risk that require more monitoring than other performing loans and are reported in the OLEM column in the following table. Loans classified as OLEM are as to credit quality and require close monitoring. There are three classifications for problem loans: Substandard, Doubtful, and Loss. Substandard loans have one or more defined weaknesses that indicate the possibility that the Company will sustain some loss if the deficiencies are not corrected. Revolving (open-ended loans, such as credit cards) and installment (closed end) consumer loans accrue interest until they are charged-off at 120 days past due for installment loans (primarily unsecured loans to consumers) and 180 days past due for revolving loans (primarily credit cards). Doubtful loans have the weaknesses of loans classified as Substandard, with additional characteristics that suggest the weaknesses make collection or recovery in full after liquidation of the collateral unlikely under currently existing facts, conditions, and values. There is a high possibility of loss in loans classified as Doubtful. A loan classified as Loss is considered uncollectible and of such a nature that recovery is not warranted. If a loan or a portion thereof is classified as Loss, it must be charged-off, meaning the amount of the loss is charged against the allowance for loan credit losses.

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Management considers the guidance in ASC 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. On the most recent analysis performed, the risk category of community bank loans by year of origination is as follows:

Community Bank	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	2020	2019	Prior
(dollars in thousands)						
As of December 31, 2023						
Commercial and industrial loans						
Risk rating						
Pass	\$ 15,882	\$ 56,428	\$ 15,566	\$ 10,044	\$ 12,429	
Other Loan Especially Mentioned	—	—	—	111	—	
Substandard	—	—	—	—	—	
Doubtful	—	—	—	—	—	
Total commercial and industrial loans - All other commercial and industrial loans	\$ 15,882	\$ 56,428	\$ 15,566	\$ 10,155	\$ 12,429	
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	
Real estate loans - Construction, land and land development loans						
Risk rating						
Pass	\$ 75,129	\$ 49,275	\$ 20,811	\$ 2,859	\$ 914	
Other Loan Especially Mentioned	—	—	3,589	2,325	—	
Substandard	—	—	—	—	—	
Doubtful	—	—	—	—	—	
Total real estate loans - Construction, land and land development loans	\$ 75,129	\$ 49,275	\$ 24,400	\$ 5,184	\$ 914	
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	

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Term Loans Amortized Cost Basis by Origination Year						
Community Bank	2023	2022	2021	2020	2019	Prior
(dollars in thousands)						
As of December 31, 2023						
Real estate loans -						
Residential real estate loans						
Risk rating						
Pass	\$ 32,352	\$ 41,362	\$ 39,137	\$ 30,259	\$ 31,982	2
Other Loan Especially Mentioned	—	1,098	2,020	28	—	
Substandard	—	—	—	—	—	
Doubtful	—	—	—	—	—	
Total real estate loans -						
Residential real estate loans	\$ 32,352	\$ 42,460	\$ 41,157	\$ 30,287	\$ 31,982	2
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	
Real estate loans -						
Commercial real estate loans						
Risk rating						
Pass	\$ 244,169	\$ 303,329	\$ 222,287	\$ 144,602	\$ 126,437	23
Other Loan Especially Mentioned	—	3,257	5,891	171	506	
Substandard	—	—	—	924	6,900	
Doubtful	—	—	—	—	—	
Total real estate loans -						
Commercial real estate loans	\$ 244,169	\$ 306,586	\$ 228,178	\$ 145,697	\$ 133,843	23
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	
Consumer and other loans -						
Other consumer and other loans						
Risk rating						
Pass	\$ 323	\$ 272	\$ 5	\$ 679	\$ 38	
Other Loan Especially Mentioned	—	—	—	—	—	
Substandard	—	—	—	—	—	
Doubtful	—	—	—	—	—	
Total consumer and other						
loans - Other consumer and						
other loans	\$ 323	\$ 272	\$ 5	\$ 679	\$ 38	
Current period gross write-offs	\$ 18	\$ —	\$ —	\$ —	\$ —	

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Term Loans Amortized Cost Basis by Origination Year						
Community Bank	2023	2022	2021	2020	2019	Prior
(dollars in thousands)						
As of December 31, 2023						
Total community bank loans receivable						
Risk rating						
Pass	\$ 367,855	\$ 450,666	\$ 297,806	\$ 188,443	\$ 171,800	25
Other Loan Especially Mentioned	—	4,355	11,500	2,635	506	

Substandard	—	—	—	924	6,900
Doubtful	—	—	—	—	—
Total community bank loans	\$ 367,855	\$ 455,021	\$ 309,306	\$ 192,002	\$ 179,206
Current period gross write-offs	\$ 18	\$ —	\$ —	\$ —	\$ —

The Company considers the performance of the CCBX loan portfolio and its impact on the allowance for credit losses. For CCBX loans, the Company also evaluates was previously presented, and by payment activity. The following table presents the loans in CCBX based on payment activity:

	Term Loans Amortized Cost Basis by Origination Year					
CCBX	2023	2022	2021	2020	2019	Prior
(dollars in thousands)						
As of December 31, 2023						
Commercial and industrial loans -						
Capital call lines						
Payment performance						
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Nonperforming	—	—	—	—	—	—
Total commercial and industrial loans - Capital call lines	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial loans -						
All other commercial and industrial loans						
Payment performance						
Performing	\$ 42,267	\$ 6,835	\$ 9	\$ 11	\$ —	\$ —
Nonperforming	1,333	277	—	—	—	—
Total commercial and industrial loans - All other commercial and industrial loans	\$ 43,600	\$ 7,112	\$ 9	\$ 11	\$ —	\$ —
Current period gross write-offs	\$ 3,848	\$ 2,502	\$ 15	\$ 16	\$ —	\$ —

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	Term Loans Amortized Cost Basis by Origination Year					
CCBX	2023	2022	2021	2020	2019	Prior
(dollars in thousands)						
As of December 31, 2023						
Real estate loans -						
Residential real estate loans						
Payment performance						
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Nonperforming	—	—	—	—	—	—
Total real estate loans - Residential real estate loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer and other loans -						
Credit cards						
Payment performance						
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Nonperforming	—	—	—	—	—	—
Total consumer and other loans - Credit cards	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Current period gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Consumer and other loans - Other consumer and other loans						
Payment performance						
Performing	\$ 216,024	\$ 50,732	\$ 6,888	\$ 98	\$ 418	\$
Nonperforming	4,229	3,074	477	—	7	
Total consumer and other loans - Other consumer and other loans	\$ 220,253	\$ 53,806	\$ 7,365	\$ 98	\$ 425	\$
Current period gross write-offs	\$ 17,815	\$ 43,115	\$ 11,574	\$ 84	\$ 346	\$
Total CCBX loans receivable						
Payment performance						
Performing	\$ 258,291	\$ 57,567	\$ 6,897	\$ 109	\$ 418	\$
Nonperforming	5,562	3,351	477	—	7	
Total CCBX loans	\$ 263,853	\$ 60,918	\$ 7,374	\$ 109	\$ 425	\$
Current period gross write-offs	\$ 21,663	\$ 45,617	\$ 11,589	\$ 100	\$ 346	\$

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Loans by credit quality risk rating ratings are as follows as of the periods indicated:

Consolidated		Conso				
		(dollars in thousands)				
December 31, 2022						
December 31, 2022						
		Other Loans				
		Pass	Especially Mentioned	Sub-Standard	Doubtful	Total
		(dollars in thousands)				
December 31, 2022	December 31, 2022					
Commercial and industrial loans	Commercial and industrial loans	\$ 304,840	\$ 7,219	\$ 569	\$ —	\$ 312,628
Commercial and industrial loans						
Commercial and industrial loans						
Real estate loans:	Real estate loans:					
Construction, land, and land development						
Construction, land, and land development						
Construction, land, and land development	Construction, land, and land development	206,304	7,685	66	—	214,055
Residential real estate	Residential real estate	448,185	96	876	—	449,157
Commercial real estate	Commercial real estate	1,030,650	11,201	6,901	—	1,048,752
Consumer and other loans	Consumer and other loans	583,956	—	24,815	—	608,771
		\$ 2,573,935	\$ 26,201	\$ 33,227	\$ —	2,633,363
	\$					
Less net deferred origination fees	Less net deferred origination fees					(6,107)
Loans receivable	Loans receivable					\$ 2,627,256

December 31, 2021

Commercial and industrial loans	\$ 416,642	\$ 2,180	\$ 238	\$ —	\$ 419,060
Real estate loans:					
Construction, land, and land development	183,594	—	—	—	183,594
Residential real estate	204,173	122	94	—	204,389
Commercial real estate	824,676	10,911	—	—	835,587
Consumer and other loans	107,404	—	1,467	—	108,871
	<u>\$ 1,736,489</u>	<u>\$ 13,213</u>	<u>\$ 1,799</u>	<u>\$ —</u>	<u>1,751,501</u>
Less net deferred origination fees					(8,766)
Loans receivable					<u>\$ 1,742,735</u>

Allowance for Loan Losses

The Company's ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated probable losses inherent in the community bank is prepared using the information provided by the Company's credit review process and our historical loss data, together with data from peer institutions and

The loan portfolio is segmented into groups of loans with similar risk profiles. Each segment possesses varying degrees of risk based on the type of loan, the type of changes in external factors such as economic conditions. An estimated loss rate calculated from the community bank's actual historical loss rates adjusted for current portfolio and external factors, is applied to each group's aggregate loan balances.

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Allowance for Credit Losses ("ACL")

On January 1, 2023, the Company adopted ASU 2016-13, which replaces the incurred loss methodology with an expected loss methodology that is referred to as CE Significant Accounting Policies. As a result of implementing CECL, there was a one-time adjustment to the 2023 opening allowance balance of \$3.9 million.

CCBX loans have a higher level of expected losses than our community bank loans, which is reflected in the factors for the allowance for loan credit losses. Agreement enhancement which protects the Bank by absorbing incurred reimbursing most losses. In accordance with accounting guidance, we estimate and record a provision for probable negative deposit accounts. When the provision for CCBX loan credit losses and provision for unfunded commitments are recorded, a credit enhancement asset is also recorded credit enhancements). Incurred Expected losses are recorded in the allowance for loan credit losses. The credit enhancement asset is relieved reduced when credit enhancer partner. Although agreements with our partner or taken from the partner's cash reserve account. CCBX partners include provide for credit enhancements that provide protection the Bank would be exposed to additional loan losses if our for the losses. If the partner is unable to fulfill its contracted obligations, obligations then the Bank could be exposed income. In accordance with the program agreement for one CCBX partner, the Company is responsible for credit losses on approximately 10% of a \$114.5 \$288.1 million loan reimbursements. At December 31, 2022 December 31, 2023, 10% of this portfolio represented \$11.5 \$29.1 million in loans. The partner is responsible for reimbursing credit losses on 100% of this portfolio. The Company earns 100% of the revenue interest income on the aforementioned \$11.5 \$29.1 million of loans. For the year ended December portion

[Table of loans for which the Company is responsible for credit losses](#), [Contents](#)

The following tables summarize the allocation of the allowance for loan loss, ACL, as well as the activity in the allowance for loan loss ACL attributed to various segments December 31, 2023 and the allocation and activity of the loans and allowance for loan losses ("ALLL ") attributed to the various segments in the loan portfolio for the year ended

	Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate
(dollars in thousands)				
Twelve Months Ended December 31, 2022				
ALLL balance, December 31, 2021	\$ 3,221	\$ 6,984	\$ 4,598	\$ 6,590
Provision for loan losses or (recapture)	2,125	441	(4)	(1,120)
	5,346	7,425	4,594	5,470
Loans charged-off	(555)	—	(452)	—
Recoveries of loans previously charged-off	40	—	—	—
Net (charge-offs) recoveries	(515)	—	(452)	—
ALLL balance, December 31, 2022	\$ 4,831	\$ 7,425	\$ 4,142	\$ 5,470

As of December 31, 2022

ALLL amounts allocated to

Individually evaluated for impairment	\$	95	\$	—	\$	—	\$	—	\$	—
Collectively evaluated for impairment		4,736		7,425		4,142		5,470		
ALLL balance, December 31, 2022	\$	4,831	\$	7,425	\$	4,142	\$	5,470	\$	
Loans individually evaluated for impairment	\$	113	\$	66	\$	—	\$	6,901	\$	
Loans collectively evaluated for impairment		312,515		213,989		449,157		1,041,851		
Loan balance, December 31, 2022	\$	312,628	\$	214,055	\$	449,157	\$	1,048,752	\$	
As of December 31, 2021										
Loan balance, December 31, 2021	\$	419,060	\$	183,594	\$	204,389	\$	835,587	\$	

	Commercial and Industrial	Construction, Land, and Development	Residential Real Estate	Commercial Real Estate	Con and
(dollars in thousands)					
Twelve Months Ended December 31, 2023					
ALLL balance, December 31, 2022	\$ 4,831	\$ 7,425	\$ 4,142	\$ 5,470	\$
Impact of adopting CECL (ASC 326)	1,428	(1,589)	1,623	1,240	
Provision for credit losses or (recapture)	9,264	550	11,921	731	
	15,523	6,386	17,686	7,441	
Loans charged-off	(6,651)	—	(4,641)	—	
Recoveries of loans previously charged-off	5	—	4	—	
Net charge-offs	(6,646)	—	(4,637)	—	
ACL balance, December 31, 2023	\$ 8,877	\$ 6,386	\$ 13,049	\$ 7,441	\$
Twelve Months Ended December 31, 2022					
ALLL Balance, December 31, 2021	\$ 3,221	\$ 6,984	\$ 4,598	\$ 6,590	\$
Provision for credit losses or (recapture)	2,125	441	(4)	(1,120)	
	5,346	7,425	4,594	5,470	
Loans charged-off	(555)	—	(452)	—	
Recoveries of loans previously charged-off	40	—	—	—	
Net charge-offs	(515)	—	(452)	—	
ALLL Balance, December 31, 2022	\$ 4,831	\$ 7,425	\$ 4,142	\$ 5,470	\$
Twelve Months Ended December 31, 2021					
ALLL balance, December 31, 2020	\$ 3,353	\$ 3,545	\$ 3,410	\$ 7,810	\$
Provision for credit losses or (recapture)	23	3,439	1,267	(1,220)	
	3,376	6,984	4,677	6,590	
Loans charged-off	(222)	—	(79)	—	
Recoveries of loans previously charged-off	67	—	—	—	
Net charge-offs	(155)	—	(79)	—	
ALLL balance, December 31, 2021	\$ 3,221	\$ 6,984	\$ 4,598	\$ 6,590	\$

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The following table presents the collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to th

	Real Estate	Business Assets
--	-------------	-----------------

		(dollars in thousands)	
December 31, 2023			
Real estate loans:			
Residential real estate	\$	170	\$ —
Commercial real estate		7,145	—
Total	\$	7,315	\$ —

The following table is a summary of information pertaining to impaired loans as of the period indicated. Loans originated through CCBX partners are reported using the same method as the period indicated, therefore CCBX loans are not included in this table.

	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance
(dollars in thousands)			
December 31, 2022			
Commercial and industrial loans	\$ 124	\$ —	\$ 113
Real estate loans:			
Construction, land and land development	67	66	—
Residential real estate	—	—	—
Commercial real estate	6,901	6,901	—
Total	\$ 7,092	\$ 6,967	\$ 113

The following tables summarize the allocation of the allowance for average recorded investment and interest income recognized on impaired loans by loan loss, as well as by various segments in the loan portfolio, as of and class for the year ended December 31, 2021; period indicated:

	Commercial and Industrial	Construction, Land, and Land Development	Residential Real Estate	Commercial Real Estate
(dollars in thousands)				
Twelve Months Ended December 31, 2021				
Balance, December 31, 2020	\$ 3,353	\$ 3,545	\$ 3,410	\$ 7,810
Provision for loan losses or (recapture)	23	3,439	1,267	(1,220)
	3,376	6,984	4,677	6,590
Loans charged-off	(222)	—	(79)	—
Recoveries of loans previously charged-off	67	—	—	—
Net (charge-offs) recoveries	(155)	—	(79)	—
Balance, December 31, 2021	\$ 3,221	\$ 6,984	\$ 4,598	\$ 6,590
As of December 31, 2021				
ALLL amounts allocated to				
Individually evaluated for impairment	\$ 132	\$ —	\$ —	\$ —
Collectively evaluated for impairment	3,089	6,984	4,598	6,590
ALLL balance, December 31, 2021	\$ 3,221	\$ 6,984	\$ 4,598	\$ 6,590
Loans individually evaluated for impairment	\$ 166	\$ —	\$ 55	\$ —
Loans collectively evaluated for impairment	418,894	183,594	204,334	835,587
Loan balance, December 31, 2021	\$ 419,060	\$ 183,594	\$ 204,389	\$ 835,587
As of December 31, 2020				
Loan balance, December 31, 2020	\$ 539,200	\$ 94,423	\$ 143,869	\$ 774,925

				Twelve Months
				December 31, 2022

	Average Recorded Investment	Interest Income Recognized
	(dollars in thousands)	
Commercial and industrial loans	\$ 121	\$ —
Real estate loans:		
Construction, land and land development	40	—
Residential real estate	32	—
Commercial real estate	1,395	—
Total	\$ 1,588	\$ —

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Note 5 – Premises and Equipment

The investment in premises and equipment consisted of the following at December 31:

	2022	2021
	(dollars in thousands)	
	2023	2022
	(dollars in thousands)	
Land	Land	\$ 3,599 \$ 2,672
Buildings	Buildings	11,745 10,086
Leasehold	Leasehold	
Improvements	Improvements	4,049 4,117
Furniture	Furniture	2,479 2,473
Equipment	Equipment	5,691 5,234
Software	Software	1,765 934
Projects in	Projects in	
process	process	138 1,375
		29,466 26,891
	34,238	
Less	Less	
accumulated	accumulated	
depreciation	depreciation	
and	and	
amortization	amortization	(11,253) (9,672)
Premises	Premises	
and	and	
equipment,	equipment,	
net	net	\$18,213 \$17,219

Depreciation and amortization on premises and equipment charged to expense totaled \$1.8 million \$2.3 million and \$1.6 million \$1.8 million for the years ended December 31, 2023 and 2022, respectively.

Note 6 – Leases

The Company has committed to rent premises used in business operations under non-cancelable operating leases and determines if an arrangement meets the definition of a lease.

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Operating lease right-of-use ("ROU") assets represent a right to use an underlying asset for the contractual lease term. Operating lease liabilities represent an obligation to make lease payments. New operating leases entered into will be recognized as an operating lease ROU asset and operating lease liability at the commencement date of the new lease.

The Company's leases do not provide an implicit interest rate, therefore the Company used its incremental collateralized borrowing rates commensurate with the unc operating lease liabilities. liabilities at the inception of the lease. The weighted average discount rate used to discount of operating lease liabilities at December 31, 2022 Dece

The Company's operating lease agreements contain both lease and non-lease components, which are generally accounted for separately. The Company's lease agr

Operating leases with original terms of 12 months or less are not included in ROU assets and operating lease liabilities recorded in our consolidated balance sheets. reasonably certain that the Company will exercise such options, determined on a lease-by-lease basis. At December 31, 2022 December 31, 2023, lease expiration dates ran years, with additional renewal options on certain leases typically ranging from 5 to 10 years. At December 31, 2022 December 31, 2023, the dollar weighted average remaini 8.2 9.0 years.

Rental expense for operating leases is recognized on a straight-line basis over the lease term and amounted to \$1.4 million \$1.2 million and \$1.4 million for the years 2021, 2022, respectively. Variable lease components, such as fair market value adjustments, are expensed as incurred and not included in ROU assets and operating lease l

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The following sets forth, as of December 31, 2022 December 31, 2023, the minimum annual lease payments under the terms of these leases, inclusive of renewal op

(dollars in thousands)	(dollars in thousands)	December 31, 2022	(dollars in thousands)
2023		\$ 1,272	
2024	2024	864	
2025	2025	713	
2026	2026	719	
2027	2027	667	
2028 and thereafter		1,823	
2028			
2029 and thereafter			
Total lease payments	Total lease payments	6,058	
Less: amounts representing interest	Less: amounts representing interest	824	
Present value of lease liabilities	Present value of lease liabilities	\$ 5,234	

The Company leases its Downtown Everett facility from related parties (Note 12). Office space at a small number of branches is leased and sub-leased to a few tenants. Sublease income was \$205,000 and \$157,000 for 2023 and \$127,000 for 2022, and 2021, respectively.

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The following table presents the components of total lease expense and operating cash flows for the year ended December 31, 2022 December 31, 2023:

For the Year Ended		For the Year Ended			
(dollars in thousands)	(dollars in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Lease expense:	Lease expense:				
Operating lease expense	Operating lease expense				
Operating lease expense	Operating lease expense				

Operating lease expense	Operating lease expense	\$ 1,281	\$ 1,283
Variable lease expense	Variable lease expense	193	148
Total lease expense (1)	Total lease expense (1)	<u>\$ 1,474</u>	<u>\$ 1,431</u>
Cash paid:	Cash paid:		
Cash paid reducing operating lease liabilities	Cash paid reducing operating lease liabilities	\$ 1,473	\$ 1,419

Cash paid reducing operating lease liabilities

Cash paid reducing operating lease liabilities

(1) Included in net occupancy expense in the Consolidated Statements of Income.

Note 7 - Deposits

The composition of consolidated deposits consisted of the following at the periods indicated:

(dollars in thousands)	(dollars in thousands)	December 31, 2022	December 31, 2021	December 31, 2023
(dollars in thousands)				
Demand, noninterest bearing	Demand, noninterest bearing	\$ 775,012	\$1,355,908	
NOW and money market	NOW and money market	1,804,399	789,709	
Savings	Savings	107,117	103,956	
BaaS-brokered deposits	BaaS-brokered deposits	101,546	70,757	
Time deposits less than \$250,000	Time deposits less than \$250,000	21,942	31,057	
Time deposits \$250,000 and over	Time deposits \$250,000 and over	7,505	12,400	
Total deposits	Total deposits	<u>\$2,817,521</u>	<u>\$2,363,787</u>	

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The following table presents the maturity distribution of time deposits as of December 31, 2022 December 31, 2023:

(dollars in thousands)

Twelve months

One to two years

Two to three years

Three to four years

Four to five years

Thereafter

CCBX Included in total deposits are originated is \$340.1 million in IntraFi network reciprocal NOW and money market sweep accounts as of December 31, 2023, which are held through CCBX partners for true depositor a sweep and FDIC insurance purposes. CCBX exchange of deposits were primarily noninterest bearing prior to the rate increases in 2022. As a result of the interest rate increases, a significant portion of CCBX deposits that were not earning interest were reclassified to interest bearing deposits from noninterest bearing deposits in 2022. These CCBX deposits were reclassified because the current interest rate exceeded the minimum interest rate set in their respective program agreements, as a result, by the FOMC, we needed to pay interest to the CCBX partners for these deposits. We do not expect additional CCBX deposits will be reclassified as a result of future rate increases.

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Note 8 – Federal Home Loan Bank Advances and Other Borrowings

At December 31, 2023 and December 31, 2022 the Company had no overnight or term FHLB advances. During the year ended December 31, 2022, the Company repaid a \$10.0 million advance that would have matured in March 2023 and a \$15.0 million advance that would have matured in March 2027. We have sufficient liquidity to repay these advances for early repayment, management opted to repay these term advances and save the unnecessary interest expense. At December 31, 2021 the Company had no FHLB advances. All FHLB advances are secured by a blanket pledge of eligible collateral including first lien single family and multi-family mortgages with a carrying value of \$321.5 million and \$175.1 million at December 31, 2022 and 2021, respectively. The Company has available borrowing capacity of an additional \$120.8 million and \$204.6 million from FHLB at December 31, 2022 and 2021, respectively, subject to certain requirements and with interest at then stated rate.

The following table provides details on FHLB advance borrowings for the periods indicated:

		Year Ended December 31,			
(dollars in thousands)		2022	2021		
		Year Ended December 31,			
(Dollars in thousands)				(Dollars in thousands)	2023
Maximum amount outstanding at any month-end during period:	Maximum amount outstanding at any month-end during period:	\$24,999	\$24,999		
Average outstanding balance during period:	Average outstanding balance during period:	\$ 6,029	\$24,999		
Weighted average interest rate during period:	Weighted average interest rate during period:	1.13 %	1.13 %	Weighted average interest rate during period:	5.60 %
Balance outstanding at end of period:	Balance outstanding at end of period:	\$ —	\$24,999		

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On August 18, 2021, the Company entered into a \$25.0 million subordinated note purchase agreement. The note matures on September 1, 2031, is fixed for five years and has a coupon rate of 5.75% per annum, which is equal to the 3-month SOFR plus 2.76% (the "SOFR plus 2.76% rate"), calculated quarterly, based on the 3-month SOFR +2.76%.

On November 1, 2022, the Company entered into a \$20.0 million subordinated note purchase agreement. The note matures on November 1, 2032, is fixed for five years and has a coupon rate of 5.50% per annum, which will be calculated quarterly, based on the 3-month SOFR +2.90%.

Subordinated debt interest expense of \$1.2 million, \$2.4 million and \$711,000, \$1.2 million was recognized during 2022, 2023 and 2021, 2022, respectively, and accrued \$535,000 at December 31, 2023 and \$286,000 at December 31, 2022 and 2021, 2022, respectively.

At December 31, 2022 December 31, 2023 and 2021, 2022, the Company's junior subordinated debentures were as follows:

On December 15, 2004, the Company issued \$3.6 million floating rate junior subordinated debentures to Coastal (WA) Statutory Trust I, which was formed for the issuance of the debentures. The debentures bear interest at three-month LIBOR plus 2.10% (fully indexed). Beginning with rate adjustments subsequent to January 1, 2008, the effective rate was 7.75% at December 31, 2007, 6.87% at December 31, 2006, and 2.30% at December 31, 2005, respectively. Interest expense related to the debentures totaled \$13,000 for 2007, \$143,000 for 2006, and \$143,000 for 2005, respectively. There are no principal payments due on these debentures in the next five years.

The Trust is not consolidated with the Company. Accordingly, the Company reports the subordinated debentures held by the Trust as liabilities. The Company owns a securities issued by the trust rank equally with the common securities in right of payment, except that if an event of default under the indenture governing the note has occurred, the securities issued by the trust rank senior to the common securities in right of payment.

On December 16, 2022, the Federal Reserve Board adopted a final rule that implements the LIBOR Act by identifying benchmark rates based on SOFR (the Secured Overnight Financing Rate) as the replacement for LIBOR (the London Interbank Offered Rate) in certain financial contracts after June 30, 2023. Congress enacted the LIBOR Act, which provides a uniform, nationwide solution for so-called tough legacy contracts that do not have clear and practicable provisions for replacing LIBOR after June 30, 2023. The Act also provides a safe harbor for lenders that select a LIBOR replacement under certain situations, including the use of a replacement rate selected by the Federal Reserve. As a result, the Act provides a replacement benchmark rate for LIBOR.

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rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the Act. These contracts include U.S. contracts with adequate "fallback" provisions that would replace LIBOR with a practicable replacement benchmark rate. We believe that we will be able to use the benchmark replacements under the Federal Reserve rule to manage through the transition away from LIBOR.

The components of the income tax for the Company consisted of the following at December 31:

		2022	2021
		(dollars in thousands)	
		2023	2022
		(dollars in thousands)	
Current tax expense	Current tax expense	\$21,014	\$10,383
Deferred tax benefit	Deferred tax benefit	(11,018)	(3,011)
Total tax expense	Total tax expense	\$ 9,996	\$ 7,372

At December 31, 2022 December 31, 2023 the current net income tax receivable was \$1.3 million \$9.1 million and at December 31, 2021 December 31, 2022 the net million.

The significant change in current and deferred tax expense from 2022 to 2023 is related to the Company filing income tax refund claims related to the tax treatment of

A reconciliation of the income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate to the income before income taxes is

		2022	2021
		(dollars in thousands)	
		Amount	Rate
		2023	2022
		(dollars in thousands)	
		Amount	Rate
Federal income tax at statutory rate	Federal income tax at statutory rate	\$10,630	21.0 %
State income taxes	State income taxes	523	1.0
Excess executive compensation			
Bank owned life insurance earnings			
Effect of tax-exempt interest income	Effect of tax-exempt interest income	(84)	(0.2)
Stock-based compensation	Stock-based compensation	(987)	(1.9)
Bank owned life insurance earnings		(76)	(0.2)
Excess executive compensation		128	0.3
Other	Other	(138)	(0.3)
		\$ 9,996	19.7 %
		\$ 12,554	22.0 %
		\$ 9,996	

The Company did not record or accrue any interest and penalties related to income taxes for the years ended December 31, 2022 December 31, 2023 or 2021, 2022 agreement, which provides that income taxes shall be allocated between the parties on a monthly basis. The intent of this agreement is that each member of the consolidated incurred on a stand-alone basis.

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The net deferred tax asset consists of the following temporary differences and carryforward items at December 31:

		2022	2021
		(dollars in thousands)	
2023		2023	
(dollars in thousands)			
Deferred tax assets:	Deferred tax assets:		
Allowance for loan losses		\$17,076	\$6,223
Allowance for credit losses			
Allowance for credit losses			
Allowance for credit losses			
Lease liability	Lease liability	1,212	1,374
Stock based compensation			
Accrued expenses	Accrued expenses	708	596
Deferred compensation	Deferred compensation	142	162
Allowance for unfunded commitments		225	277
Nonqualified stock options		108	107
Interest on nonaccrual loans		—	10
Restricted stock options		522	196
Deferred income		79	58
Net unrealized loss on available-for-sale securities	Net unrealized loss on available-for-sale securities	621	—
Other			
Other			
Other	Other	218	37
Total deferred tax assets	Total deferred tax assets	20,911	9,040
Deferred tax liabilities:	Deferred tax liabilities:		
Credit enhancement recovery			
Right of use asset	Right of use asset	(1,162)	(1,327)
Depreciation and amortization	Depreciation and amortization	(977)	(661)
Net unrealized gain on equity security		(314)	(233)
Net unrealized gain on available-for-sale securities		—	(1)
Other			
Total deferred tax liabilities	Total deferred tax liabilities	(2,453)	(2,222)

Net deferred tax asset	Net deferred tax asset	\$18,458	\$6,818
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The determination of the amount of deferred income tax assets which are more likely than not to be realized is primarily dependent on projections of future earnings, change given economic conditions and other factors. The realization of deferred income tax assets is regularly assessed and a valuation allowance is recorded if it is "more likely than not" to be realized. "More likely than not" is defined as greater than a 50% chance. All available evidence, both positive and negative is considered to determine whether, based upon its analysis of available evidence, including recent profitability, management has determined that it is "more likely than not" that the Company's deferred income tax assets for 2023 will be fully realized and therefore no valuation allowance was recorded. CCBX partners reimburse the Bank for credit losses on loans covered by credit enhancements liability partially offsets the allowance for credit losses deferred tax asset.

At December 31, 2022 and December 31, 2023, the Company had no federal net operating loss carryforwards or tax credit carryforwards. The Company files federal and state income tax returns for the 2019-2020 tax year and later are open for examination. The total amount of unrecognized tax benefits, including interest and penalties, at December 31, 2022 and December 31, 2023 would impact the effective rate, if recognized, is not expected to be material. The Company does not anticipate any significant changes with respect to unrecognized tax benefits.

Note 12 – Related Party Transactions

During 2022-2023 and 2021-2022, the Company had transactions made in the ordinary course of business with certain of its executive officers and directors. All loans were made on the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons, and did not, in the opinion of management, have any unfavorable features.

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A summary of loan transactions follows:

		2022	2021
		(dollars in thousands)	
		2023	2022
		(dollars in thousands)	
Beginning Balance	Beginning Balance		
January 1	January 1	\$ 7,976	\$8,342
Additions	Additions	10,296	1,018
Payments	Payments	(4,845)	(1,384)
Ending Balance	Ending Balance		
December 31	December 31	\$13,427	\$7,976
Ending Balance	Ending Balance		
December 31	December 31		
Ending Balance	Ending Balance		
December 31	December 31		

The Company held deposits of \$5.5 million, \$4.0 million and \$4.5 million, \$5.5 million from directors, principal shareholders and executive officers at December 31, 2022 and 2021. All deposits included in such transactions were made on substantially the same terms, including interest rate, as those prevailing at the time for comparable transactions with other persons.

As discussed in Note 6, the Company leased one facility from a related party in 2022 and 2021. The Everett branch facility is leased from a group of investors, one of which was a related party, for ten years and has been renewed through March 2024. Monthly rent under the Everett lease is \$46,000 for the remaining lease term. Rents paid during 2022 and 2021 for the Everett lease were \$46,000 and \$46,000, respectively.

The Company utilizes legal services from Adams and Duncan, Inc. P.S. for legal services, a law firm in which one of the Company's directors is a partner. The Company also uses other law firms for legal counsel and specialties such as regulatory and SEC counsel. For fiscal year ended December 31, 2022 and 2021, total payments for legal services were \$1.0 million and \$864,000, respectively.

The Company leased one facility from a related party in 2023 and \$816,000, 2022. The Everett branch facility is leased from a group of investors, one of which was a related party. The Everett lease originated in 1997 and has been extended multiple times. The current lease is through March 2034. Monthly rent under the Everett lease was \$46,000 through March 2023, due to a lower lease rate and a reduction in the square footage leased; rent for April of 2023 was a blended rate. Rents paid during 2023 and 2022 for the related party lease were \$46,000 and \$46,000, respectively.

Note 13 – Commitments and Contingencies

In the normal course of business, there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is limited to the notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheet.

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At December 31, 2022, December 31, 2023 and 2021, 2022, the Company had a reserve for unfunded commitments of \$974,000, \$582,000 and \$1.3 million, \$974,000, \$582,000 and \$1.3 million, respectively, as of the periods indicated.

Financial instruments whose contract amount represents The following table presents commitments associated with outstanding commitments to extend credit, or funding commitments, as follows at December 31 of the periods indicated:

(dollars in thousands; unaudited)

Credit Risk

Commitments to extend credit:

Commercial and industrial loans	\$
Commercial and industrial loans - capital call lines	
Construction – commercial real estate loans	
Construction – residential real estate loans	
Residential real estate loans	
Commercial real estate loans	
Consumer and other loans	

Total commitments to extend credit \$

Standby letters of credit \$

Funding Risk

Equity investment commitment \$

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(dollars in thousands; unaudited)

Commitments to extend credit:

Commercial and industrial loans	\$
Commercial and industrial loans - capital call lines	
Construction – commercial real estate loans	
Construction – residential real estate loans	
Residential real estate loans	
Commercial real estate loans	
Consumer and other loans	

Total commitments to extend credit \$

Standby letters of credit \$

Equity investment commitment \$

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally require payment of a fee. Since many of the commercial and industrial loan commitments are expected to expire without being drawn upon, the total commitment amount may be reduced. As of December 31, 2022, \$1.57 billion of the \$2.20 billion in total commitments to extend credit were unconditionally cancelable. The Company evaluates the credit risk on a case basis. The amount of collateral obtained, if deemed considered necessary by the Company, upon extension of credit, is based on management's credit evaluation. However, collateral may include accounts receivable, inventory, property and equipment, and income-producing commercial properties. As of December 31, 2023, \$1.63 billion of the \$2.34 billion in total commitments to extend credit were unconditionally cancelable.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit are issued to support the customer, we have fixed expiration dates and rights to the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables and other assets. The marketable securities. Our credit risk involved in associated with issuing letters of credit is essentially the same as that the risk involved in extending letters of credit, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. In the event the customer does not perform under the contract, the Company would be required to fund the commitment. No losses were incurred in 2022, 2023 or 2021, 2022 under these commitments.

Commitments to extend credit on CCBX loans are included in the table above and are summarized below:

(dollars in thousands; unaudited)	(dollars in thousands; unaudited)	2022	2021	(dollars in thousands; unaudited)
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Commitments to extend credit: Commitments to extend credit:

Commercial and industrial loans

Commercial and industrial loans

Commercial and industrial loans	Commercial and industrial loans	\$ 952	\$ —
Commercial and industrial loans - capital call lines	Commercial and industrial loans - capital call lines	772,732	415,956
Residential real estate loans	Residential real estate loans	329,193	71,453
Consumer and other loans	Consumer and other loans	792,447	162,266

Total commitments to extend credit	Total commitments to extend credit	<u>\$1,895,324</u>	<u>\$649,675</u>
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As of December 31, 2022 December 31, 2023, \$1.57 billion \$1.63 billion in CCBX commitments to extend credit are unconditionally cancelable, compared to \$162.2022. The increase in unconditionally cancelable commitments is attributed to growth in CCBX loans. Commitments that are unconditionally cancelable allow us to better r also limit CCBX partners to a maximum aggregate customer loan balance originated and held on our balance sheet, as shown in the table below.

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(dollars in thousands; unaudited)

Type of Lending

Commercial and industrial loans:

Capital call lines	Business - Venture Capital
All other commercial & industrial loans	Business - Small Business

Real estate loans:

Home equity lines of credit	Home Equity - Secured Credit Cards
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Consumer and other loans:

Credit cards	Credit Cards - Primarily Consumer
Installment loans	Consumer
Other consumer and other loans	Consumer - Secured Credit Builder & Unsecured consumer

The Company also has agreements with certain key officers that provide for potential payments upon retirement, disability, termination, change in control and death.

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate material adverse effect on the financial position of the Company.

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Note 14 – Concentration of Credit Risk

Most of the community bank's business activity is with customers who are concentrated in the state of Washington. Investments in municipal securities involve government or invested in bank accounts are insured by the FDIC up to \$250,000 per depositor for each account ownership category at a bank. Uninsured deposits in bank accounts held 2022 December 31, 2023 and 2021, 2022, totaled \$45.4 million \$6.3 million and \$33.6 million \$45.4 million, respectively. Loans to the same borrower are generally limited, by surplus. The Company manages asset quality and controls credit risk through diversification of the loan portfolio and the application of policies designed to promote sound and regularly utilizes real estate as collateral to reduce the risk of credit loss in the loan portfolio. As of December 31, 2022 December 31, 2023 and 2021, 2022, the Company has Commercial real estate loans are typically secured by the Bank's first lien position on the subject property. Standby letters of credit were granted primarily to commercial borrowers.

Note 15 - Stock-Based Compensation

Stock Options and Restricted Stock

The 2018 Coastal Financial Corporation Omnibus Plan (2018 Plan) ("2018 Plan") authorizes the Company to grant awards, including but not limited to, stock options, eligible employees, directors or individuals that provide service to the Company, up to an aggregate of 500,000 shares of common stock. On May 24, 2021, the Company's 2018 Plan, which increased the authorized plan shares by 600,000. The 2018 Plan replaces both the 2006 Plan and the Directors' Stock Bonus Plan (2006 Plan) ("2006 Plan"). Except for further awards will be granted under these prior plans. Shares available to be granted under the 2018 plan were 522,822 433,644 at December 31, 2022 December 31, 2023.

Stock Option Awards

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on historical volatility of the Company's common stock. The Company uses the vesting term and contractual life to determine the expected life. The risk-free interest rate for periods within the contractual life of the option is based on the yield of U.S. Treasury instruments with a maturity date consistent with the option's term. Compensation expense related to unvested stock option awards is reversed at date of forfeiture.

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There were no new options granted in the year ended December 31, 2022 December 31, 2023.

A summary of stock option activity under the Company's Plan during the year ended December 31, 2022 December 31, 2023:

		Weighted-Average					Weighted-Average		
		Weighted-Average	Remaining	Aggregate			Weighted-Average	Remaining	
Options	Options	Exercise	Term	Intrinsic	Options	Shares	Exercise	Contractual	
		Price	(Years)	Value			Price	Term (Years)	
(dollars in thousands, except per share amounts)									
Outstanding at December 31, 2021		694,519	\$ 7.79	4.0	\$29,744				
(dollars in thousands, except per share amounts)									
Outstanding at December 31, 2022									(dollars in thousands, except per share amounts)
Granted	Granted	—	\$ —						
Exercised	Exercised	(247,221)	\$ 5.94						
Exercised									
Exercised									
Expired									
Expired									
Expired	Expired	(75)	\$ 13.35						
Forfeited	Forfeited	(9,120)	\$ 10.08						
Outstanding at December 31, 2022		438,103	\$ 8.79	4.1	\$16,968				
Vested or expected to vest at December 31, 2022		438,103	\$ 8.79	4.1	\$16,968				
Exercisable at December 31, 2022		196,902	\$ 8.07	3.5	\$ 7,767				
Forfeited									

Forfeited
 Outstanding at
 December 31, 2023
 Outstanding at
 December 31, 2023
 Outstanding at
 December 31, 2023
 Vested or
 expected to
 vest at
 December
 31, 2023
 Exercisable
 at
 December
 31, 2023

The total intrinsic value (which is the amount by which the stock price exceeds the exercise price) of options exercised during the year ended **December 31, 2022** **De**
 intrinsic value of options exercised during the year ended **December 31, 2021** **December 31, 2022** was **\$1.2 million** **\$10.3 million**.

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As of **December 31, 2022** **December 31, 2023**, there was **\$1.1 million** **\$804,000** of total unrecognized compensation cost related to nonvested stock options granted t
 adjusted for unvested forfeitures. The Company expects to recognize that cost over a weighted-average period of approximately **4.5** **3.8** years. Compensation expense recor
\$357,000 **\$331,000** for the years ended **December 31, 2022** **December 31, 2023** and **2021**, **2022**, respectively.

Restricted Stock Units

In the first quarter of **2022**, **2023**, the Company granted **53,721** **73,611** restricted stock units under the 2018 Plan to employees, which vest ratably over 4 years and **1**
 years. In the second quarter of **2022**, **2023**, the Company granted **9,831** **9,827** restricted stock units under the 2018 Plan to employees, which vest ratably over 5 years and **7**
 Additionally, the Company granted 53,000 performance-based restricted stock units under the 2018 Plan to an employee, that vest on June 1, 2028, the quantity of which is c
 goals. In the third quarter of **2022**, **2023**, the Company granted **20,000** **4,000** restricted stock units under the 2018 Plan to employees, which vest in two blocks: 10,000 vest a
restricted stock units that vest after 7.5 **ratably over 5** years. In the fourth quarter of **2022**, **2023**, the Company granted 1,054 **no** restricted stock units under the 2018 Plan to a
 after three years and the remaining 527 shares vest after five years. **Plan**.

Restricted stock units provide for an interest in Company common stock to the recipient, the underlying stock is not issued until certain conditions are met. Vesting re
 market-based conditions. Recipients of restricted stock units do not pay any cash consideration to the Company for the units and the holders of the restricted units do not hav
 performance-based units is equal to the fair market value of the Company's common stock on the grant date. The fair value of market-based units is estimated on the grant d
 Compensation expense is recognized over the vesting period that the awards are based. Restricted stock units are nonparticipating securities.

As of **December 31, 2022** **December 31, 2023**, there was **\$8.9 million** **\$9.3 million** of total unrecognized compensation cost related to nonvested restricted stock units
 remaining weighted-average vesting period of approximately **3.4** **3.7** years. Compensation expense recorded related to restricted stock units was **\$1.9 million** **\$2.9 million** and
2022 **December 31, 2023** and **2021**, **2022**, respectively.

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A summary of the Company's nonvested restricted stock units at **December 31, 2022** **December 31, 2023** and changes during the year is presented below:

Nonvested shares - RSUs	Shares	
		(dollars in
Nonvested shares at December 31, 2021	269,844	\$
Granted	144,756	\$
Forfeited	(6,734)	\$
Vested	(27,817)	\$
Nonvested shares at December 31, 2022	380,049	\$

The fair value of restricted stock awards is equal to the fair value of the Company's stock at the date of grant. Compensation expense is recognized over the vesting are participating securities.

Nonvested shares - RSUs

Nonvested shares at December 31, 2022

Granted

Forfeited

Vested

Nonvested shares at December 31, 2023

Restricted Stock Awards

Employees

There were no new restricted stock awards granted to employees in the year ended December 31, 2022 December 31, 2023.

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The fair value of restricted stock awards is equal to the fair value of the Company's stock at the date of grant. Compensation expense is recognized over the vesting are participating securities.

As of December 31, 2022 December 31, 2023, there was \$45,000 \$36,000 of total unrecognized compensation cost related to nonvested restricted stock awards. The remaining weighted-average vesting period of approximately 5.1 4.1 years. Compensation expense recorded related to restricted stock awards was \$9,000 and \$134,000 for and 2021, respectively. 2022.

Director's Stock Bonus

Under the 2018 Plan, in May 2022 eligible directors were each are granted stock with a total market value of \$35,000, approximately \$45,000, and the Board Chair w \$55,000. approximately \$75,000. Committee chairs receive receive additional stock in an amount that varies depending upon the nature and frequency of the committee me with a market value of \$2,500 for each approximately \$10,000, non-financial risk and compensation committee chaired at chairs receive additional stock with a market value c investment, credit and nominating & governance chairs receive additional stock with a market value of the award. approximately \$5,000. Stock is granted as of each annual n annual meeting date. During the vesting period, the grants are considered participating securities.

In May 2022, 2023, there were 10,396 13,538 shares granted to ten directors at an estimated fair value of \$37.30 \$35.10 per share. As of December 31, 2022 Decem unrecognized compensation expense related to director stock awards. Compensation expense related to the Plan totaled \$295,000 \$432,000 and \$173,000 \$295,000 for the 2021, 2022, respectively.

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A summary of the Company's nonvested shares at December 31, 2022 December 31, 2023 and changes during the year is presented below:

		Weighted-Average			Nonvested shares - RSAs	Shares	Weighted-Average
		Grant	Total or				
Nonvested	Nonvested	Date	Aggregate				
shares -	shares -	Fair	Intrinsic				
RSAs	RSAs	Shares	Value	Value			Fair
							Value
(dollars in thousands, except per share amounts)							
Nonvested shares at							
December 31, 2021		10,203	\$ 23.78	\$ 274			

		(dollars in thousands, except per share amounts)			(dollars in millions)
Nonvested shares at December 31, 2022					
Granted	Granted	10,396	\$	37.30	
Forfeited	Forfeited	—	\$	—	
Vested	Vested	<u>(7,203)</u>	\$	26.27	
Nonvested shares at December 31, 2022		<u>13,396</u>	\$	32.94	\$ 195
Nonvested shares at December 31, 2023					

401(k) plan - The Company has a combined 401(k) and profit-sharing plan covering substantially all employees. Contributions to the 401(k) plan may consist of matching contributions and employee contributions. Matching contributions are made on a dollar-for-dollar basis up to 4% of an employee's salary. The matching contribution coincides with the first of the month following hire date in accordance with the 401(k) plan. Matching contributions are usually equal to a percentage of employee compensation.

Deferred compensation plan - The Company established a deferred compensation plan in 2003 for certain management personnel. Two former employees were credited to these retired individuals. The plan was designed to help supplement retirement benefits for participants. The benefits may be funded by bank-owned life insurance policies of \$12.9 million and \$12.7 million at December 31, 2023 and \$12.3 million at December 31, 2022 and 2021, 2022, respectively. Liabilities to employees, which are being accrued, were \$16,000 at December 31, 2023 and \$744,000 at December 31, 2022 and 2021, 2022, respectively. Compensation expense related to this Plan was \$48,000, \$39,000 and \$5,000 for 2022, 2023 and 2021, 2022, respectively. Payments of accrued benefits totaling \$175,000 were made during 2022, 2023 and 2021, 2022.

Note 17 - Regulatory Matters

Banks and bank holding companies are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements of the Bank and the Company.

Because the Company's consolidated assets exceeded \$3.0 billion as of September 30, 2022, the Company is no longer eligible for the Federal Reserve's Small Bank Holding Company Program. The Company evaluated relative to the capital adequacy standards established by the Federal Reserve going forward. **Reserve.** A bank holding company that crosses the \$3.0 billion total capital threshold is no longer permitted to file reports as a small holding company beginning the following March. The Company was not in excess of \$3.0 billion as of June 30, 2022, and the Federal Reserve as a small bank holding company. Currently, the Federal Reserve assesses the capital position of the Company based on these reports by reviewing its delinquency and nonperforming assets. The Federal Reserve's strength to the Bank. If the Company's total consolidated assets remain **green** in excess of \$3.0 billion as of June 30, 2023, starting and as a consequence, beginning in March 2024, the Company will file financial reports with the Federal Reserve as though it were a small bank holding company.

Under the regulatory capital adequacy guidelines, the Company and Bank must meet specific capital adequacy guidelines that involve quantitative measures of their calculated under regulatory accounting practices. The Company's and Bank's capital ratios and the Bank's classification under the

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prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios of total risk-based to risk-weighted assets (as defined in the regulations), and Tier 1 capital to average adjusted total consolidated assets (as defined). According to regulatory guidelines, only within the next 12 months based on projected taxable income is allowed in the computation. There were no disallowed deferred tax assets at December 31, 2022. December 31, 2021

Under the capital adequacy guidelines on the regulatory framework for prompt corrective action (as set forth in the table on the next page), the Bank met the criteria for **2022 December 31, 2023** and **2021, 2022**. Such determination has been made based on the Bank's total risk-based capital ratio, Tier 1 risk-based capital ratio, common equity ratio and the Bank's capital adequacy ratio. There have been no conditions or events since **December 31, 2022** **December 31, 2023**, that management believes would change the Bank's category.

Under capital adequacy regulations, the Company and the Bank must maintain a capital conservation buffer of common equity Tier 1 capital of more than 2.5% above the minimum required capital level on the payment of capital distributions and discretionary bonus payments.

Management believes the Company and the Bank exceed all capital adequacy requirements to which they are subject, including the ratios described below and the criteria for **2022 December 31, 2023**.

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The Company and Bank's actual and required capital amounts and ratios are as follows:

		Actual		Minimum Required for Capital Adequacy Purposes		Required to be Well Capitalized Under the Prompt Corrective Action							
		Actual		(1)		Provisions							
		Amount	Ratio	Amount	Ratio	Amount	Ratio						
		(dollars in thousands)											
December 31, 2022													

Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)										
Consolidated	Consolidated										
Consolidated	Consolidated	249,250	9.04 %	165,370	6.00 %	N/A	N/A	298,920	9.20	9.20 %	194,849
Bank Only	Bank Only	267,699	9.73 %	165,096	6.00 %	220,128	8.00 %	Bank Only 333,848	10.30	10.30 %	194,500
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)										
Consolidated	Consolidated	329,203	11.94 %	220,493	8.00 %	N/A	N/A				
Consolidated	Consolidated							385,464	11.87 %	259,799	
Bank Only	Bank Only	302,595	11.00 %	220,128	8.00 %	275,160	10.00 %	Bank Only 375,320	11.58	11.58 %	259,334
December 31, 2021											
December 31, 2022											
Leverage Capital (to average assets)	Leverage Capital (to average assets)										
Leverage Capital (to average assets)	Leverage Capital (to average assets)										
Consolidated	Consolidated										
Consolidated	Consolidated	\$204,585	8.07 %	\$101,460	4.00 %	N/A	N/A	\$204,585	8.07	8.07 %	\$101,460
Bank Only	Bank Only	201,783	7.96 %	101,350	4.00 %	126,687	5.00 %	Bank Only 201,783	7.96	7.96 %	101,350
Common Equity Tier 1 risk-based capital ratio (to risk-weighted assets)	Common Equity Tier 1 risk-based capital ratio (to risk-weighted assets)										
Consolidated	Consolidated	201,085	11.06 %	81,834	4.50 %	N/A	N/A				
Consolidated	Consolidated							201,085	11.06 %	81,834	
Bank Only	Bank Only	201,783	11.12 %	81,623	4.50 %	117,900	6.50 %	Bank Only 201,783	11.12	11.12 %	81,623
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)										
Consolidated	Consolidated										
Consolidated	Consolidated	204,585	11.25 %	109,112	6.00 %	N/A	N/A	204,585	11.25	11.25 %	109,112
Bank Only	Bank Only	201,783	11.12 %	108,830	6.00 %	145,107	8.00 %	Bank Only 201,783	11.12	11.12 %	108,830
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)										

Consolidated	Consolidated	252,405	13.88 %	145,483	8.00 %	N/A	N/A		
Consolidated									
Consolidated		252,405	13.88 %	145,483					
Bank Only	Bank Only	224,545	12.38 %	145,107	8.00 %	181,384	10.00 %	Bank Only	224,545
									12.38
									12.38 %
									145,107

(1) Presents the minimum capital adequacy requirements that apply to the Bank (excluding the capital conservation buffer) and the Company. The capital conservation buffer minimum risk-based capital requirements for total, tier 1, and common equity tier 1 risk-based capital. Prior to September 30, 2022, the Company operated under the Sma was not subject to Basel III capital adequacy requirements.

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Note 18 - Fair Value Measurements

The following tables present estimated fair values of the Company's financial instruments as of the period indicated, whether or not recognized or recorded in the cor

December 31, 2022		Fair Value Measurements Using		
Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3

(dollars in thousands)

December 31, 2023		December 31, 2023		
Carrying Value		Carrying Value	Estimated Fair Value	Level 1

(dollars in thousands)

Financial assets	Financial assets						
Cash and due from banks	Cash and due from banks						
Cash and due from banks	Cash and due from banks	\$ 32,722	\$ 32,722	\$32,722	\$ —	\$ —	
Interest earning deposits with other banks	Interest earning deposits with other banks	309,417	309,417	309,417	—	—	
Investment securities	Investment securities	98,353	98,233	97,015	1,218	—	
Other investments	Other investments	10,555	10,555	—	7,983	2,572	
Loans receivable	Loans receivable	2,627,256	2,580,183	—	—	2,580,183	
Loans receivable	Loans receivable						
Accrued interest receivable	Accrued interest receivable	17,815	17,815	—	17,815	—	
Financial liabilities	Financial liabilities						
Deposits	Deposits						
Deposits	Deposits	\$2,817,521	\$2,816,602	\$ —	\$2,816,602	\$ —	
Subordinated debt	Subordinated debt	43,999	42,743	—	42,743	—	
Junior subordinated debentures	Junior subordinated debentures	3,588	3,484	—	3,484	—	

Accrued interest payable	Accrued interest payable	684	684	—	684	—
--------------------------	--------------------------	-----	-----	---	-----	---

December 31, 2021		Fair Value Measurements Using		
Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3

(dollars in thousands)

December 31, 2022		December 31, 2022		
Carrying Value		Carrying Value	Estimated Fair Value	Level 1

(dollars in thousands)

Financial assets	Financial assets						
Cash and due from banks							
Cash and due from banks							
Cash and due from banks	Cash and due from banks	\$ 14,496	\$ 14,496	\$14,496	\$ —	\$ —	
Interest earning deposits with other banks	Interest earning deposits with other banks	798,665	798,665	798,665	—	—	
Investment securities	Investment securities	36,623	36,675	34,998	1,677	—	
Other investments	Other investments	8,478	8,478	—	6,156	2,322	
Loans receivable, net	Loans receivable, net	1,714,103	1,686,124	—	—	1,686,124	
Accrued interest receivable	Accrued interest receivable	8,105	8,105	—	8,105	—	
Financial liabilities	Financial liabilities						
Deposits	Deposits	\$2,363,787	\$2,363,624	\$ —	\$2,363,624	\$ —	
Deposits							
Deposits							
FHLB advances	FHLB advances	24,999	24,447	—	24,447	—	
Subordinated debt	Subordinated debt	24,288	21,891	—	21,891	—	
Junior subordinated debentures	Junior subordinated debentures	3,586	2,771	—	2,771	—	
Accrued interest payable	Accrued interest payable	357	357	—	357	—	

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. In certain circumstances, if the inputs used to measure the fair value of an asset or liability are not observable, the accounting standard requires the reporting entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company uses independent sources, while

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- 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 that the 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 instruments 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 other techniques, including the use of valuation specialists, for instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs from non-binding sources.

Items measured at fair value on a recurring basis – The following fair value hierarchy table presents information about the Company's assets that are measured at fair value on a recurring basis:

REFINITIV 

U.S. Agency residential mortgage-backed securities	U.S. Agency residential mortgage-backed securities	—	1	—	1
Municipals	Municipals	—	250	—	250
		<u>\$97,015</u>	<u>\$302</u>	<u>\$—</u>	<u>\$97,317</u>

December 31, 2021

Available-for-sale

U.S. Treasury securities	\$34,998	\$ —	\$ —	\$34,998
U.S. Agency collateralized mortgage obligations	—	70	—	70
U.S. Agency residential mortgage-backed securities	—	3	—	3
Municipals	—	256	—	256
	<u>\$34,998</u>	<u>\$329</u>	<u>\$—</u>	<u>\$35,327</u>

\$

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

Investment securities - The fair value of securities is based on quoted market prices, pricing models, quoted prices of similar securities, independent pricing sources,

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Limitations: The fair value estimates presented herein are based on pertinent information available to management as of **December 31, 2022** **December 31, 2023** and are subject to change subsequent to the dates the fair value estimates are completed, therefore, current estimates of fair value may differ significantly from the amounts presented.

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Items measured at fair value on a nonrecurring basis – The following table presents financial assets and liabilities measured at fair value on a nonrecurring basis value measurements for those assets at the dates indicated:

	Level 1	Level 2	Level 3	Total Fair Value
	1	2	Level 3	Value
	<u>Level 1</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(dollars in thousands)			(c
December 31, 2023				
Collateral dependent loans				
Collateral dependent loans				
Collateral dependent loans				
Equity securities				
Total				
	(dollars in thousands)			
December 31, 2022				
December 31, 2022				
December 31, 2022				

December 31, 2022

Impaired loans

Impaired loans

Impaired loans	Impaired loans	\$—	\$—	\$7,080	\$7,080
Equity securities	Equity securities			2,572	2,572
Total	Total	\$—	\$—	\$9,652	\$9,652

December 31, 2021

Impaired loans	\$—	\$—	\$ 221	\$ 221
Equity securities			2,322	2,322
Total	\$—	\$—	\$2,543	\$2,543

Impaired individually evaluated loans - A Fair values for individually evaluated loans are estimated using the fair value of the collateral less selling costs if the loan re amounts are initially valued at the lower of cost or fair value. Individually evaluated loans carried at fair value generally receive specific allocations of the allowance for credit value is considered impaired when it is probable that payment commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or sales and principal will not be the income approach. Adjustments are routinely made in accordance with the contractual terms appraisal process by the independent appraiser and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the loan agreement. Impairment inputs for determining fa appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Individually evaluated loans are evaluated on a quar accordingly. The estimated fair values of financial instruments disclosed above follow the guidance in ASU 2016-01 which prescribes an "exit price" approach in estimating ai incorporating discounts for credit, liquidity, and marketability factors. Valuation is measured based on the fair value of the underlying collateral or the discounted cash expecte impaired loans are included within the provision for loan credit losses - loans in the same manner in which impairment it initially was recognized or as a reduction in the provis are evaluated quarterly to determine if valuation adjustments should be recorded. The need for valuation adjustments arises when observable market prices or current appra value compared to current carrying values of the related loan. If the Company determines that the value of the impaired individually evaluated loan is less than the carrying va impairment a reserve as a specific component of the allowance for loan credit losses or charges off the impairment that amount. These valuation adjustments are considered

Equity securities – The Company measures equity securities without readily determinable fair values at cost less impairment (if any), plus or minus observable price issuer, with price changes recognized in earnings. earnings.

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The following table presents the carrying value of equity securities without readily determinable fair values, as of December 31, 2022 December 31, 2023, 2022 and 2 presented for those securities with observable price changes, if applicable. These equity securities are included in other investments on the balance sheet.

(dollars in thousands)

Carrying value, beginning of period	\$
Purchases	
Observable price change	
Carrying value, end of period	\$

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(dollars in thousands)

	2023	
Carrying value, beginning of period	\$ 2,572	\$
Purchases	50	
Observable price change	—	
Carrying value, end of period	\$ 2,622	\$

Assets measured at fair value using significant unobservable inputs (Level 3)

The following table provides a description of the valuation technique, unobservable inputs, and qualitative information about the unobservable inputs for the Company at fair value on a nonrecurring basis at the dates **date** indicated:

			December 31
(unaudited)	Valuation Technique	Unobservable Inputs	
Impaired loans	Collateral valuations	Discount to appraised value	
(unaudited)	Valuation Technique	Unobservable Inputs	
Collateral dependent loans	Collateral valuations	Discount to appraised value	
(unaudited)	Valuation Technique	Unobservable Inputs	
Impaired loans	Collateral valuations	Discount to appraised value	

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Note 19 – Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income. The following table presents the Company's revenue from contracts with customers for the periods ended December 31:

		2022	2021
		(dollars in thousands)	
		2023	2022
		(dollars in thousands)	
Deposit service charges and fees	Deposit service charges and fees		
Interchange income	Interchange income		
Interchange income	Interchange income	\$ 2,055	\$ 1,959
Merchant service fees	Merchant service fees	508	568
Overdraft fees	Overdraft fees	310	316
Other	Other	931	855
Loan referral fees	Loan referral fees	810	2,126
Mortgage broker fees		257	920
BaaS program income ⁽¹⁾	BaaS program income ⁽¹⁾		
BaaS program income ⁽¹⁾	BaaS program income ⁽¹⁾		
BaaS program income ⁽¹⁾	BaaS program income ⁽¹⁾	12,934	6,716
Other income ⁽²⁾	Other income ⁽²⁾	346	393
Total noninterest income subject to Topic 606	Total noninterest income subject to Topic 606	18,151	13,853
BaaS enhancements / guarantees ⁽¹⁾	BaaS enhancements / guarantees ⁽¹⁾	105,945	10,591

Gain (loss) on equity investment	Gain (loss) on equity investment	(153)	1,469
Gain on sale of branch	Gain on sale of branch	—	1,263
Gain on sale of loans, net	Gain on sale of loans, net	—	396
Loan servicing fees	Loan servicing fees	223	248
Earnings on life insurance	Earnings on life insurance	361	172
Lease and sublease income	Lease and sublease income	157	126
Total noninterest income not subject to Topic 606	Total noninterest income not subject to Topic 606	106,533	14,265
Total noninterest income not subject to Topic 606	Total noninterest income not subject to Topic 606		
Total noninterest income	Total noninterest income	\$124,684	\$28,118

(1) See description below for detailed components of BaaS fees and related Topic 606 applicability.

(2) Includes the following immaterial income streams that are within the scope of Topic 606: wire transfer fees, annuity fees, mortgage broker fees and brokerage fees.

A description of the Company's revenue streams accounted for under Topic 606 is as follows:

Service Charges on Deposit Accounts: The Company earns fees from deposit customers for transaction-based, account maintenance and overdraft services. Transaction fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed at the point in the time the Company fulfills the customer's obligation primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees occur.

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Interchange Income: The Company earns interchange fees from debit card holder transactions conducted through various payment networks. Interchange fees from underlying transactions value and are recognized daily, concurrently with the transaction processing services provided by the cardholder. Interchange income is included in the consolidated statements of income.

Merchant Service Fees: The Company earns a percentage of fees from cardholder transactions conducted through a third-party payment network provider. The Company's marketing, deployment and installation of equipment, and savings analysis to merchant service customers. An exclusivity agreement is in place between the Company and the merchant, which is recognized on a monthly basis, as earned. Merchant service fees are included in Services Charges on Deposit Accounts in the consolidated statements of income.

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Loan Referral Fees: The Company earns loan referral fees when the Company originates a variable rate loan and the borrower enters into an interest rate swap agreement for an extended period, usually 20 or 25 years. The Company recognizes the loan referral fee for arranging the interest rate swap.

Mortgage Broker Fees: Mortgage broker fees are governed by contract arrangements executed with a third-party mortgage company. The Company earns broker fees on qualified loans to the third-party mortgage company. Revenue is recognized at the date the mortgage company funds the mortgage loan. The contract arrangement includes fees for loans that pay off within three months of origination.

BaaS Fees: The Company earns fees and is reimbursed for certain expenses, as specified in the program agreement, for providing banking services to broker-dealers. Fees and reimbursement of expenses are recorded gross and recognized on a monthly basis, as earned. Credit enhancements for fraud and credit losses are not within the scope of Topic 606.

The following tables presents the BaaS fees that are within and not within the scope of Topic 606:

		Year Ended December 31,		Increase (Decrease)	Year Ended December 31,				2023 co
(dollars in thousands)	(dollars in thousands)	2022	2021		(dollars in thousands)	2023	2022	2021	Increase (Decrease)
Program	Program								
income - within	income - within								
the scope of	the scope of								
Topic 606	Topic 606			Increase (Decrease)					
Servicing and other BaaS fees									
Servicing and other BaaS fees									
Servicing and other BaaS fees	Servicing and other BaaS fees	\$ 4,408	\$ 4,467	\$ (59)					
Transaction	Transaction	3,211	544	2,667					
Interchange	Interchange	2,583	701	1,882					
Reimbursement of expenses	Reimbursement of expenses	2,732	1,004	1,728					
Total BaaS program income	Total BaaS program income	12,934	6,716	6,218					
Guarantees - not within the scope of Topic 606:	Guarantees - not within the scope of Topic 606:								
BaaS credit enhancement	BaaS credit enhancement	76,374	9,086	67,288					
BaaS credit enhancement									
BaaS credit enhancement									
BaaS fraud enhancement	BaaS fraud enhancement	29,571	1,505	28,066					
Total BaaS enhancements / guarantees	Total BaaS enhancements / guarantees	105,945	10,591	95,354					
Total BaaS fees	Total BaaS fees	\$118,879	\$17,307	\$101,572					

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Note 20 - Earnings Per Common Share

The following is a computation of basic and diluted earnings per common share at the periods indicated:

		Year Ended		Year Ended	
(dollars in thousands, except per share data)	(dollars in thousands, except per share data)	December 31, 2022	December 31, 2021		December 31, 2023
Net Income	Net Income	\$ 40,625	\$ 27,005	(dollars in thousands, except per share data)	

Basic weighted average number common shares outstanding	Basic weighted average number common shares outstanding	12,949,266	12,022,954	Basic weighted average number common shares outstanding	13,261,
Dilutive effect of equity-based awards	Dilutive effect of equity-based awards	565,686	498,472	Dilutive effect of equity-based awards	378,
Diluted weighted average number common shares outstanding	Diluted weighted average number common shares outstanding	13,514,952	12,521,426	Diluted weighted average number common shares outstanding	13,640,
Basic earnings per share	Basic earnings per share	\$ 3.14	\$ 2.25		
Diluted earnings per share	Diluted earnings per share	\$ 3.01	\$ 2.16		
Antidilutive stock options and restricted stock outstanding	Antidilutive stock options and restricted stock outstanding	147,423	176,097	Antidilutive stock options and restricted stock outstanding	130,

Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to their participation rights in undistributed earnings, however the difference in the two-class method was not significant.

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Note 21 – Segment Reporting

As defined in ASC 280, *Segment Reporting*, an operating segment is a component of an enterprise that engages in business activities from which it may earn revenue and that is regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which to evaluate performance based on an internal performance measurement accounting system, which provides line of business results. This system uses various techniques to allocate costs to business segments, including allocations of income and expense. A primary objective of this measurement system and related internal financial reporting practices are to provide information about the impact of the segments on the Company and to provide a basis of support for strategic decision making. The accounting policies applicable to our segments are those that are used in the Financial Statements. Based on these criteria, we have identified **two** segments: The community bank, CCBX and CCBX, treasury & administration.

Income and expenses that are specific to CCBX are recorded to the CCBX segment. Included in noninterest expense for the community bank is administrative overhead. For the years ended December 31, 2022 and December 31, 2021, respectively. Both the community bank and the CCBX segment benefit from this administrative overhead and services, which are recorded to the management, compliance monitoring and other administration functions.

Summarized financial information concerning the Company's reportable segments and the reconciliation to the consolidated financial results is shown in the following table. **Segment structure changed after 2021, therefore some items are reported as "N/A" for the year ended December 31, 2021.**

	December 31, 2022			December 31, 2021		
	Bank	CCBX	Total	Bank	CCBX	Total
(dollars in thousands)						
Total assets	\$2,097,885	\$1,046,582	\$3,144,467	\$2,282,514	\$353,003	\$2,635,517

	December 31, 2023			December 31, 2023		
Community Bank	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank	CCBX

Assets	Assets (dollars in thousands)						
Cash and							
Due from							
Banks							
Intrabank							
assets							
Securities							
Total loans							
receivable loans							
receivable	1,614,751	1,012,505	2,627,256	1,396,060	346,675	1,742,735	
Allowance for loan							
losses	(20,636)	(53,393)	(74,029)	(20,299)	(8,333)	(28,632)	
Total loans receivable							
Total loans receivable							
Allowance							
for credit							
losses							
All other							
assets							
Total							
assets							
Liabilities							
Total							
deposits							
deposits	1,538,218	1,279,303	2,817,521	1,647,529	716,258	2,363,787	
Total deposits							
Total deposits							
Total							
borrowings							
Intrabank							
liabilities							
All other							
liabilities							
Total							
liabilities							

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Year Ended December 31, 2022					
	Bank	CCBX	Total	Bank	
	(dollars in thousands)				
Net interest income	\$ 85,075	\$ 86,700	\$ 171,775	\$ 73,004	
Provision for loan losses	\$ 719	78,345	79,064	1,275	
Noninterest income ⁽¹⁾	\$ 5,652	119,032	124,684	10,713	
Noninterest expense	\$ 64,114	102,660	166,774	51,547	

(1) For the year ended December 31, 2022, CCBX noninterest income includes credit enhancement recovery of \$76.4 million, fraud recovery of \$29.6 million, servicing and other fees of \$2.7 million, and interchange income of \$2.6 million. For the year ended December 31, 2021, CCBX noninterest income includes credit enhancement recovery of \$76.4 million, fraud recovery of \$29.6 million, servicing and other fees of \$2.7 million, and interchange income of \$2.6 million. For the year ended December 31, 2021, CCBX noninterest income includes credit enhancement recovery of \$76.4 million, fraud recovery of \$29.6 million, servicing and other fees of \$2.7 million, and interchange income of \$2.6 million.

Year Ended December 31, 2023					
	Community Bank	CCBX	Treasury & Administration	Consolidated	Community Bank
	(dollars in thousands)				
INTEREST INCOME AND EXPENSE					
Interest income	\$ 106,983	\$ 204,458	\$ 18,930	\$ 330,371	\$ 80,544

Interest income (expense)					
intrabank transfer	(10,404)	19,071	(8,667)	—	796
Interest expense	17,354	71,646	2,644	91,644	2,896
Net interest income	79,225	151,883	7,619	238,727	78,444
Provision for credit					
losses - loans	1,322	182,721	—	184,043	719
(Recapture)/Provision for unfunded commitments	(211)	160	—	(51)	—
Net interest income after provision for credit losses - loans and unfunded commitments	78,114	(30,998)	7,619	54,735	77,725
NONINTEREST INCOME					
Deposit service charges and fees	3,810	44	—	3,854	3,757
Other income	1,165	433	501	2,099	1,411
BaaS program income	—	16,293	—	16,293	—
BaaS indemnification income	—	184,929	—	184,929	—
Noninterest income ⁽¹⁾	4,975	201,699	501	207,175	5,168
NONINTEREST EXPENSE					
Salaries and employee benefits	24,104	25,159	17,198	66,461	20,476
Occupancy	3,815	339	772	4,926	3,956
Data processing and software licenses	4,521	2,303	1,771	8,595	3,172
Legal and professional expenses	1,580	9,645	3,578	14,803	213
Other expense	3,954	6,812	5,161	15,927	5,202
BaaS loan expense	—	86,900	—	86,900	—
BaaS fraud expense	—	7,165	—	7,165	—
Total noninterest expense	37,974	138,323	28,480	204,777	33,019
Net income before income taxes	45,115	32,378	(20,360)	57,133	49,874
Income taxes	9,913	7,116	(4,475)	12,554	10,068
Net Income	\$ 35,202	\$ 25,262	\$ (15,885)	\$ 44,579	39,806

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	Year Ended Dec	
	Community Bank	CCBX
	(dollars in thousands)	
INTEREST INCOME AND EXPENSE		
Interest income	\$ 76,551	\$ 6,532
Interest income (expense)		
intrabank transfer	N/A	N/A
Interest expense	3,547	99
Net interest income	73,004	6,433
Provision for credit		
losses - loans	1,275	8,640
(Recapture)/Provision for unfunded commitments	—	—
Net interest income after provision for credit losses - loans and unfunded commitments	71,729	(2,207)
NONINTEREST INCOME		

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Condensed financial information of Coastal Financial Corporation follows:

LIABILITIES AND SHAREHOLDERS' EQUITY

Other liabilities	Other liabilities	5	243
Shareholders' equity	Shareholders' equity	243,494	201,222
TOTAL	TOTAL		
LIABILITIES AND	LIABILITIES AND		
SHAREHOLDERS'	SHAREHOLDERS'		
EQUITY	EQUITY	\$291,632	\$229,629

	2023	
INTEREST INCOME		
Interest earned loans receivable	\$	— \$
Interest bearing other investments		8
Total interest income		8
INTEREST EXPENSE		
Interest on borrowed funds		2,644
Total interest expense		2,644
Net interest expense		(2,636)
PROVISION FOR CREDIT LOSSES		—
Net interest expense after provision for credit losses		(2,636)
NONINTEREST INCOME		
Unrealized gain (loss) on equity investment		279
Other income		30
Total noninterest income		309
NONINTEREST EXPENSE		
Other expenses		914
Total noninterest expense		914
Loss before income taxes and undistributed net income of subsidiary		(3,241)
Equity in undistributed income of consolidated subsidiaries		47,148
Income tax (benefit) expense		(672)
NET INCOME	\$	44,579 \$

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INTEREST INCOME

Interest earned loans receivable \$

Interest bearing other investments

Total interest income

INTEREST EXPENSE

Interest on borrowed funds

Total interest expense

Net interest expense

PROVISION FOR LOAN LOSSES

Net interest expense after provision for loan losses

NONINTEREST INCOME

Unrealized (loss) gain on equity investment

Other income

Total noninterest income

NONINTEREST EXPENSE

Other expenses

Total noninterest expense

Loss before income taxes and undistributed net income of subsidiary

Equity in undistributed income of consolidated subsidiaries

Income tax (benefit) expense

NET INCOME

\$

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		Year ended December 31,			
		2022	2021		
		Year ended December 31,		Year ended De	
		2023		2023	2022
CASH FLOWS	CASH FLOWS				
FROM	FROM				
OPERATING	OPERATING				
ACTIVITIES:	ACTIVITIES:				
Net income	Net income	\$40,625	\$27,005		
Net income					
Net income					
Adjustments	Adjustments				
to reconcile	to reconcile				
net income to	net income to				
net cash used	net cash used				
by operating	by operating				
activities:	activities:				
Equity in undistributed income					
of consolidated subsidiaries					
Equity in undistributed income					
of consolidated subsidiaries					
Equity in	Equity in				
undistributed	undistributed				
income of	income of				
consolidated	consolidated				
subsidiaries	subsidiaries	(42,674)	(26,917)		
Stock-based	Stock-based				
compensation	compensation	295	162		
Unrealized	Unrealized				
loss (gain) on	loss (gain) on				
equity	equity				
investment	investment	153	(1,469)		
Decrease	Decrease				
(increase) in	(increase) in				
other assets	other assets	274	5		
Increase in	Increase in				
other	other				
liabilities	liabilities	106	452		
Net cash	Net cash				
used by	used by				
operating	operating				
activities	activities	(1,221)	(762)		

CASH FLOWS FROM INVESTING ACTIVITIES:	CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments in subsidiaries	Investments in subsidiaries	(20,925)	(26,500)
Investments in subsidiaries	Investments in subsidiaries		
Investments in loans receivable	Investments in loans receivable	350	(350)
Investments in other, net	Investments in other, net	(699)	(163)
Net cash used by investing activities	Net cash used by investing activities	(21,274)	(27,013)
CASH FLOWS FROM FINANCING ACTIVITIES:	CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	Proceeds from exercise of stock options		
Proceeds from exercise of stock options	Proceeds from exercise of stock options	1,468	360
Proceeds from public offering, net	Proceeds from public offering, net	—	32,387
Proceeds from subordinated debt	Proceeds from subordinated debt	19,625	24,263
Repayment of subordinated debt	Repayment of subordinated debt	—	(10,000)
Net cash provided by financing activities	Net cash provided by financing activities	21,093	47,010
NET CHANGE IN CASH	NET CHANGE IN CASH	(1,402)	19,235
Cash, beginning of year	Cash, beginning of year	24,306	5,071
Cash, end of year	Cash, end of year	\$22,904	\$24,306

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, to assess the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Exchange Act) as of **December 31, 2022** and **December 31, 2023**. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only a reasonable assurance of achieving the desired control objectives and that our management must apply its judgment in evaluating and implementing possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer, conclude that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements in accordance with GAAP. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

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financial statements in accordance with GAAP. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

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There are inherent limitations in any internal control over financial reporting, no matter how well designed, misstatements due to error or fraud may occur and not be detected or prevented. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, the effectiveness of an internal control system may vary over time.

Our management assessed its internal control structure over financial reporting as of **December 31, 2022** and **December 31, 2023** using the criteria set forth in Internal Control over Financial Reporting Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that we maintained effective internal control over financial reporting as of **December 31, 2023**.

Attestation Report Moss Adams LLP, an independent registered public accounting firm, has audited the effectiveness of the Independent Registered Public Accounting Firm's internal control over financial reporting as of **December 31, 2023**, and their report is included in Item 8. Financial Statements And Supplementary Data.

Not applicable for an emerging growth company.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the year ended **December 31, 2022** and **December 31, 2023** that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None. During the fiscal quarter ended **December 31, 2023**, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non- Rule 10b5-1 trading arrangement" as defined in Item 408(a) of Regulation S-K.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Board of Directors

For information relating to the directors of the Company, the section captioned "Items to be Voted on by Shareholders—Item 1—Election of Directors" in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Executive Officers

For information relating to officers of the Company, see Part I, Item 1, "Business—Information About Our Executive Officers" to this Annual Report on Form 10-K.

Delinquent Section 16(a) Reports

For information regarding compliance with Delinquent Section 16(a) Reports, the section captioned "Stock Information—Delinquent Section 16(a) Reports" in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Disclosure of Code of Ethics

For information concerning the Company's Code of Ethics, the information contained under the section captioned "Corporate Governance—Code of Ethics and Business Conduct" in the Company's Proxy Statement for the 2023 2024 Annual Meeting of Shareholders is incorporated by reference. A copy of the Code of Ethics and Business Conduct is available to shareholders on the Company's website.

Audit Committee

For information regarding the Audit Committee and its composition and the audit committee financial expert, the section captioned "Corporate Governance—Meeting of the Audit Committee" in the Company's Proxy Statement for the 2023 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Item 11. Executive Compensation

Executive Compensation

For information regarding executive compensation, the sections captioned "Executive Compensation" and "Director Compensation" in the Company's Proxy Statement for the 2023 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Stock Information" in the Company's Proxy Statement for the 2023 2024 Annual Meeting of Shareholders.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned "Stock Information" in the Company's Proxy Statement for the 2023 2024 Annual Meeting of Shareholders.

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(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person or securities of the Company the operation of which may at a subsequent date result in a change of control of the Company.

(d) Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information about the Company common stock that may be issued upon the exercise of stock options, warrants and rights under all of the Company's equity compensation plans as of December 31, 2022.

(dollars in thousands, except per share amounts; unaudited)	(dollars in thousands, except per share amounts; unaudited)	Number of securities to be issued upon exercise of options	Weighted-average price of outstanding options	Number of securities remaining available for issuance under equity compensation plans ⁽¹⁾	(dollars in thousands, except per share amounts; unaudited)	Number of securities to be issued upon exercise of outstanding options
Equity compensation plan approved by stockholders	Equity compensation plan approved by stockholders	438,103	\$ 8.79	522,822	Equity compensation plan approved by stockholders	354,969 \$
Equity compensation plan not approved by shareholders	Equity compensation plan not approved by shareholders	-	-	-	Equity compensation plan not approved by shareholders	-
Total	Total	438,103	\$ 8.79	522,822	Total	354,969 \$

(1) This number has been reduced by the number of securities to be issued upon the exercise of outstanding options, also reported in this table.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

For information regarding certain relationships and related transactions, the section captioned “Other Information Relating to Directors and Executive Officers—Trans Statement for the 2023 2024 Annual Meeting of Shareholders is incorporated herein by reference.

Director Independence

For information regarding director independence, the section captioned “Corporate Governance—Director Independence” in the Company’s Proxy Statement for the herein by reference.

Item 14. Principal Accountant Fees and Services

For information regarding the principal accountant fees and expenses, the section captioned “Item 2—Ratification of Selection of Independent Registered Public Acc 2023 2024 Annual Meeting of Shareholders is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

- (1) The financial statements required in response to this item are incorporated herein by reference from Item 8 of this Report on Form 10-K.
- (2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statemen
- (3) [Exhibits](#)

No.	Description	Location
3.1	Second Amended and Restated Certificate of Incorporation of Coastal Financial Corporation	Incorporated herein by refere Exhibit 3.1 to the Company’s 225715), filed with the Comm
3.2	Articles of Amendment to the Second Amended and Restated Articles of Incorporation of Coastal Financial Corporation	Incorporated herein by refere Exhibit 3.2 to the Company’s 225715), filed with the Comm
3.3	Amended and Restated Bylaws of Coastal Financial Corporation	Incorporated herein by refere Exhibit 3.3 to the Company’s 225715), filed with the Comm
4.1*	Form of Common Stock Certificate of Coastal Financial Corporation	Incorporated herein by refere Exhibit 4.1 to the Company’s 225715), filed with the Comm
4.2	Description of Securities	Incorporated herein by refere Exhibit 4.2 to the Company’s with the Commission on Marc
4.3	Form of 3.375% Fixed-to-Floating Rate Subordinated Note due September 1, 2031	Incorporated herein by refere 001-38589), filed with the Sei
4.4	Form of 7.00% Fixed-to-Floating Rate Subordinated Note due November 1, 2032	Incorporated herein by refere 001-38589), filed with the Sei

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10.1+	2006 Stock Option and Equity Compensation Plan	Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.2+	First Amendment to the 2006 Stock Option and Equity Compensation Plan	Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.3+	Directors' Stock Bonus Plan	Incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.4+	2018 Omnibus Incentive Plan	Incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.5+	Coastal Financial Corporation Annual Incentive Plan	Incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.6+	Second Amended and Restated Employment Agreement by and among Coastal Financial Corporation, Coastal Community Bank and Eric M. Sprink dated October 4, 2021.	Incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement (File No. 333-2001-38589), filed with the Commission on
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10.7+	Amended and Restated Change in Control Severance Agreement by and among Coastal Financial Corporation, Coastal Community Bank, and Joel Edwards	Incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.8	Lease dated October 21, 1996, between certain persons and Coastal Community Bank	Incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.9	Lease Amendment 1.0 dated as of August 15, 2006, between certain persons and Coastal Community Bank	Incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.10	Lease Amendment 2.0 dated as of March 31, 2008, between certain persons and Coastal Community Bank	Incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on
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10.11	Lease Amendment 3.0 dated as of June 29, 2009, between certain persons and Coastal Community Bank	Incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement (File No. 333-225715), filed with the Commission.
10.12	Lease Amendment 4.0 dated as of January 31, 2023, between certain persons and Coastal Community Bank	Filed herewith Incorporated in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.
10.13	Investment Agreement dated as of March 30, 2011, between Coastal Financial Corporation and Steven D. Hovde	Incorporated herein by reference to Exhibit 10.13 to the Company's Registration Statement (File No. 333-225715), filed with the Commission.
10.14	First Amendment to Investment Agreement dated as of May 9, 2019, between Coastal Financial Corporation and Steven D. Hovde	Incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement (File No. 333-225715), filed with the Commission.
10.15#	Program Agreement dated as of September 26, 2019 by and between Coastal Community Bank and Aspiration Financial, LLC	Incorporated herein by reference to Exhibit 10.15 to the Company's Current Report on Form 8-K, filed with the Commission on September 26, 2019.
10.16+	Form of Change in Control Severance Agreement	Incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on January 14, 2020.
10.17+	Amended Non-Employee Director Compensation Policy	Incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement (File No. 333-225715), filed with the Commission on January 14, 2020.
10.18	Form of Subordinated Note Purchase Agreement, dated as of August 18, 2021	Incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement (File No. 333-225715), filed with the Commission on August 18, 2021.

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10.19	Form of subordinated Subordinated Note Purchase Agreement, dated as of November 1, 2022	Incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement (File No. 333-225715), filed with the Commission on November 1, 2022.
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21.1	Subsidiaries	Incorporated herein by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, and Exchange Commission
23.1	Consent of Moss Adams LLP	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.2	Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
97.1	Executive Compensation Clawback Policy	Filed herewith
101	The following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in inline XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to the Consolidated Financial Statements	Filed herewith
104	Cover Page Interactive Data (formatted as Inline XBRL and contained in Exhibit 101 filed herewith)	
<p>+ Management contract or compensatory plan, contract or arrangement.</p> <p># Portions of this exhibit have been omitted pursuant to a request for confidential treatment and the non-public information has been filed separately with the SEC.</p> <p>* Certain instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 101 of Regulation S-K. The registrant will furnish copies of these instruments to the SEC upon request.</p>		

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Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the following persons:

COASTAL FINANCIAL CORPORATION

Dated: March 15, 2023 **14, 2024**

/s/ Eric M. Sprink

Eric M. Sprink

Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities as indicated:

Name	Title
/s/ Eric M. Sprink Eric M. Sprink	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Joel G. Edwards Joel G. Edwards	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Christopher D. Adams Christopher D. Adams	Chair of the Board
/s/ Andrew P. Skotdal Andrew P. Skotdal	Vice Chair of the Board
/s/ Pamela Unger Pamela Unger	Director
/s/ Rilla Delorier Rilla Delorier	Director
/s/ Steven D. Hovde Steven D. Hovde	Director Vice Chair of the Board
/s/ Pamela R. Unger Pamela R. Unger	Director
/s/ Rilla R. Delorier Rilla R. Delorier	Director
/s/ Stephan Klee Stephan Klee	Director
/s/ Thomas D. Lane Thomas D. Lane	Director
/s/ Sadhana Akella-Mishra Sadhana Akella-Mishra	Director
/s/ Michael R. Patterson Michael R. Patterson	Director
/s/ Gregory A. Tisdell Gregory A. Tisdell	Director
/s/ Brian T. Hamilton Brian T. Hamilton	Director

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FOURTH AMENDMENT OF LEASE

This FOURTH AMENDMENT OF LEASE is made to be effective the 31st day of January, 2023 (this "Amendment"), by and between Sk company, successor in interest to Skotdal Revocable Living Trust and Arthur W. Skotdal; and MJS Everett LLC, a Washington limited liability and Irene McRory and the martial community composed thereof; and Goyette Living Trust, successor in interest to Thomas Goyette and Louis thereof (collectively, "Lessor"), and Coastal Community Bank, a Washington state chartered bank ("Lessee").

RECITALS

WHEREAS, Lessor and Lessee entered into that Lease, dated October 21, 1996 as amended by Amendment 1.0 dated August 15, 2006, Lease Amendment 3.0 dated June 29, 2009 and Letter Agreement dated March 25, 2015, (the "Lease"), wherein Lessor agreed to lease to Lessee c Premises is legally described in the Lease and primarily consists of the building located at the commonly used address of 2817 Colby Avenue the adjoining drive-thru lanes and a parking lot. The Building contains four floors and a basement. The Lease established an initial term of December 31, 2006;

WHEREAS, the parties desire to amend the Lease for the purpose of extending the term and decreasing the area of the Premises; and

WHEREAS, the parties now desire to amend the Lease upon the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration

1. Extension of Lease Term. The parties acknowledge that the Lease term currently expires on March 31, 2024. The parties hereby agree to extend the term of the Lease as provided herein, the term of the Lease shall expire on March 31, 2034. The Lease does not provide Lessee with any options to extend the term of the Lease terms shall require the parties' mutual agreement.
2. Modification of Premises. As of April 15, 2023, (a) the Premises shall consist only of the street level bank branch space on the first floor of the Building, combined containing approximately 9,489 rentable square feet (6,739 branch square feet plus 2,750 drive-thru square feet). Lessee shall surrender the remainder of the Building to Lessor in good, broom clean condition, subject to ordinary wear and tear, with all of Lessee's furniture and fixtures.

FOURTH AMENDMENT OF LEASE - 1

3. Temporary Use. Lessee shall have the right to use the breakroom area in the basement rent free from April 15, 2023 until the earlier of (a) April 15, 2024 or (b) the completion of construction of a break room in the Premises.
4. Legal Description Correction. As of April 15, 2023, the legal description of the Property shall be corrected to: "Section 19 Township 29 Range 1E D-00 - LOTS 7 & 8 TGW LOTS A & B AKA LOT 1 TUNNEL ADD. The Property is comprised of parcel number 00439166700700."
5. Lessor's Improvements. As of the Effective Date, Lessee shall allow Lessor to market the basement, second, third and fourth floors for office space improvements, provided that Lessor shall take reasonable measures not to interfere with Lessee's actual use of the basement, second, third and fourth floors.
6. Rent Adjustment. As of April 15, 2023, Lessee's monthly minimum rent obligation shall be adjusted as follows:

Time Period	Monthly Minimum Rent
April 15, 2023 to May 31, 2028	\$16,288.01
June 1, 2028 to May 31, 2029	\$17,850.80
June 1, 2029 to March 31, 2030	\$18,386.32
April 1, 2030 to March 31, 2031	\$18,937.91
April 1, 2031 to March 31, 2032	\$19,506.05
April 1, 2032 to March 31, 2033	\$20,091.23
April 1, 2033 to March 31, 2034	\$20,693.97

7. Additional Rent: Effective April 15, 2023, Section F of "Riders to Lease" shall be replaced in its entirety with the following:

F. ADDITIONAL RENT:

(a) Beginning April 15, 2023 and continuing throughout the term of this lease, the Lessee shall pay to the Lessor, as additional rent, Lessee's Share of the Operating Expenses for the Building of which the premises are a part. Within 60 days following the end of each calendar year, or as soon after such 60-day period as practicable, the Lessor shall provide Lessee with a statement of the amount of such additional rent by notice in writing addressed to Lessee at the premises and Lessor shall provide Lessee with a statement of the amount of such additional rent. Lessee shall then pay any shortfall or receive a credit for any surplus attributable to the prior year.

Lessee shall have the right to audit Lessor's files no more than once per calendar year at Lessee's sole cost and expense. In the event Lessee audits Lessor's files, Lessor shall make readily available to Lessee all of Lessor's files related to this Lease, the Property, and the Operating Expenses. The audit's outcome shall be binding on the parties.

In the event that the estimated amount of Lessee's Share of Operating Expenses has not yet been determined for any calendar year, the estimated amount determined for the preceding calendar year until the estimate for the current calendar year has been provided to Lessee. *As soon as the estimate for the current calendar year is received, Lessee shall then pay any shortfall or receive a credit for any surplus for the preceding months of the current calendar year.*

current calendar year is received, Lessee shall then pay any shortfall or receive a credit for any surplus for the preceding months of the current calendar year.

Commencing on March 1 of the year following the end of each calendar year in which Operating Expenses are calculated, and on the first day of the year following the end of each calendar year in which Operating Expenses are calculated, and on the first day of the year following the end of each calendar year in which Operating Expenses are calculated, Lessee shall pay to the Lessor an amount equal to one-twelfth of Lessee's Share of the Operating Expenses. If, for any reason other than death, disability, or other event, any such 12-month period commencing March 1, Lessee's Share of Operating Expenses shall be proportioned on the basis of which the number of days in the period bears to 365.

For purposes of this Paragraph 5(a):

(i) "Lessee's Share" of the Operating Expenses is thirty-three percent (33%) of Operating Expenses for the Property. Lessee's Share is calculated on the basis of the total square footage of the Building being used solely as storage by the Lessor or other lessees of the Building or vacant. In the event the Lessor or other lessee's use of the Building is not solely for storage, then the parties shall reduce Lessee's Share of the variable Operating Expenses in a proportionate manner. Lessee's Share shall be $\frac{28,755 \text{ square feet}}{9,489 \text{ sq ft} + 28,755 \text{ square feet}}$ until such time that Lessor or other Lessee's use of the basement and/or 4th floor is not solely for storage. At such time, the square footage of the basement and/or 4th floor used as non-storage space shall be added to the denominator and Lessee's Share shall be reduced accordingly.

(ii) "Operating Expenses" are all of Lessor's direct and indirect costs of managing, operating, maintaining and repairing the Premises, including but not limited to, wages, salaries and payroll burden of employees; janitorial, cleaning, maintenance, guard, elevator and other services; electrical, heating, ventilation and air conditioning; materials and supplies; painting, repairs and other maintenance; capital improvements; insurance; and any other expenses which may be levied or assessed against the land and building of which the premises are a part. Notwithstanding the foregoing, Lessor shall only include in the year incurred the entire amount of capital improvements (as defined under the Internal Revenue Code of 1986 as it may be amended from time to time) which do not exceed ten percent (10%) of the total Operating Expenses for any given calendar year, except if and to the extent the capital improvements are necessary for the safe and sound operation of the Building.

in the Property. If the capital improvements exceed that ten percent (10%) threshold, Lessor can include in the recoverable expenses either amortizing reimbursements for replacement of existing capital improvements in the Property spread over their useful life, which Lessee hereby acknowledges is necessary. Notwithstanding the foregoing, Lessee's Share shall not include roof replacement (as opposed to maintenance/repairs), structural consumption and janitorial service to the 2nd and 3rd floors. Lessee, at Lessee's expense, is responsible for all maintenance/repairs to the interior of the Property, including janitorial service, lighting, paint, floor, window coverings, and exterior window glass, doors and door glass.

(iii) If the occupancy of the property is less than 95% during any portion of an expense year, Lessor may make an appropriate gross-up of the Operating Expenses for that expense year, as reasonably determined by Lessor using sound accounting and management principles, to the amount that would have been incurred had the Project been 100% occupied. This amount shall be

FOURTH AMENDMENT OF LEASE - 3

considered to have been the amount of operating expenses for that expense year. For purposes of this section, "variable components" include those components affected by variations in occupancy levels, such as utility usage and janitorial services.

(iv) The parties further acknowledge that the Lease requires Lessee to pay property taxes directly to Snohomish County. As of the Effective Date of this Amendment, Lessee shall reimburse Lessor for property taxes to the extent of reimbursement as described herein. For property taxes attributable to the first half of 2023, Lessee shall pay to Lessor, on or before April 14, 2023, the amount of property taxes accruing from January 1, 2023 to April 14, 2023 plus thirty-three percent (33%) of the property taxes accruing from April 14, 2023 to July 14, 2023. Lessee shall also pay its proportionate share of the property taxes directly to Lessor as Operating Expenses.

(b) Notwithstanding anything contained in this Paragraph F, the rent payable by Lessee shall in no event be less than the minimum monthly rent established in Paragraph F(a) above.

(c) The failure of Lessor during the term of this lease to prepare and submit to Lessee notices advising Lessee of the rent adjustments made under this Paragraph F shall not in any way cause Lessor to waive, surrender or forfeit any additional rent which may become due during the term of this lease.

(d) Notwithstanding any dispute which may arise between Lessor and Lessee regarding rent adjustments under this Paragraph F, Lessee shall pay to Lessor the amount of rent provided in Paragraph 6 above plus the additional monthly rent established in Paragraph F(a) above, and the full amount of any rent adjustments made under Paragraph F, such payments being subject to adjustment, if necessary, upon final resolution of the dispute.

8. Parking. As of 4/15/2023, any right of Lessee to park on the Property shall be limited to the drive-through area only.

9. Signage. Lessee shall retain its existing signage on the Building and agrees to keep it in good working condition.

10. Remaining Provisions. All of the terms and conditions of the Lease, as amended, are hereby reaffirmed and remain in full force and effect. In the event of any conflict between the terms and conditions of this Fourth Amendment and the terms and conditions of the Lease, as previously amended, then the terms and conditions of this Fourth Amendment shall control.

11. Modification. In accordance with the terms of the Lease, as extended and amended, this Fourth Amendment cannot be altered or modified without the written consent of both parties, which consent shall be acknowledged by the parties.

12. Counterparts. This Fourth Amendment may be executed in two or more counterparts, each of which when executed and delivered to the other party shall be deemed to be an original and all of which, taken together, will be deemed to be one and the same instrument.

13. Equal Participation in Drafting and Independent Legal Counsel. The parties have each participated and had an equal opportunity to participate in the drafting of this Fourth Amendment. Any ambiguity shall be construed against any party based upon a claim that such party drafted the ambiguous language. The parties expressly

FOURTH AMENDMENT OF LEASE - 4

acknowledge that the parties have had adequate time and opportunity to seek and consult with independent legal counsel to advise them of the Amendment and the corresponding documents.

14. Authority. The undersigned parties executing this Amendment on behalf of Lessor hereby represent and warrant that such parties are authorized to enter into this Amendment on behalf of Lessor and to bind Lessor thereto.

IN WITNESS WHEREOF, this Fourth Amendment of Lease has been signed to be effective on the Effective Date.

LESSOR:

SKOTDAL BROTHERS, LLC

/s/ Andrew Skotdal

Andrew Skotdal, Member/Manager

MJS EVERETT LLC AND GOYETTE LIVING TRUST

/s/Arthur Skotdal

Arthur Skotdal, Power of Attorney

LESSEE:

COASTAL COMMUNITY BANK

/s/ Joel G. Edwards

By Joel G. Edwards,

Its EVP/CFO

FOURTH AMENDMENT OF LEASE - 5

LESSOR

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that **Andrew Skotdal** is the person who appeared before me, and said person acknowledged that said person is authorized to execute the instrument and acknowledged it as the Member and Manager of **Skotdal Brothers, LLC**, to be the free and voluntary act of such party for the uses and purposes herein stated.

GIVEN UNDER my hand and official seal this 20th day of _January, 2023.

/s/Connie L. Fisher

Print Name: Connie L. Fisher

NOTARY PUBLIC in and for the State of
Washington.

My Commission Expires: 1/29/2026

LESSOR

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that Arthur Skotdal is the person who appeared before me, and said person acknowledged that said person signed and authorized to execute the instrument and acknowledged it as the power of attorney for **MJS Everett LLC and Goyette Living Trust**, to be the free and voluntary act of said person in this instrument.

GIVEN UNDER my hand and official seal this 20th day of _January, 2023.

/s/Connie L. Fisher

Print Name: Connie L. Fisher

NOTARY PUBLIC in and for the State of

Washington.

My Commission Expires: 1/29/2026

FOURTH AMENDMENT OF LEASE - 6

LESSEE

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that Joel G. Edwards is the person who appeared before me, and said person acknowledged that said person signed and authorized to execute the instrument and acknowledged it as the authorized representative of Coastal Community Bank to be the free and voluntary act of such party for the purpose of this instrument.

GIVEN UNDER my hand and official seal this 17th day of January, 2023.

/s/ Patty L. MacDonald

Print Name: Patty L. MacDonald

NOTARY PUBLIC in and for the State of

Washington.

My Commission Expires: 02/28/2024

FOURTH AMENDMENT OF LEASE - 7

**2830 WETMORE AVENUE
PARKING AGREEMENT**

THIS PARKING AGREEMENT ("Agreement") is made and entered into this 31st day of January, 2023 by and between 2830 Wetmore LLC, a Washington limited liability company, and Coastal Community Bank, a Washington state chartered bank (hereinafter called "Coastal").

WHEREAS, 2830 Wetmore LLC is the owner of the real property (the "Property") known as 2830 Wetmore Avenue, Everett, WA which is corner lot 00439166701800 with the following legal description:

EVERETT PLAT OF BLK 667 D-00 - LGE LOT 18A and TUNNEL ADD BLK 667 D-00 - LOT C AKA LOT 2

WHEREAS, Coastal desires to utilize the 18 parking stalls on the Property for Coastal Community Bank employee and customer parking, and 18 parking stalls available on the terms and conditions set forth herein.

NOW, THEREFORE, IT IS MUTUALLY AGREED AS FOLLOWS:

- 1) **Use Rights:** 2830 Wetmore LLC hereby grants Coastal the right to use the 18 parking stalls on the Property for employee and customer parking pursuant to this Agreement, and for no other purpose during regular banking hours only, which are Monday through Friday from 8:00 AM – 6:00 PM (excluding the public). The Property and parking stalls are shown on Exhibit A attached hereto.
- 2) **Term:** The term of this Agreement shall commence on April 15, 2023 and will expire on March 31, 2034, unless earlier terminated as per the terms of this Agreement shall automatically terminate upon the expiration or earlier termination of Coastal's lease governing the premises at the adjacent property in Everett, WA.
- 3) **Redevelopment Right:** 2830 Wetmore LLC may redevelop the Property at any time during the term of this Agreement under the following terms:
 - a) 2830 Wetmore LLC will provide Coastal with no less than a ninety (90) day prior written redevelopment notice, which notice shall specify the date of redevelopment. Coastal's use of the Property shall temporarily terminate upon such commencement date.
 - b) During the redevelopment, 2830 Wetmore LLC shall provide Coastal with the right to lease up to nine (9) parking stalls located off the adjacent property to the Property and up to nine (9) additional parking stalls within a one (1) block radius at market rates, all during regular banking hours only.
 - c) Upon completion of the redevelopment, 2830 Wetmore LLC shall provide Coastal with the right to park employee and customer vehicles on the redeveloped Property at prevailing market rates during regular banking hours only. If Coastal does not initially agree to utilize all 18 parking stalls provided by 2830 Wetmore LLC, Coastal's right to the number of stalls it forgoes shall be terminated.

Coastal Parking Agreement (1-5-23 LL clean)
1 of 6 pages

The parties shall mutually agree on the initial market rates for the parking stalls in the redeveloped Property. If the parties are unable to agree, the market rates will be determined by the following arbitration process.

(i) To initiate the arbitration process, either party may give written notice to the other. Upon the giving of such notice the parties shall select a qualified appraiser. In order to be considered a qualified appraiser, the appraiser must be an MAI with a minimum of five (5) years experience in real estate appraisal types. A qualified appraiser may not have conducted nor anticipate conducting a material amount of business with either party or any of its affiliates, nor have any financial interest in either of the parties or their affiliates. If the parties are unable to agree upon a single appraiser within fifteen (15) days, the parties shall determine which of them shall within the following ten (10) days provide to the other the names and qualifications of three qualified appraisers. Each party shall select in writing one of the three appraisers from the list. The appraiser so selected shall be the arbitrator for determining the fair market value of the parking stalls and shall share equally the cost of the appraiser.

(ii) Within fifteen (15) days following the selection of the appraiser, the parties shall each notify the other in writing (but not the appraiser) of their determination of the value of the parking stalls. Within seven (7) days of the expiration of the fifteen (15) day period, the parties shall each prepare a written determination of the market rental value. At the end of the seven (7) day period, each party's initial determinations of the market rental value, as originally submitted and each party's critiques of the other's determination shall be submitted to the appraiser. Within fifteen (15) days after submittal, the appraiser shall determine if the market rental value is correct. If the appraiser is unable to decide that either party's determination is correct, then the appraiser shall determine a market rental value, which must be a value between each party's determinations. The market rental value that the appraiser selects or determines shall be the market rental value. Absent clear error, the appraiser's decision shall be final, conclusive, and binding on the parties.

(iii) Notwithstanding the foregoing, the rate for the parking stalls is subject to annual market rate change as reasonably determined by the parties.

- 4) **Use:** Coastal shall use the Property for parking only. 2830 Wetmore LLC, at 2830 Wetmore LLC's expense, shall be responsible for cleaning and responsible for policing the Property during regular banking hours.
- 5) **Use Fee:** Coastal covenants and agrees to pay a market rate monthly parking fee, in advance, currently in the amount \$2,700.00 (\$150.00 per month) not be prorated for any partial month.
- 6) **Utilities:** N/A
- 7) **Surrender of Property:** Upon termination of this Agreement, Coastal shall remove its vehicles from the Property and return such area to 2830 Wetmore LLC in the same condition as on the Effective Date, ordinary wear and tear excepted and damage, wear, and tear caused by parties other than Coastal excepted.
- Coastal Parking Agreement (1-5-23 LL clean)
2 of 6 pages

- 8) **Assignment:** Coastal shall not assign its rights under this Agreement without the written consent of 2830 Wetmore LLC, which may not be given. This Agreement shall not be assignable by operation of law. Any assignment in violation of this provision shall be void and of no effect.
- 9) **Accidents, Liability and Insurance:** 2830 Wetmore LLC shall not be liable for any injury or damage to persons or property sustained by Coastal during the term of this Agreement except if and to the extent caused by the gross negligence or willful misconduct of 2830 Wetmore LLC. Coastal shall indemnify 2830 Wetmore LLC from and against any and all liabilities, damages, costs, and expenses, including reasonable attorneys' fees (collectively, "Claims"), arising out of or in connection with the regular business hours by Coastal, its agents, customers, employees, sub lessees, contractors, guests, invitees or licensees. Coastal's indemnification obligations under this Section shall survive the expiration or termination of this Agreement.
- Coastal shall maintain at all times during this Agreement a policy or policies of commercial general liability insurance, auto liability insurance, and workers' compensation insurance covering the Property in industry standard coverage amounts reasonably acceptable to 2830 Wetmore LLC. Coastal's policy shall name 2830 Wetmore LLC as additional insured. Prior to the commencement date, Coastal shall provide 2830 Wetmore LLC with a certificate of insurance confirming the existence of such insurance.
- 10) **Costs and Attorney's Fees; Governing Law; Venue:** If, by reason of any default or breach on the part of either party in the performance of this Agreement, a legal action is instituted, the losing party agrees to pay to the prevailing party all reasonable costs and attorney's fees incurred by the prevailing party. This Agreement shall be governed by the law of the State of Washington, without reference to the principles of conflicts of laws. It is agreed that the venue for any such action shall lie exclusively with the Snohomish County Superior Court.
- 11) **No Waiver of Covenants:** The covenants and agreements contained in this Agreement are personal to the parties hereunder and shall not be waived by any action or inaction of either party.
- 12) **Enforcement:** No action to enforce the rights granted herein may be brought by any third party whatsoever except 2830 Wetmore LLC, or Coastal.
- 13) **Notice:** Any notice required to be given by either party to the other shall be personally delivered, or deposited in the United States mail, first class, return receipt requested, addressed to

If to 2830 Wetmore LLC at:

2830 Wetmore LLC
P.O. Box 5267
Everett, WA 98206

Or to Coastal Community Bank at:
Coastal Parking Agreement (1-5-23 LL clean)
3 of 6 pages

C/o CFO
5415 Evergreen Way
Everett, WA 98203

14) **Time is of the Essence of this Agreement.**

15) **Survival:** If any provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or the application of such term or provision to persons whose circumstances are other than those as to which it is held invalid or unenforceable

16) **Recording:** This Agreement shall not be recorded.

17) **Authority.** The undersigned parties executing this Amendment on behalf of 2830 Wetmore LLC hereby represent and warrant that 2830 Wetmore LLC Property and the undersigned are authorized to enter into this Agreement on behalf of 2830 Wetmore LLC and to bind 2830 Wetmore LLC to the terms and conditions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first stated above.

2830 Wetmore LLC: Coastal Community Bank:

By: /s/Andrew Skotdal By: /s/ Joel G. Edwards

Its: Member Its: EVP/CFO

Coastal Parking Agreement (1-5-23 LL clean)
4 of 6 pages

LESSOR

STATE OF WASHINGTON)
) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that **Andrew Skotdal** is the person who appeared before me, and said person acknowledged that said person signed this instrument as the Member and Manager of **2830 Wetmore LLC**, to be the free and voluntary act of such party for the uses and purposes herein stated.

GIVEN UNDER my hand and official seal this 21st day of January, 2023.

/s/ Connie L. Fisher

Print Name: Connie L. Fisher

NOTARY PUBLIC in and for the State of
Washington.
My Commission Expires: 01-29-2026

LESSEE

STATE OF WASHINGTON)

) ss.
COUNTY OF SNOHOMISH)

I certify that I know or have satisfactory evidence that Joel G. Edwards is the person who appeared before me, and said person acknowledged that said person signed and authorized to execute the instrument and acknowledged it as the authorized representative of Coastal Community Bank to be the free and voluntary act of such party for the

GIVEN UNDER my hand and official seal this 17th day of January, 2023.

/s/ Patty L. MacDonald

Print Name: Patty L. MacDonald

NOTARY PUBLIC in and for the State of
Washington.
My Commission Expires: 02/28/2024

Coastal Parking Agreement (1-5-23 LL clean)
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EXHIBIT A

Coastal Parking Agreement (1-5-23 LL clean)
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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-255210) 333-255210 and Form S-8 (No. 333-256646) 333-226318 of Coastal Financial Corporation (the Company), of our report dated March 15, 2023 March 15, 2024, relating to the Company and the effectiveness of internal control over financial reporting of the Company, which report expresses an unqualified opinion on the consolidated financial statements of the Company and the effectiveness of internal control over financial reporting of the Company, which report expresses an unqualified opinion on the consolidated financial statements and the effectiveness of internal control over financial reporting and includes an explanatory paragraph relating to the Codification Topic 326, *Financial Instruments – Credit Losses*, appearing in this Annual Report on Form 10-K of the Company for the year ended

/s/ Moss Adams LLP

Everett, Washington
March 15, 2023 2024

CERTIFICATION PURSUANT TO

**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Eric M. Sprink, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coastal Financial Corporation;
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, 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 of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(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 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 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 fourth fiscal quarter that affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's audit 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 affect the reliability of financial reporting, or the process of summarizing and reporting 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.

Dated: March 15, 2023 14, 2024

/s/ Eric M. Sprink

Eric M. Sprink
Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joel G. Edwards, certify that:

1. I have reviewed this Annual Report on Form 10-K of Coastal Financial Corporation;
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, 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 of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's audit directors (or persons performing the equivalent functions):

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure 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 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 fourth fiscal quarter that affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's audit committee (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 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.

Dated: March 15, 2023 14, 2024

/s/ Joel G. Edwards

Joel G. Edwards

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 Annual Report of Coastal Financial Corporation (the "Company") on Form 10-K for the year ending December 31, 2022 December 31, 2023, as of the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: March 15, 2023 14, 2024

/s/ Eric M. Sprink

Eric M. Sprink

Chief Executive 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 Annual Report of Coastal Financial Corporation (the "Company") on Form 10-K for the year ending December 31, 2022 December 31, 2023, as of the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Coastal Community Bank

Version: #3.0

1. Purpose

2. Applicability and Effective Date

3. Compensation Recovery in the Event of an Accounting Restatement

4. Compensation Recovery in the Event of Misconduct

In the event the Board determines that an Executive Officers engaged in Misconduct (as defined below), the Board, to the extent permitted by applicable law, may, in its discretion, take such action as it deems appropriate under the circumstances to require any such Executive Officers to forfeit or reimburse the Company for some or all of the Covered Compensation of such officer reasonably promptly.

5. Policy Procedures

Due Process Rights

Before the Board determines whether any Executive Officers engaged in Misconduct, it shall provide to the applicable Executive Officers written notice and Board (which may be in-person or telephonic, as determined by the Board).

Method of Repayment; Conditions for Non-Recovery

The Board shall have discretion to determine the appropriate means of recovery of Excess Compensation and Covered Compensation, which may include, from the Executive Officers, recovery over time, cancellation of outstanding awards, the reduction of future pay and/or awards, and/or any other method which achieve reasonably prompt recovery of Excess Compensation and Covered Compensation. At the direction of the Board, the Company shall take all action to recover such Excess Compensation and Covered Compensation from any applicable Executive Officers, and such Executive Officers shall be required to reimburse the Company (including legal fees) by the Company in recovering such Excess Compensation and Covered Compensation in accordance with this Policy. Any recovery in addition to any other remedies that may be available under

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applicable law, including termination of employment, and application of this Policy shall not affect the Company's ability to pursue any and all available rights. The Committee may determine that repayment of Excess Compensation (or a portion thereof) is not required only where it determines that recovery would be impracticable under the circumstances exists: (i) the direct expense paid to a third party to assist in enforcing this Policy would exceed the amount to be recovered, provided the Company can recover such Excess Compensation, (B) documented such reasonable attempt, and (C) provided such documentation to Nasdaq; or (ii) recovery would likely be impracticable under the plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a).

No Fault Application; No Indemnification

Recovery of Excess Compensation under this Policy in the event of an Accounting Restatement is on a "no fault" basis, meaning that it will occur regardless of whether the Executive Officer was directly or indirectly responsible, in whole or in part, for the Accounting Restatement. No Executive Officers may be indemnified for losses arising from the application of this Policy.

6. Administration, Amendment and Termination

This Policy will be enforced and, if applicable, appropriate proxy disclosures and exhibit filings will be made in accordance with the Applicable Rules and any other applicable law. The Board shall have authority to (i) exercise all of the powers granted to it under the Policy, (ii) construe, interpret, and implement this Policy, and (iii) make any amendments to this Policy.

In addition, the Board may amend this Policy, from time to time in its discretion, and shall amend this Policy, as it deems necessary, including to reflect changes in applicable law. The Board may terminate this Policy at any time. Any such amendment (or provision thereof) or termination shall not be effective if such amendment or termination account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate the Applicable Rules.

In the event of any conflict or inconsistency between this Policy and any other policies, plans, or other materials of the Company (including any agreement or understanding with Executive Officers subject to this Policy), this Policy will govern.

This Policy will be deemed to be automatically updated to incorporate any requirement of the Applicable Rules and any other applicable law.

7. Definitions

For the purposes of this Policy, the following definitions will apply:

"Accounting Restatement" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirements required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements or to previously issued financial statements but would result in a material misstatement if the error were corrected in the current period or left uncorrected in subsequent periods.

Changes to financial statements that do not constitute an Accounting Restatement include retroactive: (i) application of a change from one generally accepted accounting principle; (ii) revisions to reportable segment information due to a change in internal organization; (iii) reclassification of assets or liabilities; (iv) a change in reporting entity, such as from a reorganization of entities under common control; (v) adjustments to provisional amounts in connection with the adoption of new accounting standards; and (vi) revisions for stock splits, reverse stock splits, stock dividends, or other changes in capital structure.

“Covered Compensation” means all bonuses and other incentive and equity compensation awarded to each of the Company’s Executive Officers, that was calculated based wholly or in part on the application of objective performance criteria.

“Excess Compensation” means any amount of Incentive-Based Compensation received by an Executive Officer after commencement of service as Incentive-Based Compensation that otherwise would have been received had it been determined based on the Accounting Restatement, computed with Compensation based on stock price or total shareholder return, where the amount to be recovered is not subject to mathematical recalculation directly Restatement, the amount to be recovered shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total Company shall retain documentation of the determination of such estimate and provide such documentation to Nasdaq if so required by the Applicable deemed received during the fiscal year during which the applicable financial reporting measure, stock price and/or total shareholder return measure, unless even if the grant or payment occurs after the end of such period.

“Executive Officer” means an individual who is, or was during the Look-Back Period, an executive officer of the Company within the meaning of Rule

“Incentive-Based Compensation” means any compensation that is granted, earned or vested based wholly or in part on stock price, total shareholder financial reporting measure(s) that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial that are derived in whole or in part from such measures.

Compensation that does not constitute “Incentive-Based Compensation” includes equity incentive awards for which the grant is not contingent upon a performance goal for an individual to receive such award and that vest exclusively upon completion of a specified employment period, without any performance discretionary or based on subjective goals or goals unrelated to financial reporting measures.

“Misconduct” means any fraudulent behavior or intentional illegal conduct. Determinations of Misconduct will be made by the Board in its sole and absolute

8. Change Management

Version	Description of Changes
1.0	Original Creation of Document
2.0	Convert to new policy template
3.0	Update to reflect Nasdaq Rule 5608, Recovery of Erroneously Awarded Compensation

Appendix A:

Coastal Financial Corporation
Executive Compensation Clawback Policy

ACKNOWLEDGMENT

The undersigned acknowledges and agrees that the undersigned (i) is, and will be, subject to the Executive Compensation Clawback Policy to which this acknowledgement is attached (“Policy”) and (ii) will abide by the terms of the Policy, including by returning Excess Compensation pursuant to whatever method the Board of Directors determines is advisable. Compensation, as prescribed under the Policy.

Capitalized terms used but not defined have the meanings set forth in the Policy.

Print Name

Signature

Dated:

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DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIAL STATEMENTS. THE REPORT DOES NOT GUARANTEE THE ACCURACY OF THE INFORMATION. MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES ARE THE RESPONSIBILITY OF THE USER. REFINITIV AND ITS AFFILIATED COMPANIES ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION CONTAINED IN THE REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISION.

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