

Report of Independent Auditors and  
Consolidated Financial Statements

**Liberty Northwest Bancorp, Inc.**

December 31, 2025 and 2024



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## **Report of Independent Auditors**

The Board of Directors and Shareholders of  
Liberty Northwest Bancorp, Inc. and Subsidiary

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Liberty Northwest Bancorp, Inc., and Subsidiary which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Liberty Northwest Bancorp, Inc. and Subsidiary as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Liberty Northwest Bancorp, Inc., and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Liberty Northwest Bancorp, Inc., and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Liberty Northwest Bancorp, Inc., and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Liberty Northwest Bancorp, Inc., and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Baker Tilly US, LLP*

Everett, Washington

March 19, 2026

## **Consolidated Financial Statements**

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**Liberty Northwest Bancorp, Inc.**  
**Consolidated Balance Sheets**  
**(Dollars in Thousands, Except Share Data)**  
**December 31, 2025 and 2024**

	2025	2024
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$ 3,745	\$ 1,655
Overnight funds	15,679	9,161
Total cash and cash equivalents	19,424	10,816
INTEREST-BEARING DEPOSITS WITH OTHER FINANCIAL INSTITUTIONS	7,236	5,180
INVESTMENT SECURITIES AVAILABLE FOR SALE, at fair value (amortized cost of \$5,250 and \$8,935 at December 31, 2025 and 2024, respectively)	5,527	8,360
INVESTMENT SECURITIES HELD TO MATURITY, at amortized cost (fair value of \$0 and \$10,210 at December 31, 2025 and 2024, respectively)	-	12,226
FEDERAL HOME LOAN BANK STOCK, at cost	900	1,079
LOANS	156,928	142,719
Less allowance for credit losses	1,327	1,158
Total loans, net	155,601	141,561
PREMISES AND EQUIPMENT, net	5,876	6,100
ACCRUED INTEREST RECEIVABLE	714	681
OTHER ASSETS	1,289	881
Total assets	\$ 196,567	\$ 186,884
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
DEPOSITS		
Noninterest-bearing	\$ 39,968	\$ 35,845
Interest-bearing	119,369	109,988
Total deposits	159,337	145,833
BORROWED FUNDS	22,492	26,461
ACCRUED INTEREST PAYABLE	269	173
OTHER LIABILITIES	1,290	286
Total liabilities	183,388	172,753
STOCKHOLDERS' EQUITY		
Class A Non-Cumulative Convertible Preferred stock, \$0 par value; 32,675 shares authorized; 32,675 shares issued and outstanding at December 31, 2025 and December 31, 2024	-	-
Common stock, \$1 par value, 50,000,000 shares authorized; 1,674,259 shares issued and outstanding at December 31, 2025 and 2024, respectively	1,662	1,656
Additional paid-in capital	14,473	14,391
Accumulated deficit	(2,030)	(1,490)
Accumulated other comprehensive income (loss)	(926)	(426)
Total stockholders' equity	13,179	14,131
Total liabilities and shareholders' equity	\$ 196,567	\$ 186,884

See accompanying notes.

**Liberty Northwest Bancorp, Inc.**  
**Consolidated Statements of Income**  
**(Dollars in Thousands, Except Share Data)**  
**Years Ended December 31, 2025 and 2024**

	2025	2024
<b>INTEREST AND FEE INCOME</b>		
Loans, including fees	\$ 8,649	\$ 7,807
Investment securities	252	461
Interest-bearing deposits with other financial institutions and overnight funds	896	365
Total interest and fee income	9,797	8,633
<b>INTEREST EXPENSE</b>		
Deposits	3,778	3,298
Borrowed funds	1,040	1,226
Total interest expense	4,818	4,524
<b>NET INTEREST INCOME</b>	4,979	4,109
<b>PROVISION (BENEFIT) FOR CREDIT LOSSES</b>	172	(265)
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>	4,807	4,374
<b>NONINTEREST INCOME</b>		
Service charges on deposits	114	111
Debit and credit card interchange income, net	78	61
Loss on sale of investment securities	(1,144)	-
Other income	589	130
Total noninterest income	(363)	302
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	2,833	2,596
Occupancy and equipment	360	427
Data processing	643	627
Advertising and business development	38	83
Professional and regulatory	545	343
Other expenses	709	596
Total noninterest expense	5,128	4,672
<b>NET (LOSS) INCOME BEFORE PROVISION FOR INCOME TAXES</b>	(684)	4
<b>(BENEFIT) PROVISION FOR INCOME TAXES</b>	(144)	1
<b>NET (LOSS) INCOME</b>	\$ (540)	\$ 3

See accompanying notes.

**Liberty Northwest Bancorp, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(Dollars in Thousands, Except Share Data)**  
**Years Ended December 31, 2025 and 2024**

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	2025	2024
NET (LOSS) INCOME	\$ (540)	\$ 3
Other comprehensive (loss) income		
Unrealized holding (loss) gain on securities available for sale	(1,547)	78
Reclassification for realized loss on sale	1,144	-
Tax effect on securities available for sale	84	(16)
Amortization of net unrealized holding gain from securities transferred to held to maturity	72	15
Unrealized (loss) gain on effective cash flow hedges	(321)	272
Tax effect on effective cash flow hedges	68	(57)
Other comprehensive (loss) income, net	(500)	292
COMPREHENSIVE (LOSS) INCOME	\$ (1,040)	\$ 295

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See accompanying notes.

**Liberty Northwest Bancorp, Inc.**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**(Dollars in Thousands, Except Share Data)**  
**Years Ended December 31, 2025 and 2024**

	Class A Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
BALANCE, December 31, 2023	-	\$ -	1,674,259	\$ 1,650	\$ 13,108	\$ (1,493)	\$ (718)	\$ 12,547
Net income (loss)	-	-	-	-	-	3	-	3
Issuance of Class A Preferred stock	32,675	-	-	-	1,211	-	-	1,211
Vesting of restricted stock	-	-	-	6	(6)	-	-	-
Other comprehensive income (loss), net	-	-	-	-	-	-	292	292
Stock-based compensation	-	-	-	-	78	-	-	78
BALANCE, December 31, 2024	32,675	-	1,674,259	1,656	14,391	(1,490)	(426)	14,131
Net income (loss)	-	-	-	-	-	(540)	-	(540)
Vesting of restricted stock	-	-	-	6	(6)	-	-	-
Other comprehensive income (loss), net	-	-	-	-	-	-	(500)	(500)
Stock-based compensation	-	-	-	-	88	-	-	88
BALANCE, December 31, 2025	32,675	\$ -	1,674,259	\$ 1,662	\$ 14,473	\$ (2,030)	\$ (926)	\$ 13,179

See accompanying notes.

**Liberty Northwest Bancorp, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Dollars in Thousands, Except Share Data)**  
**Years Ended December 31, 2025 and 2024**

	2025	2024
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (540)	\$ 3
Adjustments to reconcile net income to net cash from operating activities		
Provision (benefit) for credit losses	172	(265)
Depreciation and amortization	235	243
Deferred expense for income taxes	(139)	6
Net amortization of investment security premium and discount	80	43
Loss on sale of investments available for sale	1,144	-
Amortization of sub-debt issuance costs	31	31
Stock-based compensation	88	78
Changes in operating assets and liabilities		
Accrued interest receivable	(33)	84
Other assets	(269)	278
Accrued interest payable	96	(162)
Other liabilities	751	(50)
Net cash provided by operating activities	<u>1,616</u>	<u>289</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in interest-bearing deposits with other financial institutions	(2,056)	(1,644)
Activity in securities available for sale		
Maturities, repayments, and calls	860	1,259
Purchases	(500)	-
Sales	12,559	-
Activity in securities held to maturity		
Maturities, repayments, and calls	669	1,236
Redemption of Federal Home Loan Bank stock	179	139
Loan payments (originations), net	(14,212)	1,488
(Purchase) disposal of premises and equipment, net	(11)	26
Net cash provided by (used in) investing activities	<u>(2,512)</u>	<u>2,504</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	13,504	3,635
Repayments of term Federal Home Loan Bank advances	(4,000)	(1,000)
Proceeds from issuance of Class A preferred stock, net	-	1,211
Proceeds (repayments) from revolving Federal Home Loan Bank advances, net	-	(2,000)
Net cash (used in) provided by financing activities	<u>9,504</u>	<u>1,846</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>8,608</b>	<b>4,639</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>10,816</b>	<b>6,177</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b><u>\$ 19,424</u></b>	<b><u>\$ 10,816</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the year for interest	<u>\$ 4,722</u>	<u>\$ 4,677</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH ITEMS</b>		
Unrealized (loss) gain on securities available for sale	<u>\$ (1,547)</u>	<u>\$ 78</u>
Unrealized (loss) gain on cash flow hedges	<u>\$ (321)</u>	<u>\$ 272</u>
Transfer of securities held to maturity to available for sale	<u>\$ 11,629</u>	<u>\$ -</u>

See accompanying notes.

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands, Except Share Data)**

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**Note 1 – Organization and Summary of Significant Accounting Policies**

**Nature of operations** – Liberty Northwest Bancorp, Inc. (the Company), is a bank holding company whose wholly owned subsidiary is Liberty Bank (the Bank). The Bank provides a full range of banking services to individual and corporate customers through its headquarters in Poulsbo, Washington. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are commercial real estate loans, residential real estate loans, and commercial loans. The Bank is subject to significant competition from other financial institutions. The Bank is also subject to the regulations of certain federal and state of Washington agencies and undergoes periodic examinations by those regulatory authorities.

**Financial statement presentation and use of estimates** – The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, as of the date of the balance sheet, and revenues and expenses for the year. Actual results could differ from estimated amounts. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, fair value of financial instruments, and deferred tax assets. All dollar amounts are stated in thousands.

**Principles of consolidation** – The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts have been eliminated in consolidation.

**Subsequent events** – Subsequent events are events or transactions that occur after the date of the balance sheet, but before consolidated financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing consolidated financial statements. Unrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 19, 2026, the date the consolidated financial statements were available to be issued.

**Cash and cash equivalents** – For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, overnight funds, and federal funds sold, all with original maturities of three months or less. Generally, federal funds are purchased and sold for one-day periods. The amounts on deposit fluctuate and, at times, exceed the insured limit by the Federal Deposit Insurance Corporation (FDIC), which potentially subjects the Bank to credit risk. Overnight funds include federal funds purchased and are made with major banks as approved by the board of directors.

**Interest-bearing deposits with other financial institutions** – Interest-bearing deposits with other financial institutions include interest-bearing deposits and certificates of deposit in federally insured financial institutions located throughout the United States. The amounts on deposit fluctuate and, at times, exceed the insured limit by the FDIC, which potentially subjects the Bank to credit risk.

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands, Except Share Data)**

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**Investments** – Investment debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive (loss) income, net of tax.

Interest income includes amortization of any purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, 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.

**Allowance for credit losses on held-to-maturity securities** – For held-to-maturity debt securities, the Bank analyzes the portfolio based on a collective (pool) basis when similar risk characteristics exist and establishes a valuation account that is deducted from the securities' amortized cost basis to present the net amount expected to be collected. Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts.

**Allowance for credit losses on available-for-sale securities** – For available-for-sale securities in an unrealized loss position, management first assesses whether it intends to sell, or is more likely than not to be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss (ACL) is recorded for the credit loss through the (benefit) provision for credit losses, limited by the amount that the fair value is less than the amortized cost basis.

For held-to-maturity and available-for-sale debt securities, changes in the ACL are recorded as a provision (benefit) for credit loss expense. Investments are charged against the allowance when management believes the uncollectibility of a security is confirmed or, for available for sale, when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on debt securities is not included in the estimate of credit losses.

**Federal Home Loan Bank stock** – The Bank is a member of the Federal Home Loan Bank (FHLB) of Des Moines. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock, based on specified percentages of its outstanding FHLB advances. The Bank's investment in FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value (\$100 per share).

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
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The Bank evaluates FHLB stock for impairment. The determination of whether this investment is impaired is based on the Bank's assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The Bank has determined that there is no impairment of the FHLB stock investment as of December 31, 2025 or 2024.

**Loans** – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding principal adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably ensured.

**Significant group concentrations of credit risk** – Most of the Bank's business activity is with customers located within Kitsap County, Washington. The Bank originates commercial, real estate, construction, and consumer loans. Generally, loans are secured by accounts receivable, inventory, deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Although the Bank has a diversified loan portfolio, local economic conditions may affect borrowers' ability to meet the stated repayment terms.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. Commercial credit was granted primarily to commercial borrowers. The Bank, as a matter of policy, does not extend credit in excess of 20% of unimpaired capital and surplus to any single borrower or group of related borrowers.

**Allowance for credit losses on loans** – The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and recoveries are credited to the allowance when received. In the case of recoveries, amounts may not exceed the aggregate of amounts previously charged off.

Management utilizes relevant available information, from internal and external sources, relating to past events, current conditions, historical loss experience, and reasonable and supportable forecasts.

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands, Except Share Data)**

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Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in the current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. As an accounting policy election, accrued interest receivable is excluded from the estimate of credit losses for loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has segmented the portfolio based on traditional loan portfolio types and measures the allowance for credit losses using the Scaled CECL Allowance for Losses Estimator model (SCALE). The SCALE methodology was developed by the Federal Reserve and uses publicly available data from Schedule RI-C of the Call Report to derive proxy expected lifetime loss rates to calculate the allowance for credit losses. The Bank adjusts the proxy expected lifetime loss rates when appropriate for Bank-specific facts and circumstances.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs. When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

**Allowance for credit losses on off-balance-sheet credit exposures** – The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance-sheet credit exposure is adjusted through a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The estimate utilizes the same factors and assumptions as the allowance for credit losses on loans and is applied at the same collective cohort level.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the financial statements.

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands, Except Share Data)**

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**Transfers of financial assets** – Transfers of an entire financial asset, a group of entire financial assets, or participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Premises and equipment** – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets. Gains or losses on dispositions are reflected in earnings. Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the assets are reduced with an offsetting charge to expense.

**Foreclosed assets** – Foreclosed assets include real estate and personal property acquired through foreclosure and in-substance foreclosed properties. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed property is recorded at the fair value less cost to sell, which becomes the property's new basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management and foreclosed property is carried at the lower of the new cost basis or fair value less costs to sell. Costs incurred in maintaining foreclosed property and subsequent adjustments to the carrying amount of the property are included in noninterest expense.

**Derivative instruments and hedging** – The Bank enters into derivative interest rate swap agreements to hedge interest rate exposure. At the inception of the swap agreement, the Bank designates the derivative as one of the two types based on the Bank's intentions and belief as to the likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge) and (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

**Liberty Northwest Bancorp, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Dollars in Thousands, Except Share Data)**

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Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. The Bank formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

**Preferred Stock** – The Company had 67,325 and 17,325 shares of serial preferred stock authorized but unissued as of December 31, 2024 and 2025, respectively.

**Class A Non-Cumulative Convertible Preferred Stock** – On June 21, 2024, the Company adopted a resolution authorizing 32,675 shares of unissued Preferred stock to Class A non-cumulative convertible preferred stock (“the Class A preferred stock”). The preferred stock has a liquidation preference over the Bank's common stock and holds both optional and mandatory conversion features. The stock converts at a rate of five shares of common stock for each share of the Class A preferred stock at any time upon written request of the stockholders. The stock also holds a mandatory conversion feature at the same conversion rate as noted above. The mandatory conversion feature is triggered by (i) the closing of an initial public offering at a price not less than \$38 per share, or (ii) upon the written consent of the holders of 100% the Class A preferred stock, (iii), on April 30, 2026.

The Class A preferred stock are considered participating securities that may participate in undistributed earnings with common stock on an as-converted basis. Voting rights of the preferred stock are equal to the number of shares of common stock into which the shares of preferred stock held are convertible on an as-converted basis. If and when dividend payments declared by the Board of Directors on common stock, such payments will be made to Class A preferred stockholders on an as-converted basis.

**Series A Participating Preferred Stock** – On August 29, 2025, the Company adopted a Preferred Stock Rights Agreement (the rights agreement), establishing the preferred stock rights plan which is designed to ensure the fair treatment of stockholders in connection with any take-over bid for the Company, and provide the Board of Directors with time to pursue, if appropriate, other alternatives to maximize stockholder value in the event of a future unsolicited take-over bid.

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Upon adoption of the rights agreement, the Company reclassified 50,000 shares of authorized but unissued preferred stock of the Company and designated the shares as Series A Participating Preferred Stock (Series A Stock), which remained unissued as of December 31, 2025. The rights agreement authorized and declared a dividend to stockholders on record as of September 26, 2025 of one preferred stock purchase right (preferred right) for each share of common stock outstanding. Each preferred right represents the right to exercise the option to purchase one one-hundredth of a share of Series A Stock, which have preferential voting rights to other share classes. The preferred rights can only be exercised upon triggering events defined in the rights agreement to limit an unsolicited take-over attempt, and expire on August 31, 2027.

**Income taxes** – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Bank evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company does not have any uncertain tax positions as of December 31, 2025 and 2024. The Company's policy is to recognize tax related interest and penalties in income tax expense.

**Financial instruments** – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, standby letters of credit, and financial guarantees. Such financial instruments are recorded in the consolidated financial statements when they are funded, or related fees are incurred or received.

**Advertising costs** – The Bank expenses advertising costs as they are incurred. Total advertising expenses were \$38 and \$83 in 2025 and 2024, respectively.

**Comprehensive income (loss)** – Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investments, are reported as a separate component of the equity section of the consolidated balance sheets. Reclassification adjustments during December 31, 2025 and 2024, are included within the consolidated statements of comprehensive income (loss).

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**Stock-based compensation** – The Bank has a stock-based compensation plan for employees that includes stock options and restricted stock, which are recognized as stock-based compensation expense in the consolidated statements of income based on the grant-date fair value of the award with a corresponding increase in common stock. The fair value is amortized over the requisite service period, which is generally the vesting period. The fair value at the grant date is determined using the Black–Scholes pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock, the expected dividend yield, and the risk-free interest rate over the expected life of the option. The Black–Scholes option valuation model requires the input of subjective assumptions, including the expected life of the share-based award and stock price volatility. The assumptions used represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment.

**Fair value measurements** – Fair value measurements are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risks, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

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**Note 2 – Investments**

Securities have been classified as available for sale according to management’s intent. The amortized cost of securities and their approximate fair value are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2025</b>				
Available for sale				
U.S. treasuries	\$ 500	\$ -	\$ -	\$ 500
Mortgage-backed securities	3,448	-	(505)	2,943
Collateralized mortgage obligation securities	1,803	-	(265)	1,538
Municipal bonds	753	-	(207)	546
	<u>\$ 6,504</u>	<u>\$ -</u>	<u>\$ (977)</u>	<u>\$ 5,527</u>
<b>December 31, 2024</b>				
Available for sale				
U.S. treasuries	\$ 2,993	\$ -	\$ (170)	\$ 2,823
Mortgage-backed securities	5,945	7	(415)	5,537
	<u>\$ 8,938</u>	<u>\$ 7</u>	<u>\$ (585)</u>	<u>\$ 8,360</u>
Held to maturity				
Mortgage-backed securities	\$ 4,185	\$ -	\$ (688)	\$ 3,497
Collateralized mortgage obligation securities	6,785	-	(995)	5,790
Municipal bonds	1,256	-	(333)	923
	<u>\$ 12,226</u>	<u>\$ -</u>	<u>\$ (2,016)</u>	<u>\$ 10,210</u>

There was no allowance for credit losses on securities available for sale at December 31, 2025 and 2024.

During 2025, the Company reclassified all securities held-to-maturity to available-for-sale. The book value at time of transfer was \$11,629.

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The amortized cost and estimated fair value of investment securities at December 31, 2025, by contractual or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in 1 to 5 years	\$ 500	\$ 500
Due after 5 to 10 years	753	546
Due after 10 years	5,251	4,481
Total investment securities	\$ 6,504	\$ 5,527

As of December 31, 2025, securities with a carrying value of \$6,495 were pledged to secure public deposits. As of December 31, 2024, securities with a carrying value of \$672 were pledged to secure borrowings at the FHLB and securities with a carrying value of \$6,044 were pledged to secure public deposits.

During the year ended December 31, 2025, the Bank sold 25 investment securities, respectively, for gross proceeds of \$12,559 and a loss of \$1,144. There were no securities sold in 2024.

At December 31, 2025 and 2024, the total portfolio had 9 and 45 securities, respectively, that were in an unrealized loss position, with 9 and 43, respectively, in a loss position for more than 12 months. The Bank has evaluated these securities and has determined that the decline in value is temporary and is related to the change in market interest rates since purchase. The decline in value is not related to any bank- or industry-specific event. The Bank does not intend to sell and does not anticipate being required to sell these securities in the near term, and the Bank anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

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Information pertaining to investment securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows at December 31:

	Less Than 12 Months		Over 12 Months		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
<b>December 31, 2025</b>					
Securities available for sale					
U.S. treasuries	\$ -	\$ -	\$ -	\$ 500	\$ -
Mortgage-backed securities	-	-	505	2,943	505
Collateralized mortgage obligation securities	-	-	265	1,538	265
Municipal bonds	-	-	207	546	207
Total securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 977</u>	<u>\$ 5,527</u>	<u>\$ 977</u>
<b>December 31, 2024</b>					
Securities available for sale					
U.S. treasuries	\$ 2	\$ 724	\$ 168	\$ 2,823	\$ 170
Mortgage-backed securities	-	-	453	5,537	453
Total securities	<u>\$ 2</u>	<u>\$ 724</u>	<u>\$ 621</u>	<u>\$ 8,360</u>	<u>\$ 623</u>
Held to maturity					
Mortgage-backed securities	\$ -	\$ -	\$ 688	\$ 3,497	\$ 688
Collateralized mortgage obligation securities	-	-	995	5,790	995
Municipal bonds	-	-	333	923	333
Total held	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,016</u>	<u>\$ 10,210</u>	<u>\$ 2,016</u>

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

The major classifications of loans at December 31 are as follows:

	2025	2024
Commercial real estate	\$ 46,785	\$ 48,292
Commercial	29,207	23,132
Construction and land	4,352	4,570
Consumer	19,368	8,737
Residential real estate	<u>56,765</u>	<u>57,993</u>
Gross loans	156,477	142,724
Deferred fees, net	(270)	(305)
Premiums on purchased loans, net	721	300
Allowance for credit losses	<u>(1,327)</u>	<u>(1,158)</u>
Total loans, net	<u>\$ 155,601</u>	<u>\$ 141,561</u>

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The Bank pledged certain commercial and residential loans as collateral for purposes of borrowings with the FHLB. Loans totaling \$78,555 and \$76,690 were pledged to the FHLB at December 31, 2025 and 2024, respectively (Note 7).

Certain tables are required to be presented at amortized cost; however, for the years ended December 31, 2025 and 2024, the difference between amortized cost and unpaid principal balance is immaterial and therefore the applicable tables below reflect unpaid principal balances.

**Allowance for credit losses** – The Bank has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses expected in the Company’s portfolio. For purposes of determining the allowance for credit losses, the Company segments certain loans in its portfolio by product type.

The following tables present, by portfolio segment, the changes in the allowance for credit losses for the years ended December 31 and the amount of loans evaluated for impairment individually and collectively:

	Commercial Real Estate	Commercial	Construction and Land	Consumer	Residential Real Estate	Total
<b>2025</b>						
Allowance						
Balance, beginning of the period	\$ 489	\$ 149	\$ 62	\$ 171	\$ 287	\$ 1,158
Charge-offs	-	-	-	(3)	-	(3)
Recoveries	-	-	-	-	-	-
Provision (benefit)	(24)	15	(3)	179	5	172
Balance, end of the period	<u>\$ 465</u>	<u>\$ 164</u>	<u>\$ 59</u>	<u>\$ 347</u>	<u>\$ 292</u>	<u>\$ 1,327</u>
<b>2024</b>						
Allowance						
Balance, beginning of the period	\$ 501	\$ 105	\$ 70	\$ 197	\$ 277	\$ 1,150
Charge-offs	-	-	-	(24)	-	(24)
Recoveries	-	297	-	-	-	297
Provision (benefit)	(12)	(253)	(8)	(2)	10	(265)
Balance, end of the period	<u>\$ 489</u>	<u>\$ 149</u>	<u>\$ 62</u>	<u>\$ 171</u>	<u>\$ 287</u>	<u>\$ 1,158</u>

**Credit quality indicator** – Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful, or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

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When the Bank classifies problem assets as either substandard or doubtful, it may establish a specific allowance to address the risk specifically or the Bank may allow the loss to be addressed in the general allowance. General allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose the Bank to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are designated as either watch or special mention assets. At December 31, 2025 or 2024, the Bank had no loans classified as doubtful or loss.

The following tables represent the credit risk profile by internally assigned grade and performing status as of December 31, 2025 and 2024, by class of loans:

**Credit Risk Profile by Internally Assigned Grade**

	Commercial Real Estate	Commercial	Construction and Land	Consumer	Residential Real Estate	Total
<b>2025</b>						
Grade						
Pass	\$ 45,017	\$ 29,207	\$ 4,352	\$ 19,368	\$ 56,765	\$ 154,709
Watch	1,533	-	-	-	-	1,533
Special mention	-	-	-	-	-	-
Substandard	235	-	-	-	-	235
Doubtful	-	-	-	-	-	-
	<u>\$ 46,785</u>	<u>\$ 29,207</u>	<u>\$ 4,352</u>	<u>\$ 19,368</u>	<u>\$ 56,765</u>	<u>\$ 156,477</u>
<b>2024</b>						
Grade						
Pass	\$ 46,531	\$ 23,132	\$ 4,570	\$ 8,712	\$ 57,993	\$ 140,938
Watch	1,526	-	-	-	-	1,526
Special mention	-	-	-	25	-	25
Substandard	235	-	-	-	-	235
Doubtful	-	-	-	-	-	-
	<u>\$ 48,292</u>	<u>\$ 23,132</u>	<u>\$ 4,570</u>	<u>\$ 8,737</u>	<u>\$ 57,993</u>	<u>\$ 142,724</u>

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**Past-due loans receivable by class** – The following table includes an aging analysis of the outstanding amortized cost and principal balance of past-due loans receivable as of December 31, 2025 and 2024:

<b>2025</b>	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ 46,785	\$ 46,785
Commercial	-	-	-	-	29,207	29,207
Construction and land	-	-	-	-	4,352	4,352
Consumer	-	-	-	-	19,368	19,368
Residential real estate	-	-	-	-	56,765	56,765
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,477</u>	<u>\$ 156,477</u>
<b>2024</b>						
Commercial real estate	\$ -	\$ -	\$ -	\$ -	\$ 48,292	\$ 48,292
Commercial	-	-	-	-	23,132	23,132
Construction and land	-	-	-	-	4,570	4,570
Consumer	-	-	-	-	8,737	8,737
Residential real estate	-	-	-	-	57,993	57,993
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,724</u>	<u>\$ 142,724</u>

**Nonaccrual loans** – Additionally, the Bank categorizes loans as performing or nonperforming based on payment activity. Loans that are more than 90 days past due and nonaccrual loans are considered nonperforming.

As of December 31, 2025 and 2024, the Bank had one loan on nonaccrual status. The loan was also collateral dependent. The amortized cost of the loan as of December 31, 2025, was \$235, and the residential real estate collateral value exceeded carrying amount.

**Loan modifications** – The Bank may agree to modify the contractual terms of a loan to a borrower experiencing financial difficulties as part of ongoing loss mitigation strategies. These modifications may result in principal forgiveness, other-than-significant payment delay, term extension, interest rate modification, or a combination thereof. During the years ended December 31, 2025 and 2024, there were no loans modified to borrowers experiencing financial difficulty.

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**Note 4 – Premises and Equipment**

Bank land, leaseholds, and equipment at December 31 are classified as follows:

	<u>2025</u>	<u>2024</u>
Land	\$ 673	\$ 673
Building	5,477	5,477
Furniture, fixtures, and office equipment	622	767
Vehicles	<u>32</u>	<u>32</u>
Total premises and equipment	6,804	6,949
Less accumulated depreciation and amortization	<u>(928)</u>	<u>(849)</u>
Premises and equipment, net	<u><u>\$ 5,876</u></u>	<u><u>\$ 6,100</u></u>

**Note 6 – Deposits**

Deposits as of December 31 consisted of the following:

	<u>2025</u>	<u>2024</u>
Savings accounts	\$ 9,112	\$ 8,288
Certificates of deposit	40,502	39,345
Demand accounts		
Noninterest-bearing	39,968	35,845
Interest-bearing	44,245	42,200
Money market accounts	<u>25,510</u>	<u>20,155</u>
	<u><u>\$ 159,337</u></u>	<u><u>\$ 145,833</u></u>

At December 31, scheduled maturities of certificates of deposit are as follows:

2026	\$ 38,946
2027	960
2028	373
2029	220
2030	<u>3</u>
Total	<u><u>\$ 40,502</u></u>

The Bank had \$21,817 and \$21,214 of certificates of deposit that met or exceeded the \$250,000 federally insured limit at December 31, 2025 and 2024, respectively. As of December 31, 2025, the Bank held \$10,000 with the the State of Washington that are secured with pledged securities with a carrying value of \$6,495.

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**Note 7 – Credit Arrangements**

**Line of credit** – At December 31, 2025, committed line-of-credit agreements totaling approximately \$12,000 were available to the Bank from unaffiliated banks, subject to interest at then-current rates. Such lines generally provide for interest at the lending bank’s prime rate or other money market rates. These arrangements require total combined compensating balances of at least \$485 maintained in a demand deposit account. The compensating balance is included in cash and cash equivalents. There was no balance on the line-of-credit agreements at December 31, 2025 and 2024.

**FHLB borrowings** – The Bank is a member of the FHLB of Des Moines and has a committed credit line to borrow funds under fixed-rate advance agreements and through overnight borrowings that renew daily until paid. The terms of the credit line call for pledging of certain investments held in safekeeping by the FHLB and a portion of the Bank’s mortgage and commercial loan portfolio. The maximum borrowing line with the FHLB is calculated as a percentage of pledged collateral, depending on the collateral type. The total available credit line was \$37,854 and \$47,802 at December 31, 2025 and 2024, respectively. The market value of collateral pledged at December 31, 2025 and 2024, was approximately \$78,555 and \$74,945, respectively. As of December 31, 2025, the Bank had \$17,000 of short-term advances and \$500 of long-term advances outstanding with the FHLB, with fixed interest rates ranging from 3.7% and 4.0%, and a weighted average interest rate of 3.9% as of December 31, 2025. At December 31, 2024, the Bank had \$20,000 of short-term advances and \$1,500 of long-term advances outstanding with the FHLB, with fixed interest rates ranging from 3.1% and 4.62%, and a weighted average interest rate of 4.45% as of December 31, 2024.

The contractual maturities of long-term FHLB advances at December 31, 2025, are as follows:

2026	\$	-
2027		500
		<hr/>
Total	\$	<u>500</u>

**Subordinated notes** – In March 2021, the Company issued four unsecured subordinated term notes (the Subordinated Notes) in the aggregate principal amount of \$5,000 due April 1, 2031 (maturity date), pursuant to Subordinated Loan Agreements with various investors. The Subordinated Notes bear interest at an annual fixed interest rate of 5.50% until April 1, 2026, and floating from April 2, 2026, until maturity at the 90-day average secured overnight financing rate (SOFR) plus 5.00%, payable by the Company quarterly in arrears beginning January 1, April 1, July 1, and October 1 of each year. The notes are presented net of \$39 in debt issuance costs on the consolidated balance sheets.

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**Note 8 – Derivatives and Hedging Activity**

The Bank is exposed to certain risks arising from both its business operations and economic conditions. The Bank principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Bank manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities, and through the use of derivative financial instruments. During 2023, the Bank entered into four derivative financial instruments to manage exposures from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Bank's derivative financial instruments are used as part of the Bank's asset and liability management strategy with the overall goal of minimizing the impact of interest rate volatility. The Bank's objective in using interest rate derivatives is to manage its exposure to interest rate movements. To accomplish this objective, the Bank primarily uses interest rate swaps. The Bank does not use derivatives for trading or speculative purposes.

**Fair value hedges of interest rate risk** – To hedge the risk of fixed interest rates offered to the Bank's loan customers, the Bank entered into pay-fixed, receive-variable swap contracts, designated as fair value hedges, and are carried at fair value as derivative assets and liabilities in the Bank's consolidated financial statements. The change in the fair value of derivatives designated and that qualify as fair value hedges is recorded in interest and fees on loans on the consolidated statements of income. The change in fair value of the hedged instrument related to hedged risk is recorded in interest and fees on loans on the consolidated statements of income.

**Cash flow hedges of interest rate risk** – To hedge the risk for variable rates associated with the repricing of short-term borrowings, the Bank entered in to pay-fixed, receive-variable interest rate swap contracts, designated as cash flow hedges, and are carried at fair value as derivative assets and liabilities in the Bank's consolidated financial statements. The change in fair value of derivatives designated and that qualify as cash flow hedges is recorded as an unrealized gain or loss in other comprehensive income and is reclassified to the interest expense section of the consolidated statements of income, as the interest on the borrowings is recognized in earnings.

The Bank tests for hedge effectiveness at inception using a quantitative regression methodology. Subsequent prospective and retrospective tests are qualitative. In addition, the Bank verifies that it is probable that the counterparty will not default as part of its need to consider possibility of counterparty default.

The following table summarizes information pertaining to the interest rate contract terms as of December 31, 2025:

Derivative Positions	Notional Amount Current	Notional Amount Original	Inception Date	Termination Date	Index	Interest Rate	
						Receive Variable	Pay Fixed
Designated cash flow hedges							
Interest rate contract on borrowings	\$ 10,000	\$ 10,000	31-Mar-23	31-Mar-28	USD-SOFR	3.870%	3.498%
Interest rate contract on borrowings	6,000	6,000	15-Nov-23	15-Nov-28	USD-SOFR	3.870%	4.170%
Designated fair value hedges							
Interest rate contract on loans receivable	\$ 10,898	\$ 17,606	19-Apr-23	20-Apr-30	USD-SOFR	3.870%	3.715%
Interest rate contract on loans receivable	6,133	8,000	09-Aug-23	09-Aug-28	USD-SOFR	3.870%	4.077%

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The following table presents the total gross fair value of the Bank's derivative financial instruments, as well as their classification on the consolidated balance sheets, as of December 31:

	Balance Sheet Location	December 31, 2025		December 31, 2024	
		Fair Value		Fair Value	
		Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments					
Cash flow hedges					
Interest rate contracts on borrowings	Other liabilities	\$ -	\$ (196)	\$ -	\$ -
	Other assets	-	-	161	(35)
Fair value hedges					
Interest rate contracts on loans receivable	Other liabilities	\$ -	\$ (193)	\$ -	\$ -
	Other assets	-	-	106	(9)

The following table presents the net gain (loss) recognized on the consolidated statements of income related to the derivatives designated as fair value hedges for the years ended December 31:

	2025 Interest Income and Fees on Loans	2024 Interest Income and Fees on Loans
Total interest and fees on loans line item presented in the consolidated statements of operations in which the effects are recorded	\$ 8,649	\$ 7,807
Gain (loss) on fair value hedge relationships related to Interest rate swaps on loans receivable		
Hedged items	\$ 290	\$ (217)
Derivatives designated hedging instruments	\$ (290)	\$ 217
Net interest and fees recognized on fair value hedges	\$ 80	\$ 300

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of fair value hedge accounting that is included in the carrying amount of the hedged loans as of December 31:

	2025		2024	
	Carrying Value	Cumulative Fair Value Adjustment	Carrying Value	Cumulative Fair Value Adjustment
Line item in the consolidated balance sheet in which the hedged item is included				
Loans, net	\$ 33,069	\$ 193	\$ 35,349	\$ (97)

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**Note 9 – Income Taxes**

Provision for income tax expense consists of the following for the years ended December 31:

	<u>2025</u>	<u>2024</u>
Current	\$ (5)	\$ (5)
Deferred	<u>(139)</u>	<u>6</u>
Total tax (benefit) expense	<u>\$ (144)</u>	<u>\$ 1</u>

The nature and components of the Bank's net deferred tax asset at December 31 are as follows:

	<u>2025</u>	<u>2024</u>
Deferred tax assets		
Net operating loss carryforward	\$ 340	\$ 269
Organization expenditures	3	3
Other, net	13	9
Unrealized loss on securities	205	121
Allowance for credit losses	194	157
Cash flow hedge	<u>41</u>	<u>-</u>
Subtotal	<u>796</u>	<u>559</u>
Deferred tax liabilities		
Cash basis method of accounting	137	100
Deferred costs	29	28
Property and equipment depreciation	22	87
Cash flow hedge	<u>-</u>	<u>27</u>
Subtotal	<u>188</u>	<u>242</u>
Net deferred tax asset	<u>\$ 608</u>	<u>\$ 317</u>

A valuation allowance is required for deferred tax assets if, based on available evidence, it is more likely than not that all or some portion of the asset will not be realized due to the inability to generate sufficient taxable income to use the benefit of the deferred tax asset. After evaluating the positive and negative evidence associated with the deferred tax asset, including the consideration of the Bank's earnings history over the recent three-year period, and projections, the Bank determined that the deferred tax asset could be supported at December 31, 2025 and 2024.

At December 31, 2025, the Bank has approximately \$1.6 million of federal net operating loss carryforwards remaining. The federal net operating losses do not expire and will offset 80% of taxable income each year until fully utilized.

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Federal tax law imposes limitations on the utilization of net operating losses and credit carryforwards in the event of an ownership change for tax purposes, as defined in Section 382 of the Internal Revenue Code. Accordingly, the Company's ability to utilize these carryforwards may be limited as a result of an ownership change, which may have already happened or may happen in the future. Such an ownership change could result in a limitation in the use of the net operating losses in future years and possibly a reduction of the net operating losses available.

The Bank files income tax returns in the U.S. federal jurisdiction. In general, the Bank is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2022.

**Note 10 – Employee Benefit Plans**

The Bank has a 401(k) defined contribution plan for those employees who meet the eligibility requirements. Individuals who are 21 years of age and have completed three consecutive months of service are considered eligible to participate. Eligible employees can contribute up to an amount or percentage of compensation not to exceed certain limits based on federal tax laws. In addition, the Bank has elected discretionary contributions under the 401(k) plan. Contributions vest at 20% per year after the first year and will be fully vested after six years of service. There were no discretionary contributions for the years ended December 31, 2025 and 2024.

**Note 11 – Stock-Based Compensation**

In 2020, shareholders approved the Liberty Bank 2020 Equity Incentive plan (the 2020 Plan), which permits the grant of incentive stock options, nonqualified stock options, and restricted stock awards to certain key employees and directors, at the discretion of the Board Governance Committee of the Bank. The 2020 Plan authorized the Bank to grant up to an initial 48,610 shares of common stock, subject to change through an annual review by the Board, provided the total number of shares available for issuance under the 2020 Plan, when added to awards currently outstanding, do not exceed the lesser of 15% of currently outstanding shares, or 650,000. The 2020 Plan limits the grant of restricted shares to 45% of the authorized shares. The Bank believes that such awards better align the interests of its employees with those of its shareholders. Restricted stock is granted at the fair value on date of grant, and option awards are generally granted with an exercise price equal to or greater than the market price of the Bank's stock at the date of grant; those option awards generally vest and become exercisable in incremental percentages over five years of continuous service from the grant date and expire after 10 years.

The fair value of each option award is estimated on the date of grant using the Black–Scholes–Merton valuation model that uses the assumptions noted in the following table. Expected volatilities are based on historical volatility of the Bank's stock and other factors. The expected term of options granted was evaluated by a calculation that factored in the contractual term and vesting period and considered different employee segments. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Bank did not grant options in 2024 or 2025

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A summary of stock option transactions is presented below:

	Granted Options for Common Stock	Weighted-Average Exercise Price of Shares Under Plan	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2024	\$ 178,200	\$ 6.63	8.54
Granted	-	-	-
Exercised	-	-	-
Expired	(12,000)	6.60	-
Forfeited	-	-	-
Outstanding at December 31, 2025	<u>\$ 166,200</u>	<u>\$ 6.63</u>	<u>5.97</u>
Options exercisable at December 31, 2025	<u>\$ 100,720</u>	<u>\$ 6.97</u>	<u>4.93</u>

**Restricted stock grants** – A summary of nonvested restricted stock grants activity is presented below:

	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at December 31, 2024	18,000	\$ 6.78
Granted	-	-
Vested	(6,000)	-
Forfeited	-	-
Nonvested at December 31, 2025	<u>12,000</u>	<u>\$ 6.78</u>

At December 31, 2025 and 2024, there was approximately \$155 and \$226 of total unrecognized compensation cost related to share-based compensation arrangements, respectively. The cost is expected to be recognized over a period of approximately three years.

**Note 12 – Regulatory Capital**

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

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Common equity Tier 1, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2025 and 2024, that the Company and Bank meet all capital adequacy requirements to which it is subject.

As of December 31, 2025, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, Common equity Tier 1, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Company's consolidated assets are less than \$1 billion at the beginning of the year; therefore, consolidated ratios are not required to be disclosed.

The Bank's actual capital amounts and ratios as of December 31 are also presented in the table:

	Actual		For Capital Adequacy Purposes		For Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2025</b>								
Total capital								
(to risk-weighted assets)	\$ 19,570	14.10%	\$ 11,101	8.00%	\$ 14,570	10.50%	\$ 13,876	10.00%
Tier 1 capital								
(to risk-weighted assets)	18,233	13.14%	8,326	6.00%	11,795	8.50%	11,101	8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	18,233	13.14%	6,244	4.50%	9,713	7.00%	9,019	6.50%
Tier 1 capital								
(to average assets)	18,233	9.10%	5,550	4.00%	N/A		10,022	5.00%
<b>As of December 31, 2024</b>								
Total capital								
(to risk-weighted assets)	\$ 19,533	15.81%	\$ 9,886	8.00%	\$ 12,975	10.50%	\$ 12,357	10.00%
Tier 1 capital								
(to risk-weighted assets)	18,365	14.87%	7,414	6.00%	10,504	8.50%	9,886	8.00%
Common equity Tier 1 capital								
(to risk-weighted assets)	18,365	14.87%	5,561	4.50%	8,650	7.00%	8,032	6.50%
Tier 1 capital								
(to average assets)	18,365	9.98%	7,359	4.00%	N/A		9,199	5.00%

Banking regulations limit the transfer of assets in the form of dividends from the Bank to its shareholders. Dividends may also be subject to approval by regulators depending upon the financial condition of the Bank.

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The amended rules also established a “capital conservation buffer” of 2.5% above the new regulatory minimum capital ratios and resulted in the following phased-in minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 capital ratio of 8.5%; and (iii) total capital repurchase, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations established a maximum percentage of eligible retained income that could be utilized for such actions. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

**Note 13 – Related-party Transactions**

Certain directors, executive officers, and principal shareholders are Bank customers and have had banking transactions with the Bank. All loans and commitments included in such transactions were made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectability or present any other unfavorable features. There was no activity of related-party loans through December 31, 2025 and 2024, respectively. There were \$3,677 and \$2,190 in related-party deposits at December 31, 2025 and 2024, respectively.

**Note 14 – Commitments and Contingencies**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of these instruments reflect the extent of the Bank’s involvement in particular classes of financial instruments.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

**Commitments to extend credit, standby letters of credit, and financial guarantees** – 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 fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates customers’ creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable; inventory; property, plant, and equipment; income-producing commercial properties; and other real estate.

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Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. The Bank maintains various levels of collateral supporting those commitments for which collateral is deemed necessary.

The Bank has not been required to perform on any financial guarantees. The Bank has not incurred any losses on its commitments in 2025 or 2024.

A summary of the notional amounts of the Bank's financial instruments with off-balance-sheet risk at December 31 follows:

	2025	2024
Commitments to extend credit		
Real estate secured	\$ 8,837	\$ 9,328
Commercial real estate, construction, and land development	4,729	1,818
Commercial loans	4,430	3,122
Other	242	251
Total commitments to extend credit	\$ 18,238	\$ 14,519

**Contingencies** – At periodic intervals, the state of Washington and the FDIC routinely examine the Bank's consolidated financial statements as part of their legally prescribed oversight of the banking system. Based on these examinations, the regulators can direct that the Bank's consolidated financial statements be adjusted in accordance with their findings.

Various legal claims also arise from time to time in the normal course of business that, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

**Note 15 – Fair Value Measurements**

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 on the measurement date. The accounting guidance establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. In determining fair value, the Bank maximizes the use of observable inputs and minimizes the use of unobservable inputs.

Observable inputs are those assumptions that market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of the Bank.

Unobservable inputs are assumptions based on the Bank's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date.

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There is a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

**Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2** – Either (i) quoted prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.

**Level 3** – Unobservable inputs.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

There were no transfers between levels during the years ended December 31, 2025 and 2024.

**Qualitative disclosures of valuation techniques**

**Securities available for sale** – Where quoted prices are available in an active market, securities are classified as Level 1. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury, and exchange-traded equity securities. If quoted prices are not available, management determines fair value using pricing models, quoted prices of similar securities, or discounted cash flows. Such instruments are classified as Level 2. In certain cases, where there is limited activity in the market for particular instruments, assumptions must be made to determine their fair value. Such instruments are classified as Level 3.

**Interest rate swaps** – The Bank enters into interest rate swap contracts to allow the Bank to convert fixed rate loans and borrowings to variable rate loans and borrowings as part of the Bank's asset and liability management strategy with the overall goal of minimizing the impact of interest rate volatility. The Bank receives interest at variable rates based on the SOFR. At December 31, 2025 and 2024, the Bank had \$33,032 and \$36,347, respectively, of notional value in interest rate swaps which measures the fair value of the interest rate swap based on the overnight index swap (OIS) discount curve, and, therefore, is considered a Level 2 input for the purpose of determining fair value.

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**Assets and liabilities measured at fair value on a recurring basis** – Assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly, or quarterly).

The following table presents the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2025 and 2024:

	Level 1	Level 2	Level 3	Total
<b>2025</b>				
Assets				
Securities available for sale				
U.S. treasuries	\$ -	\$ 500	\$ -	\$ 500
Mortgage-backed securities	-	2,943	-	2,943
Collateralized mortgage obligation securities	-	1,538	-	1,538
Municipal bonds	-	546	-	546
Hedged loans	-	33,069	-	33,069
	<u>-\$ -</u>	<u>\$ 38,596</u>	<u>\$ -</u>	<u>\$ 38,596</u>
Total assets				
	<u>\$ -</u>	<u>\$ 38,596</u>	<u>\$ -</u>	<u>\$ 38,596</u>
Liabilities				
Interest rate swaps	<u>\$ -</u>	<u>\$ 389</u>	<u>\$ -</u>	<u>\$ 389</u>
<b>2024</b>				
Assets				
Securities available for sale				
U.S. treasuries	\$ -	\$ 2,823	\$ -	\$ 2,823
Mortgage-backed securities	-	5,537	-	5,537
Hedged loans	-	35,349	-	35,349
Interest rate swaps	-	223	-	223
	<u>\$ -</u>	<u>\$ 43,932</u>	<u>\$ -</u>	<u>\$ 43,932</u>
Total assets				
	<u>\$ -</u>	<u>\$ 43,932</u>	<u>\$ -</u>	<u>\$ 43,932</u>

**Assets measured at fair value on a nonrecurring basis** – Assets are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheets. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. There were no assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2025 and 2024.

Fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment; therefore, they are not necessarily indicative of the amounts the Bank could realize in a current market exchange. The Bank has not included certain material items in its disclosure, such as the value of the long-term relationships with the Bank's lending and deposit clients, because this is an intangible and not a financial instrument. Additionally, the estimates do not include any tax ramifications. There may be inherent weaknesses in any calculation technique and changes in the underlying assumptions used, including discount rates and estimates of future cash flows that could materially affect the results. For all these reasons, the aggregation of the fair value calculations presented herein does not represent, and should not be construed to represent, the underlying value of the Bank.

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**Note 16 – Accumulated Other Comprehensive Income (Loss)**

The following table discloses the changes in accumulated other comprehensive income (loss) by component, net of tax, for the two years ended December 31, 2025:

	Net Unrealized Gain (Loss) on Securities Available for Sale	Net Unrealized Holding gain (loss) from securities transferred to held to maturity	Net Unrealized Gain (Loss) on Cash Flow Hedges	Total
Balance, December 31, 2023	\$ (516)	\$ (87)	\$ (115)	\$ (718)
Other comprehensive income (loss) before reclassification	62	-	215	277
Amounts reclassified from accumulated other comprehensive income (loss)	-	15	-	15
Net current period other comprehensive income (loss)	62	15	215	292
Balance, December 31, 2024	<u>\$ (454)</u>	<u>\$ (72)</u>	<u>\$ 100</u>	<u>\$ (426)</u>
Other comprehensive income (loss) before reclassification	(1,223)	-	(253)	(1,476)
Amounts reclassified from accumulated other comprehensive income (loss)	904	72	-	976
Net current period other comprehensive income (loss)	(319)	72	(253)	(500)
Balance, December 31, 2025	<u>\$ (773)</u>	<u>\$ -</u>	<u>\$ (153)</u>	<u>\$ (926)</u>

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