Risk Factors Comparison 2024-02-23 to 2023-02-21 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all ~~of~~ the other information included in this report. The risks described below are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial ~~also~~ may materially and adversely affect our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects. The market price of our common stock could decline significantly due to any of these identified or other risks, and you could lose some or all of your investment. The risks discussed below also include forward- looking statements, and our actual results may differ substantially from those discussed in these forward- looking statements. This report is qualified in its entirety by these risk factors. Risks Related to Macroeconomic Conditions Our business may be adversely affected by downturns in the national economy and the regional economies on which we depend. Our operations are significantly affected by national and regional economic conditions. Weakness in the national economy or the economies of the markets in which we operate could have a material adverse effect on our financial condition, results of operations and prospects. We provide banking and financial services primarily to businesses and individuals in the states of Washington, Oregon, California and Idaho. All of our branches and most of our deposit clients are also located in these four states. Further, as a result of a high concentration of our client base in the Puget Sound area and eastern Washington state regions, the deterioration of businesses in these areas, or one or more businesses with a large employee base in these areas, could have a material adverse effect on our business, financial condition, liquidity, results of operations and prospects. ~~Weakness in the global economy has adversely affected many businesses operating in our markets that are dependent upon international trade and it is not known how changes in tariffs being imposed on international trade may also affect these businesses. In addition, adverse weather conditions as well as decreases in market prices for agricultural products grown in our primary markets can adversely affect agricultural businesses in our markets.~~ As we expand our presence in areas such as San Diego and Sacramento, and throughout California, we will be exposed to concentration risks in those areas as well. **In addition, weakness in the global economy and prevalent global supply chain issues have adversely affected numerous businesses within our market areas, particularly those reliant on international trade. Changes in agreements or relationships between the United States and other countries may further impact these businesses and, by extension, our operations.** A ~~deterioration~~ **downturn** in economic conditions **, be it due to** ~~in the markets we serve as a result of~~ inflation, ~~a recession~~ **recessive trends** , **geopolitical conflicts, adverse weather,** the ~~effects~~ **impact** of COVID- 19 variants **,** or other factors ~~could result in the following consequences~~ , ~~any of which~~ could have a material adverse effect on our business, financial condition, liquidity and results of operations **, including but not limited to** : • **Reduced** demand for our products and services ~~may~~ **, potentially leading to a** decline **in our overall loans or assets** ; • **Elevated instances of** loan delinquencies, ~~problem~~ **problematic** assets **,** and foreclosures ~~may increase~~ ; • **An** ~~we may~~ increase **in** our allowance for credit losses **on loans** ; • **Declines in** collateral ~~for~~ **values linked to our** loans, **thereby diminishing** ~~especially real estate, may decline in value, in turn reducing clients'~~ borrowing **capacities and** ~~power, reducing the value of assets~~ - **asset values tied to** ~~and collateral associated with~~ existing loans; • ~~the~~ **Reduced** net worth and liquidity of loan guarantors ~~may decline~~ , **possibly** impairing their ability to ~~honor~~ **meet** commitments to us; and • **Reduction in** ~~the amount of~~ our low- cost or non- interest- bearing deposits ~~may decrease~~ . A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are more geographically diverse. **Our** ~~Many of the loans~~ - **loan** ~~in our~~ portfolio ~~are~~ **is predominantly** secured by real estate. Deterioration in the real estate markets where collateral for a loan is real property could negatively affect the borrower' s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various ~~other~~ factors, including ~~changes in general or regional~~ economic conditions, **regulatory changes,** ~~governmental rules or policies~~ and natural disasters such as earthquakes, flooding and tornadoes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected. Adverse changes in the regional and general economy could reduce our growth rate, impair our ability to collect loans and generally have a negative effect on our financial condition and results of operations. External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly ~~the Board of Governors of the Federal Reserve System, or~~ the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Inflation has risen sharply since the end of 2021 ~~and throughout 2022~~ at levels not seen for over 40 years. Inflationary pressures ~~are currently expected to~~ **, while easing recently,** ~~remain~~ **remained** elevated throughout **most of** 2023. Small **-** to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business clients to repay their loans may deteriorate ~~, and in some cases this deterioration may occur~~ quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition. Virtually all ~~of~~ our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services. ~~The economic~~ **Risks related to recent events**

~~impact~~ **impacting** ~~of~~ the **banking industry** ~~COVID- 19 pandemic~~ could **adversely** ~~continue to~~ affect our **stock price, results of operations and** financial condition **. The banking industry has been negatively impacted by the failures of Silicon Valley Bank** and **Signature Bank in March 2023, and First Republic Bank in May 2023. These failures highlighted deposit-related risks to the banking industry, in particular the speed at which deposits can be moved. These events led to decreased investor and depositor confidence in regional banks as well as increased volatility in the stock trading prices of regional banks, to varying degrees. Despite differences in business models across the banking industry, further concerns related to these events could adversely impact our deposits, liquidity,** results of operations ~~. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the business of the Company, its clients, employees and third- party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify in the near- term or long- term. We could be subject to a number of risks as the result of the COVID- 19 pandemic, any of which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy, and ability to pay dividends. These risks include, but are not limited to, changes in demand for our products and services; increased credit losses or other impairments in our loan portfolios and increases in our allowance for credit losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an~~ **and** ~~impairment charge; and increased costs as~~ the ~~Company and~~ **trading price of** our **stock** ~~regulators, customers and vendors adapt to evolving pandemic conditions~~ . Risks Related to Credit and Lending Our loan portfolio includes loans with a higher risk of loss. In addition to our first- lien one- to four- family residential real estate lending, we originate construction and land loans, commercial and multifamily mortgage loans, commercial business loans, agricultural mortgage loans and agricultural **business** loans, and consumer loans, primarily within our market areas, which generally involve a higher risk of loss than first- lien one- to four- family residential real estate lending. We had $ ~~8~~ **9** . ~~97~~ **29** billion outstanding in these types of higher risk loans ~~, excluding SBA PPP loans,~~ at December 31, ~~2022~~ **2023** , compared to $ 8. ~~29~~ **97** billion at December 31, ~~2021~~ **2022** , which typically present different risks to us than our first- lien one- to four-family residential real estate for a number of reasons, including the following: • Construction and Land Loans. At December 31, ~~2022~~ **2023** , construction and land loans were $ 1. ~~49~~ **54** billion, or ~~15~~ **14** % of our total loan portfolio. This type of lending **carries** ~~is subject to the~~ inherent ~~difficulties~~ **uncertainties** in estimating ~~both~~ a property' s **future** value ~~at~~ **upon project** completion ~~of a project~~ and the ~~estimated~~ **overall** cost (including interest) of the project. **These** ~~Because of the~~ uncertainties ~~inherent~~ **arise from challenges** in estimating construction costs, **assessing** ~~as well as~~ the market value **upon** ~~of a completed~~ project **completion** and **considering** the ~~effects~~ **impact** of ~~governmental~~ -- **government** ~~regulation~~ **regulations** on real property **. Consequently** , ~~it is relatively difficult to evaluate~~ accurately **evaluating** the total funds required to complete a project and **determining** the **loan- to- value ratio for the completed project is often challenging. If the estimate of construction costs proves inaccurate, we may be required to advance funds beyond the amount originally committed to ensure project completion. If our appraisal of a** completed project' s ~~loan- to-~~ value ~~ratio. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to ensure completion of the project. If our appraisal of the value of a completed project~~ proves to be overstated, we may have inadequate security for ~~the~~ **loan** repayment ~~of the loan~~ upon **project** completion ~~of construction of the project~~ and **subsequent** ~~may incur a loss~~ **losses** . ~~Disagreements~~ **Challenges such as disputes** between borrowers and builders and the failure of builders to pay subcontractors **, and the concentration** ~~may also jeopardize projects. This type~~ of ~~lending also typically involves~~ higher loan ~~principal~~ amounts **among** ~~and may be concentrated with~~ a ~~small~~ **limited** number of builders **further increases risk exposure** . A downturn in housing ~~,~~ or the real estate market ~~,~~ could increase delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. ~~Many of the~~ **Multiple loans to a single** ~~builders~~ - **builder** ~~we deal with have more than~~ **amplify our risk exposure, wherein adverse developments in** one loan ~~outstanding with us. Consequently, an adverse development with respect to one loan~~ or ~~one~~ credit relationship ~~can expose~~ -- **pose** ~~us to a significantly~~ -- **significant** ~~greater risk of~~ loss **potential** . In addition, during the term of some of our construction loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly depleting the interest reserves prior to completion and / or increasing the end- purchaser' s borrowing costs, thereby possibly reducing the homeowner' s ability to finance the home upon completion or the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold **,** which also complicates the process of managing problem construction loans. This may require us to advance additional funds and / or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Loans on land under development or held for future construction also pose additional risk ~~because of~~ **due to** the lack of income **generation from** ~~being produced by~~ the property and ~~the~~ potential **liquidity** ~~illiquid nature~~ of ~~the~~ collateral **,** ~~. These risks can be~~ significantly ~~impacted~~ **affected** by supply and demand. As a result, this type of lending often involves **disbursing** ~~the disbursement of~~ substantial funds **,** with repayment dependent on ~~the~~ **project** success ~~of the ultimate project~~ and the **borrower' s** ability ~~of the borrower~~ to sell or lease the property or obtain permanent ~~take- out~~ financing, rather than ~~the ability of the borrower or guarantor to independently~~ -- **independent repayment capability** ~~repay principal and interest~~ . Construction loans made by us include those with a sales contract or permanent loan in place for the finished homes and those for which purchasers for the finished homes may not be identified either during or following the construction period, known as speculative construction loans. Speculative construction loans ~~to a builder~~ pose **additional** ~~a greater potential risk~~ **risks , especially regarding finding end- purchasers for finished projects** ~~to us than construction loans to individuals on their personal residences~~ . We attempt to mitigate this risk by actively monitoring the number of unsold homes in our construction loan portfolio and local housing markets in an attempt to maintain an appropriate balance between home sales and new loan originations. In addition, the maximum number of speculative construction loans (loans that are not pre- sold) approved for each builder is based on a combination of factors, including ~~the~~ **their** financial capacity ~~of the builder~~ , ~~the~~ market demand for the finished product and the ratio of sold to unsold inventory the builder maintains. We have also attempted to diversify the risk associated with speculative construction lending by doing business with a large number of small and mid- sized builders spread over a relatively large geographic region representing numerous sub- markets within our service area. ~~As a result of the increasing real estate values in certain of our market areas, this category of lending has increased. Our investment in construction and land loans increased by $ 177. 2 million or 14 % in 2022.~~ At December 31, ~~2022~~ **2023** , non- performing construction and land loans totaled $ ~~181~~ **4. 2 million** , ~~000,~~ or ~~1~~ **14** % of total non- performing loans. • Commercial and Multifamily Real Estate Loans. At December 31, ~~2022~~ **2023** , commercial and multifamily real estate loans were $ 4. ~~28~~ **45** billion, or ~~42~~ **41** % of our total loan portfolio. **Many of** ~~These~~ **these** loans ~~typically~~ involve higher principal amounts than other types of loans and some ~~of our~~ commercial borrowers **maintain multiple** ~~have more than one loan~~ **loans** ~~outstanding~~ with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four- family residential mortgage loan. Repayment of these loans typically is dependent upon income being generated from the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. In addition, many of our commercial and multifamily real estate loans are not fully amortizing and contain large balloon payments upon maturity ~~which~~ **. These balloon payments** may require the borrower to either sell or refinance the underlying property ~~in order to make the balloon payment~~ , ~~thus increasing~~ **potentially heightening** the risk of default or non- payment. If we foreclose on a commercial or multifamily real estate loan, our holding period for the collateral typically ~~is~~ longer than for one- to **four** - ~~four~~ family residential loans because there are fewer potential purchasers of the collateral. At December 31, ~~2022~~ **2023** , non- performing commercial and multifamily real estate loans totaled $ ~~3~~ **2** . 7 million, or ~~16~~ **9** % of total non- performing loans. • Commercial Business Loans. At December 31, ~~2022~~ **2023** , commercial business loans were $ 2. ~~23~~ **28** billion, or ~~22~~ **21** % of our total loan portfolio. Our commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. A borrower' s cash flow may prove to be unpredictable, and collateral securing these loans may fluctuate in value. Most often, this collateral includes accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for ~~the~~ repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its clients. Other collateral securing **commercial business** loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. At December 31, ~~2022~~ **2023** , non- performing commercial business loans totaled $ 9. ~~9~~ **0** million, or ~~43~~ **30** % of total non- performing loans. • Agricultural Loans. At December 31, ~~2022~~ **2023** , agricultural loans were $ ~~295~~ **331** . 1 million, or 3 % of our total loan portfolio. Repayment of agricultural loans is dependent upon the successful operation of the business and is subject to many factors outside the control of either us or the borrowers. These factors include adverse weather conditions that prevent the planting of ~~a~~ crops or limit crop yields (such as hail, drought and floods), loss of crops or livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies, tariffs and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect ~~the~~ successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower' s ability to repay the loan may be impaired. Consequently, agricultural loans may involve a greater degree of risk than other types of loans, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment (some of which is highly specialized with a limited or no market for resale), or assets such as livestock or crops. In such cases, any repossessed collateral for a defaulted agricultural operating loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation or because the assessed value of the collateral exceeds the eventual realization value. At December 31, ~~2022~~ **2023** , non- performing agricultural loans totaled $ ~~594, 000, or~~ 3 **. 2 million, or 11** % of total non- performing loans. • Consumer Loans. At December 31, ~~2022~~ **2023** , consumer loans were $ ~~680~~ **699** . ~~9~~ **4** million, or ~~7~~ **6** % of our total loan portfolio. Home equity lines of credit, which represented ~~83~~ **84** % of our total consumer loan portfolio at December 31, ~~2022~~ **2023** , generally entail greater risk than one- to four- family residential mortgage loans where we are in the first lien position. For home equity lines secured by a second mortgage, it is less likely that we will be successful in recovering all of our loan proceeds in the event of default as the value of the property must be sufficient to cover the repayment of the first mortgage loan, **and** ~~as well as~~ the costs associated with foreclosure, before the balance on the second mortgage loan is repaid. In the case of consumer loans that are unsecured or secured by rapidly depreciating assets such as automobiles, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower' s continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on these consumer loans. Loans that we purchased, or indirectly originated, may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loans such as us, and a borrower may be able to assert against the assignee claims and defenses that it has against the seller of the underlying collateral. At December 31, ~~2022~~ **2023** , non- performing consumer loans totaled $ ~~2~~ **3** . ~~4~~ **6** million, or ~~10~~ **12** % of total non- performing loans. Our business may be adversely affected by credit risk associated with residential property and declining property values. At December 31, ~~2022~~ **2023** , first- lien one- to four- family residential loans were $ 1. ~~17~~ **52** billion or ~~12~~ **14** % of our total loan portfolio. Our first- lien one- to four- family residential loans are primarily made based on the repayment ability of the borrower and the collateral securing these loans. Foreclosure on the loans requires the value of the property to be sufficient to cover the repayment of the loan, **and** ~~as well as~~ the costs associated with foreclosure. This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A downturn in the economy or the housing market in our market areas or a rapid increase in interest rates may reduce the value of the real estate collateral securing these types of loans and increase the risk that we would incur losses if borrowers default on their loans. Residential loans with high combined loan- to- value generally will be more sensitive to declining ~~properly~~ **property** values than those with lower combined loan- to- value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds. As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations. Our allowance for credit losses **on loans** may not be sufficient to absorb losses in our loan portfolio, which would cause our results of operations, liquidity and financial condition to be adversely affected. Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: • cash flow of the borrower and / or the project being financed; • in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral; • the duration of the loan; • the character and creditworthiness of a particular borrower; and • changes in economic and industry conditions. We maintain an allowance for credit losses **—** ~~, which is~~ a reserve established through a provision for expected losses **—** ~~, which~~ we believe is appropriate to provide for lifetime expected credit losses in our loan portfolio. The ~~amount~~ **appropriate level** of ~~this~~ **the** allowance **for credit losses** is determined by ~~our~~ management through periodic reviews and consideration of several factors, including, but not limited to: • our collective loss reserve, for loans evaluated on a pool basis **with** ~~which have~~ similar risk characteristics based on our life of loan historical default and loss experience, certain macroeconomic factors, reasonable and supportable forecasts, regulatory requirements, management' s expectations of future events and certain qualitative factors; and • our individual loss reserve, based on our evaluation of individual loans that do not share similar risk characteristics and the present value of the expected future cash flows or the fair value of the underlying collateral. ~~The determination~~ **Determination** of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for credit losses may not be sufficient to cover the expected losses in our loan portfolio, resulting in the need for increases in our allowance for credit losses through the provision for credit losses which is recorded as a charge against income. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional ~~provisions~~ - **provision** . Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors ~~,~~ **—** both within and outside of our control ~~,~~ **—** may require an increase in the allowance for credit losses. If current conditions in the housing and real estate markets weaken, we expect we will experience increased delinquencies and credit losses. ~~In addition, bank~~ **Bank** regulatory agencies **also** periodically review our allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further loan charge- offs, based on judgments different than those of management. If charge- offs in future periods exceed the allowance for credit losses, we may need additional ~~provisions~~ - **provision** to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations ~~. Loans originated under the SBA Paycheck Protection Program subject us to forgiveness and guarantee risk. As of December 31, 2021, we hold and service a portfolio of 94 loans originated under the SBA PPP with a balance of $ 7. 9 million. The SBA PPP loans are subject to the provisions of the CARES Act and CAA 2021 and to complex and evolving rules and guidance issued by the SBA and other government agencies. Most of our SBA PPP borrowers have already qualified for forgiveness of their loan obligations, however, if an SBA PPP borrower fails to qualify for loan forgiveness, we face a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. We could face additional risks in our administrative capabilities to service our SBA PPP loans, and risk with respect to the determination of loan forgiveness. In the event of a loss resulting from a default on an SBA PPP loan and a determination by the SBA that there was a deficiency in the manner in which we originated, funded or serviced an SBA PPP loan, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty or, if the SBA has already paid under the guaranty, seek recovery of any loss related to the deficiency from us~~ . Risks Related to Merger and Acquisition Strategy We pursue a strategy of supplementing internal growth by acquiring other financial companies or their assets and liabilities that we believe will help us fulfill our strategic objectives and enhance our earnings. We may be adversely affected by risks associated with potential acquisitions. As part of our general growth strategy, we periodically expand our business through acquisitions. Although our business strategy emphasizes organic expansion, ~~we continue,~~ from time to time in the ordinary course of business, ~~to~~ **we** engage in ~~preliminary~~ discussions with potential acquisition targets. There can be no assurance that ~~, in the future,~~ we will successfully identify suitable acquisition candidates, complete acquisitions and successfully integrate acquired operations into our existing operations **,** or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by Banner' s existing operations, or otherwise perform as expected. Further, transaction- related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of Banner' s stock. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including: • ~~We~~ **we** may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected; • ~~Higher~~ **higher** than expected deposit attrition; • ~~Potential~~ **potential** diversion of our management' s time and attention; • ~~Prices~~ **prices** at which acquisitions can be made fluctuate with market conditions. We have experienced times during which acquisitions could not be made in specific markets at prices we considered acceptable and expect that we will experience this situation in the future; • ~~The~~ **the** acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time **-** consuming and can also be disruptive to the clients of the acquired business. If the integration process is not conducted successfully and with minimal adverse effect on the acquired business and its clients, we may not realize the anticipated economic benefits of particular acquisitions within the expected time frame, and we may lose clients or employees of the acquired business. We may also experience greater than anticipated client losses even if the integration process is successful; • ~~To~~ **to** finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders; • ~~We~~ **we** have completed various acquisitions ~~in~~ **over** the ~~past few~~ years that enhanced our rate of growth. We may not be able to ~~continue to~~ sustain our past rate of growth or to grow at all in the future; and • ~~To~~ **to** the extent our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill **that must be analyzed** ~~. We are required to assess our goodwill~~ for impairment at least annually ~~, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition. The required accounting treatment of loans we acquire through acquisitions could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods. Under GAAP, we are required to record loans acquired through acquisitions at fair value. Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances as of the acquisition date. Actual performance could differ from management' s initial estimates. If these loans outperform our original fair value estimates, the difference between our original estimate and the actual performance of the loan (the " discount ") is accreted into net interest income. Thus, our net interest margins may initially increase due to the discount accretion. Absent changes in interest rates, we expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and the discount decreases, and we could experience downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable high-yielding loans. This could result in higher net interest margins and interest income in current periods and lower net interest rate margins and lower interest income in future periods~~ . We may incur impairment to goodwill. In accordance with GAAP, we record assets acquired and liabilities assumed in a business combination at their fair value with the excess of the purchase consideration over the net assets acquired resulting in the recognition of goodwill. As a result, acquisitions typically result in recording goodwill. We perform a goodwill evaluation at least annually to test for goodwill impairment. Our test of goodwill for potential impairment is based on a qualitative assessment by ~~management~~ **Management** that takes into consideration macroeconomic conditions, industry and market conditions, cost or margin factors, financial performance and share price. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill was deemed to exist, we would be required to record a non- cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations. Risks Related to Market and Interest Rate Changes Our results of operations, liquidity and cash flows are subject to interest rate risk. Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies ~~and~~ , **and** in particular ~~,~~ the Federal Reserve. Since March 2022, in response to inflation, the Federal Open Market Committee (FOMC) of the Federal Reserve has increased the target range for the federal funds rate by ~~425~~ **525** basis **points** , including ~~125~~ **225** basis points during ~~the fourth calendar quarter of 2022~~ **2023** , to a range of ~~4~~ **5** . 25 % to ~~4~~ **5** . 50 % as of December 31, ~~2022~~ **2023** . As ~~it seeks to control~~ inflation **eases** ~~without creating a recession~~ , the FOMC has indicated ~~further~~ **rate** ~~increases~~ **decreases may** ~~are to~~ be expected during ~~2023~~ **2024** . ~~If~~ **However, if** the FOMC further increases the targeted federal funds rate, **overall** interest rates will likely continue to rise, which may negatively impact ~~both the housing market,~~ **our net interest margin and loan demand** by reducing refinancing activity and new home purchases ~~, and the U. S. economy~~ . We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected. Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates ~~—~~ **,** up or down ~~—~~ **,** could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yields on interest- earning assets catch up. Changes in the slope of the " yield curve " — or the spread between short- term and long- term interest rates — could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short- term rates are lower than long- term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage- backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely decrease our income. A sustained increase in market interest rates could adversely affect our earnings. As is the case with many banks **, we attempt to maintain** ~~our~~ - **or** ~~emphasis~~ **increase our proportion of** ~~on~~ **non** ~~increasing core~~ **- interest- bearing** deposits **comprising either, which** has **been challenging over the last year** ~~resulted in an increasing percentage of our deposit balances being comprised of deposit accounts bearing no or a relatively low rate of interest and having a shorter duration than our assets~~ . At December 31, ~~2022~~ **2023** , we had $ ~~531~~ **1** . ~~6~~ **40** ~~million~~ **billion** in certificates of deposit that mature within one year and $ ~~12~~ **11** . ~~90~~ **55** billion in non- interest- bearing, negotiable order of withdrawal (NOW) checking, savings and money market accounts. We ~~may~~ **would** incur a higher cost of funds to retain these deposits in a rising interest rate environment. **Our** ~~If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our~~ net interest income ~~, and therefore earnings,~~ could be adversely affected **if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and other investments** . In addition, a substantial amount of our loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Further, a significant portion of our adjustable- rate loans have interest rate floors below which the loan' s contractual interest rate may not adjust. Approximately 64 % of our loan portfolio was comprised of adjustable or floating- rate loans at December 31, ~~2022~~ **2023** , and approximately $ 4. ~~40~~ **79** billion, or ~~68~~ **69** %, of those loans contained interest rate floors, below which the loans' contractual interest rate may not adjust. At December 31, ~~2022~~ **2023** , the weighted average floor interest rate of these loans was 4. ~~15~~ **40** %. At that date, approximately $ 1. ~~09~~ **36** billion, or ~~25~~ **29** %, of these loans were at their floor interest rate. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during periods of declining interest rates. Also, when loans are at their floors, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates **,** which could have a material adverse effect on our results of operations. ~~Changes in interest rates also affect the value of our interest- earning assets and in particular our securities portfolio. Generally, the fair value of fixed- rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of AOCI, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity.~~ Although ~~management~~ **Management** believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Also, our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results. Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates. Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and / or earnings. Fluctuations in market value may be caused by changes in market interest rates, rating agency actions in respect ~~of~~ **to** the securities, defaults by the issuer or with respect to the underlying securities, lower market prices for securities and limited investor demand. Our available- for- sale debt securities in an unrealized loss position are evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. If a credit loss exists, an allowance for credit losses is recorded for the credit loss, resulting in a charge against earnings. ~~As stated above, changes~~ **Changes** in interest rates can also have an adverse effect on our financial condition, as our available- for- sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. **Generally,** ~~We increase or decrease our shareholders' equity by~~ the ~~amount of change in the estimated~~ fair value of ~~the~~ **fixed- rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities** available- for- sale **are reported as a separate component of AOCI, net of tax. Decreases in the fair value of** securities ~~, net of taxes~~ **available- for- sale resulting from increases in interest rates could have an adverse effect on shareholders' equity** . There can be no assurance that the declines in market value will not result in ~~expected~~ credit losses, which would lead to ~~accounting charges~~ **additional provision for credit losses** that could have a material adverse effect on our net income and capital levels. An increase in interest rates, change in the programs offered by secondary market purchasers or our ability to qualify for their programs may reduce our mortgage banking revenues, which would negatively impact our non- interest income. Our mortgage banking operations provide a significant portion of our non- interest income. We generate mortgage banking revenues primarily from gains on the sale of one- to four- family ~~and multifamily~~ mortgage loans. The one- to four- family mortgage loans are sold pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and non- Government Sponsored Enterprise (GSE) investors. These entities account for a substantial portion of the secondary market in residential one- to four- family mortgage loans. ~~Multifamily mortgage loans are sold primarily to non- GSE investors. Any future~~ **Future** changes in the one- to four- family programs, **including** our eligibility to participate in these programs, the criteria for loans to be accepted **,** or laws that significantly affect the activity of such entities ~~, or a reduction in the size of the secondary market for multifamily loans~~ could ~~, in turn,~~ materially adversely affect our results of operations. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in non- interest income. In addition, our results of operations are affected by the amount of non- interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase. Certain hedging strategies that we use to manage investment in mortgage ~~servicing rights, mortgage~~ loans held for sale and interest rate lock commitments may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity. We use derivative instruments to economically hedge ~~mortgage servicing rights,~~ mortgage loans held for sale and interest rate lock commitments to offset changes in fair value resulting from changing interest rate environments. Our hedging strategies are susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact earnings. Risks Related to Regulatory, Legal and Compliance **Proposed FDIC guidelines on corporate governance and risk management standards may affect our profitability, capital adequacy, and reputation. In October 2023, considering recent and historical bank failures, the FDIC proposed guidelines aimed at establishing corporate governance and risk management expectations for all insured state- chartered banks, excluding those who are member of the Federal Reserve, with total assets exceeding $ 10 billion. This initiative, conducted through rulemaking under Section 39 of the Federal Deposit Insurance Act, empowers the FDIC to set forth enforceable standards that banks must comply with. The guidelines focus on defining obligations of the board of directors, specifying board composition and committee structures, and outlining expectations for an independent risk management function. The impetus behind these guidelines stems from the FDIC' s observation that financial institutions with deficient corporate governance and risk management practices face a higher risk of failure. The FDIC aims to enhance a bank' s safety and soundness, minimizing the likelihood of failure and mitigating potential losses. The introduction of multiple safeguards within a bank' s risk management function seeks to avoid a " single point of failure. " As currently proposed, the guidelines could have various effects on us, and other banks subject to the guidelines, including: • elevating compliance costs and operational complexity for the Bank, potentially diminishing net income and return on equity; • mandating the Bank to maintain increased capital or liquidity to meet the proposed risk management standards, which may limit our ability to leverage assets and generate higher returns; • subjecting the Bank to heightened regulatory scrutiny and enforcement actions, posing risks to our reputation and the Company' s market value; • creating competitive disparities for covered institutions, such as the Bank, compared to other financial entities not subject to similar standards; and • making attracting and maintaining qualified directors willing to serve on the Bank' s board more difficult. The precise impact of the proposed guidelines on the Company' s profitability, capital adequacy, and reputation remains uncertain at this time.** New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition. The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our shareholders. ~~These regulations~~ **Regulations** may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution' s allowance for credit losses. ~~These bank~~ **Bank** regulators also have the ability to impose conditions in the approval of merger and acquisition transactions. Additionally, actions by regulatory agencies or significant litigation against us may lead to penalties that materially affect us. These regulations, along with the current tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation ~~,~~ **or** change in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator' s interpretation of a law or regulation, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and / or otherwise adversely affect us and our profitability. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. ~~These changes~~ **Changes** could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes. We cannot predict what restrictions may be imposed upon us with future legislation. Climate change and related legislative and regulatory initiatives may materially affect the Company' s business and results of operations. The effects of climate change continue to create ~~an alarming level of~~ concern for the state of the ~~global~~ environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures. Further, the U. S. Congress, state legislatures and federal and state regulatory agencies continue to propose ~~numerous~~ initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to **specifically** predict how ~~specifically~~ climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. ~~Specifically, unpredictable~~ **Unpredictable** and more frequent weather disasters may adversely impact the real property, and / or the value of the real property, securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover ~~any~~ losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, natural disasters and related events, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and ~~impact~~ the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations. Non- compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to obtain regulatory approval of acquisitions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of clients seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to obtain regulatory approval of acquisitions ~~. Recently, several banking institutions have received large fines for non- compliance with these laws and regulations~~ . While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects. If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing ~~stockholder~~ **shareholder** value. We have established processes and procedures intended to identify, measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. We also maintain a compliance program designed to identify, measure, assess, and report on our adherence to applicable laws, regulations, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business financial condition and results of operations could be materially adversely affected. Our business and financial results could be impacted materially by adverse results in legal proceedings. Legal proceedings could result in judgments, significant time and attention from our management, or other adverse effects on our business and financial results. We establish estimated liabilities for legal claims when payments associated with claims become probable and the amount of loss can be reasonably estimated. We may still incur losses for a matter even if we have not established an estimated liability. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts accrued for that matter. The ultimate resolution of any legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition. Risks Related to Cybersecurity, Data and Fraud We are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a **cyberattack** ~~cyber- attack~~ . Communications and information systems are essential to the conduct of our business, as we use such systems to manage our client relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage ~~,~~ and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software ~~,~~ and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and **cyberattacks** ~~cyber- attacks~~ that could have a **meaningful** security impact. If one or more of these events occur, this could jeopardize our or our clients' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause **significant** interruptions or malfunctions in our operations or the operations of our clients or counterparties. We may be required to expend ~~significant~~ **substantial** additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage **and loss of business** . Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third **-** party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions. Any compromise of our security could deter clients from using our internet banking services that involve the transmission of confidential information. ~~We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data.~~ Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and **cyberattacks** ~~cyber- attacks~~ and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and **any failure of these precautions** could result in losses to us or our clients, our loss of business and / or clients, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. While we select third- party vendors carefully, we do not control their actions. If our third- party providers encounter difficulties including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, **cyberattacks** ~~cyber- attacks~~ and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our clients and otherwise conduct business operations could be adversely impacted. Replacing these third- party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of client information through various other vendors and their personnel. We cannot **provide** ~~assure~~ **assurance** ~~you~~ that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses ~~as a~~ **, including losses** ~~result~~ **resulting** ~~of~~ **from** third party failures **,** and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third- party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot **provide** ~~assure~~ **assurance** ~~you~~ that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of clients and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations. We are subject to certain risks in connection with our data management or aggregation. We are reliant on our ability to manage data and our ability to aggregate data in an accurate and timely manner to ensure effective risk reporting and management. Our ability to manage data and aggregate data may be limited by the effectiveness of our policies, programs, processes and practices that govern how data is acquired, validated, stored, protected and processed. While we ~~continuously~~ **regularly** update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, **and** ~~as well as~~ to manage changing business needs. Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. The Bank is susceptible to fraudulent activity that may be committed against us or our clients which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client' s information, misappropriation of assets, privacy breaches against our clients, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur. Risks Related to Our Business and Industry Generally ~~We will be required to transition from the use of the London Interbank Offered Rate (LIBOR) in the future. We have certain FHLB advances, loans, investment securities, subordinated debentures and trust preferred securities indexed to LIBOR to calculate the interest rate. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one- week and two- month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on the Secured Overnight Financing Rate, or SOFR). Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our loans, and our investment securities, and may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our subordinated debentures and trust preferred securities. The language in our LIBOR- based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers or our existing borrowings may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with clients and creditors over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations.~~ Ineffective liquidity management could adversely affect our financial results and condition. Effective liquidity management is essential to our business. We require sufficient liquidity to meet client loan requests, client deposit maturities and withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and other sources could have a substantial negative effect on our liquidity. We rely on client deposits and at times, borrowings from the FHLB of Des Moines and certain other wholesale funding sources to fund our operations. Deposit flows and the prepayment of loans and mortgage- related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and the competition for deposits and loans in the markets we serve. Further, changes to the FHLB of Des Moines' s underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. Historically, we have been able to replace maturing deposits and borrowings if desired; however, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB of Des Moines, or market conditions change. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable could be impaired by factors that affect us specifically or the financial services industry or economy in general, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Additional factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our deposits and loans are concentrated, negative operating results, or adverse regulatory action against us. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations. Additionally, collateralized public funds are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities to ensure repayment, which on the one hand tends to reduce our contingent liquidity risk by making these funds somewhat less credit sensitive, but on the other hand reduces standby liquidity by restricting the potential liquidity of the pledged collateral. Although these ~~funds~~ **deposits** historically have been a relatively stable source of funds for us, availability depends on the individual municipality' s fiscal policies and cash flow needs. Benefits of ~~Banner Forward and other~~ strategic initiatives may not be realized. Banner' s ability to compete depends on a number of factors, including, among others, its ability to develop and successfully execute strategic plans and initiatives. ~~Banner Forward is focused on accelerating growth in commercial banking, deepening relationships with retail clients, and advancing technology strategies to enhance our digital service channels, while streamlining underwriting and back office processes.~~ We may not be successful in achieving some or all of ~~these objectives~~ **our strategic initiatives** . The expected cost savings and revenue growth from ~~Banner Forward~~ **our strategic initiatives** may not be realized. The costs to implement ~~Banner Forward~~ **our strategic initiatives** may be greater than anticipated. Changes in economic conditions beyond our control, including changes in interest rates, may affect our ability to achieve our objectives. Our inability to execute on or achieve the anticipated outcomes of ~~Banner Forward~~ **our strategic initiatives** may affect how the market perceives us and could impede our growth and profitability. Development of new products and services may impose additional costs on us and may expose us to increased operational risk. Our financial performance depends, in part, on our ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate our products or provide cost efficiencies, while avoiding increased related expenses. This dependency is exacerbated in the current " FinTech " environment, where financial institutions are **significantly** investing ~~significantly~~ in evaluating new technologies, such as ~~" Blockchain~~ **blockchain** , ~~"~~ and developing potentially industry- changing new products, services and industry standards. The introduction of new products and services can entail significant time and resources, including regulatory approvals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented, rapid technological change in the industry, our ability to access technical and other information from our clients, the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices and the preparation of marketing, sales and other materials that fully and accurately describe the product or service and its underlying risks. Our failure to manage these risks and uncertainties also exposes us to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our clients. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business and reputation, as well as on our consolidated results of operations and financial condition. We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where the Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree ~~upon~~ **on** our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been **,** and continues to be **,** highly dependent upon the abilities of key executives, including our ~~President~~ **president** , and certain other employees. We could undergo a difficult transition period if we were to lose the services of any of these individuals. Our success also depends on the experience of our banking facilities' managers and bankers and on their relationships with the clients and communities they serve. In addition, our success has been and continues to be highly dependent upon the services of our directors, some of whom are at or nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors. The loss of these key persons could negatively impact the affected banking operations. We rely on other companies to provide key components of our business infrastructure. We rely on numerous external vendors to provide us with products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor' s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third **-** party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors’ performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or **cyberattacks** ~~cyber- attacks~~ or security breaches of the network system or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and / or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition. Any inaccurate assumptions in our analytical and forecasting models could cause us to miscalculate our projected revenue or losses, which could adversely affect us. We use analytical and forecasting models to estimate the effects of economic conditions on our financial assets and liabilities as well as our mortgage servicing rights. Those models include assumptions about interest rates and consumer behavior that may be incorrect. If our model assumptions are incorrect, improperly applied or inadequate, we may record higher than expected losses or lower than expected revenues which could have a material adverse effect on our business, financial condition and results of operations. Managing reputational risk is important to attracting and maintaining clients, investors and employees. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality or operational failures due to integration or conversion challenges as a result of acquisitions we undertake, compliance deficiencies, and questionable or fraudulent activities of our clients. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or clients, with or without merit, may result in the loss of clients, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from clients, regulators, investors, and other stakeholders related to their environmental, social and governance (ESG) practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions, human rights, and corporate governance. Increased ESG **-** related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. Risks Related to Holding Our Common Stock Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be ~~very~~ **exceedingly** high. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We may at some point, however, need to raise additional capital to support continued growth or be required by our regulators to increase our capital resources. Any capital we obtain may result in the dilution of the interests of existing holders of our common stock. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action. We rely on dividends from the Bank for substantially all ~~of~~ our revenue at the holding company level. We are an entity separate and distinct from our principal subsidiary, the Bank, and derive substantially all ~~of~~ our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness ~~,~~ to satisfy our other cash needs and to pay dividends on our common stock. The Bank’ s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock at the same rate or at all. Also, our right to participate in a distribution of assets upon a subsidiary’ s liquidation or reorganization is subject to the prior claims of the subsidiary’ s creditors. Our articles of incorporation contain a provision which could limit the voting rights of a holder of our common stock. Our charter provides that any person or group who acquires beneficial ownership of our common stock in excess of 10 % of the outstanding shares may not vote the excess shares. Accordingly, if ~~you~~ **a person** ~~acquire~~ **acquires** beneficial ownership of more than 10 % of the outstanding shares of our common stock, ~~your~~ **that person’ s** voting rights with respect to our common stock will not be commensurate with ~~your~~ **their** economic interest in our company. Anti- takeover provisions could negatively affect our shareholders. Provisions in our articles of incorporation and bylaws, the corporate laws of the state of Washington and federal laws and regulations could delay or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise negatively affect the market value of our stock. These provisions, among others, include ~~:~~ restrictions on voting shares of our common stock beneficially owned in excess of 10 % of total shares outstanding; and advance notice requirements for nominations for election to our Board of Directors and for proposing matters that shareholders may act on at shareholder meetings. In addition, although we are in the process of transitioning from staggered three- year terms for directors to a declassified board structure in which each director will be elected for a one- year term, this transition is not complete. The ~~partial~~ **partially** staggered **-** terms structure will continue to serve as a relevant anti- takeover provision until the transition to a declassified board structure. Our articles of incorporation also authorize our Board of Directors to issue preferred or other stock, and preferred or other stock could be issued as a defensive measure in response to a takeover proposal. In addition, because we are a bank holding company, the ability of a third party to acquire us is limited by applicable banking laws and regulations. The Bank Holding Company Act requires any bank holding company to obtain the approval of the Federal Reserve before acquiring 5 % or more of any class of our voting securities. Any entity that is a holder of 25 % or more of any class of our voting securities, or in some circumstances a holder of a lesser percentage, is subject to regulation as a bank holding company under the Bank Holding Company Act. Under the Change in Bank Control Act of 1978, as amended, any person (or persons acting in concert), other than a bank holding company, is required to notify the Federal Reserve before acquiring 10 % or more of any class of our voting securities.