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## NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

**TO BE HELD Thursday, October 1, 2020**

We are pleased to notify you of and invite you to a Special Meeting of Shareholders of Liberty Bank. The meeting will be held virtually **on Thursday, October 1, 2020 at 3:00 p.m.**, local time, to consider and act upon the following matters:

1. To approve the Reorganization Agreement and Plan of Share Exchange (the “Reorganization Plan”), dated June 25, 2020 to reorganize Liberty Bank to become a subsidiary of Liberty Northwest Bancorp, Inc.; and
2. To approve the Liberty Bank 2020 Equity Incentive Plan.

Due to the continuing public health impact of the coronavirus outbreak (COVID-19) and restrictions on public gatherings, the meeting will be held virtually. Shareholders will not be able to physically attend the special shareholder’s meeting.

The record date for the Special Meeting is August 28, 2020. Only shareholders of record at the close of business on that date can vote at the meeting. In order to complete the Reorganization, two-thirds (2/3) of the outstanding Bank common stock must be voted in favor of the Reorganization.

Richard C. Darrow, CEO  
Poulsbo, Washington  
August 28, 2020

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## **EXHIBITS**

<b>Exhibit A</b>	Reorganization Agreement and Plan of Share Exchange, dated June 25, 2020 between Liberty Bank and Liberty Northwest Bancorp, Inc.
<b>Exhibit B</b>	Articles of Incorporation of Liberty Northwest Bancorp, Inc.
<b>Exhibit C</b>	Articles of Incorporation and Articles of Amendment of Liberty Bank
<b>Exhibit D</b>	Dissenters' Rights Provisions and Washington Commercial Bank Act applicable statutes
<b>Exhibit E</b>	Activities Permissible for a Bank Holding Company (12 CFR § 225.28)
<b>Exhibit F</b>	Liberty Bank 2020 Equity Incentive Plan

**LIBERTY BANK**  
**19917 7th Ave NE, Poulsbo, WA 98370**

**PROXY STATEMENT**

**FOR THE SPECIAL MEETING OF SHAREHOLDERS**  
**To Be Held October 1, 2020**

The board of directors of Liberty Bank (referred to herein as the “Bank,” “we,” “us” or the “Company”) solicits your proxy to vote at the Special Meeting of Shareholders (the “Special Meeting”) to be held on October 1, 2020, beginning at 3:00 p.m., and at any adjournments or postponements thereof. This proxy statement is first being released to shareholders by the Bank on or about September 1, 2020.

**MATTERS TO BE CONSIDERED**

1. To approve the Reorganization Agreement and Plan of Share Exchange (the “Reorganization Plan”), dated June 25, 2020 to reorganize Liberty Bank to become a subsidiary of Liberty Northwest Bancorp, Inc.; and
2. To approve the Liberty Bank 2020 Equity Incentive Plan.



## **QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE SPECIAL MEETING**

**1. Q: Why am I receiving these materials?**

A: We are furnishing the enclosed Notice of Special Meeting of Shareholders, proxy statement and proxy card to you, and to all shareholders of record as of the close of business on August 28, 2020, because the board of directors of the Bank is soliciting your proxy to vote at the Special Meeting and at any adjournment or postponement thereof.

**2. Q: When and where is the Special Meeting?**

A: Due to the continuing public health impact of the coronavirus outbreak (COVID-19) and restrictions on public gatherings, the Special Meeting of Shareholders of Liberty Bank (the “Bank”) will be held via a virtual shareholder meeting on October 1, 2020 at 3:00 p.m. Shareholders wishing to participate may use the following instructions to join the meeting:

To Join the Zoom Meeting:

<https://libertybanknw.zoom.us>

Meeting ID: 879 2944 9599

Password: 431986

If you are not able to access via computer, you may use the following Dial-In Number: 1 253 215 8782 US (Tacoma).

**3. Q: Who can attend the Special Meeting?**

A: Only shareholders who own shares of Liberty common stock as of the close of business on August 28, 2020, the record date, will be entitled to attend the Special Meeting.

**4. Q: What should I do if I receive more than one set of proxy materials?**

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account. If you are a shareholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please vote each proxy card and voting instruction card that you receive.

**5. Q: What is the difference between holding shares as a record holder versus a beneficial owner?**

A: Many Bank shareholders hold their shares through a broker or other nominee rather than directly in their own name. There are some distinctions between shares held of record and those owned beneficially:

*Record Holders:* If your shares are registered directly in your name or with our transfer agent, Transfer Online, you are considered, with respect to those shares, the shareholder of record or record holder. As the shareholder of record, you have the right to grant your voting proxy directly to the Bank or to vote at the Special Meeting. We have enclosed a proxy card for you to use.

*Beneficial Owner:* If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you automatically, along with a voting instruction card from your broker, bank or nominee. As a beneficial owner, you have the right to direct your broker, bank or nominee how to vote and are also invited to attend the Special Meeting. Since a beneficial owner is not the shareholder of record, you may not vote these shares at the meeting unless you obtain a “legal proxy” from the broker, bank or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, bank or nominee has enclosed or provided voting instructions for you to use in directing how to vote your shares. If you do not provide specific voting instructions by the deadline set forth in the materials you receive from your broker, bank or other nominee, your broker, bank or nominee can vote your shares with respect to “discretionary” items, but not with respect to “non-discretionary” items. Approval of the Reorganization Plan and approval of the Liberty Bank 2020 Equity Incentive Plan are considered “non-discretionary items”. For non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. See Question 11 below for more information about broker non-votes.

**6. Q: Who can vote and how do I vote?**

A: Only holders of our common stock at the close of business on August 28, 2020, the record date, will be entitled to notice of and to vote at the Special Meeting. To ensure that your vote is recorded promptly, please vote as soon as possible. Most shareholders have two options for submitting their votes:

- by mail, using the paper proxy card;
- through the Internet, using the procedures and instructions as described on the proxy card.

For further instructions on voting, see your proxy card. If you vote by proxy using the paper proxy card or through the Internet, the shares represented by the proxy will be voted in accordance with your instructions.

**7. Q: What are my voting choices, and how many votes are required for approval?**

A: The Reorganization Plan requires the affirmative vote of two-thirds (2/3) of the outstanding shares to be approved. Shareholders may vote FOR, AGAINST, or ABSTAIN from voting on the Reorganization Plan.

**The board of directors recommends a vote FOR approval of the Reorganization Plan.**

Approval of the Liberty Bank 2020 Equity Incentive Plan requires the affirmative vote of a majority of the outstanding shares entitled to vote on the proposal to be approved. Shareholders may vote FOR, AGAINST, or ABSTAIN from voting on the proposal.

**The board of directors recommends a vote FOR the approval of the Liberty Bank 2020 Equity Incentive Plan.**

**8. Q: What is the effect of an “abstain” vote on the proposals to be voted on at the Special Meeting?**

A: An “abstain” vote with respect to any proposal is considered present and entitled to vote with respect to that proposal, but is not considered a vote cast with respect to that proposal. Approval of the Reorganization Plan requires the affirmative vote of two-thirds (2/3) of the outstanding shares entitled to vote on the proposal and approval of the Liberty Bank 2020 Equity Incentive Plan requires the affirmative vote of a majority of the outstanding shares and entitled to vote on the proposals in order to pass, therefore an abstention will have the effect of a vote against approval of the Reorganization Plan and against the Liberty Bank 2020 Equity Incentive Plan.

**9. Q: What is the effect of a “broker non-vote” on the proposals to be voted on at the Special Meeting?**

A: A “broker non-vote” occurs if your shares are not registered in your name and you do not provide the record holder of your shares (usually a bank, broker, or other nominee) with voting instructions on a matter and the record holder is not permitted to vote on the matter without instructions from you under applicable rules.

Because the affirmative vote of the holders of two-thirds (2/3) of the outstanding common stock of the Bank entitled to vote on the Reorganization is required to approve the Reorganization Plan, and the affirmative vote of a majority of the shares entitled to vote on the Liberty Bank 2020 Equity Incentive Plan is required to approve the Liberty Bank 2020 Equity Incentive Plan, if you do not instruct your broker how to vote, it will have the same effect as if you voted AGAINST the Reorganization Plan and AGAINST the Equity Incentive Plan.

Approval of the Plan of Reorganization and Liberty Bank 2020 Equity Incentive Plan are not considered discretionary items. Therefore, if you do not provide instructions to the record holder of your shares with respect to the Plan of Reorganization or approval of the Equity Incentive Plan, broker non-votes will result with respect thereto.

**10. Q: Revocation of proxy: May I change my vote after I return my proxy?**

A: Yes, you may revoke your proxy if you are a record holder by:

- filing written notice of revocation with the Bank’s corporate secretary at our principal executive offices at 19917 7th Ave NE, Poulsbo, WA 98370;

- signing a proxy bearing a later date than the proxy being revoked and submitting it to the Bank's corporate secretary at our principal executive offices at 19917 7th Ave NE, Poulsbo, WA 98370; or
- voting at the Special Meeting.

If your shares are held in street name through a broker, bank, or other nominee, you need to contact the record holder of your shares regarding how to revoke your proxy.

**11. Q: What if I sign and return a proxy card but do not specify a choice for a matter when returning the proxy?**

- A. Unless you indicate otherwise, the persons named as proxies on the proxy card will vote your shares FOR the approval of the Reorganization Plan; and FOR the approval of the Liberty Bank 2020 Equity Incentive Plan.

**12. Q: What constitutes a quorum?**

- A: Presence at the Special Meeting by proxy of the holders of a majority of the voting power of the issued and outstanding shares of the Bank's common stock entitled to vote at the Special Meeting will constitute a quorum, permitting the Special Meeting to proceed and business to be conducted. Proxies received but marked as abstentions or broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting for purposes of determining whether a quorum is present.

**13. Q: Who will pay the costs of soliciting these proxies?**

- A: Liberty Bank and Liberty Northwest Bancorp, Inc. (referred to herein as "Liberty Northwest Bancorp") will share the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy card and any additional information furnished to shareholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding shares of common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of common stock for their reasonable costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies may be supplemented by electronic means, mail, facsimile, telephone or personal solicitation by our directors, officers or other employees. No additional compensation will be paid to our directors, officers or other regular employees for such services.

**14. Q: Can additional matters be presented at the Special Meeting?**

- A: NO. At a special meeting, shareholders are not allowed to act on any business not included in the notice.

## PROPOSAL 1

**TO APPROVE THE REORGANIZATION PLAN, DATED JUNE 25, 2020 TO REORGANIZE LIBERTY BANK TO BECOME A SUBSIDIARY OF LIBERTY NORTHWEST BANCORP, INC.**

### **COMMONLY ASKED QUESTIONS REGARDING THE REORGANIZATION OF A BANK TO A BANK HOLDING COMPANY STRUCTURE**

#### **What is a bank holding company?**

A bank holding company is a state-chartered corporation that owns a substantial amount of the common stock of a bank. In this case, it is proposed that, upon completion of the Reorganization, Liberty Northwest Bancorp will own 100% of the outstanding common stock of the Bank, and the former shareholders of Liberty Bank will own all of the outstanding shares of common stock of Liberty Northwest Bancorp.

#### **What activities can a bank holding company engage in that a Bank cannot engage in?**

A bank holding company can engage in a number of financial and non-banking activities that a Bank is not permitted to engage in. These activities are generally closely related to banking. A list of permissible activities for a bank holding company are listed in Exhibit E.

#### **Why is the formation of a bank holding company a financially attractive option to Bank shareholders?**

For shareholders, one of the principal advantages of the bank holding company structure is that it allows the shareholders' investment to be internally leveraged with holding company debt, which simultaneously reduces the amount of common equity required from shareholders to support the Bank's capital, while increasing the shareholders' return on capital invested. In addition, leverage provides an undiluted source of bank-level capital to support growth as compared to common stock. Accordingly, management and the Board believe that taking advantage of the opportunities afforded to a bank holding company can have a material and lasting impact on shareholder value. (See "*THE REORGANIZATION – Reasons for the Reorganization*" beginning on page 10.)

#### **Does this mean the Bank is being sold?**

**No. The Bank is not being sold.** Rather, if the Reorganization is completed, you will receive one (1) share of Liberty Northwest Bancorp common stock for every one (1) share of Bank stock that you own. The end result is that you will own Liberty Northwest Bancorp stock, and Liberty Northwest Bancorp will own the Bank.

#### **What happens to the Bank if the Reorganization is completed?**

The Bank will continue to operate with all of its same directors, officers and employees and at the same locations. The only difference is that all of the common stock of the Bank will be owned by Liberty Northwest Bancorp and you and other shareholders will own shares of Liberty Northwest Bancorp common stock rather than shares of Bank common stock.

**If I do not want to be a shareholder of Liberty Northwest Bancorp, can I continue to own Bank stock?**

No. If the Reorganization is completed you will not be entitled to hold Bank common stock. However, if the Reorganization is completed, you will be entitled to receive cash for those shares of Bank common stock which are voted against the Reorganization Plan if you properly exercise what are known as “dissenters’ rights” and follow the procedures required by the Washington Commercial Bank Act. Such procedures and statutes are summarized under “DISSENTERS’ RIGHTS” beginning on page 30.

**When will the Reorganization be effective?**

The Reorganization will occur after we receive approval from the shareholders and regulators and all of the other conditions contained in the Reorganization Plan have been satisfied or waived. The Reorganization Agreement and Plan of Share Exchange shall become effective upon the filing of the Articles of Share Exchange with the Washington State Department of Financial Institutions (the “Effective Date”). Currently, we anticipate that the Reorganization will be completed by November 5, 2020.

**If I hold physical share certificates, should I send in my Bank stock certificates now?**

No. When the bank holding company reorganization is completed, you will be provided instructions on how to tender the physical share certificate(s) of Liberty Bank stock to receive physical share certificate(s) of Liberty Northwest Bancorp common stock.

**What should I do if my shares of Bank common stock are held in a brokerage account?**

**YOU WILL NEED TO VOTE THE PROXY YOU RECEIVE FROM YOUR BROKER.** Other than voting your shares you are not required to take any specific actions if your shares of Bank common stock are held in a brokerage account. After the completion of the Reorganization, shares of Bank common stock held at brokerage accounts (for which no dissenters’ rights were exercised) will be automatically converted into shares of Liberty Northwest Bancorp common stock.

**If the Reorganization is approved, how will the two entities be regulated?**

If the Reorganization is completed: (1) the Federal Bank Holding Company Act of 1956, as amended (the “BHCA”), will apply to Liberty Northwest Bancorp, and the Board of Governors of the Federal Reserve System (the “Federal Reserve”) will regulate its operations as a bank holding company; (2) the Bank will continue to be regulated by the Federal Deposit Insurance Corporation (the “FDIC”), and the State of Washington Department of Financial Institutions (the “DFI”); and (3) the deposits of the Bank will continue to be insured by the FDIC to the fullest extent provided by law. For more information on regulation of the bank holding company, please see the section of this proxy statement/prospectus captioned *“INFORMATION ABOUT THE HOLDING COMPANY – Additional Supervision and Regulation”* beginning on page 25.

**What other approvals are required?**

We cannot complete the Reorganization unless it is approved by the Federal Reserve and DFI. An application was filed with the Federal Reserve on July 16, 2020, and it was approved by the Federal Reserve on August 5, 2020, subject to shareholder approval, by November 5, 2020, and upon receipt of the necessary approvals, both boards will apply for approval of the DFI. If the DFI approves the Reorganization, the DFI will issue a Certificate of Reorganization to the Bank, and upon the issuance of a certificate of reorganization by the DFI, or on such later date as shall be provided for in the plan of reorganization, the shares of Liberty Bank will be deemed to be exchanged in accordance with the plan of reorganization, subject to the rights of dissenters. Although we do not know of any reason why we would be unable to

obtain the remaining regulatory approvals in a timely manner, we cannot be certain that we will obtain them, or when we will obtain them.

**Will the directors of Liberty Northwest Bancorp be the same as the directors of Liberty Bank?**

Yes. The directors of Liberty Northwest Bancorp will stand for election by the shareholders annually, the same as the directors of Liberty Bank have done in the past.

**Will there continue to be an annual shareholders' meeting?**

Yes. However, if the Reorganization is completed, Liberty Northwest Bancorp will conduct the annual meeting. Shareholders of Liberty Northwest Bancorp will elect the directors of Liberty Northwest Bancorp, and Liberty Northwest Bancorp will elect the directors of the Bank. Liberty Northwest Bancorp currently plans to hold annual shareholder's meetings in substantially the same fashion that the Bank has held such meetings historically.

**Who can I contact for more information?**

For more information regarding the proposed Reorganization, call or write to:

Liberty Northwest Bancorp, Inc.  
Attention: Richard C. Darrow, President and CEO  
19917 7th Ave NE  
Poulsbo, WA 98370  
(360) 779-4567

## THE REORGANIZATION

### General

The following steps have already occurred in connection with the Reorganization:

1. Liberty Northwest Bancorp has been incorporated as a Washington business corporation for the purpose of acquiring all of the Bank's common stock and becoming a bank holding company.
2. The boards of directors of both the Bank and Liberty Northwest Bancorp have adopted and approved the Reorganization Plan.
3. On July 16, 2020, Liberty Northwest Bancorp filed an application with the Federal Reserve Bank of San Francisco to become a bank holding company by acquiring 100 percent of Liberty Bank, in connection with the Reorganization pursuant to Section 3(a)(1) of the Bank Holding Company Act and Section 225.15 of Regulation Y. The application was approved by the Federal Reserve on August 5, 2020, subject to shareholder and DFI approval.

In order to complete the Reorganization, the shareholders of the Bank must approve the Reorganization of the Bank on the terms set forth in the Reorganization Plan attached hereto as Exhibit A by the affirmative vote of two-thirds (2/3) of the outstanding shares of Bank stock, and the Bank and Liberty Northwest Bancorp must have received all required regulatory approvals (see "*Conditions to Completion of the Reorganization*", beginning on page 12).

### Structure

If the Reorganization is approved by the Bank's shareholders, then, upon receipt of the shareholders' approval and the approval of the primary regulators, Liberty Northwest Bancorp will acquire all of the outstanding stock of the Bank as follows:

1. Liberty Northwest Bancorp will file Articles of Share Exchange (including the Reorganization Plan) with the DFI.
2. Upon completion of the Reorganization, all of the outstanding shares of Bank common stock (except those to which dissenters' rights were properly exercised), will be automatically converted into an equal number of shares of Liberty Northwest Bancorp common stock.
3. Liberty Northwest Bancorp will convert existing stock options and restricted stock grants issued by the Bank to stock options and restricted stock grants of Liberty Northwest Bancorp common stock on a one-for-one basis. This conversion will take place automatically. All of the Equity Plans of Liberty Bank will be transferred to and assumed by Liberty Northwest Bancorp.
4. Liberty Northwest Bancorp will own all of the issued and outstanding shares of common stock of the Bank, which will, thereafter, be a wholly owned subsidiary of Liberty Northwest Bancorp.



## **Reasons for the Reorganization**

The Board recommends that shareholders vote FOR the Reorganization because the Board believes that a bank holding company structure will provide benefits to the shareholders and to its community by providing opportunities to the Bank to compete more effectively and to expand its services in type, in number, and in scope.

### ***Meeting Capital Needs***

Historically, banks have met their capital needs by selling shares of common stock and retaining earnings to increase their capital. If the Bank elects to increase its capital by selling shares, it results in a dilution of ownership by existing shareholders. If the Bank relies solely on retained earnings to grow, growth prospect can take a significant period of time. Because the Bank has consistently generated operating revenue, there are other options available for the Bank to increase its capital for branch or bank acquisitions, the acquisition of other assets, or repurchasing stock to support shareholder liquidity. Management and the Board determined that the most attractive option for the Bank was to form a bank holding company which could borrow money, pledge the Bank stock as collateral, and use the borrowed funds to acquire other branches or other banks. The Bank would also be able to downstream the borrowed money to the Bank to increase the Bank's legal lending limit, which would allow the Bank to grow more quickly. The holding company will have an obligation to repay the debt and anticipates that it could do so by upstreaming dividends from the Bank to the bank holding company. In this situation, the most attractive option, and the one opted for by most successful banks that need additional capital, is to not sell common stock and instead convert from a bank structure to a bank holding company structure. The legal limitations on the incurrence of debt by financial holding companies are much less restrictive and there would be no regulatory restrictions on Liberty Northwest Bancorp's ability to incur debt and pledge its assets (the Bank stock) to secure that debt. The Bank anticipates that if the Reorganization is approved, Liberty Northwest Bancorp will be able to borrow sufficient funds to address its capital needs without diluting the ownership of current shareholders.

### ***Flexibility***

The Reorganization will, in the opinion of the Board, better prepare the organization for responding flexibly and efficiently to future changes in the laws and regulations governing banks and bank-related activities. Opportunities may arise for financial holding companies that are not available to banks. The bank holding company structure may prove valuable in taking advantage of any new opportunities in banking and bank-related fields that are made available by deregulation or otherwise.

### ***Diversification***

The bank holding company structure offers the ability to diversify the business of Liberty Northwest Bancorp by creating or acquiring entities engaged in bank-related activities. Diversification into bank-related activities is governed by the BHCA and regulations of the Federal Reserve. However, the timing and extent of those activities will depend on many factors, including competitive and financial conditions existing in the future as well as the then financial condition of Liberty Northwest Bancorp and the Bank.

## **Recommendation of the Board**

***The Board unanimously recommends that holders of Bank common stock vote "for" the Reorganization Plan.***

## **Conditions to Completion of the Reorganization**

The Reorganization Plan – Exhibit A to this proxy statement/prospectus – provides that the completion of the Reorganization is subject to certain conditions that have not yet been met, including, but not limited to the following:

1. The Reorganization must be approved by the holders of at least two-thirds (2/3) of the outstanding shares of Bank common stock.
2. The Federal Reserve and the DFI must grant all required approvals for the completion of the Reorganization.
3. Liberty Northwest Bancorp and the Bank must make all appropriate filings, including the filing of Articles of Share Exchange.
4. Liberty Northwest Bancorp and the Bank must receive an opinion from counsel to the effect that the Reorganization will be a tax-free transaction for federal income tax purposes for Liberty Northwest Bancorp, the Bank, and the Bank shareholders.
5. There must not be any action, suit, proceeding, or claim, either commenced or threatened, that could make completion of the Reorganization inadvisable.
6. Liberty Northwest Bancorp and the Bank must procure any other consents and approvals and must take any other actions and satisfy all other requirements, prescribed by law or otherwise, necessary for consummation of the Reorganization.

These conditions are for the sole benefit of Liberty Northwest Bancorp and the Bank, and may be asserted by them or may be waived or extended by them, in whole or in part, at any time or from time to time. Any determination by Liberty Northwest Bancorp and the Bank concerning the events described above will be final and binding.

We expect that the conditions to the Reorganization will be satisfied. The waiver of any condition or conditions not satisfied will be approved only if, in the opinion of the boards of directors of Liberty Northwest Bancorp and the Bank, the action would not have a material adverse effect on the benefits intended for holders of Liberty Northwest Bancorp stock under the Reorganization. The Reorganization may be terminated and abandoned by the boards of directors of Liberty Northwest Bancorp and the Bank at any time prior to the Effective Date.

## **Operation of the Bank Following the Reorganization**

We plan to conduct the business of the Bank following the Reorganization substantially unchanged from the manner in which it is now being conducted. Among other things:

- The Bank's name will not change.
- The Bank's office location, hours of operation, and products and services offered will not be affected by the Reorganization.
- The Bank will have the same management; no changes in the Bank's officers, directors or personnel will occur as a result of the Reorganization.

- The Bank will continue to be subject to regulation and supervision, including examination, by the FDIC and DFI, to the same extent as currently applicable.
- The Bank will continue to prepare and file periodic Call Reports through FFIEC Central Data Repository.

### **Interest of Directors and Executive Officers in the Reorganization**

The Bank's executive officers and directors who are also shareholders will participate in the Reorganization in the same manner and to the same extent as all of the other shareholders of the Bank. All the Bank's officers and directors will continue as officers and directors, as well as shareholders of common stock of Liberty Northwest Bancorp if the Reorganization is approved.

### **Effective Date**

We anticipate that the closing of the Reorganization will take place no later than thirty-five (35) days after all conditions have been met and all approvals, consents and authorizations for the valid and lawful completion of the Reorganization have been obtained. The Reorganization Agreement and Plan of Share Exchange shall become effective upon the filing of the Articles of Share Exchange with the Washington State Department of Financial Institutions (the "Effective Date").

### **Termination or Abandonment**

The Reorganization Plan may be terminated by the unilateral action of either of the boards of directors of the Bank or Liberty Northwest Bancorp if:

- The number of shares of the Bank common stock that voted against approval of the Reorganization or that have sought dissenters' rights is great enough that completion of the Reorganization is unlikely or inadvisable;
- Any action, suit, proceeding, or claim is commenced or threatened that could make completion of the Reorganization inadvisable;
- It is likely that a regulatory approval will not be obtained, or if obtained, has or will contain or impose a condition or requirement that would materially and adversely affect the operations or business prospects of Liberty Northwest Bancorp or the Bank following the effective date so as to render inadvisable the completion of the Reorganization; or
- Any other reason exists that makes completion of the share exchange inadvisable in the sole and exclusive judgment of the respective boards of directors.

### **Exchange of Shares; Share Certificates**

On the Effective Date, the Bank's shareholders' right, title and interest in and to the shares of the Bank common stock, without any action on their part, will automatically be converted into solely the right to receive an equal number of shares of Liberty Northwest Bancorp common stock.

### **Expenses of Reorganization**

All expenses incurred by Liberty Northwest Bancorp and the Bank in connection with or related to the authorization, preparation and execution of the Reorganization, the solicitation of shareholder approvals

and all other matters related to the closing of the transaction contemplated therein will initially be paid by the Bank. Liberty Northwest Bancorp will reimburse the Bank for its share of such expenses upon consummation of the transaction. Expenses are expected not to exceed \$60,000.

## **RISK FACTORS**

An investment in a financial institution, such as the Bank, involves significant risks. These risks derive primarily from the financial institutions industry, the nature of the way financial institutions operate, and the national economy, generally, and, more specifically, from the Bank's operations, financial condition, local economy, competition and similar factors. Because, initially following the Reorganization, the Bank will be Liberty Northwest Bancorp's sole asset and represent Liberty Northwest Bancorp's only operations and its sole source of income and profits, we believe that all of the risks of an investment directly in the Bank, will continue to apply in all material respects to an investment in Liberty Northwest Bancorp.

The following Risk Factors section summarizes what we believe are material risks related to and following the Reorganization, and derive primarily from the future organizational structure of Liberty Northwest Bancorp operating with the Bank as its subsidiary, as well as factors that result from differences in our governance structure and your rights as a shareholder that we have either been required or have chosen to implement in connection with the Reorganization.

The order in which the Risk Factors are discussed in this section is not intended to indicate their relative importance.

Our future success is based in large part on the accuracy of our assumptions about and inherent in our business, marketing and growth strategies for the Bank, as well as our ability to identify and implement strategies to address risks.

**YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AS WELL AS ALL OF THE OTHER INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS BEFORE DECIDING HOW TO VOTE YOUR SHARES.**

**Liberty Northwest Bancorp may issue additional shares of common stock without shareholder approval that could result in dilution of an investor's investment.**

The board of directors of Liberty Northwest Bancorp may determine, from time to time, that there is a need to obtain additional capital through the issuance of additional shares of common stock or other securities. Although the Bank's Board is currently able to authorize the issuance of additional shares of common stock without shareholder approval, the number of additional shares the Board may approve for issuance is limited to the 10,000,000 shares of common stock currently authorized by the Bank's Articles of Incorporation. In contrast, Liberty Northwest Bancorp's Articles of Incorporation authorize the issuance of up to 50,000,000 shares of Liberty Northwest Bancorp common stock. This issuance would likely dilute the ownership interests of Liberty Northwest Bancorp investors and may dilute the per share book value of Liberty Northwest Bancorp's common stock.

**Liberty Northwest Bancorp's board of directors will have the authority to set the terms of and issue preferred stock without shareholder approval, which could dilute your ownership interest in Liberty Northwest Bancorp, and which would likely have superior rights over the common stock of Liberty Northwest Bancorp as to dividends and liquidation preference.**

The Bank's Articles of Incorporation do not permit the issuance of preferred stock, and shares of preferred stock could not be issued without prior shareholder approval. In contrast, Liberty Northwest

Bancorp's Articles of Incorporation authorize the issuance of up to 100,000 shares of preferred stock and give the board of directors the authority to decide what the terms (such as dividend rate, liquidation preference, redemption features and the like) of the shares of any series of preferred stock will be and how many shares to issue. There is no such issuance planned. However, any such issuance may dilute the ownership interests of Liberty Northwest Bancorp investors and may dilute the per share book value of Liberty Northwest Bancorp's common stock.

**Liberty Northwest Bancorp has the ability to incur debt and pledge its assets, including its stock in the Bank, to secure that debt.**

While the Bank can incur debt, its ability to do so is limited and, significantly, it is not legally permitted to pledge its assets to secure its indebtedness except in very limited circumstances. In contrast, the legal limitations on the incurrence of debt by financial holding companies are much less restrictive and there are no regulatory restrictions on Liberty Northwest Bancorp's ability to incur debt and pledge its assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of common and preferred stock – interest must be paid to the lender before dividends can be paid to the shareholders, and loans must be paid off before any assets can be distributed to shareholders if Liberty Northwest Bancorp were to liquidate. Furthermore, Liberty Northwest Bancorp would have to service (make principal and interest payments) its indebtedness which could reduce the profitability of or result in net losses at Liberty Northwest Bancorp on a consolidated basis even if the Bank were profitable. See *“THE REORGANIZATION – Reasons for the Reorganization – Meeting Capital Needs”* beginning on page 10.

**Liberty Northwest Bancorp will be subject to regulation which will increase the cost and expense of regulatory compliance and will therefore reduce Liberty Northwest Bancorp's net income and may restrict its ability to engage in certain activities.**

As a bank holding company under federal law, Liberty Northwest Bancorp will be subject to regulation under the BHCA and the examination and reporting requirements of the Federal Reserve. In addition to supervising and examining Liberty Northwest Bancorp, the Federal Reserve, through its adoption of regulations implementing the BHCA, places certain restrictions on the activities that are deemed permissible for financial holding companies to engage in. Changes in the number or scope of permissible activities could have an adverse effect on Liberty Northwest Bancorp's ability to realize its strategic goals.

**Liberty Northwest Bancorp may be required to contribute capital or assets to the Bank that could otherwise be invested or deployed more profitably elsewhere.**

Federal law and regulatory policy impose a number of obligations on financial holding companies that are designed to reduce potential loss exposure to the depositors of insured depository subsidiaries and to the FDIC's insurance fund. For example, a bank holding company is required to serve as a source of financial strength to its insured depository subsidiaries and to commit financial resources to support such institutions where it might not do so otherwise. The Federal Reserve has the ability to require Liberty Northwest Bancorp to contribute capital to the Bank, even if Liberty Northwest Bancorp would not ordinarily do so and even if such contribution is to the detriment of Liberty Northwest Bancorp or its shareholders.

**Applicable laws and regulations restrict both the ability of the Bank to pay dividends to Liberty Northwest Bancorp, and the ability of Liberty Northwest Bancorp to pay dividends to you.**

For the foreseeable future, the majority, if not all, of Liberty Northwest Bancorp's revenue will be from dividends paid to Liberty Northwest Bancorp by the Bank. Both Liberty Northwest Bancorp and the

Bank are limited by laws and regulations as to the amount of dividends they can pay. In addition, Liberty Northwest Bancorp and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums, and to remain “well-capitalized” under the prompt corrective action regulations of the FDIC. Federal banking regulators have indicated that banking organizations should generally pay dividends only if (1) the organization’s net income available to holders of common stock over the past year has been sufficient to fully fund the dividends and (2) the prospective rate of earnings retention appears consistent with the organization’s capital needs, asset quality and overall financial condition.

**We may not be able to implement effectively the strategies that underlie our reasons for forming a bank holding company.**

As discussed under “*THE REORGANIZATION – Reasons for the Reorganization*” beginning on page 10, we believe that the holding company structure will provide us with better opportunities to meet our capital needs and expand our business and markets through acquisitions; however, we cannot assure you that we will be able to do any of these things to the full extent we will be legally able to, on favorable terms or at all. If we are unable to implement our future strategies that we believe are enhanced by the holding company structure, the cost, effort and expense of the Reorganization could be greater than the benefits realized by the Reorganization, and the increased costs of operating in the future under the holding company structure could affect our business and profitability.

**We cannot assure you that the Reorganization into a bank holding company structure will enable us to compete more effectively or operate more profitably than as a stand-alone bank.**

Although we believe that our reasons for the Reorganization and the enhanced opportunities we will have under the holding company structure will strengthen our overall organization and improve long-term operating results and profits, we cannot assure you that this will happen. Among other things, we may not be accurately predicting or fully appreciating the effects of these enhanced opportunities and any difficulties we might face in implementing our strategies. Our strategies and expectations for future opportunities under the holding company structure could also be negatively impacted, or even outweighed, by external factors either within or outside of our control. We cannot assure you that we will be more (or even as) profitable or stronger (or even as strong) financially under the holding company structure than we could have been if the Reorganization had not occurred and the Bank continued to operate under its historical stand-alone structure.

## **INFORMATION ABOUT THE BANK**

### **Generally**

Liberty Bank was approved as a state chartered bank on May 14, 2008. From the beginning, the Bank’s goals have been to (i) provide a banking environment with individualized client service, (ii) have a more skilled staff than its competitors, (iii) provide high quality flexible products, and (iv) respond promptly to customer requests. The Bank primarily serves small to middle-market companies, professionals and individuals in the Kitsap and King County market areas.

At June 30, 2020, the Bank had total assets of \$179,823,561, deposits of \$128,268,374, and shareholders’ equity of \$12,033,136. At December 31, 2019, the Bank had total assets of \$128,237,430, deposits of \$104,317,141, and shareholders’ equity of \$11,563,905.

## Employees

As of July 31, 2020, the Bank had 27 full time equivalent employees. None of the Bank's employees are the subject of collective bargaining agreements. The Bank provides its employees a comprehensive program of benefits including: medical, dental, life and disability insurance, and a 401k retirement plan. These benefits are typically offered within the banking industry and are comparable with the types of plans other area banks provide their employees.

## Properties

The Bank currently operates two offices:

- In Kitsap County – The Bank's headquarters, which is also a full-service branch, located in Poulsbo, Washington;
- In King County – a Loan Production Office located in Bellevue, Washington.

The population of these counties is approximately:

- |                 |           |
|-----------------|-----------|
| • Kitsap County | 276,315   |
| • King County   | 2,291,030 |

The Bank leases all its offices. Its principal website is [www.libertybanknw.com](http://www.libertybanknw.com).

## Business and Marketing Strategy

The Bank's business and marketing strategy is to expand its footprint by emphasizing its high quality client service and primarily focusing on the financial needs of small to medium-sized businesses, professionals and individuals in its market areas.

The Bank intends to pursue a growth strategy, the key components of which include, but may not be limited to:

- increasing market share in existing markets by promoting the Bank's local independence and personalized responsiveness, as an alternative to the existing large regional and national banks operating in the Bank's service area;
- employing and retaining highly experienced, motivated employees at all levels of the organization to ensure that the business objectives of the Bank are achieved with the highest standards of performance and profitability; and
- establishing loan production offices in areas it believes will be receptive to its kind of individualized client service, and converting those loan production offices to full-service branches when management and the Board deems it appropriate to do so.
- The Bank's management believes the Bank can continue to gain market share in Kitsap and King counties by continuing to follow and expand on these key components.

The Bank believes that the banking services provided to its target customers in Kitsap and King counties has become less personalized as regional and national banks have become larger and less service oriented. To increase efficiency, the focus of the larger institutions has been to concentrate decision-making in large corporate service centers. To compete with these institutions and their approach to banking, the Bank focuses on providing exceptional personalized service with rapid and discreet responses through decision-making authority within the Bank. The Bank's management believes these factors are crucial to the ongoing success of the Bank.

The Bank's management believes that an integral part of its growth and success is dependent on a team of employees that is highly experienced, motivated, personable and professional. The organization's employees have been carefully selected and recruited based upon their years of banking experience, business development skills, knowledge and integrity. The Bank specifically recruits individuals who are highly motivated and well-regarded within their communities, and within the banking industry as a whole. It is the Bank's philosophy that personnel who possess these attributes as well as strong community ties will result in lower-than-average turnover while maximizing the Bank's objectives to furnish outstanding client service. In order to attract, recruit, and retain this caliber of experienced professionals, the Bank's management has in place a comprehensive compensation package. Salaries are at rates that are appropriate for skilled individuals within the financial industry.

## **Growth and Operating Strategies**

While the Bank's growth strategy is focused on organic growth and the development of business client relationships from its current locations, the Bank consistently seeks to identify key personnel located regionally at other financial institutions where the Bank may consider establishing a loan production office. If a loan production office is established, the lending activity is consistently monitored to determine if a full-service branch is appropriate for that location.

*Organic Growth.* The Bank believes that its largest source of organic growth is through its ongoing business development efforts conducted by its management team and relationship officers. The Bank also believes that economic expansion in its market areas will continue to contribute to organic growth.

The Bank's goal is to continue its expansion by organic growth and through acquisition while maintaining a profitable, client-focused business banking financial institution. The Bank believes that its existing structure, management, data and operational systems are sufficient to achieve further organic growth in asset size, revenues and capital without proportionate increases in operating costs. The Bank's operating strategy has always been to provide high quality business banking services to clients and increase market share through active solicitation of new business, repeat business and referrals from clients.

The Bank believes its clients seek a banking relationship with a service-oriented business banking organization. The Bank's operational systems have been designed to facilitate personalized service. The Bank believes that its banking locations have an atmosphere which facilitates personalized services and decision-making while offering a broad array of products to meet clients' needs. Though the Bank's primary emphasis is on client service and relationship officers' experience, the Bank intends to continue organic growth and attracting clients by focusing on the following:

*Products Offered* – The Bank offers a full range of commercial and consumer banking products and services, including the following: checking accounts, checking accounts with interest, savings accounts, money market accounts, certificates of deposit, IRA accounts, NOW accounts, debit cards, a full suite of online banking products, and traditional cash management products. The Bank also offers installment loans and other secured and unsecured loans.

- *Operational Efficiencies* – The Bank seeks to maximize operational and support efficiencies consistent with maintaining high quality client service.
- *Marketing Activities* – The Bank focuses on an active solicitation program for new business and identifying and developing products and services that allow it to effectively compete for small to middle-market business accounts. The Bank believes that active community involvement contributes to its long-term success.



## Competition

The Bank faces strong competition, both in attracting deposits and in originating loans, from other commercial banks, savings and loan associations, mutual savings banks and credit unions. Many of these competing financial institutions have substantially greater financial resources than the Bank. The Bank's management feels this competition is valuable in that it provides an ever-present need for the Bank to provide not only outstanding client service and products, but also consistently excel in doing so in order to secure, retain and continuously grow its market share. While the Bank's financial resources are not as great as some of its competitors, this competition encourages the Bank to design innovative marketing strategies that best utilize limited advertising funds and other marketing resources.

## Loans

The Bank offers a variety of loans to meet the credit needs of the communities it serves. The Bank offers and encourages applications for a variety of secured and unsecured loans to help meet the needs of its clients. The Bank provides a broad range of commercial lending services. The Bank follows a uniform credit policy which contains underwriting and loan administration criteria, levels of loan commitment, loan types, credit criteria, concentration limits, loan administration, loan review and grading and related matters. At June 30, 2020, substantially all loans outstanding were to clients within our market areas.

While specific credit programs may vary from time to time, based on the Bank's policies and market conditions, every effort is made to encourage applications for the following credit services throughout the communities served by the Bank.

*Commercial Loans.* These loans consist primarily of loans to businesses for various purposes, including revolving lines of credit and equipment financing. These loans may be secured by collateral other than real estate, such as inventory, accounts receivable, machinery, government guarantees, or other commercial assets, and they generally mature within one (1) to five (5) years and have fixed or adjustable interest rates. Revolving lines of credit are generally for business purposes, mature annually and have adjustable interest rates. The primary repayment risk of commercial loans is the failure of the borrower's business due to economic or financial factors.

*Real Estate Loans.* These loans primarily include various types of commercial loans for which the Bank holds real property as collateral. Interest rates on these loans may be fixed for a period or tied to a floating rate index. Real estate construction loans are primarily made for commercial properties. Terms may vary depending upon many factors, including location, type of project and financial condition of the borrower. The primary risks of real estate secured loans include the borrower's inability to pay and deterioration in value of the real estate that is held as collateral.

*Small Business Administration (SBA) Loans.* The Bank is an active participant in various SBA loan programs including 7(a), Express, and the Payroll Protection Program. The SBA typically does not make commercial loans, but rather guarantees loans made by participating lending institutions. These loans are generally guaranteed by the SBA in a range of 50% to 100% depending on the specific program.

*Consumer Loans.* While not a primary focus of the Bank, consumer loans are available, including personal loans, home equity loans, open-end credit lines, both secured and unsecured, and overdraft protection credit lines.

## Loan Administration

The Bank's board of directors has approved specific lending policies for the Bank and is responsible for implementation of the policies. The lending policies and procedures include guidelines for loan term, loan-to-value ratios, collateral appraisals and interest rates. The loan policies also vest varying levels of loan authority in management, the Bank's loan committee and its board of directors. The Bank's management monitors lending activities through regular loan committee meetings, monthly reporting and periodic review of loans.

Interest rates charged on loans vary with the financial condition of the borrower, degree of risk, maturity, costs of underwriting and servicing, loan amount, and extent of other banking relationships maintained with clients, and is further subject to competitive pressures, availability of funds and government regulations.

All loan applications are processed and approved by a loan officer up to the loan officer's credit limit and in accordance with the Bank's guidelines and underwriting policies. Credit limits generally vary according to the type of loan and the individual loan officer's experience. Loan applications over the respective loan officer's lending limits must be approved by the Bank's management loan committee or board of director loan committee, when appropriate. Under applicable federal and state law, the Bank's permissible loans to one borrower are also limited. The Bank utilizes internal limits that may be less than or equal to the prevailing legal limits.

### **Lending Activities**

The Bank aggressively seeks high quality lending relationships. It believes in sound credit analysis, loan documentation and seeks to avoid concentration of loans to a single industry or business sector or in a single class of collateral, such as real estate. The Bank also may participate in loans originated by other banks that have similar lending criteria. The Bank's loan portfolio consists primarily of commercial loans and commercial real estate loans. As of December 31, 2019, the Bank had total loans outstanding of \$81,765,786, which equaled approximately 78.4% of the Bank's total deposits and approximately 63.8% of its total assets. As of June 30, 2020, the Bank had total loans outstanding of \$136,247,137, which equaled approximately 106.2% of the Bank's total deposits and approximately 78.8% of its total assets.

### **Nonperforming Assets**

The Bank's loans are primarily to clients within the Kitsap and King County areas. Credit risk on loans is managed through limits on amounts loaned to individual borrowers, underwriting standards and loan monitoring procedures. To minimize risk, the Bank does not extend credit to a single borrower or group of borrowers in excess of applicable regulatory limits. Collateral for loans varies, but may include real estate, equipment, accounts receivable, inventory and securities. The Bank's interest in collateral is secured through filing mortgages and liens, and in some cases, by possession of the collateral.

Loans are placed on nonaccrual status when they are over 90 days past due, or sooner if trouble is recognized, unless the loan is adequately collateralized and is in the process of collection. No interest is taken into income unless received in cash or until such time as the borrower demonstrates an ability to resume payments of principal and interest. Interest previously accrued but not collected is reversed and charged against income at the time the loan is placed on nonaccrual status. As of December 31, 2019, the Bank had approximately \$650,000 in loans that were in nonaccrual status. These loans represented approximately 0.79% of the Bank's total loans as of December 31, 2019. As of June 30, 2020, the Bank had \$0 in loans that were in nonaccrual status. These loans represented approximately 0.00% of the Bank's total loans. The Bank does not own any real estate acquired due to default by borrower.

### **Investment Activities**

The board of directors reviews and approves the Bank's investment policy annually. The Asset and Liability Committee is responsible for establishing policies for conducting investment activities and the establishment of risk limits. The board of directors reviews gains and losses on investment transactions and monitors the composition and performance of the investment portfolio on a quarterly basis. The overall objectives of the investment policy are to maintain a portfolio of high quality and diversified investments to maximize the long term, total return of the portfolio given liquidity and interest rate risk considerations.

The Bank's current investment policy permits investments in securities issued by the United States Government and federal government agencies and government sponsored enterprises; municipal and revenue bonds; mortgage backed securities issued by federal government agencies, government sponsored enterprises, and private issuers; investment grade corporate bonds; and federal funds sold. The investment

policy also permits, with certain limitations, investments in certificates of deposit and equities (limited to FHLB and correspondent banks).

The Bank's investment policy expressly prohibits the use of its investment portfolio for market-oriented trading activities or speculative purposes. Repositioning of securities in the portfolio may take place to complement the overall investment and/or interest rate sensitivity objectives of the Bank.

At the time of purchase, the Bank designates a security as either held-to-maturity or available-for-sale based upon its ability and intent. Securities available-for-sale are reported at fair market value and securities held-to-maturity are reported at amortized cost. The Bank does not maintain a trading portfolio. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. For securities classified as available-for-sale, unrealized gains and losses are excluded from earnings and reported as an increase or decrease to earnings through other comprehensive income/(loss). If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings.

The Bank's securities portfolio consisted of a mix of fixed and floating securities with fair values totaling \$12,445,539 at December 31, 2019 and \$19,126,962 at December 31, 2018. At June 30, 2020, the Bank's securities portfolio consisted of a mix of fixed and floating securities with fair values totaling \$8,192,339.

### **Deposits and Other Sources of Funds**

The Bank's primary sources of funds are client deposits, other borrowings, repayments on loans and investment securities. Loan and investment security repayments are a relatively stable source of funds, while deposit flows and mortgage related investment security prepayments are significantly influenced by general interest rates and money market conditions.

The Bank strives to maintain a high percentage of noninterest-bearing deposits, which are low cost funds and result in higher interest margins. At December 31, 2019, the Bank's ratio of noninterest-bearing deposits to total deposits was 25.9% compared to 30.0% at December 31, 2018. At June 30, 2020, the Bank's ratio of noninterest-bearing deposits to total deposits was 39.4%.

The Bank offers a variety of interest-bearing accounts designed to attract both short-term and long-term deposits from its clients. These accounts include interest-bearing demand, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, savings accounts and time certificate of deposit. Interest-bearing accounts can earn interest at rates established by the Bank management based on competitive market factors and the desire to increase or decrease certain types of maturities of deposits consistent with its Asset/Liability Management Policy.

The Bank has a borrowing arrangement with the Federal Home Loan Bank under which advances are secured by portions of the Bank's loan portfolio. The Bank's credit limit varies according to its total assets and the amount and composition of the loan portfolio pledged as collateral. At December 31, 2019, amounts pledged and the net available borrowing capacity under such limits were approximately \$33,035,523 and \$19,535,523, respectively. At June 30, 2020, amounts pledged and the net available borrowing capacity under such limits were approximately \$34,675,829 and \$28,675,829, respectively.

### **Experienced Senior Management**

#### **RICHARD C. DARROW – Chief Executive Officer**

Rick is Chief Executive Officer of Liberty Bank, a position he has held since December 2010. Prior to that, Mr. Darrow was a Founding Executive of Charter Bank, a community bank formed in Bellevue, Washington in 1997, which was acquired by Boston Private Financial Holdings, a diversified wealth management financial services company, in 2007. During his ten years at Charter Bank, Mr. Darrow served

as Executive Vice President and Chief Financial Officer. Prior to his affiliation with Charter Bank, Mr. Darrow was an executive officer at Washington Mutual, Enterprise Bank and University Savings Bank, where he began his banking career in 1985. Mr. Darrow has over 30 years of senior management experience in banking. Mr. Darrow was raised in Edmonds, Washington. He graduated from the University of Washington in 1981 with a degree in Business Administration. Upon graduation, he earned his CPA certification while employed with Pannell Kerr Forster, an international accounting firm.

**ALAN W. FULP – President and Chief Lending Officer**

Alan brings more nearly 30 years of financial services experience and passion to his role as president and chief lending officer of Liberty Bank. Prior to joining Liberty Bank, Alan served as managing director of private banking for the Ascent division of U.S. Bank, where he obtained valuable experience understanding the private banking needs of ultra-high net worth families in the Pacific Northwest. He previously worked as a senior relationship manager at The Commerce Bank of Washington and led Core Business Bank in Bellevue as president and chief operating officer. He started his career at a small community bank in Fairbanks, Alaska, before moving to the Puget Sound area, where he worked as a commercial banker at Charter Bank and Columbia Bank. Alan is a board member and past board chair for the Bellevue Downtown Association, a member and past president of the Rotary Club of Bellevue, a past board member and treasurer of the Mercer Island Schools Foundation, a volunteer for the YMCA and a past board member of Campfire Puget Sound. Mr. Fulp earned his bachelor's degree from Willamette University in Salem, Ore., and graduated from the Pacific Coast Banking School.

**JOEL A. KELLER – Senior Vice President and Chief Financial Officer**

Joel is Senior Vice President, Chief Financial Officer and Corporate Secretary of Liberty Bank. Joel joined the bank in September 2019 and oversees the financial management and accounting aspects of the organization. Mr. Keller has over 25 years of experience working with a number financial institutions including his most recent experience as Executive Vice President and Chief Financial Officer for Liberty Bay Credit Union in Braintree, Massachusetts. Joel earned his B.A. in Economics from Whitman College and received a Masters of Finance degree from Seattle University.

**RHONDA P. MORRIS – Senior Vice President and Chief Risk Officer**

Rhonda brings 38 years of Bank Operations, Compliance, Human Resources, Risk and Audit expertise to the Liberty Bank team. Rhonda joined the bank in 2012 and oversees the bank's Operations, Compliance, Information Technology, Security, Training, Audit and Human Resources, and serves as chair of the Technology Oversight Committee. Rhonda also serves on other Committees, including Senior Management, Audit, Marketing and Customer Experience. Ms. Morris serves on the Compliance Committee and the Education Committee for the Washington Bankers Association (WBA), bringing training and leadership development programs to bankers across the state and founded and still leads a Community Bank Operations Networking Group.

**Community-Oriented Board of Directors**

Our management team operates under the direction of our Board. Substantially all of our directors are well known in our primary service area through business and community involvement. These directors are dedicated to our success and play an important part in marketing us in the community.

**ERIC L ANDERSON**

Eric is a licensed engineer and former owner of Art Anderson Associates, a third generation multi discipline design firm. A graduate of the United States Naval Academy, Eric served three deployments to S.E. Asia before returning to Bremerton in 1976 and taking over the company in 1980. Under his direction the firm expanded from naval ship design to include ferry and research vessels, industrial facilities, marinas,

energy conservation, federal, state and military building design. Mr. Anderson has served on numerous public boards including Puget Sound Regional Council transit, Seattle Regional Transit, Leadership Kitsap, Olympic Private Industry Council and chaired regional associations including Washington Professional Engineers, Armed Services YMCA, Bremerton Chamber of Commerce. He is the chair of the Liberty Bank Governance Committee and a member of the Loan Committee.

#### **MICHELLE CONNER**

Michelle Connor is president and CEO of Forterra, a real estate non-profit dedicated to securing and preserving land in the Pacific Northwest. During her 25-year career with this premier conservation non-profit, she has worked on more than 400 transactions worth \$500 million and provided executive leadership in all phases of public policy, community engagement, negotiations, fundraising, and innovative finance. She has a track record of community engagement including participating in the International Women's Forum, Skagit Environmental Endowment Commission, USDA National Urban and Community Forest Advisory Council, and the Urban Land Institute. Michelle, who grew up on Budd Inlet in South Puget Sound and now lives in Seattle, is a third-generation Washingtonian. She earned her M.S. from the University of Washington's College of Forest Resources and B.A. from the Evergreen State College.

#### **RICHARD C. DARROW**

*See Experienced Senior Management above.*

#### **ALAN W. FULP**

*See Experienced Senior Management above.*

#### **JOSEPH C. MICHELSEN**

Joseph C. Michelsen is a Commercial Realtor with Windermere Commercial Real Estate. Mr. Michelsen has been involved in commercial real estate in Kitsap County and the Puget Sound region since 1979 and is experienced in brokerage, development, leasing and sales. In addition to his experience in real estate, he was a vice president in charge of commercial assets in a timber company, and a project manager in moving an industrial firm from Seattle to Poulsbo. Mr. Michelsen is a long-time Northwest resident. He has a BA from Western Washington State University and an MA from Pepperdine University. After graduation he became a Navy pilot and was on active duty until 1979. Mr. Michelsen serves on the board of directors of Pacific Northwest Title of Kitsap County and West Puget Sound Youth for Christ. He is President of Kitsap Commercial & Investment Brokers Association - Kitsap County.

#### **WILLIAM L. PARNELL (CHAIR)**

William L. Parnell is retired after a long career in the construction industry in the Puget Sound area. Mr. Parnell led the local Building Industry Association, was elected as President of the State Association in 1987, then as the National Representative for Washington State. He was inducted into the Hall of Fame in 2001. Mr. Parnell has been active in the community, serving on the Kitsap County Planning Commission from 1980 to 1995 and Chairman of the Kitsap Developers Council in 2004. Mr. Parnell moved to Washington State in 1958 and received his Bachelor of Science degree from the University of Washington in Microbiology in 1965. Mr. Parnell has lived in the Kingston area since 1962.

#### **SUSAN L. PRESTON**

Susan Preston is the Managing Partner of SeaChange Fund, committed to fostering entrepreneurial growth in the Pacific Northwest through early-stage investments. Susan has taught in the MBA program and was the Buerk Endowed Fellow for Entrepreneurship at the University of Washington. Susan also serves as immediate past chair and a lead instructor for the Angel Resource Institute, a global investor and entrepreneur education organization. Susan is a world-recognized expert in angel financing and angel organizations and is the author of numerous articles, white papers and books on angel financing. She is a national and international consultant and speaker on economic development, angel and venture financing,

to date in more than 20 countries. Susan spent much of her earlier career in senior management positions in public and private companies, from general counsel to CEO. Susan has held more than 30 board positions with public and privately held corporations and has served on numerous non-profit boards. She has been profiled in Red Herring, Inc., Smart Money, Worth and other local and national publications. She has won numerous awards for her leadership, including Senator Cantwell's Women of Valor award, which was presented by then Vice President Joe Biden. Ms. Preston received her JD, cum laude, from Seattle University School of Law and her BS, magna cum laude, Phi Beta Kappa, in Microbiology and Public Health from Washington State University.

### **RONALD E. ROARK**

Mr. Roark is the Chairman and Chief Executive Officer of Crown NorthCorp Inc. (Crown), an international specialty financial services firm which he co-founded in 1977. Crown was a SEC reporting company from 1994 until 2010. He recently served as Vice Chairman of the Supervisory Board of Crown's former subsidiary, Crown Westfalen Bank AG (Germany), where he was Chairman of all credit committees and servicing affiliates of the bank which operated in the US and Europe. He is a former Director and investor in The Bank of Maine where he was the Chair of the Board's Risk Committee and a member of both its Loan Committee and Compensation Committees. Crown has served as a primary contractor for various agencies including the RTC and FDIC and was one of the founding members of the CMBS industry. Mr. Roark holds an undergraduate degree in marketing and finance from Drake University and served as past Chair of the Board of Trustees and its Audit committee. Mr. Roark is a former USAF Air Traffic Control Squadron Commander and was a recipient of its Meritorious Service Medal. Mr. Roark moved with his wife Jui Ling to Gig Harbor WA for eventual retirement in 2002. He currently is the majority owner and Managing Director of The Gig Harbor Marina and Boatyard which recently received the Gig Harbor Business of the year award.

### **JEFFREY M. UBERUAGA**

Jeffrey M. Uberuaga has been the co-owner and operator of the Red Apple Stores in both Poulsbo and Bremerton since 2010. Prior to that, Mr. Uberuaga worked at local car dealership since 1989, which he helped establish, building it into a company with more than 60 employees and selling his interest in 2010. Mr. Uberuaga grew up in North Kitsap and graduated from North Kitsap High School and has lived and worked in Poulsbo during his entire career. Mr. Uberuaga is the fire commissioner for Poulsbo fire department, Kitsap County Fire District #18. He is a member of the Northwest Grocery Association, is on the board of the Poulsbo Historical Society, and is very active in community projects.

### **Local Services and Decision Making**

We believe our customers enjoy a professional banking environment with local decision-making and personal access to bankers who strive to understand their financial needs. We seek to be identified as a community bank that cares about our customers. In order to accomplish this, our management team intends to continue to hire local bankers who are recognized for their community involvement and successful banking background.

### **Supervision and Regulation**

Following the Reorganization, the Bank will continue to be subject to the same banking laws and regulations, and to supervision, regulation and examination by the FDIC and the DFI, as it has been prior to the Reorganization.

### **Legal Proceedings**

Neither the Bank nor any of its properties is the subject of any material legal proceedings.

## **Market for Bank Common Stock**

The Bank's common stock is not currently traded on an exchange.

## **INFORMATION ABOUT THE HOLDING COMPANY**

Liberty Northwest Bancorp was incorporated as Liberty Northwest Bancorp, Inc. under the WBCA on June 29, 2020 at the direction of the Bank's Board. Liberty Northwest Bancorp was formed to acquire the Bank's common stock and to engage in business as a bank holding company. Copies of Liberty Northwest Bancorp's Articles of Incorporation are attached to this proxy statement/prospectus as Exhibit B.

### **Liberty Northwest Bancorp, Inc.**

Liberty Northwest Bancorp, Inc. (Liberty Northwest Bancorp) is currently a non-operating entity. Upon the completion of the Reorganization, the Bank will become a wholly-owned subsidiary of Liberty Northwest Bancorp, and each shareholder of the Bank will become a shareholder of Liberty Northwest Bancorp with substantially the same proportional ownership interest therein as they presently hold in the Bank.

Immediately after completion of the Reorganization, it is expected that Liberty Northwest Bancorp will not engage in any business activity other than to hold all of the stock of the Bank. Liberty Northwest Bancorp does not presently have any arrangements or understandings regarding any acquisition or merger opportunities. It is anticipated, however, that Liberty Northwest Bancorp may, in the future, pursue other investment opportunities, including possible diversification through acquisitions and mergers, although no such transaction is contemplated at this time.

### **Properties**

Liberty Northwest Bancorp is not initially expected to own or lease real or personal property. Instead, it intends to use the premises, equipment and furniture of the Bank without the direct payment of any rental fees to the Bank.

### **Employees**

At the present time, Liberty Northwest Bancorp does not intend to employ any persons. Initially, Liberty Northwest Bancorp will utilize the services of the management and staff of the Bank from time-to-time and will reimburse the Bank for such services. If Liberty Northwest Bancorp acquires other institutions or pursues other lines of business, it may, at such time, hire additional employees.

### **Management – Directors**

All of the current directors of the Bank will serve as directors of Liberty Northwest Bancorp until the next Special Meeting of shareholders. Information about those directors can be found in the section above entitled "*Community-Oriented Board of Directors*".

### **Management – Executive Officers**

The executive officers of Liberty Northwest Bancorp are Richard C. Darrow – President and Chief Executive Officer, and Joel Keller – Secretary. Liberty Northwest Bancorp's Bylaws permit the appointment of other officers. Shareholders do not have the right to elect officers; rather, all officers are

appointed to their respective positions by the board of directors to serve until they resign or are removed by the board.

### **Compensation of Directors and Executive Officers Director Compensation**

Liberty Northwest Bancorp's Bylaws permit its directors to receive reasonable compensation as determined by a resolution of the board of directors. Liberty Northwest Bancorp has not paid any directors' fees since its incorporation. Liberty Northwest Bancorp may, pursuant to its Bylaws, begin to compensate its directors at some time in the future.

### **Compensation of Executive Officers**

All of the executive officers of Liberty Northwest Bancorp are also executive officers of the Bank. These individuals are compensated for their services as officers of the Bank.

### **Additional Supervision and Regulation**

If the Reorganization is completed, as a registered bank holding company, Liberty Northwest Bancorp will become subject to regulation and supervision by the Federal Reserve. The following is a summary of federal and state laws and regulations applicable to financial holding companies.

#### ***Liberty Northwest Bancorp Obligations***

Under current law and Federal Reserve policy, a bank holding company is expected to act as a source of financial and managerial strength to its subsidiary bank or banks and to maintain resources adequate to support each subsidiary bank. This support may be required at times when the bank holding company may not have the resources to provide it. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the Bankruptcy trustee and entitled to priority of payment. Financial holding companies also have minimum capital requirements which must be maintained to stay in regulatory compliance.

#### ***Dividend Restrictions***

The Federal Reserve's policy regarding dividends is that a bank holding company should not declare or pay a cash dividend which would impose undue pressure on the capital of its bank or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company's financial position. The Federal Reserve believes that a bank holding company should not initiate or continue cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition.

#### ***Restrictions on Affiliate Transactions***

Transactions between Liberty Northwest Bancorp, the Bank and any nonbank subsidiaries are subject to a number of restrictions. Federal law, specifically Sections 23A and 23B of the Federal Reserve Act, imposes restrictions and limitations on the Bank from making extensions of credit to, or the issuance of a guarantee or letter of credit on behalf of, Liberty Northwest Bancorp or other affiliates, the purchase of, or investment in, stock or other securities thereof, the taking of such securities as collateral for loans, and the purchase of assets of Liberty Northwest Bancorp or other affiliates. Such restrictions and limitations prevent Liberty Northwest Bancorp or other affiliates from borrowing from the Bank unless the loans are



secured by marketable obligations of designated amounts. Furthermore, such secured loans and investments by the Bank to or in Liberty Northwest Bancorp or to or in any other non-banking affiliate are limited, individually, to ten percent (10%) of the respective subsidiary bank's capital and surplus, and such secured loans are limited in the aggregate to twenty percent (20%) of the respective subsidiary bank's capital and surplus. All such transactions must be on terms that are no less favorable to the Bank than those that would be available from nonaffiliated third parties. Federal Reserve policies also forbid the payment by bank subsidiaries of management fees which are unreasonable in amount or exceed the fair market value of the services rendered and prohibit the payment of management fees if it would cause the Bank to become undercapitalized.

## SELECTED HISTORICAL FINANCIAL DATA

### Liberty Bank

The following information is derived from the Bank's financial statements for the fiscal years ended December 31, 2019 and 2018. A copy of the financial statement is available on [www.libertybanknw.com](http://www.libertybanknw.com). You should not assume the results of operations for any past periods indicate results for any future period.

(\$ dollars)	For the Year Ended December 31 (Audited)	For the 6 Months Ended June 30 (Unaudited)	
	2019	2018	2020
Total interest income	5,119	4,732	3,195
Total interest expense	1,059	709	382
Net interest income	4,059	4,023	2,812
Provision for loan losses	15	39	173
Total non-interest income	161	255	162
Total non-interest expense	4,017	3,559	2,464
Federal income tax expense	41	152	71
Net Income	148	527	267
Total assets	128,237	115,479	179,824
Total loans, net	80,977	78,207	135,278
Total deposits	104,317	92,400	128,268
Total shareholders' equity	11,564	9,775	12,033
Earnings per share			
Basic	0.092	0.367	0.167

### Liberty Northwest Bancorp, Inc. (Liberty Northwest Bancorp)

As of the date of this proxy statement/prospectus, Liberty Northwest Bancorp has no assets and liabilities, and no significant business or operating history.

Upon completion of the Reorganization, Liberty Northwest Bancorp's assets (on a parent-only basis) will consist solely of its investment in the common stock of the Bank, and, assuming no dissenters' rights are exercised, Liberty Northwest Bancorp's shareholders' equity will equal the shareholders' equity of the Bank immediately prior to the Reorganization.

## **COMPARISON OF SHAREHOLDERS' RIGHTS**

This section summarizes the principal similarities and differences between your rights as a shareholder of the Bank and what your rights will be as a shareholder of Liberty Northwest Bancorp if the Reorganization is completed. This discussion does not necessarily describe all of the similarities and differences that may be important to you and is qualified in its entirety by reference to the Washington Business Corporations Act and the Washington Commercial Bank Act, and the Articles of Incorporation and the Amended Articles of Incorporation of the Bank (attached to this proxy statement/prospectus as Exhibit C) and the Articles of Incorporation of Liberty Northwest Bancorp (attached to this proxy statement/prospectus as Exhibit B).

The differences in shareholder rights exist by virtue of the differences between the provisions of the WBCA and the Washington Commercial Bank Act (many of which are imposed by law and cannot be changed), and by virtue of differences between the provisions of the Amended Articles of Incorporation of the Bank and the Articles of Incorporation of Liberty Northwest Bancorp (which are, generally, differences that Liberty Northwest Bancorp is choosing to implement to facilitate the operation of the organization under the holding company structure, and which are consistent with the reasons for the Reorganization).

### **Principal Similarities**

The principal similarities between the rights of a shareholder of the Bank and what the rights of a shareholder of Liberty Northwest Bancorp will be if the Reorganization is completed include:

- The right to one vote for every share held;
- The right to elect directors by a plurality vote and the absence of cumulative voting;
- The absence of preemptive rights to acquire additional shares;
- All directors stand for election annually, the directors are not elected to serve staggered terms;
- The right to share in the assets distributed upon liquidation in proportion to the number of shares owned;
- The right to share proportionally in dividends and other distributions made in respect of the common stock;
- The right to have an Special Meeting of shareholders;
- The right to nominate persons for election to the board of directors, or make other proposals for consideration by the shareholders at an annual shareholders' meeting, provided the nomination or proposal complies with the timing and information requirements specified in the bylaws;

- The broadest limitations of personal liability of a director for monetary damages to the corporation or shareholders permitted by Washington State law; and
- The Board of both entities can take into consideration certain social and economic effects when considering a proposed merger or responding to a tender offer.

## **Principal Differences**

The principal differences between your rights currently as a shareholder of the Bank and what your rights as a shareholder of Liberty Northwest Bancorp will be if the Reorganization is approved include, but are not necessarily limited to, the following:

### ***More Common Stock Authorized***

The Bank's Articles of Incorporation authorize the issuance of up to 10,000,000 shares of common stock, and no shares of preferred stock. As of the date of this proxy statement/prospectus, 1,602,419 shares have been issued and are outstanding in the hands of the Bank's current shareholders; 191,752 shares have been issued under the Bank's 2009 Incentive Stock Plan and either not yet exercised or not yet vested. The 2009 Incentive Stock Plan expired on June 5, 2019 and no additional shares can be issued under the 2009 Incentive Stock Plan.

Liberty Northwest Bancorp's Articles of Incorporation authorize the issuance of up to 50,000,000 shares of common stock. The maximum number of shares of Liberty Northwest Bancorp common stock that will be issued to the holders of Bank stock in the Reorganization is 1,602,419 shares (which assumes that none of the Bank shareholders exercise dissenters' rights).

There are several reasons Liberty Northwest Bancorp's board of directors may elect to issue additional shares of common stock, including to raise capital (to support growth or enhance Liberty Northwest Bancorp's and the Bank's capital positions) or as consideration to acquire another bank or bank holding company.

In any event, the future issuance of additional shares of common stock, following completion of the Reorganization, will, in most cases, be dilutive to existing shareholders. See "*THE REORGANIZATION – Reasons for the Reorganization*" beginning on page 10.

### **Preferred Stock Authorized**

The Bank's Articles of Incorporation currently do not permit the issuance of preferred stock. Liberty Northwest Bancorp's Articles of Incorporation authorize 100,000 shares of preferred stock that Liberty Northwest Bancorp's board of directors will be able to issue at any time, for any purpose and for any consideration as they may deem appropriate. As with the additional shares of common stock available for issuance, the existence of authorized but unissued shares of preferred stock will give Liberty Northwest Bancorp's board of directors more flexibility in raising capital and/or pursuing acquisitions, and the board will have the discretion to provide rights to the holders of preferred stock that may interfere with or be superior to your rights as a common stock shareholder. See "*THE REORGANIZATION – Reasons for the Reorganization*" beginning on page 10.

Although Liberty Northwest Bancorp will not issue any shares of the Preferred Stock in connection with the Reorganization, and it is uncertain when, if ever, shares of Preferred Stock will be issued, if such shares are ever issued, they may have a dilutive effect on the holders of Liberty Northwest Bancorp common

stock, and will also have some superior liquidation rights over the common stock. See “*THE REORGANIZATION – Reasons for the Reorganization*” beginning on page 10.

### **Other Differences in the Articles**

In addition to the foregoing provisions related to common and preferred stock, Liberty Northwest Bancorp’s Articles of Incorporation also contain a number of provisions that are different, or in addition to, the Bank’s existing Amended Articles of Incorporation.

#### ***Number of Directors***

Article IV of the Bank’s Articles of Incorporation provides that the size of the Board shall be not less than five (5) nor more than fifteen (15) directors. Article III of Liberty Northwest Bancorp’s Articles of Incorporation states that the size of the Board shall be fixed as provided in the Bylaws.

#### ***Amendment or Repeal of Articles and Bylaws***

Article XIII of the Bank’s Articles of Incorporation provides that the articles may be amended by the affirmative vote of two-thirds (2/3) of the shareholders. Liberty Northwest Bancorp’s Articles of Incorporation reserves the right to amend or repeal any provisions contained in these Articles of Incorporation in any manner now or hereafter permitted by law. All rights of shareholders of the Corporation and all powers of directors of the Corporation are granted subject to this reservation.

#### ***Quorum***

The Bank Articles are silent on the issue of a quorum, and the quorum requirements are therefore governed by the default statutes in Washington. The statutes generally require the vote, in person or by proxy, of a majority of outstanding shares for routine matters, such as the election of directors, and two-thirds (2/3) affirmative votes of all shares for certain non-routine matters such as amendment of the Articles or a merger transaction. The Articles of Liberty Northwest Bancorp provide that, except where otherwise provided by law or by the articles of incorporation, shareholders representing, in person or by proxy, one-third (1/3) of the shares then issued and outstanding shall constitute a quorum, and on certain major transactions such as a plan of merger or share exchange, the sale, lease, exchange, or other disposition of all or substantially all of the property of Liberty Northwest Bancorp not in the usual and regular course of business, or dissolution of Liberty Northwest Bancorp, shall be a majority of all of the votes entitled to be cast by each voting group entitled to vote thereon.

#### ***Indemnification***

The Articles of Incorporation of Liberty Northwest Bancorp provides for indemnification of directors, officers, employees and agents to the maximum extent permitted. The Articles of Incorporation of the Bank do not address indemnification which is covered in the Bank’s bylaws. The Indemnification provision of the bylaws of the Bank are similar to those in the Articles of Incorporation of Liberty Northwest Bancorp.

### **DISSENTERS’ RIGHTS**

The Revised Code of Washington 30A.04.560 and 30A.04.565, the full text of which is attached to this proxy statement/prospectus as Exhibit D, set forth the procedure to be followed by any shareholder of the Bank who wishes to dissent from the Reorganization and obtain the value of his or her shares of Bank common stock in cash instead of receiving Liberty Northwest Bancorp common stock in the

Reorganization. The following summary is qualified in its entirety by reference to the full text of the applicable statutes set forth on Exhibit D.

In order to exercise his or her dissenters' rights, a shareholder must follow all of the steps as outlined in this proxy statement/prospectus and in RCW 30A.04.560, attached hereto as Exhibit D. A vote against the Reorganization will not, by itself, satisfy the notice requirements with respect to the assertion of dissenters' rights. Among other things, to assert dissenters' rights, a shareholder must either (i) vote against the Reorganization at the Special Meeting, or (ii) deliver to the Bank, before the vote on the Reorganization is taken, written notice of the shareholder's intent to demand payment for his or her shares if the proposed Reorganization is effected, and refrain from voting his or her shares in favor of the Reorganization. If a shareholder has delivered the required written notice to the Bank, he or she is not required to vote his or her shares against the proposed Reorganization but must simply refrain from voting his or her shares in favor of the proposed Reorganization. Voting AGAINST or ABSTAIN, or not voting at all, are all sufficient to preserve the shareholder's dissenters' rights. In addition, within thirty (30) days after the date of shareholder approval, the dissenting shareholder must confirm in writing his or her dissent to the transaction and surrender his or her Bank stock certificates (if physical certificates are held). Such notice should be addressed to: Richard C. Darrow, Chief Executive Officer, Liberty Bank, 19917 7th Ave NE, Poulsbo, WA 98370.

As soon as the Reorganization takes place or upon receipt of a payment demand, whichever is later, the Bank will pay each dissenting shareholder who has complied with the demand requirements the amount that the Bank estimates to be the fair value of the dissenting shareholder's shares. The payment will be accompanied by, among other things, the Bank's latest available financial statements, a statement of the Bank's estimate of the fair value of the shares, and an explanation of how the fair value was calculated. The value of the shares of any dissenting shareholder shall be determined, as of the day prior to the date of the shareholder action approving the Reorganization, by an appraisal made by a committee of three persons. The committee shall be comprised of one representative appointed by two-thirds (2/3) of dissenting shareholders, one representative appointed by the directors of the bank holding company, and one representative selected by the two other representatives so selected. The valuation agreed upon by any two (2) appraisers shall govern. The dissenting shareholders shall bear, on a *pro rata* basis based on the number of dissenting shares owned, the cost of their appraisal and one-half (1/2) of the cost of the third appraisal, and Liberty Northwest Bancorp shall bear the cost of its appraisal and one-half (1/2) of the cost of the third appraisal. If the appraisal is not completed within ninety (90) days after the effective date of the Reorganization, the DFI shall cause an appraisal to be made which shall be final and binding upon all parties. The cost of such appraisal shall be borne equally by the dissenting shareholders and Liberty Northwest Bancorp. The dissenting shareholders shall share their half of the cost on a *pro rata* basis based on the number of dissenting shares owned.

## **FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary description of the material anticipated federal income tax consequences of the Reorganization generally applicable to the shareholders of the Bank. This summary is not intended to be a complete description of all of the federal income tax consequences of the Reorganization. No information is provided with respect to the tax consequences of the Reorganization under any other tax laws, including applicable state, local and foreign tax laws. In addition, the following discussion may not be applicable with respect to specific categories of shareholders, including but not limited to corporations, partnerships and trusts; dealers in securities; financial institutions; insurance companies or tax exempt organizations; persons who are not United States citizens or resident aliens or domestic entities; persons who are subject to alternative minimum tax; persons who acquired shares of Bank stock by exercising employee stock options or otherwise as compensation.

No ruling has been or will be requested from the Internal Revenue Service with respect to the tax effects of the Reorganization. The federal income tax laws are complex, and a shareholder's individual circumstances may affect the tax consequences to the shareholder.

The Bank and Liberty Northwest Bancorp have received an opinion from Keller Rohrback L.L.P. to the effect that, for federal income tax purposes:

- The Reorganization will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").
- Neither the exchange of Bank common stock solely for Liberty Northwest Bancorp common stock nor the conversion of Bank stock options or restricted stock grants into Liberty Northwest Bancorp stock options or restricted stock grants in the Reorganization will cause the recognition of gain or loss to the shareholders of Bank.
- Neither Bank nor Liberty Northwest Bancorp will recognize gain or loss as a result of the Reorganization.
- The aggregate federal income tax basis of Liberty Northwest Bancorp common stock received pursuant to the Reorganization (including any fractional share deemed received and exchanged for cash) will be the same as the basis of shares of Bank common stock exchanged therefore, and the holding period of such Liberty Northwest Bancorp common stock (including any fractional share deemed received and exchanged for cash) will include the holding period of the Bank common stock exchanged therefor.
- A Bank shareholder who exercises dissenters' rights generally will recognize gain or loss equal to the difference between the amount of money received by such shareholder and the tax basis of such shareholder's Bank common stock.

The tax opinion is based on customary assumptions and certain factual representations by the management of Liberty Northwest Bancorp and the Bank.

**The board of directors unanimously recommends that the shareholders vote "FOR" the approval of the Reorganization Plan.**

## **PROPOSAL 2**

### **TO APPROVE THE LIBERTY BANK 2020 EQUITY INCENTIVE PLAN.**

The board of directors is submitting for approval by the shareholders the Liberty Bank 2020 Equity Incentive Plan (the "Equity Incentive Plan"). This Plan, if approved, will replace the Liberty Bank 2009 Incentive Stock Option Plan ("2009 Plan"), which expired on June 5, 2019. No additional stock options or restricted stock awards can be granted under the 2009 Plan.

The Board of Directors believes stock options and other stock-based incentives play an important role in retaining the services of outstanding personnel and in encouraging such persons to have a greater

financial investment in the Bank. The Board of Directors has approved the Liberty Bank 2020 Equity Incentive Plan and directed that it be submitted to shareholders for approval.

The proposed Plan is set forth in Exhibit F. Primary aspects of the proposed Plan are as follows:

### **General Information**

*Plan Administration.* The Plan is administered by the Governance Committee of the Board of Directors, which is comprised of non-employee directors (the “Committee”). The Committee establishes the terms and conditions of awards granted under the Plan, subject to certain limitations in the Plan.

*Participants.* The Committee may grant Incentive Stock Options, Nonqualified Stock Options, Restricted Stock Grants to employees and directors.

*Shares Available.* If the Bank’s 2020 Equity Incentive Plan is approved, the Bank is authorized to Award 48,610 Shares of Common Stock under the Plan, which if issued, when added to the Awards currently outstanding, would equal 15 percent of the currently outstanding Shares. The Board may adjust the shares authorized to be issued under the Plan annually to maintain the percentage of outstanding shares set forth above, in the event additional Shares are issued to shareholders for consideration, provided that the total number of shares available for issuance under the Plan cannot exceed 650,000. All of the Awarded Shares may, but need not, be Incentive Stock Options. No more than 45 percent of the Awarded Shares can be Restricted Stock Awards. The number of Shares underlying an Award not issued as a result of a cancellation, termination, expiration, forfeiture, or lapse for any reason of any Award shall again be available for issuance under the Plan. If there is a stock split, stock dividend or other relevant change affecting the Bank’s shares, appropriate adjustments will be made in the number of shares that may be issued or transferred in the future and in the number of shares and price of all outstanding grants made before such event.

### **Grants Under the Plan**

The following forms of equity compensation are authorized to be issued by the Committee under the terms of the Plan:

- Stock Options qualifying as incentive stock options and nonqualified stock options. The term of an option shall be fixed by the Committee, but shall not exceed ten years. The option price shall not be less than the fair market value of the Bank’s Common Stock on the date of grant.
- Restricted Stock Grants may be awarded to eligible Participants which may have vesting requirements and/or performance goals. The Committee may establish a period of time during which the grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of Common Stock (“Restriction Period”). During this period, the grantee would be entitled to vote the shares and, at the discretion of the Committee, receive dividends. Each certificate will bear a legend giving notice of the restrictions in the grant.

### **U.S. Federal Income Tax Consequences**

Following is an explanation of the U.S. federal income tax consequences for option holders who are subject to tax in the United States.

*Stock Options.* The grant of an incentive stock option or a nonqualified stock option would not result in income for the grantee or in a deduction for the Bank.

The exercise of a nonqualified stock option would result in ordinary income for the grantee and a deduction for the Bank measured by the difference between the option price and the fair market value of the shares received at the time of exercise. Income tax withholding would be required.

The exercise of an incentive stock option would not result in income for the grantee if the grantee (i) does not dispose of the shares within two years after the date of grant or one year after the transfer of shares upon exercise, and (ii) is an employee of the Bank or a subsidiary of the Bank from the date of grant and through and until three months before the exercise date. If these requirements are met, the basis of the shares upon later disposition would be the option price. Any gain will be taxed to the employee as long-term capital gain and the Bank would not be entitled to a deduction. The excess of the market value on the exercise date over the option price is an item of tax preference, potentially subject to the alternative minimum tax.

If the grantee disposes of the shares prior to the expiration of either of the holding periods, the grantee would recognize ordinary income and the Bank would be entitled to a deduction equal to the lesser of the fair market value of the shares on the exercise date minus the option price or the amount realized on disposition minus the option price. Any gain in excess of the ordinary income portion would be taxable as long-term or short-term capital gain.

*Restricted Stock Grants.* The grant of Restricted Stock should not result in income for the grantee or in a deduction for the Bank for federal income tax purposes, assuming the shares transferred are subject to restrictions resulting in a “substantial risk of forfeiture” as intended by the Bank. If there are no such restrictions, the grantee would recognize ordinary income upon receipt of the shares. Dividends paid to the grantee while the stock remained subject to restriction would be treated as compensation for federal income tax purposes. At the time the restrictions lapse, the grantee would receive ordinary income and the Bank would be entitled to a deduction measured by the fair market value of the shares at the time of lapse. Income tax withholding would be required.

## **Other Information**

The Board may amend the Plan as it deems advisable provided that no change may be made in the persons eligible to participate in the Plan or in the number of shares allocated to the Plan without prior shareholder approval. Options are not assignable or transferable except for limited circumstances upon death, or pursuant to rules that may be adopted by the Committee.

Participants who will participate in the Plan in the future and the amounts of their allotments are to be determined by the Committee subject to any restrictions outlined above. Since no such determinations have yet been made, it is not possible to state the terms of any individual options which may be issued under the Plan or the names or positions of, or respective amounts of the allotments to, any individuals who may participate.

**The board of directors unanimously recommends that the shareholders vote “FOR” the approval of the Liberty Bank 2020 Equity Incentive Plan.**



**Exhibit A**

**REORGANIZATION AGREEMENT AND PLAN OF SHARE EXCHANGE,  
DATED JUNE 25, 2020, BETWEEN  
LIBERTY BANK AND LIBERTY NORTHWEST BANCORP, INC.**

## **REORGANIZATION AGREEMENT AND PLAN OF SHARE EXCHANGE**

This REORGANIZATION AGREEMENT AND PLAN OF SHARE EXCHANGE (the “Reorganization Plan”), dated as of June 25, 2020 is entered into between Liberty Bank (the “Bank”), a state-chartered bank organized under the Washington commercial bank act, and Liberty Northwest Bancorp, Inc. (the “Corporation”), a business corporation organized under the Washington business corporation act:

### **RECITALS**

The parties hereto acknowledge the following to be true and correct:

1. Bank is a Washington state banking corporation with its principal office in the City of Poulsbo, County of Kitsap, State of Washington. The Corporation is a Washington state business corporation with its principal offices in the City of Poulsbo, County of Kitsap, State of Washington.

2. Bank has 10,000,000 shares of common stock authorized, of which 1,602,419 shares are currently outstanding.

3. As of the date hereof, the Corporation has 100,000 shares of serial preferred stock authorized, none of which are outstanding, and 50,000,000 shares of common stock authorized, no shares of which will be outstanding at the time of the reorganization referred to herein.

4. The boards of directors of each of the Bank and the Corporation have deemed advisable a share exchange transaction between the Bank and the Corporation (the “Share Exchange”) in order to establish a holding company structure and have approved this Reorganization Plan and authorized its execution and delivery.

5. The parties intend that the Share Exchange shall qualify as a tax-free reorganization under the provisions of Section 368 of the Internal Revenue Code of 1986, as amended.

In consideration of the foregoing and to achieve the expressed goals of the entities, the Bank and the Corporation hereby enter into this Reorganization Plan and prescribe the terms and conditions of the Share Exchange and the mode of carrying it into effect:

### **ARTICLE 1. The Acquiring Corporation**

The name of the acquiring corporation is Liberty Northwest Bancorp, Inc. The name of the entity whose shares will be acquired is Liberty Bank.

### **ARTICLE 2. Terms and Conditions of the Exchange**

1. When the Share Exchange becomes effective, each issued and outstanding share of common stock of the Bank (excluding shares held by shareholders who perfect their dissenters’

rights, if any) shall be automatically converted, without any action on the part of the holder, into the right to receive one share of common stock of the Corporation. As a result of the Share Exchange, the Corporation shall become the sole holder of common stock of the Bank, and the Bank will continue in existence as a wholly-owned subsidiary of the Corporation. The articles of incorporation, bylaws, corporate identity, charter, and officers and directors of the Bank will not be changed as a result of the Share Exchange. Consequently, as a result of the Share Exchange, the existing shareholders of the Bank will become the only holders of common stock of the Corporation and the Corporation will have 1,602,419 shares of common stock issued and outstanding, together with any shares issued after the date of this Plan of Share Exchange and the Effective Date thereof (assuming no exercise of dissenter's rights, no exercises of options or vesting of restricted stock awards and no issuances of common stock prior to the Effective Date).

2. When the Share Exchange becomes effective, each issued and outstanding option and restricted stock award to acquire shares of common stock of the Bank shall be automatically converted into an option or restricted stock award, as the case may be, to acquire shares of common stock of the Corporation, in the same amount and upon the same terms and conditions as were in effect prior to the Share Exchange. Consequently, as a result of the Share Exchange, the Bank will have no outstanding options or restricted stock awards to acquire common stock of the Bank, and the Corporation will have options outstanding to acquire 167,752 shares of common stock of the Corporation and restricted stock awards outstanding to acquire 24,000 shares of common stock of the Corporation (assuming no new awards, or the issuances, expirations, terminations or exercises of options or restricted stock awards prior to the Effective Date).

3. When the Share Exchange becomes effective, and in conjunction with the conversion of outstanding options of the Bank for options of the Corporation, the Corporation shall adopt and assume the Bank's 2009 Equity Incentive Plan (the "Equity Plan"), which shall, after consummation of the Share Exchange, be plans of the Corporation.

4. Consummation of the Share Exchange is conditioned upon approval by the holders of two-thirds (2/3) of the outstanding shares of common stock of the Bank as required by law, and receipt of any required non-objections, consents or approvals from regulatory agencies, including the State of Washington Department of Financial Institutions and the Board of Governors of the Federal Reserve System.

5. The Reorganization Plan shall be submitted to the holders of common stock of the Bank for approval at a special shareholders' meeting to be called and held in accordance with the applicable provisions of law and the Articles of Incorporation and Bylaws of the Bank. The Bank and the Corporation shall proceed expeditiously and cooperate fully in the procurement of any consents or approvals, and the taking of any other action, and the satisfaction of all other non-objections and requirements, prescribed by law or otherwise, necessary for consummation of the Share Exchange.

6. Upon satisfaction of the requirements of law and the conditions contained in the Reorganization Plan, the Share Exchange shall become effective upon the filing of the Articles of Share Exchange with the Washington State Department of Financial Institutions (the "Effective Date").

7. One half of the expenses of the reorganization, including filing fees, printing costs, mailing costs, accountant's fees and legal fees (the "Expenses") shall be paid by the Bank, and one half paid by the Corporation if and when the Reorganization Plan becomes effective. If reorganization is not approved, all Expenses shall be borne by the Bank.

8. If the shareholders approve the reorganization by a two-thirds (2/3) vote of the shares entitled to vote under the terms of such shares, and if it is thereafter approved by the Washington State Department of Financial Institutions and consummated, any shareholder of the Bank who has voted shares against such reorganization at such meeting or has given notice in writing at or prior to such meeting to the Bank that he or she dissents from the plan of reorganization and has not voted in favor of the reorganization, shall be entitled to receive the value of the shares determined as provided in RCW 30.04.565. Such dissenter's rights must be exercised by making written demand which shall be delivered to the Bank at any time within thirty (30) days after the date of shareholder approval, accompanied by the surrender of the appropriate stock certificates.

9. Nothing in this Reorganization Plan, express or implied, other than the right to receive one (1) share of common stock of the Corporation in exchange for each outstanding share of common stock of the Bank and the right to one option to acquire shares of the common stock of the Corporation upon conversion of each outstanding option and the vesting of any restricted stock award to acquire common stock of the Bank, all pursuant to this Reorganization Plan, is intended to or shall confer upon any person other than the parties hereto any rights, benefits, or remedies of any nature whatsoever under or by this Reorganization Plan.

### **ARTICLE 3.**

#### **Manner and Basis of Exchanging Shares, Options and Restricted Stock Awards**

On the Effective Date:

1. Each share of common stock of the Bank issued and outstanding immediately prior to the Effective Date shall, without any action on the part of the holder thereof, be converted into the right to receive one share of common stock of the Corporation.

2. Each holder of common stock of the Bank shall cease to be a shareholder of the Bank and the ownership of all shares of the issued and outstanding common stock of the Bank shall thereupon automatically vest in the Corporation as the acquiring corporation.

3. As of the Effective Date, outstanding certificates representing shares of the common stock of the Bank shall thereafter represent shares of the common stock of the Corporation, and such certificates may, but need not, be exchanged by the holders thereof, after the Share Exchange becomes effective, for new certificates for the appropriate number of shares bearing the name of the Corporation.

4. The options to purchase shares of common stock of the Bank which have been granted by the Bank pursuant to its Equity Plan or otherwise shall be deemed to be options granted by the Corporation with the same terms and conditions and for the same number of shares of common stock of the Corporation. Restricted stock awards which have been granted by the Bank pursuant to its Equity Plan or otherwise shall be deemed to be restricted stock awards granted by

the Corporation with the same terms and conditions and for the same number of shares of common stock of the Corporation.

Outstanding certificates representing shares of the common stock of the Bank awarded with such restrictions as set forth on the applicable award agreement pursuant to the Bank's Equity Plan shall thereafter represent shares of the common stock of the Corporation with such terms, conditions and restrictions as originally awarded by the Bank.

#### **ARTICLE 4. Termination**

This Reorganization Plan may be terminated, in the sole discretion of the Bank's or the Corporation's board of directors, at any time before the Effective Date if:

1. The number of shares of the Bank common stock voted against approval of the reorganization or that have sought dissenter's rights is great enough that completion of the reorganization is unlikely or inadvisable;
2. Any action, suit, proceeding, or claim is commenced or threatened that could make completion of the reorganization inadvisable;
3. It is likely that a regulatory approval will not be obtained, or if obtained, has or will contain or impose a condition or requirement that would materially and adversely affect the operations or business prospects of the Corporation or the Bank following the Effective Date so as to render inadvisable the completion of the reorganization; or
4. Any other reason exists that makes completion of the share exchange inadvisable in the sole and exclusive judgment of the respective boards of directors.

Upon termination as provided in this Article 4, this Reorganization Plan shall be void and of no further force or effect, and there shall be no liability by reason of this Reorganization Plan or the termination thereof on the part of either the Bank, the Corporation, or the directors, officers, employees, agents, or shareholders of either of them.

IN WITNESS WHEREOF, the Bank and the Corporation have caused this Reorganization Plan to be executed and attested in counterparts by their duly authorized officers as of the day and year first above written.

**LIBERTY BANK**



Richard C. Darrow, Chief Executive Officer

**LIBERTY NORTHWEST BANCORP, INC.**



Richard C. Darrow, President and CEO

33285-1  
4815-1713-7856, v. 3

**Exhibit B**

**ARTICLES OF INCORPORATION OF LIBERTY NORTHWEST BANCORP, INC.**

**APPROVED**  
*Roberta Hollinshead*  
DIRECTOR OF BANKS  
DEPARTMENT OF FINANCIAL INSTITUTIONS

FILED

Secretary of State

State of Washington

Date Filed: 06/29/2020

Effective Date: 06/29/2020

UBI No: 604 628 862

**ARTICLES OF INCORPORATION**  
of  
**LIBERTY NORTHWEST BANCORP, INC.**

The undersigned hereby executes the following Articles of Incorporation for the purpose of forming a corporation under the Washington Business Corporation Act (the "Act").

**ARTICLE I**  
**Name**

The name of this Corporation is "Liberty Northwest Bancorp, Inc."

**ARTICLE II**  
**Purposes and Powers**

The purpose and powers of this Corporation are: (a) to engage in any lawful business; (b) to engage in any and all activities that, in the judgment of the Board of Directors, may at any time be incidental or conducive to the attainment of the foregoing purpose; and (c) to exercise any and all powers that a corporation formed under the Act, or any amendment thereto or substitute therefor, is entitled at the time to exercise.

**ARTICLE III**  
**Directors**

The number of Directors of the Corporation shall be fixed as provided in the Bylaws of the Corporation and may be changed from time-to-time by amending the Bylaws of the Corporation ("Bylaws"). The term of each director, including directors selected to fill vacancies, shall expire at the next regular meeting of shareholders at which directors are elected, unless a director resigns or is removed from office. Any vacancy occurring on the Board of Directors may be filled from time-to-time in the manner provided by the Bylaws.

**ARTICLE IV**  
**Capital Stock**

**A. Authorized Capital Stock**

The total number of shares that this corporation is authorized to issue is 50,100,000, consisting of 50,000,000 shares of Common Stock, \$1.00 par value, and 100,000 shares of preferred stock ("Preferred Stock"). The Common Stock is subject to the rights and preferences of the Preferred Stock as set forth below.

**B. Issuance of Preferred Stock in Series**

The preferred stock may be issued from time to time in one or more series in any manner permitted by law and the provisions of these Articles of Incorporation, as determined from time to time by the Board of Directors and stated in the resolution or resolutions providing for its issuance,

LIBERTY NORTHWEST BANCORP, INC.  
ARTICLES OF INCORPORATION

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prior to the issuance of any shares. The Board of Directors shall have the authority to fix and determine and to amend, subject to these provisions, the designation, preferences, limitations and relative rights of the shares of any series that is wholly unissued or to be established. Unless otherwise specifically provided in the resolution establishing any series, the Board of Directors shall further have the authority, after the issuance of shares of a series whose number it has designated, to amend the resolution establishing such series to decrease the number of shares of that series, but not below the number of shares of such series then outstanding.

#### **C. Dividends**

The holders of shares of the preferred stock shall be entitled to receive dividends, out of the funds of the Corporation legally available, at the rate and at the time or times, whether cumulative or noncumulative, as may be provided by the Board of Directors in designating a particular series of preferred stock. If such dividends on the preferred stock shall be cumulative, then if dividends shall not have been paid, the deficiency shall be fully paid or the dividends declared and set apart for payment at such rate, but without interest on cumulative dividends, before any dividends on the common stock shall be paid or declared and set apart for payment. The holders of the preferred stock shall not be entitled to receive any dividends other than the dividends referred to in this Article.

#### **D. Redemption**

The preferred stock may be redeemable at such price, in such amount, and at such time or times as may be provided by the Board of Directors in designating a particular series of preferred stock. In any event, such preferred stock may be repurchased by the Corporation to the extent legally permissible.

#### **E. Liquidation**

In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, then, before any distribution shall be made to the holders of the common stock, the holders of the preferred stock at the time outstanding shall be entitled to be paid the preferential amount or amounts per share as may be provided by the Board of Directors in designating a particular series of preferred stock and any accrued but unpaid dividends to the date of such payment. The holders of the preferred stock shall not be entitled to receive any distributive amounts upon the liquidation, dissolution or winding up of the affairs of the Corporation other than the distributive amounts referred to in this Article, unless otherwise provided by the Board of Directors in designating a particular series of preferred stock.

#### **F. Conversion**

Shares of preferred stock may be convertible into common stock of the Corporation upon such terms and conditions, at such rate and subject to such adjustments as may be provided by the Board of Directors in designating a particular series of preferred stock.

**G. Voting Rights**

Holders of preferred stock shall have such voting rights as may be provided by the Board of Directors in designating a particular series of preferred stock.

**ARTICLE V  
No Preemptive Rights**

Shareholders of the Corporation shall have no preemptive rights to acquire additional shares issued by the Corporation.

**ARTICLE VI  
No Cumulative Voting**

At each election of directors, every shareholder entitled to vote at such election has the right to vote in person or by proxy the number of shares of stock held by such shareholder for as many persons as there are directors to be elected. No cumulative voting for directors will be permitted.

**ARTICLE VII  
Majority Vote Required**

Pursuant to authority granted under Sections 23B.10.030, 23B.11.030, 23B.12.020, and 23B.14.020 of the Act, the vote of shareholders of the Corporation required in order to approve amendments to the Articles of Incorporation, a plan of merger or share exchange, the sale, lease, exchange, or other disposition of all or substantially all of the property of the Corporation not in the usual and regular course of business, or dissolution of the Corporation, shall be a majority of all of the votes entitled to be cast by each voting group entitled to vote thereon, regardless of whether or not the Corporation is a "public company," as that term is defined in Section 23B.01.400 of the Act.

**ARTICLE VIII  
Indemnification of Directors, Officers, Employees and Agents**

8.1 The capitalized terms in this Article VIII shall have the meanings set forth in RCW 23B.08.500.

8.2 The Corporation shall indemnify and hold harmless each individual who is or was serving as a Director or officer of the Corporation or who, while serving as a Director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against any and all Liability incurred with respect to any Proceeding to which the individual is or is threatened to be made a Party because of such service, and shall make advances of reasonable Expenses with respect to such Proceeding, to the fullest extent permitted by law, without regard to the limitations in RCW 23B.08.510 through 23B.08.550; provided that no such indemnity shall indemnify any Director or officer from or on account of (1) acts or omissions of the Director or officer finally adjudged to be intentional misconduct or a knowing violation of law; (2) conduct of the Director or officer finally adjudged

LIBERTY NORTHWEST BANCORP, INC.  
ARTICLES OF INCORPORATION

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to be in violation of RCW 23B.08.310; or (3) any transaction with respect to which it was finally adjudged that such Director or officer personally received a benefit in money, property, or services to which the Director or officer was not legally entitled.

8.3 The Corporation may purchase and maintain insurance on behalf of an individual who is or was a Director, officer, employee, or agent of the Corporation or, who, while a Director, officer, employee, or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise against Liability asserted against or incurred by the individual in that capacity or arising from the individual's status as a Director, officer, employee, or agent, whether or not the Corporation would have power to indemnify the individual against such Liability under RCW 23B.08.510 or 23B.08.520.

8.4 If, after the effective date of these Articles of Incorporation, the Act is amended to authorize further indemnification of Directors or officers, then Directors and officers of the Corporation shall be indemnified to the fullest extent permitted by the Act as so amended.

8.5 To the extent permitted by law, the rights to indemnification and advance of reasonable Expenses conferred in this Article VIII shall not be exclusive of any other right which any individual may have or hereafter acquire under any statute, provision of the Bylaws, agreement, vote of shareholders or disinterested Directors, or otherwise. The right to indemnification conferred in this Article VIII shall be a contract right upon which each Director or officer shall be presumed to have relied in determining to serve or to continue to serve as such. Any amendment to or repeal of this Article VIII shall not adversely affect any right or protection of a Director or officer of the Corporation for or with respect to any acts or omissions of such Director or officer occurring prior to such amendment or repeal.

8.6 If any provision of this Article VIII or any application thereof shall be invalid, unenforceable, or contrary to applicable law, the remainder of this Article VIII, and the application of such provisions to individuals or circumstances other than those as to which it is held invalid, unenforceable, or contrary to applicable law, shall not be affected thereby.

#### **ARTICLE IX**

##### **Liability of Board of Directors**

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director, except for liability of the director for (i) acts or omissions that involve intentional misconduct or a knowing violation of law by the director, (ii) conduct which violates RCW 23B.08.310 of the Washington Business Corporation Act, pertaining to unpermitted distributions to shareholders or loans to directors, or (iii) any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If the Washington Business Corporation Act is amended to authorize corporate action further eliminating or limiting personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Washington Business Corporation Act, as so amended. Any repeal or modification of the foregoing paragraph by the shareholders of the Corporation shall not adversely

affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

**ARTICLE X**  
**Factors to be Considered by Directors**  
**Regarding Certain Transactions**

The Board of Directors of the Corporation, when evaluating any offer of any other party to:

- (a) Make a tender or exchange offer to acquire any equity security of the Corporation;
- (b) Merge or consolidate the Corporation with another corporation; or
- (c) Purchase or otherwise acquire all or substantially all of the properties and assets of the Corporation;

may give, but shall not be required to give, in connection with the exercising of its judgment in determining what is in the best interests of the Corporation and its shareholders, consideration to the social and economic effects on the employees and customers of the Corporation, and the communities in which the Corporation's facilities are located and which the Corporation serves, in addition to any other factors deemed relevant by the Board.

**ARTICLE XI**  
**Amendment of Articles of Incorporation and Bylaws**

The Corporation reserves the right to amend or repeal any provisions contained in these Articles of Incorporation in any manner now or hereafter permitted by law. All rights of shareholders of the Corporation and all powers of directors of the Corporation are granted subject to this reservation. Subject to the limitation(s) of RCW 23B.10.210, and subject to the power of the shareholders of the Corporation to change or repeal the Bylaws, the Board of Directors is expressly authorized to make, amend, or repeal the Bylaws of the Corporation unless the shareholders in amending or repealing a particular bylaw provide expressly that the Board of Directors may not amend or repeal that bylaw.

**ARTICLE XII**  
**Quorum for Meeting of Shareholders**

At each meeting of shareholders, except where otherwise provided by law or by the articles of incorporation, shareholders representing, in person or by proxy, one-third (1/3) of the shares then issued and outstanding shall constitute a quorum.

**ARTICLE XIII**  
**Correction of Clerical Errors**

The Corporation shall have authority to correct clerical errors in any documents filed with the Secretary of State of Washington, including these Articles of Incorporation or any amendments hereto, without the necessity of special shareholder approval of such corrections.

**ARTICLE XIV**  
**Registered Office and Agent**

The name of the registered agent and the street address of the Corporation's initial registered office are: Glen P. Garrison, 1201 Third Avenue, Suite 3200, Seattle, Washington 98101-3052.

**ARTICLE XV**  
**Incorporator**

The name and address of the incorporator is:

Glen P. Garrison, 1201 Third Avenue, Suite 3200, Seattle, Washington 98101-3052.

DATED this 25<sup>th</sup> day of June, 2020.

DocuSigned by:

*Glen P. Garrison*

9CFCA928986D445

Glen P. Garrison, Incorporator

LIBERTY NORTHWEST BANCORP, INC.  
ARTICLES OF INCORPORATION

Page: 6 of 7

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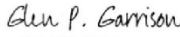
Received Date: 06/29/2020

Amount Received: \$230.00

### CONSENT TO SERVE AS REGISTERED AGENT

The undersigned hereby consents to serve as Registered Agent in the State of Washington, for Liberty Northwest Bancorp, Inc. (the "Corporation"). The undersigned understands that as agent for the Corporation, it will be its responsibility to receive service of process in the name of the Corporation; to forward all mail to the Corporation; and to immediately notify the Office of the Secretary of State in the event of its resignation, or of any changes in the registered office address of the Corporation for which it is agent.

Dated this 25<sup>th</sup> day of June, 2020.

DocuSigned by:  
  
9CFC8928986D445  
Glen P. Garrison

33285-1  
4850-8493-5360, v. 1

LIBERTY NORTHWEST BANCORP, INC.  
ARTICLES OF INCORPORATION

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Work Order #: 2020062900347661 - 1  
Received Date: 06/29/2020  
Amount Received: \$230.00

**Exhibit C**

**ARTICLES OF INCORPORATION AND ARTICLES OF AMENDMENT  
OF LIBERTY BANK**

FILED  
SECRETARY OF STATE  
MAY 14 2008  
STATE OF WASHINGTON

**ARTICLES OF INCORPORATION  
of  
LIBERTY BANK OF WASHINGTON**

**APPROVED**  
*[Signature]*  
DIRECTOR OF BANKS  
DEPARTMENT OF FINANCIAL INSTITUTIONS

602 831 964

For the purposes of organizing a corporation to carry on the business of banking under the laws of the State of Washington, the undersigned do enter into the following Articles of Incorporation.

**ARTICLE I**

**Name**

The name of this Corporation is "Liberty Bank of Washington."

**ARTICLE II**

**Location of Main Office**

The main office of the Corporation shall be located at 19917 Seventh Avenue NE, Suite 101, Poulsbo, Washington 98370. The general business of the Corporation shall be conducted at its main office and its branches, if any.

**ARTICLE III**

**Nomination of Directors**

Nominations for the election of directors may be made by the Board of Directors or by any shareholder entitled to vote for the election of directors. Such nominations other than by the Board of Directors shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than sixty (60) days prior to the first anniversary of the date of the last meeting of shareholders of the Corporation called for the election of directors.

Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice; (ii) the principal occupation or employment of each such nominee; (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee; and (iv) such other information as would be required by the Federal Securities Laws and the Rules and Regulations promulgated thereunder in respect to any individual nominated as director of the corporation and for whom proxies are solicited by the Board of Directors of the Corporation.

The Chairman of any meeting of shareholders may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and the defective nomination shall be disregarded.

**ARTICLE IV**

**Directors**

The Board of Directors shall consist of not less than 5 nor more than 15 persons, the exact number to be fixed and determined from time to time by resolution of a majority of the full Board of Directors. The term of each director, including directors



selected to fill vacancies, shall expire at the next regular meeting of shareholders at which directors are elected, unless a director resigns or is removed from office. Any vacancy occurring on the Board of Directors may be filled from time to time in the manner provided by the Bylaws.

The initial Board of Directors of the Corporation shall be composed of eleven members. The names and addresses of the persons who, as directors, are to manage the Corporation until the first annual meeting of its shareholders or until their successors are elected and shall qualify are:

Bill Parnell	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370	Marie Gallagher-Bird	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370
James Ferris	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370	Klaus Golombek	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370
Eric Anderson	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370	Joe Michelsen	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370
Gene Anest	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370	Jeff Uberauga	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370
Tom Bergquist	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370	Bill Fogarty	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370
Gary Anderson	19917 Seventh Avenue NE, Suite 101 Poulsbo, WA 98370		

#### **ARTICLE V**

##### **Nature of Business**

The nature of the business for which this Corporation is formed shall be and is that of a commercial bank to engage in and carry on a general banking business, which shall include other banking-related powers granted to the Corporation by the appropriate regulatory bodies.

#### **ARTICLE VI**

##### **Authorized Capital Stock**

The Corporation is authorized to issue, in the aggregate 10,000,000 shares, \$1 par value, of a single class of stock. The Corporation shall commence business with a capital stock account of not less than \$1,150,000 surplus of not less than \$8,350,000 and undivided profits of not less than \$2,000,000, making the minimum total investment for capital stock and undivided profits not less than \$11,500,000.

#### **ARTICLE VII**

##### **Existence**

The period of existence of the Corporation shall be perpetual.

#### **ARTICLE VII**

##### **No Preemptive Rights**

Shareholders of the Corporation shall have no preemptive rights to acquire additional shares issued by the Corporation.

#### **ARTICLE IX**

##### **No Cumulative Voting**

At each election of directors, every shareholder entitled to vote at such election has the right to vote in person or by proxy the number of shares of stock held by such

shareholder for as many persons as there are directors to be elected. No cumulative voting for directors will be permitted.

#### **ARTICLE X**

##### **Liability of Board of Directors**

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for conduct as a director, except for liability of the director for (i) acts or omissions that involve intentional misconduct or a knowing violation of law by the director, (ii) conduct which violates RCW 23B.08.310 of the Washington Business Corporation Act, pertaining to unpermitted distributions to shareholders or loans to directors, or (iii) any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If the Washington Business Corporation Act is amended to authorize corporate action further eliminating or limiting personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Washington Business Corporation Act, as so amended. Any repeal or modification of the foregoing paragraph by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

#### **ARTICLE XI**

##### **Factors to be Considered by Directors Regarding Certain Transactions**

The Board of Directors of the Corporation, when evaluating any offer of any other party to:

- (a) Make a tender or exchange offer to acquire any equity security of the Corporation;
- (b) Merge or consolidate the Corporation with another corporation; or
- (c) Purchase or otherwise acquire all or substantially all of the properties and assets of the Corporation;

may give, but shall not be required to give, in connection with the exercising of its judgment in determining what is in the best interests of the Corporation and its shareholders, consideration to the social and economic effects on the employees and customers of the Corporation, and the communities in which the Corporation's facilities are located and which the Corporation serves, in addition to any other factors deemed relevant by the Board.

#### **ARTICLE XII**

##### **Change of Location of Main Office**

The Board of Directors shall give the power, subject to regulatory approval, if required, to change the location of the main office to any other place within Kitsap County, Washington, without the approval of the shareholders and shall have the power,

subject to regulatory approval, if required, to establish or change the location of any branch or branches of the Corporation to any other location, without the approval of the shareholders.

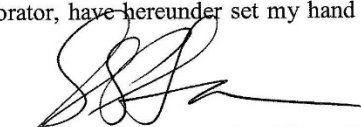
**ARTICLE XIII**  
**Amendment**

The Corporation reserves the right to amend or repeal any provisions contained in these Articles of Incorporation in any manner now or hereafter permitted by law. All rights of shareholders of the Corporation and all powers of directors of the Corporation are granted subject to this reservation.

**ARTICLE XIV**  
**Registered Office and Agent**

The name of the registered agent and the street address of the Corporation's initial registered office are: Glen P. Garrison, 1201 Third Avenue, Suite 3200, Seattle, Washington 98101-3052.


IN WITNESS WHEREOF, I, the incorporator, have hereunder set my hand this 11th day of May, 2008.

  
\_\_\_\_\_  
Glen P. Garrison

### CONSENT TO SERVE AS REGISTERED AGENT

The undersigned hereby consents to serve as Registered Agent in the State of Washington, for Liberty Bank of Washington (the "Corporation"). The undersigned understands that as agent for the Corporation, it will be its responsibility to receive service of process in the name of the Corporation; to forward all mail to the Corporation; and to immediately notify the Office of the Secretary of State in the event of its resignation, or of any changes in the registered office address of the Corporation for which it is agent.

Dated this 11th day of May, 2008.

  
Glen P. Garrison

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*Department of Financial Institutions*

**The State of Washington**

**DEPARTMENT OF FINANCIAL INSTITUTIONS**

TO ALL TO WHOM THESE PRESENTS SHALL COME:

WHEREAS, **LIBERTY BAY BANK**, located at **POULSBO**, County of **KITSAP**, State of Washington, has complied with all the requirements of law governing **BANKS AND BANKING**

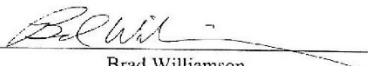
NOW, THEREFORE, I, the undersigned, for the Director of the Department of Financial Institutions for the State of Washington, do hereby issue this

**CERTIFICATE OF AUTHORITY**

to the above named corporation to commence the business of **A COMMERCIAL BANK** as defined by law.



IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Director of the Department of Financial Institutions at the Capitol, in the City of Olympia, this 26<sup>th</sup> day of **March, 2010**.

  
Brad Williamson  
Director of Banks  
Department of Financial Institutions  
State of Washington

(Original Authorization 6/5/2009)

FILED  
SECRETARY OF STATE

MAR 26 2010

STATE OF WASHINGTON

**State of Washington  
Corporations Division  
Office of the Secretary of State**

**APPROVED**  
  
DIRECTOR OF BANKS  
DEPARTMENT OF FINANCIAL INSTITUTIONS

**ARTICLES OF AMENDMENT**

Pursuant to RCW 30.08.090, the undersigned corporation hereby submits the following amendment to the corporation's Articles of Incorporation.

1. The name of the corporation is: LIBERTY BANK OF WASHINGTON.
2. The text of the amendment as adopted is as follows:

Article I of the Articles of Incorporation, which sets forth the name of the corporation, is deleted in its entirety and replaced with the following:


**ARTICLE I  
Name**

**The name of this corporation is "Liberty Bay Bank."**

3. The date of adoption of the above amendment was January 21, 2010.
4. The amendment was adopted by duly approved action of the Board of Directors, in accordance with the provisions of RCW 30.08.090. Shareholder action was not required.
5. These Articles of Amendment will be effective upon filing.

DATED: March 18, 2010.

LIBERTY BANK OF WASHINGTON

By   
William H. Fogarty, President/CEO

N:\Clients\28375\Articles of Amendment\Articles of Amendment re Name\_03162010.doc

APPROVED  
*Roberta Hollinshead*  
DIRECTOR OF BANKS  
DEPARTMENT OF FINANCIAL INSTITUTIONS

State of Washington  
Corporations Division  
Office of the Secretary of State

FILED  
Secretary of State  
State of Washington  
Date Filed: 04/07/2020  
Effective Date: 04/07/2020  
UBI No: 602 831 964

## ARTICLES OF AMENDMENT

Pursuant to RCW 30A.08.090, the undersigned corporation hereby submits the following amendment to the corporation's Articles of Incorporation.

1. The name of the corporation is: LIBERTY BAY BANK.
2. The text of the amendment as adopted is as follows:

Article I of the Articles of Incorporation, which sets forth the name of the corporation, is deleted in its entirety and replaced with the following:

### ARTICLE I Name

The name of this corporation is "Liberty Bank."

3. The date of adoption of the above amendment was February 20, 2020.
4. The amendment was adopted by duly approved action of the Board of Directors, in accordance with the provisions of RCW 30A.08.090. Shareholder action was not required.
5. These Articles of Amendment will be effective upon filing.

DATED: 3/27/, 2020.

LIBERTY BAY BANK



Richard C. Darrow, President & CEO

4836-8800-7094, v. 1

## **Exhibit D**

### **Dissenters' Rights Provisions and Washington Commercial Bank Act**

#### **RCW 30A.04.560**

Reorganization as subsidiary of bank holding company — Dissenter's rights — Conditions.  
(Effective January 5, 2018.)

If the shareholders approve the reorganization by a two-thirds vote of each class of shares entitled to vote under the terms of such shares, and if it is thereafter approved by the director and consummated, any shareholder of the banking corporation who has voted shares against such reorganization at such meeting or has given notice in writing at or prior to such meeting to the banking corporation that he or she dissents from the plan of reorganization and has not voted in favor of the reorganization, shall be entitled to receive the value of the shares determined as provided in RCW [30A.04.565](#). Such dissenter's rights must be exercised by making written demand which shall be delivered to the corporation at any time within thirty days after the date of shareholder approval, accompanied by the surrender of the appropriate stock certificates.

#### **RCW 30A.04.565**

Reorganization as subsidiary of bank holding company —  
Valuation of shares of dissenting shareholders.  
(Effective January 5, 2018.)

The value of the shares of a dissenting shareholder who has properly perfected dissenter's rights shall be ascertained as of the day prior to the date of the shareholder action approving such reorganization by three appraisers, one to be selected by the owners of two-thirds of the dissenting shares, one by the board of directors of the acquiring bank holding company, and the third by the two so chosen. The valuation agreed upon by any two appraisers shall govern. The dissenting shareholders shall bear, on a pro rata basis based on the number of dissenting shares owned, the cost of their appraisal and one-half of the cost of the third appraisal, and the acquiring bank holding company shall bear the cost of its appraisal and one-half of the cost of the third appraisal. If the appraisal is not completed within ninety days after the effective date of the reorganization, the director shall cause an appraisal to be made which shall be final and binding upon all parties. The cost of such appraisal shall be borne equally by the dissenting shareholders and the acquiring bank holding company. The dissenting shareholders shall share their half of the cost on a pro rata basis based on the number of dissenting shares owned.



## **Exhibit E**

### **Nonbanking Activities Permissible for a Bank Holding Company**

#### **(12 CFR § 225.28)**

(a) Closely related nonbanking activities. The activities listed in paragraph (b) of this section are so closely related to banking or managing or controlling banks as to be a proper incident thereto, and may be engaged in by a bank holding company or its subsidiary in accordance with the requirements of this regulation.

(b) Activities determined by regulation to be permissible -

(1) Extending credit and servicing loans. Making, acquiring, brokering, or servicing loans or other extensions of credit (including factoring, issuing letters of credit and accepting drafts) for the company's account or for the account of others.

(2) Activities related to extending credit. Any activity usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit, as determined by the Board. The Board has determined that the following activities are usual in connection with making, acquiring, brokering or servicing loans or other extensions of credit:

(i) Real estate and personal property appraising. Performing appraisals of real estate and tangible and intangible personal property, including securities.

(ii) Arranging commercial real estate equity financing. Acting as intermediary for the financing of commercial or industrial income-producing real estate by arranging for the transfer of the title, control, and risk of such a real estate project to one or more investors, if the bank holding company and its affiliates do not have an interest in, or participate in managing or developing, a real estate project for which it arranges equity financing, and do not promote or sponsor the development of the property.

(iii) Check-guaranty services. Authorizing a subscribing merchant to accept personal checks tendered by the merchant's customers in payment for goods and services, and purchasing from the merchant validly authorized checks that are subsequently dishonored.

(iv) Collection agency services. Collecting overdue accounts receivable, either retail or commercial.

(v) Credit bureau services. Maintaining information related to the credit history of consumers and providing the information to a credit grantor who is considering a borrower's application for credit or who has extended credit to the borrower.

(vi) Asset management, servicing, and collection activities. Engaging under contract with a third party in asset management, servicing, and collection<sup>3</sup> of assets of a type that an

insured depository institution may originate and own, if the company does not engage in real property management or real estate brokerage services as part of these services.

<sup>3</sup> Asset management services include acting as agent in the liquidation or sale of loans and collateral for loans, including real estate and other assets acquired through foreclosure or in satisfaction of debts previously contracted.

(vii) Acquiring debt in default. Acquiring debt that is in default at the time of acquisition, if the company:

(A) Divests shares or assets securing debt in default that are not permissible investments for bank holding companies, within the time period required for divestiture of property acquired in satisfaction of a debt previously contracted under § 225.12(b); <sup>4</sup>

<sup>4</sup> For this purpose, the divestiture period for property begins on the date that the debt is acquired, regardless of when legal title to the property is acquired.

(B) Stands only in the position of a creditor and does not purchase equity of obligors of debt in default (other than equity that may be collateral for such debt); and

(C) Does not acquire debt in default secured by shares of a bank or bank holding company.

(viii) Real estate settlement servicing. Providing real estate settlement services. <sup>5</sup>

<sup>5</sup> For purposes of this section, real estate settlement services do not include providing title insurance as principal, agent, or broker.

(3) Leasing personal or real property. Leasing personal or real property or acting as agent, broker, or adviser in leasing such property if:

(i) The lease is on a nonoperating basis; <sup>6</sup>

<sup>6</sup> The requirement that the lease be on a nonoperating basis means that the bank holding company may not, directly or indirectly, engage in operating, servicing, maintaining, or repairing leased property during the lease term. For purposes of the leasing of automobiles, the requirement that the lease be on a nonoperating basis means that the bank holding company may not, directly or indirectly: (1) Provide servicing, repair, or maintenance of the leased vehicle during the lease term; (2) purchase parts and accessories in bulk or for an individual vehicle after the lessee has taken delivery of the vehicle; (3) provide the loan of an automobile during servicing of the leased vehicle; (4) purchase insurance for the lessee; or (5) provide for the renewal of the vehicle's license merely as a service to the lessee where the lessee could renew the license without authorization from the lessor. The bank holding company may arrange for a third party to provide these services or products.

(ii) The initial term of the lease is at least 90 days;

(iii) In the case of leases involving real property:

(A) At the inception of the initial lease, the effect of the transaction will yield a return that will compensate the lessor for not less than the lessor's full investment in the property plus the estimated total cost of financing the property over the term of the lease from rental payments, estimated tax benefits, and the estimated residual value of the property at the expiration of the initial lease; and

(B) The estimated residual value of property for purposes of paragraph (b)(3)(iii)(A) of this section shall not exceed 25 percent of the acquisition cost of the property to the lessor.

(4) Operating nonbank depository institutions -

(i) Industrial banking. Owning, controlling, or operating an industrial bank, Morris Plan bank, or industrial loan company, so long as the institution is not a bank.

(ii) Operating savings association. Owning, controlling, or operating a savings association, if the savings association engages only in deposit-taking activities, lending, and other activities that are permissible for bank holding companies under this subpart C.

(5) Trust company functions. Performing functions or activities that may be performed by a trust company (including activities of a fiduciary, agency, or custodial nature), in the manner authorized by federal or state law, so long as the company is not a bank for purposes of section 2(c) of the Bank Holding Company Act.

(6) Financial and investment advisory activities. Acting as investment or financial advisor to any person, including (without, in any way, limiting the foregoing):

(i) Serving as investment adviser (as defined in section 2(a)(20) of the Investment Company Act of 1940, 15 U.S.C. 80a-2(a)(20)), to an investment company registered under that act, including sponsoring, organizing, and managing a closed-end investment company;

(ii) Furnishing general economic information and advice, general economic statistical forecasting services, and industry studies;

(iii) Providing advice in connection with mergers, acquisitions, divestitures, investments, joint ventures, leveraged buyouts, recapitalizations, capital structurings, financing transactions and similar transactions, and conducting financial feasibility studies;<sup>7</sup>

<sup>7</sup> Feasibility studies do not include assisting management with the planning or marketing for a given project or providing general operational or management advice.

(iv) Providing information, statistical forecasting, and advice with respect to any transaction in foreign exchange, swaps, and similar transactions, commodities, and any forward contract, option, future, option on a future, and similar instruments;

(v) Providing educational courses, and instructional materials to consumers on individual financial management matters; and

(vi) Providing tax-planning and tax-preparation services to any person.

(7) Agency transactional services for customer investments -

(i) Securities brokerage. Providing securities brokerage services (including securities clearing and/or securities execution services on an exchange), whether alone or in combination with investment advisory services, and incidental activities (including related securities credit activities and custodial services), if the securities brokerage services are restricted to buying and selling securities solely as agent for the account of customers and do not include securities underwriting or dealing.

(ii) Riskless principal transactions. Buying and selling in the secondary market all types of securities on the order of customers as a “riskless principal” to the extent of engaging in a transaction in which the company, after receiving an order to buy (or sell) a security from a customer, purchases (or sells) the security for its own account to offset a contemporaneous sale to (or purchase from) the customer. This does not include:

(A) Selling bank-ineligible securities <sup>8</sup> at the order of a customer that is the issuer of the securities, or selling bank-ineligible securities in any transaction where the company has a contractual agreement to place the securities as agent of the issuer; or

<sup>8</sup> A bank-ineligible security is any security that a State member bank is not permitted to underwrite or deal in under 12 U.S.C. 24 and 335.

(B) Acting as a riskless principal in any transaction involving a bank-ineligible security for which the company or any of its affiliates acts as underwriter (during the period of the underwriting or for 30 days thereafter) or dealer. <sup>9</sup>

<sup>9</sup> A company or its affiliates may not enter quotes for specific bank-ineligible securities in any dealer quotation system in connection with the company's riskless principal transactions; except that the company or its affiliates may enter “bid” or “ask” quotations, or publish “offering wanted” or “bid wanted” notices on trading systems other than NASDAQ or an exchange, if the company or its affiliate does not enter price quotations on different sides of the market for a particular security during any two-day period.

(iii) Private placement services. Acting as agent for the private placement of securities in accordance with the requirements of the Securities Act of 1933 (1933 Act) and the rules of the Securities and Exchange Commission, if the company engaged in the activity does not purchase or repurchase for its own account the securities being placed, or hold in inventory unsold portions of issues of these securities.

(iv) Futures commission merchant. Acting as a futures commission merchant (FCM) for unaffiliated persons in the execution, clearance, or execution and clearance of any futures contract and option on a futures contract traded on an exchange in the United States or abroad if:

(A) The activity is conducted through a separately incorporated subsidiary of the bank holding company, which may engage in activities other than FCM activities (including, but not limited to, permissible advisory and trading activities); and

(B) The parent bank holding company does not provide a guarantee or otherwise become liable to the exchange or clearing association other than for those trades conducted by the subsidiary for its own account or for the account of any affiliate.

(v) Other transactional services. Providing to customers as agent transactional services with respect to swaps and similar transactions, any transaction described in paragraph (b)(8) of this section, any transaction that is permissible for a state member bank, and any other transaction involving a forward contract, option, futures, option on a futures or similar contract (whether traded on an exchange or not) relating to a commodity that is traded on an exchange.

(8) Investment transactions as principal -

(i) Underwriting and dealing in government obligations and money market instruments. Underwriting and dealing in obligations of the United States, general obligations of states and their political subdivisions, and other obligations that state member banks of the Federal Reserve System may be authorized to underwrite and deal in under 12 U.S.C. 24 and 335, including banker's acceptances and certificates of deposit, under the same limitations as would be applicable if the activity were performed by the bank holding company's subsidiary member banks or its subsidiary nonmember banks as if they were member banks.

(ii) Investing and trading activities. Engaging as principal in:

(A) Foreign exchange;

(B) Forward contracts, options, futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on any rate, price, financial asset (including gold, silver, platinum, palladium, copper, or any other metal approved by the Board), nonfinancial asset, or group of assets, other than a bank-ineligible security,<sup>10</sup> if:

<sup>10</sup> A bank-ineligible security is any security that a state member bank is not permitted to underwrite or deal in under 12 U.S.C. 24 and 335.

(1) A state member bank is authorized to invest in the asset underlying the contract;

(2) The contract requires cash settlement;

(3) The contract allows for assignment, termination, or offset prior to delivery or expiration, and the company -

(i) Makes every reasonable effort to avoid taking or making delivery of the asset underlying the contract; or

(ii) Receives and instantaneously transfers title to the underlying asset, by operation of contract and without taking or making physical delivery of the asset; or

(4) The contract does not allow for assignment, termination, or offset prior to delivery or expiration and is based on an asset for which futures contracts or options on futures contracts have been approved for trading on a U.S. contract market by the Commodity Futures Trading Commission, and the company -

(i) Makes every reasonable effort to avoid taking or making delivery of the asset underlying the contract; or

(ii) Receives and instantaneously transfers title to the underlying asset, by operation of contract and without taking or making physical delivery of the asset.

(C) Forward contracts, options, <sup>11</sup> futures, options on futures, swaps, and similar contracts, whether traded on exchanges or not, based on an index of a rate, a price, or the value of any financial asset, nonfinancial asset, or group of assets, if the contract requires cash settlement.

<sup>11</sup> This reference does not include acting as a dealer in options based on indices of bank-ineligible securities when the options are traded on securities exchanges. These options are securities for purposes of the federal securities laws and bank-ineligible securities for purposes of section 20 of the Glass-Steagall Act, 12 U.S.C. 337. Similarly, this reference does not include acting as a dealer in any other instrument that is a bank-ineligible security for purposes of section 20. A bank holding company may deal in these instruments in accordance with the Board's orders on dealing in bank-ineligible securities.

(iii) Buying and selling bullion, and related activities. Buying, selling and storing bars, rounds, bullion, and coins of gold, silver, platinum, palladium, copper, and any other metal

approved by the Board, for the company's own account and the account of others, and providing incidental services such as arranging for storage, safe custody, assaying, and shipment.

(9) Management consulting and counseling activities -

(i) Management consulting.

(A) Providing management consulting advice: <sup>12</sup>

<sup>12</sup> In performing this activity, bank holding companies are not authorized to perform tasks or operations or provide services to client institutions either on a daily or continuing basis, except as necessary to instruct the client institution on how to perform such services for itself. See also the Board's interpretation of bank management consulting advice (12 CFR 225.131).

(1) On any matter to unaffiliated depository institutions, including commercial banks, savings and loan associations, savings banks, credit unions, industrial banks, Morris Plan banks, cooperative banks, industrial loan companies, trust companies, and branches or agencies of foreign banks;

(2) On any financial, economic, accounting, or audit matter to any other company.

(B) A company conducting management consulting activities under this subparagraph and any affiliate of such company may not:

(1) Own or control, directly or indirectly, more than 5 percent of the voting securities of the client institution; and

(2) Allow a management official, as defined in 12 CFR 212.2(h), of the company or any of its affiliates to serve as a management official of the client institution, except where such interlocking relationship is permitted pursuant to an exemption granted under 12 CFR 212.4(b) or otherwise permitted by the Board.

(C) A company conducting management consulting activities may provide management consulting services to customers not described in paragraph (b)(9)(i)(A)(1) of this section or regarding matters not described in paragraph (b)(9)(i)(A)(2) of this section, if the total annual revenue derived from those management consulting services does not exceed 30 percent of the company's total annual revenue derived from management consulting activities.

(ii) Employee benefits consulting services. Providing consulting services to employee benefit, compensation and insurance plans, including designing plans, assisting in the implementation of plans, providing administrative services to plans, and developing employee communication programs for plans.

(iii) Career counseling services. Providing career counseling services to:

(A) A financial organization <sup>13</sup> and individuals currently employed by, or recently displaced from, a financial organization;

<sup>13</sup> Financial organization refers to insured depository institution holding companies and their subsidiaries, other than nonbanking affiliates of diversified savings and loan holding companies that engage in activities not permissible under section 4(c)(8) of the Bank Holding Company Act (12 U.S.C. 1842(c)(8)).

(B) Individuals who are seeking employment at a financial organization; and

(C) Individuals who are currently employed in or who seek positions in the finance, accounting, and audit departments of any company.

(10) Support services -

(i) Courier services. Providing courier services for:

(A) Checks, commercial papers, documents, and written instruments (excluding currency or bearer-type negotiable instruments) that are exchanged among banks and financial institutions; and

(B) Audit and accounting media of a banking or financial nature and other business records and documents used in processing such media. <sup>14</sup>

<sup>14</sup> See also the Board's interpretation on courier activities (12 CFR 225.129), which sets forth conditions for bank holding company entry into the activity.

(ii) Printing and selling MICR-encoded items. Printing and selling checks and related documents, including corporate image checks, cash tickets, voucher checks, deposit slips, savings withdrawal packages, and other forms that require Magnetic Ink Character Recognition (MICR) encoding.

(11) Insurance agency and underwriting -

(i) Credit insurance. Acting as principal, agent, or broker for insurance (including home mortgage redemption insurance) that is:

(A) Directly related to an extension of credit by the bank holding company or any of its subsidiaries; and

(B) Limited to ensuring the repayment of the outstanding balance due on the extension of credit <sup>15</sup> in the event of the death, disability, or involuntary unemployment of the debtor.



<sup>15</sup> Extension of credit includes direct loans to borrowers, loans purchased from other lenders, and leases of real or personal property so long as the leases are nonoperating and full-payout leases that meet the requirements of paragraph (b)(3) of this section.

(ii) Finance company subsidiary. Acting as agent or broker for insurance directly related to an extension of credit by a finance company<sup>16</sup> that is a subsidiary of a bank holding company, if:

<sup>16</sup> Finance company includes all non-deposit-taking financial institutions that engage in a significant degree of consumer lending (excluding lending secured by first mortgages) and all financial institutions specifically defined by individual states as finance companies and that engage in a significant degree of consumer lending.

(A) The insurance is limited to ensuring repayment of the outstanding balance on such extension of credit in the event of loss or damage to any property used as collateral for the extension of credit; and

(B) The extension of credit is not more than \$10,000, or \$25,000 if it is to finance the purchase of a residential manufactured home <sup>17</sup> and the credit is secured by the home; and

<sup>17</sup> These limitations increase at the end of each calendar year, beginning with 1982, by the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers published by the Bureau of Labor Statistics.

(C) The applicant commits to notify borrowers in writing that:

(1) They are not required to purchase such insurance from the applicant;

(2) Such insurance does not insure any interest of the borrower in the collateral;  
and

(3) The applicant will accept more comprehensive property insurance in place of such single-interest insurance.

(iii) Insurance in small towns. Engaging in any insurance agency activity in a place where the bank holding company or a subsidiary of the bank holding company has a lending office and that:

(A) Has a population not exceeding 5,000 (as shown in the preceding decennial census); or

(B) Has inadequate insurance agency facilities, as determined by the Board, after notice and opportunity for hearing.

(iv) Insurance-agency activities conducted on May 1, 1982. Engaging in any specific insurance-agency activity <sup>18</sup> if the bank holding company, or subsidiary conducting the specific activity, conducted such activity on May 1, 1982, or received Board approval to conduct such activity on or before May 1, 1982. <sup>19</sup> A bank holding company or subsidiary engaging in a specific insurance agency activity under this clause may:

<sup>18</sup> Nothing contained in this provision shall preclude a bank holding company subsidiary that is authorized to engage in a specific insurance-agency activity under this clause from continuing to engage in the particular activity after merger with an affiliate, if the merger is for legitimate business purposes and prior notice has been provided to the Board.

<sup>19</sup> For the purposes of this paragraph, activities engaged in on May 1, 1982, include activities carried on subsequently as the result of an application to engage in such activities pending before the Board on May 1, 1982, and approved subsequently by the Board or as the result of the acquisition by such company pursuant to a binding written contract entered into on or before May 1, 1982, of another company engaged in such activities at the time of the acquisition.

(A) Engage in such specific insurance agency activity only at locations:

(1) In the state in which the bank holding company has its principal place of business (as defined in 12 U.S.C. 1842(d));

(2) In any state or states immediately adjacent to such state; and

(3) In any state in which the specific insurance-agency activity was conducted (or was approved to be conducted) by such bank holding company or subsidiary thereof or by any other subsidiary of such bank holding company on May 1, 1982; and

(B) Provide other insurance coverages that may become available after May 1, 1982, so long as those coverages insure against the types of risks as (or are otherwise functionally equivalent to) coverages sold or approved to be sold on May 1, 1982, by the bank holding company or subsidiary.

(v) Supervision of retail insurance agents. Supervising on behalf of insurance underwriters the activities of retail insurance agents who sell:

(A) Fidelity insurance and property and casualty insurance on the real and personal property used in the operations of the bank holding company or its subsidiaries; and

(B) Group insurance that protects the employees of the bank holding company or its subsidiaries.

(vi) Small bank holding companies. Engaging in any insurance-agency activity if the bank holding company has total consolidated assets of \$50 million or less. A bank holding company performing insurance-agency activities under this paragraph may not engage in

the sale of life insurance or annuities except as provided in paragraphs (b)(11) (i) and (iii) of this section, and it may not continue to engage in insurance-agency activities pursuant to this provision more than 90 days after the end of the quarterly reporting period in which total assets of the holding company and its subsidiaries exceed \$50 million.

(vii) Insurance-agency activities conducted before 1971. Engaging in any insurance-agency activity performed at any location in the United States directly or indirectly by a bank holding company that was engaged in insurance-agency activities prior to January 1, 1971, as a consequence of approval by the Board prior to January 1, 1971.

(12) Community development activities -

(i) Financing and investment activities. Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas by providing housing, services, or jobs for residents.

(ii) Advisory activities. Providing advisory and related services for programs designed primarily to promote community welfare.

(13) Money orders, savings bonds, and traveler's checks. The issuance and sale at retail of money orders and similar consumer-type payment instruments; the sale of U.S. savings bonds; and the issuance and sale of traveler's checks.

(14) Data processing.

(i) Providing data processing, data storage and data transmission services, facilities (including data processing, data storage and data transmission hardware, software, documentation, or operating personnel), databases, advice, and access to such services, facilities, or data-bases by any technological means, if:

(A) The data to be processed, stored or furnished are financial, banking or economic; and

(B) The hardware provided in connection therewith is offered only in conjunction with software designed and marketed for the processing, storage and transmission of financial, banking, or economic data, and where the general purpose hardware does not constitute more than 30 percent of the cost of any packaged offering.

(ii) A company conducting data processing, data storage, and data transmission activities may conduct data processing, data storage, and data transmission activities not described in paragraph (b)(14)(i) of this section if the total annual revenue derived from those activities does not exceed 49 percent of the company's total annual revenues derived from data processing, data storage and data transmission activities.

[Reg. Y, 62 FR 9329, Feb. 28, 1997, as amended at 68 FR 39810, July 3, 2003; 68 FR 41901, July 16, 2003; 68 FR 68499, Dec. 9, 2003]

**Exhibit F**

**LIBERTY BANK 2020 EQUITY INCENTIVE PLAN**

**LIBERTY BANK**  
**2020 EQUITY INCENTIVE PLAN**

**1. *Purposes of the Plan.*** The purposes of this Plan are to further the growth, development and financial success of Liberty Bank (the “Bank”) by attracting and retaining the most talented Employees and Directors available, and by aligning the long-term interests of Employees and Directors with those of the shareholders by providing an opportunity to acquire an ownership interest in the Bank and by providing both performance rewards and long-term incentives for future contributions to the success of the Bank.

The Plan permits the grant of Incentive Stock Options, Nonqualified Stock Options and Restricted Stock at the discretion of the Committee and as reflected in the terms of the Award Agreement. Each Award will be subject to conditions specified in the Plan, such as continued employment or satisfaction of performance criteria.

**2. *Definitions.*** As used herein, the following definitions shall apply:

(a) **“Award”** shall mean any award or benefit granted under the Plan, including Options and Restricted Stock. Restricted Stock may only be issued to employees of the Bank.

(b) **“Award Agreement”** shall mean a written agreement between the Bank and the Participant setting forth the terms of the Award.

(c) **“Bank”** shall mean Liberty Bank, a Washington corporation and any successor thereto.

(d) **“Board”** shall mean the Board of Directors of the Bank.

(e) **“Cause”** shall mean any of the following:

(i) any material breach of an agreement between the Participant and the Bank or any Subsidiary which, if curable, has not been cured within twenty (20) days after the Participant has been given written notice of the need to cure such breach, or which breach, if previously cured, recurs;

(ii) willful unauthorized use or disclosure of confidential information or trade secrets of the Bank or any Subsidiary by the Participant;

(iii) the Participant’s continued willful and intentional failure to satisfactorily perform Participant’s essential responsibilities, provided that the Participant has been given at least twenty (20) days’ written notice of the need to cure the failure and cure has not been effected within that time period, or which failure, if previously cured, recurs;

(iv) material failure of the Participant to comply with rules, policies or procedures of the Bank or any Subsidiary, as they may be amended from time to time, provided that the Participant has been given at least twenty (20) days’ written notice of the need to cure the

failure, if such failure is curable, and cure has not been effected within that time period, or which failure, if previously cured, recurs;

(v) Participant's dishonesty, fraud or gross negligence related to the business or property of the Bank or any Subsidiary;

(vi) personal conduct that is materially detrimental to the business of the Bank or any Subsidiary; or

(vii) conviction of or plea of *nolo contendere* to a felony.

(f) **"Code"** shall mean the Internal Revenue Code of 1986, as amended.

(g) **"Committee"** shall mean the Board Governance Committee appointed by the Board, which at all times shall consist of two (2) or more members of the Board. If no such Committee is formed, the Board shall serve as the Committee.

(h) **"Common Stock"** shall mean the common stock of the Bank.

(i) **"Continuous Status as a Participant"** shall mean (i) for Employees, the absence of any interruption or termination of service as an Employee, and (ii) for Directors, the absence of any interruption or termination of service as a Director. Continuous Status as a Participant shall not be considered interrupted for an Employee in the case of sick leave, maternity leave, infant care leave, medical emergency leave, military leave, or any other leave of absence properly taken in accordance with the policies of the Bank or any applicable Subsidiary as may be in effect from time to time.

(j) **"Director"** shall mean a member of the Board.

(k) **"Disability"** shall mean (i) in the case of a Participant whose employment with the Bank or a Subsidiary is subject to the terms of an employment agreement that includes a definition of "Disability" as used in this Plan shall have the meaning set forth in such employment or consulting agreement during the period that such employment or consulting agreement remains in effect; and (ii) in all other cases, the term "Disability" as used in this Plan shall mean a "permanent and total disability" as the term is defined for purposes of Section 22(e)(3) of the Code.

(l) **"Effective Date"** shall mean the date of adoption of the Plan by the Board, subject to approval by the shareholders within twelve (12) months before or after the date of such adoption.

(m) **"Employee"** shall mean any person, including an officer, who is a common law employee of, receives remuneration for personal services to, is reflected on the official human resources database as an employee of, and is on the payroll of the Bank or any Subsidiary of the Bank. A person is on the payroll if he or she is paid from or at the direction of the payroll department of the Bank, or any Subsidiary of the Bank.

(n) **“Exchange Act”** shall mean the Securities Exchange Act of 1934, as amended.

(o) **“Executive Officers”** shall mean the officers of the Bank as such term is defined in Rule 16(a)(1) under the Exchange Act.

(p) **“Fair Market Value”** means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq National Market or the Nasdaq SmallCap Market, the Fair Market Value of a share of Common Stock shall be the closing sale price for such stock (or the closing bid, if no sale was reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable.

(ii) If the Common Stock is traded on the OTC Bulletin Board through a network such as that operated by the OTC Market Group (e.g. the OTCQX Best Market, the OTCQB Venture Market, and the Pink Option Market), the Fair Market Value shall be the greater of the ten-day average or the closing price of the Common Stock on the last trading day preceding the Grant Date.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board using a reasonable valuation method, and to the extent required, in a manner consistent with Section 409A of the Internal Revenue Code, as amended from time to time, and Treasury Regulation 1.409A-1(b)(5)(iv), as well as any successor regulation or interpretation.

(q) **“Grant Date”** shall mean the date an Award is granted under the Plan.

(r) **“Incentive Stock Option”** shall mean any Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(s) **“Non-Employee Director”** shall mean a Director who is not an Employee.

(t) **“Nonqualified Stock Option”** shall mean an Option that does not qualify or is not intended to qualify as an Incentive Stock Option.

(u) **“Option”** shall mean a stock option granted pursuant to Section 7 of the Plan.

(v) **“Option Price”** shall mean the per share purchase price of a Share purchased pursuant to an Option.

(w) **“Parent”** shall mean a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

- (x) ***“Participant”*** shall mean an Employee or Director.
- (y) ***“Plan”*** shall mean this Liberty Bank 2020 Equity Incentive Plan, including any amendments thereto.
- (z) ***“Restricted Stock”*** shall mean a grant of Shares pursuant to Section 8 of the Plan.
- (aa) ***“SEC”*** shall mean the Securities and Exchange Commission.
- (bb) ***“Share”*** shall mean one share of Common Stock, as adjusted in accordance with Section 4 of the Plan.
- (cc) ***“Subsidiary”*** shall mean (i) in the case of an Incentive Stock Option a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code, and (ii) in the case of a Nonqualified Stock Option or Restricted Stock, in addition to a subsidiary corporation as defined in (i), (A) a limited liability company, partnership or other entity in which the Bank controls fifty percent (50%) or more of the voting power or equity interests, or (B) an entity with respect to which the Bank possesses the power, directly or indirectly, to direct or cause the direction of the management and policies of that entity, whether through the Bank’s ownership of voting securities, by contract or otherwise.
- (dd) ***“Ten Percent Shareholder”*** shall mean a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock comprising more than ten percent (10%) of the total combined voting power of all classes of stock of the Bank or any Parent or Subsidiary.

### 3. ***Shares Subject to the Plan.***

- (a) ***Reservation of Shares.*** Subject to the provisions of Section 4, the Bank is authorized to Award 48,610 Shares of Common Stock under the Plan, which if issued, when added to the Awards currently outstanding, would equal 15% percent of the currently outstanding Shares. The Board may adjust the shares authorized to be issued under the Plan annually to maintain the percentage of outstanding shares set forth above, in the event additional Shares are issued to shareholders for consideration, provided that the total number of shares available for issuance under the Plan cannot exceed 650,000. All of the Awarded Shares may, but need not, be Incentive Stock Options. No more than 45 percent of the Awarded Shares can be Restricted Stock Awards. The number of Shares underlying an Award not issued as a result of a cancellation, termination, expiration, forfeiture, or lapse for any reason of any Award shall again be available for issuance under the Plan. The Bank, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The Shares may be authorized but unissued, or reacquired shares of Common Stock.
- (b) ***Substitutions and Assumptions.*** The Board or the Committee shall have the right to substitute or assume Awards in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies, provided such substitutions and assumptions are permitted by Section 424 of the Code and the regulations promulgated thereunder.



The number of Shares reserved pursuant to Section 3(a) may be increased by a corresponding number of Awards assumed and, in the case of substitution, by the net increase in the number of Shares subject to Awards before and after the substitution.

(c) **Legal Compliance.** Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, state blue sky laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated under either such Act, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Bank with respect to such compliance. The inability of the Bank to obtain any regulatory authorization deemed by the Bank's counsel to be necessary to the lawful issuance and/or sale of any Award or Shares under the Plan (including upon the exercise of an Award) shall relieve the Bank of any liability in respect of the nonissuance or sale of any Award or Shares as to which such authorization shall not have been obtained. As a condition to the granting and the exercise of any portion of any Award, the Bank may require the Participant receiving and/or exercising such Award to make any representation and/or warranty to the Bank as may, in the judgment of counsel to the Bank, be required under any applicable law, regulation or rule, including but not limited to a representation and warranty that the Award and/or Shares are being acquired only for investment and without any present intention to sell or distribute such Shares.

4. **Adjustments to Shares Subject to the Plan.** If any change is made to the Shares by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Shares as a class without the Bank's receipt of consideration, appropriate adjustments shall be made to (a) the maximum number and/or class of securities issuable under the Plan, (b) the maximum number of Shares issuable pursuant to Incentive Stock Options and (c) the number and/or class of securities and/or the price per Share covered by outstanding Awards under the Plan.

Except as expressly provided herein, no issuance by the Bank of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.

5. **Plan Administration.**

(a) **Authority.** The Plan shall be administered by the Committee. The Committee shall have full and exclusive power to administer the Plan on behalf of the Board, subject to such terms and conditions, if any, as the Board may prescribe.

(b) **Powers of the Committee.** Subject to the other provisions of this Plan, the Committee shall have the authority, in its discretion:

(i) to grant Incentive Stock Options, Nonqualified Stock Options and Restricted Stock to Participants and to determine the terms and conditions of such Awards, including the determination of the Fair Market Value of the Shares and the exercise price (subject

to Section 7(b)), and to modify or amend each Award, with the consent of the Participant when required;

(ii) to determine the Participants to whom Awards, if any, will be granted hereunder, the timing of such Awards, and the number of Shares to be represented by each Award;

(iii) to construe and interpret the Plan, the Awards granted hereunder, and any Award Agreement;

(iv) to prescribe, amend, and rescind rules and regulations relating to the Plan, including the form of Award Agreement, and manner of acceptance of an Award, such as correcting a defect or supplying any omission, or reconciling any inconsistency so that the Plan or any Award Agreement complies with applicable law, regulations and listing requirements and to avoid unanticipated consequences deemed by the Committee to be inconsistent with the purposes of the Plan or any Award Agreement;

(v) to establish performance criteria for Awards made pursuant to the Plan in accordance with a methodology established by the Committee, and to determine whether performance goals have been attained;

(vi) to accelerate or defer (with the consent of the Participant) the exercise or vested date of any Award;

(vii) to authorize any person to execute on behalf of the Bank any instrument required to effectuate the grant of an Award previously granted by the Committee;

(viii) to authorize the cancellation, forfeiture or suspension of an Award;  
and

(ix) to make all other determinations deemed necessary or advisable for the administration of the Plan.

Provided that, no consent of a Participant is necessary under clauses (i) or (vi) if a modification, amendment, acceleration, or deferral, in the reasonable judgment of the Committee confers a benefit on the Participant or is made pursuant to an adjustment in accordance with Section 4.

(c) ***Effect of Committee's Decision.*** All decisions, determinations, and interpretations of the Committee shall be final, conclusive and binding on all Participants, the Bank, any shareholder and all other persons.

#### **6. *General Eligibility, Stock Restriction and Repurchase Agreements.***

(a) ***Awards.*** Awards may be granted to Participants who are Employees or Directors, provided however that Incentive Stock Options may only be granted to Employees.

(b) **Stock Restriction Agreement and Stock Repurchase Agreement.** As a condition to the granting of any Award under the Plan and/or the subsequent exercise of such Award, the Committee may require the Participant to enter into a stock restriction agreement with the Bank for the purpose of limiting the sale or other transfer of ownership of Shares acquired by the Participant and/or a repurchase agreement with the Bank, granting to the Bank the right, upon the termination for any reason of the Participant's Continuous Status as a Participant, to repurchase, at Fair Market Value any or all of the Shares acquired by the Participant.

(c) **No Employment/Service Rights.** This Plan is purely voluntary on the part of the Bank, and the continuance of the Plan shall not be deemed to constitute a contract between the Bank and any person, including an Employee or Director, or to be consideration or a condition of the employment of any Employee or retention of any Director. Nothing in the Plan shall confer upon any Employee or Director the right to an Award or to continue in service as an Employee or Director for any period of specific duration, or interfere with or otherwise restrict in any way the rights of the Bank (or any Subsidiary employing or retaining such person), or of any Employee or Director, which rights are hereby expressly reserved by each, to terminate such person's services at any time for any reason, with or without Cause.

#### **7. Grant, Terms and Conditions of Options.**

(a) **Designation.** Each Option shall be designated in an Award Agreement as either an Incentive Stock Option or a Nonqualified Stock Option. However, notwithstanding the foregoing, if an Option is not designated as an Incentive Stock Option, such Option will be deemed to be a Nonqualified Stock Option. To the extent that the aggregate Fair Market Value (determined at the time of grant) of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Employee during any calendar year exceeds \$100,000, such excess Options shall be treated as Nonqualified Stock Options. For this purpose, Options shall be taken into account in the order in which they were granted.

(b) **Option Price.** The per Share exercise price under an Incentive Stock Option (i) granted to a Ten Percent Shareholder, shall be no less than 110% of the Fair Market Value per Share on the date of grant, or (ii) granted to any other Participant, shall be no less than 100% of the Fair Market Value per Share on the date of grant. The per Share exercise price under a Nonqualified Stock Option shall be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(c) **Term of Options.** The term of all Options shall be ten (10) years unless otherwise provided by the Committee, in its discretion, in the applicable Award Agreement relating to an Option.

(d) **Vesting.** Unless otherwise provided in the applicable Award Agreement (i) subject to (ii) below, Options shall vest in five equal annual installments with one-fifth of the Option vesting on each successive annual anniversary of the date of grant and (ii) a Participant's Options shall cease to vest upon such Participant's Disability or termination of such Participant's Continuous Status as a Participant.

(c) **Exercise.** Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Committee at the time of grant, and as shall be permissible under the terms of the Plan. No fractional Shares may be issued or delivered pursuant to the Plan or any Award.

**8. Grant, Terms and Conditions of Stock Awards.**

(a) **Designation.** Restricted Stock may be granted under the Plan. After the Committee determines that it will offer Restricted Stock, it will advise the Employee Participant in writing, by means of an Award Agreement, of the terms, conditions and restrictions, including vesting, if any, related to the offer, including the number of Shares that the Employee Participant shall be entitled to receive or purchase, the price to be paid, if any, and, if applicable, the time within which the Employee Participant must accept the offer. The offer shall be accepted by execution of an Award Agreement or as otherwise directed by the Committee. The term of each award of Restricted Stock shall be at the discretion of the Committee.

(b) **Restrictions.** The Committee may impose such conditions or restrictions on the Restricted Stock granted pursuant to the Plan as it may determine advisable, including the achievement of specific performance goals, time based restrictions on vesting, or others. If the Committee establishes performance goals, the Committee shall determine whether a Participant has satisfied the performance goals. Restricted Stock may only be issued to Participants who are employees of the Bank.

(c) **Vesting.** Unless the Committee determines otherwise, the Award Agreement shall provide for the forfeiture of the non-vested Shares underlying Restricted Stock upon cessation of a Participant's Continuous Status as a Participant. To the extent that the Participant purchased the Shares granted under any such Restricted Stock award and any such Shares remain non-vested at the time of cessation of a Participant's Continuous Status as a Participant, the cessation of Participant's Continuous Status as a Participant shall cause an immediate sale of such non-vested Shares to the Bank at the original price per Share paid by the Participant.

**9. Procedure for Exercise; Rights as a Shareholder.**

(a) **Procedure.** An Award shall be exercised when written notice of exercise has been given to the Bank in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised has been received by the Bank. Full payment may, as authorized by the Committee, consist of any consideration and method of payment allowable under the terms of this Plan. The Bank shall issue (or cause to be issued) such share certificate promptly upon exercise of the Award. In the event that the exercise of an Award is treated in part as the exercise of an Incentive Stock Option and in part as the exercise of a Nonqualified Stock Option pursuant to Section 7(a), the Bank shall issue a share certificate evidencing the Shares treated as acquired upon the exercise of an Incentive Stock Option and a separate share certificate evidencing the Shares treated as acquired upon the exercise of a Nonqualified Stock Option, and shall identify each such certificate accordingly in its share transfer records.

(b) **Method of Payment.** The consideration to be paid for any Shares to be issued upon exercise or other required settlement of an Award, including a method of payment, shall be determined by the Committee at the time of settlement, and which forms may include: (i) check; (ii) wire transfer; (iii) tender of shares of Common Stock owned by the Participant in accordance with rules established by the Committee from time to time; and (iv) a request that the Bank conduct a cashless exercise of the Option. Shares used to pay the Option Price shall be valued at their Fair Market Value on the exercise date. Payment of the aggregate Option Price by means of tendering previously-owned shares of Common Stock shall not be permitted when the same may, in the reasonable opinion of the Bank, cause the Bank to record a loss or expense as a result thereof.

(c) **Withholding Obligations.** To the extent required by applicable federal, state, local or foreign law, the Committee may and/or a Participant shall make arrangements satisfactory to the Bank for the satisfaction of any withholding tax obligations that arise with respect to any Incentive Stock Option, Nonqualified Stock Option or Restricted Stock, or any sale of Shares. The Bank shall not be required to issue Shares or to recognize the disposition of such Shares until such obligations are satisfied. These obligations may be satisfied by having the Bank withhold a portion of the Shares that otherwise would be issued to a Participant under such Award or by tendering Shares previously acquired by the Participant in accordance with rules established by the Committee from time to time.

(d) **Shareholder Rights.** Except as otherwise provided in this Plan, until the issuance (as evidenced by the appropriate entry on the books of the Bank or of a duly authorized transfer agent of the Bank) of the share certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares subject to the Award, notwithstanding the exercise of the Award.

(e) **Non-Transferability of Awards.** An Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in exchange for consideration, and may not be transferred other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant; unless the Committee permits further transferability, on a general or specific basis, in which case the Committee may impose conditions and limitations on any permitted transferability.

#### **10. Expiration of Awards.**

(a) **Expiration, Termination or Forfeiture of Awards.** Unless otherwise provided in the applicable Award Agreement or any severance agreement, vested Awards granted under this Plan shall expire, terminate, or otherwise be forfeited as follows:

(i) ninety (90) days after the date of termination of a Participant's Continuous Status as a Participant other than in circumstances covered by (ii), (iii), (iv) or (v) below;

(ii) immediately upon termination of a Participant's Continuous Status as a Participant for Cause;

(iii) twelve (12) months after the date on which a Participant ceased performing services as a result of his or her Disability; and

(iv) twelve (12) months after the date of the death of a Participant whose Continuous Status as a Participant terminated as a result of his or her death.

(b) **Extension of Term.** Notwithstanding subsection (a) above, the Committee shall have the authority to extend the expiration date of any outstanding Options other than an Incentive Stock Option in circumstances in which it deems such action to be appropriate (provided that no such extension shall extend the term of an Option beyond the date on which the Award would have expired or been forfeited if there had been no termination of the Participant's Continuous Status as a Participant).

**11. Term, Amendment and Termination of the Plan; Governing Law.**

(a) **Term of Plan.** The Plan shall become effective as of the Effective Date. It shall continue in effect until the tenth anniversary of the Effective Date or until terminated under this Section 11 of the.

(b) **Amendment and Termination.** The Board or the Committee may amend or terminate the Plan from time to time in such respects as the Board may deem advisable (including, but not limited to amendments which the Board deems appropriate to enhance the Bank's ability to claim deductions related to stock option exercises); provided that to the extent required by the Code or the rules of the SEC, shareholder approval shall be required for any amendment of the Plan. Subject to the foregoing, it is specifically intended that the Board or Committee may amend the Plan without shareholder approval to comply with legal and regulatory requirements and to avoid unanticipated consequences deemed by the Committee to be inconsistent with the purpose of the Plan or any Award Agreement.

(c) **Effect of Amendment or Termination.** Any such amendment or termination of the Plan shall not affect Awards already granted, and such Awards shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Participant and the Committee, which agreement must be in writing and signed by the Participant and the Bank.

(d) **Shareholder Approval.** The Plan is subject to approval by the shareholders of the Bank.

(e) **Governing Law.** The Plan shall be governed and construed in accordance with the laws of the State of Washington.

**12. Compliance with Internal Revenue Code Section 409A.** It is the intent of the Bank that each Award under this Plan, either (a) not be subject to the requirements of Section 409A or (b) meet and be operated in accordance with such requirements. Accordingly, each Award under

this Plan shall comply with the requirements of Section 409A, if applicable, and shall be administered in accordance with such requirements.

28375-1/Equity Incentive Plan  
4839-2898-1961, v. 1

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33285-1/Proxy  
4820-0125-8441, v. 1g