Risk Factors Comparison 2024-02-29 to 2023-03-10 Form: 10-K

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

In addition to the other information contained in this Form 10- K, you should carefully consider the risks described below, as well as the risk factors and uncertainties discussed in our other public filings with the SEC under the caption" Risk Factors" in evaluating us and our business and making or continuing an investment in our stock. Our operations and financial results are subject to various risks and uncertainties, including, but not limited, to the material risks described below. Many of these risks are beyond our control although efforts are made to manage those risks while simultaneously optimizing operational and financial results. The occurrence of any of the following risks, as well as risks of which we are currently unaware or currently deem immaterial, could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of the risks, uncertainties and assumptions that could materially and adversely affect our assets, business, cash flows, condition (financial or otherwise), liquidity, prospects, results of operations and the trading price of our common stock. In addition, certain statements in the following risk factors constitute forward- looking statements. Please refer to the section entitled " Cautionary Note Regarding Forward- Looking Statements " beginning on page 1 of this Annual Report on Form 10- K. Risks related to our business Difficult or volatile conditions in the national financial markets, and the U. S. economy generally, may adversely affect our lending activity or other businesses, as well as our financial condition. **We are operating in an uncertain economic environment.** Our business and financial performance are vulnerable to weak economic conditions in the financial markets ~~and economic conditions~~ generally ~~or~~ **and** specifically in the state of Wisconsin, the principal market in which we conduct business. A deterioration in economic conditions in **the global and financial markets as well as** our primary market areas caused by inflation, recession, pandemics, outbreaks of hostilities or other international or domestic occurrences, unemployment, plant or business closings or downsizing, changes in securities markets or other factors could result in the following consequences, any of which could materially and adversely affect our business: increased loan delinquencies; problem assets and foreclosures; significant write- downs of asset values; lower demand for our products and services; reduced low cost or noninterest- bearing deposits; intangible asset impairment; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing our customers' ability to repay outstanding loans, and reducing the value of assets and collateral associated with our existing loans. ~~, leading to increased regulation of~~ **realized into earnings should liquidity and / or business strategy necessitate** the **sales of securities in** ~~industry that could lead to~~ a ~~higher cost~~ **loss position.A prolonged period** of **volatile** ~~compliance,limit our ability to pursue business opportunities~~ and **unstable market conditions would likely** increase our ~~exposure to~~ **funding costs and negatively affect market risk** ~~litigation~~ **mitigation strategies** ~~or fines~~ .Additionally,we conduct our banking operations primarily in Wisconsin.As of December 31, ~~2023~~ **2022** ,approximately 95. ~~74~~ **17** % of our loans and approximately 97. ~~81~~ **34** % of our deposits were made to borrowers or received from depositors who live and / or primarily conduct business in Wisconsin.Therefore,our success will depend in large part upon the general economic conditions in this area,which we cannot predict with certainty.This geographic concentration imposes risks from lack of geographic diversification,as adverse economic developments in Wisconsin,among other things,could affect the volume of loan originations,increase the level of nonperforming assets,increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio.Any regional or local economic downturn that affects Wisconsin or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and ~~adversely than our competitors whose operations are less geographically Interest~~ **interest** rates ~~increased significantly~~ **may have an adverse effect on our net interest income. Net interest income, which is the difference between the interest income that we earn on interest- earning assets and the interest expense that we pay on interest- bearing liabilities, is a major component of our income and our primary source of revenue from our operations. Narrowing of interest rate spreads could adversely affect our earnings and financial condition. We cannot control or predict with certainty changes** in ~~2022 as~~ **interest rates. Regional and local economic conditions, competitive pressures, and the policies of regulatory authorities, including monetary policies of** the Federal Reserve ~~attempted to slow economic growth~~ **Board (" FRB "), affect interest income** and ~~counteract rising~~ **interest expense. Beginning in early 2022, in response to growing signs of** inflation ~~. Further changes in~~ **, the FRB increased** interest rates **rapidly** and **made a number of adjustments to** monetary policy ~~reportedly are dependent upon~~ **and liquidity, including quantitative tightening and** ~~the~~ **other** ~~Federal Reserve' s assessment of economic data~~ **balance sheet actions. Further, the FRB** ~~as~~ **has increased** ~~it becomes available, though~~ the **benchmark rapidly and has announced an intention to take further actions to mitigate** rising ~~interest rate environment is expected to continue in 2023. Inflationary~~ **inflationary** pressures **. Rising** ~~are currently expected to remain elevated 2023 Increasing~~ interest rates can have a negative impact on our business by reducing the amount of money our ~~customers~~ **clients** borrow or by adversely affecting their ability to repay outstanding loan balances that may increase due to adjustments in their variable rates. In addition, **as interest rates rise, we may have to offer more attractive interest rates to depositors to compete for deposits, or pursue other sources of liquidity, such as wholesale funds. On the other hand, decreasing interest rates reduce our yield on our variable rate loans and on our new loans, which reduces our net interest income. In addition, lower interest rates may reduce our realized yields on investment securities which would reduce our net interest income and cause downward pressure on net interest margin in future periods. A significant reduction in our net interest income could have a material adverse impact on our capital, financial condition and results of operations. Although the FRB increased the target federal funds**

rate in 2023 to combat inflationary trends, the FRB held the federal funds rate steady in December 2023 for the third consecutive quarter and indicated that the rate is likely to be decreased in 2024 and beyond. We are unable to predict changes in interest rates, which are affected by factors beyond our control, including inflation, deflation, recession, unemployment, money supply, and other changes in financial markets. We have ongoing policies and procedures designed to manage the risks associated with changes in market interest rates and actively manage these risks through hedging and other risk mitigation strategies. However, if our assumptions are wrong or overall economic conditions are significantly different than anticipated, our risk mitigation techniques may be ineffective or costly. Changes in interest rates may change the value of our mortgage servicing rights portfolio, which may increase the volatility of our earnings. A mortgage servicing right is the right to service a mortgage loan- collect principal, interest and escrow amounts- for a fee. We measure and carry our residential mortgage servicing rights using the fair value measurement method. Fair value is determined as the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. The primary risk associated with mortgage servicing rights is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. Conversely, these assets generally increase in value in a rising interest rate environment ~~we may have~~ to ~~offer more attractive~~ **the extent that prepayments are slower than previously estimated. An increase in the size of our mortgage servicing rights portfolio may increase our** interest ~~rates~~ **rate** ~~to depositors to compete for deposits~~ **risk. Depending on the interest rate environment** , **it is possible that the fair value of** ~~or~~ **our** ~~pursue~~ **mortgage servicing rights may be reduced in** ~~other~~ -- **the future. If** ~~sources of liquidity,~~ such ~~as wholesale funds. Higher income volatility from~~ changes in ~~interest rates and spreads to benchmark indices could result in a decrease in net interest income and a decrease in current~~ fair ~~market values of our assets. Fluctuations in interest rates impacts both the level of income and expense recorded on most of our assets and liabilities and the market~~ value **significantly reduce the carrying value** of ~~all interest- earning assets and interest- bearing liabilities, which in turn could have amaterial adverse effect on our net income, operating results, or~~ **our mortgage servicing rights, our business,** financial condition ~~. Changes in market values of investment securities classified as available for sale are also impacted by higher rates~~ and **results of operations** ~~can negatively impact our other comprehensive income and equity levels through accumulated other comprehensive income, which includes net unrealized gains and losses on those securities. Further, such losses~~ could be realized into earnings should liquidity and /...... us and our profitability more significantly and adversely ~~than our competitors whose operations are less geographically concentrated. Changes in interest rates could have an adverse impact on our results of operations and financial condition. Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference, or spread, between interest earned on loans, securities and other interest- earning assets and interest paid on deposits, borrowings and other interest- bearing liabilities. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities may fluctuate. This may cause decreases in our spread and may adversely affect~~ **affected** ~~our earnings and financial condition~~ . ~~Interest rates are highly sensitive to many factors including, without limitation: the rate of inflation; economic conditions; federal monetary policies; and stability of domestic and foreign markets. Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our net interest income, these procedures may not always be successful as some of these effects are outside of our control. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest income and our net interest margin, asset quality, loan and lease origination volume, liquidity or overall profitability. Inflation~~ **23Inflation** could negatively impact our business, our profitability and our stock price. Inflation ~~has~~ continued rising in ~~2022~~ **2023 , and** ~~at levels not seen for over 40 years. Inflationary~~ **inflationary** pressures **may** ~~are currently expected to~~ remain elevated ~~throughout 2022 and are likely to continue~~ into ~~2023~~ **2024** . Prolonged periods of inflation may impact our profitability by negatively impacting our fixed costs and expenses, including increasing funding costs and expense related to talent acquisition and retention, and negatively impacting the demand for our products and services. Additionally, inflation may lead to a decrease in consumer and clients' purchasing power and negatively affect the need or demand for our products and services. If significant inflation continues, our business could be negatively affected by, among other things, increased default rates leading to credit losses which could decrease our appetite for new credit extensions. These inflationary pressures could result in missed earnings and budgetary projections causing our stock price to suffer. ~~23We face strong competition~~ **Changes in the cost and availability of funding due to changes in the deposit market and credit market may adversely affect our capital resources, liquidity, and financial results. In managing our consolidated balance sheets, we depend on access to a variety of sources of funding to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our clients. In addition to core deposits, sources of funding available to us and upon which we rely as regular components of our liquidity and funding management strategy, include borrowings** from **the Federal Home Loan Bank (" FHLB ") and brokered deposits. In general, the amount, type, and cost of our funding, including from other financial institutions, the capital markets, and deposits, directly impacts our costs of operating our business and growing our assets and can therefore positively or negatively affect our financial results. A number of factors could make funding more difficult, more expensive, or unavailable on any terms, including, but not limited to, a downgrade in our credit ratings, financial results, changes within our organization, specific events that adversely impact our reputation, disruptions in the capital markets, specific events that adversely impact the financial services industry, counterparty availability, recently proposed changes to the FHLB system, changes affecting our assets, the corporate and regulatory structure, interest rate fluctuations, general economic conditions, and the legal, regulatory, accounting and tax environments governing our funding transactions. Also, we compete for funding with other banks and similar companies, many of which are substantially larger, and have more capital and other resources. In addition**

to bank level liquidity management, we must manage liquidity at holding company for various needs including potential capital infusions into subsidiaries, the servicing of debt, the payment of dividends on our common stock, and share repurchases. The primary source of liquidity for us consists of dividends from the Bank which are governed by certain rules and regulations of our supervising agencies. Bank First' s ability to receive dividends from the Bank in future periods will depend on a number of factors, including, without limitation, the Bank' s future profits, asset quality, liquidity, and overall condition. If Bank First does not receive dividends from the Bank as needed, its liquidity could be adversely affected, and it may not be able to continue to execute its current capital plan to return capital to its shareholders. In addition to dividends from the Bank, we have historically had access to a number of alternative sources of liquidity, including the capital markets, but there is no assurance that we will be able to obtain such liquidity on terms that are favorable to us, or at all. If our access to these traditional and alternative sources of liquidity is diminished or only available on unfavorable terms, then our overall liquidity and financial condition will be adversely affected. If the Bank loses or is unable to grow and retain its deposits, it may be subject to liquidity risk and higher funding costs. The total amount that we pay for funding costs is dependent, in part, on the Bank' s ability to grow and retain its deposits. If the Bank is unable to sufficiently grow and retain its deposits at competitive rates to meet liquidity needs, it may be subject to paying higher funding costs to meet these liquidity needs. The Bank competes with banks and other financial services companies ~~and other companies that offer banking services. We conduct our banking operations primarily in Wisconsin. Many of our competitors offer the same, or~~ **for deposits. As** a **result** ~~wider variety~~ of ~~, banking services within our~~ **monetary policy and the broader** market ~~areas,~~ **for interest rates** and **funding,** we ~~compete~~ **were required to raise rates on our deposits to keep pace** with **our competition. Furthermore, if** ~~them~~ - **the Bank were to lose deposits** ~~for the same customers. These competitors include banks with nationwide operations~~ , **it must rely on more expensive** ~~regional banks and community banks. In many instances these national and regional banks have greater resources~~ -- **sources of funding. This could result** ~~than we do, and the smaller community banks may have stronger ties~~ in ~~local markets than we do, which may put us at~~ a **failure to maintain adequate liquidity** ~~competitive disadvantage. We also face competition from many other types of financial institutions, including fintech companies, thrift institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks~~ and **higher funding costs** ~~other financial intermediaries. In addition~~ , **reducing** ~~a number of out- of- state financial institutions have opened offices and solicit deposits in~~ our ~~market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced~~ net interest margin and ~~profitability~~ **net interest income. In addition, our access to deposits may be affected by the liquidity needs of our depositors. In particular, a substantial majority of our liabilities in 2023 were checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial majority of our assets were loans, which cannot be called 24or sold in the same time frame. Moreover, our clients could withdraw their deposits in favor of alternative investments. While we have historically been able to replace maturing deposits and advances as necessary, we may not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. Our provision and allowance for credit losses may not be adequate to cover actual credit losses** . We ~~compete with~~ **make various assumptions and judgments about the collectability of our loan and lease portfolio and utilize these assumptions and judgments when determining the provision and allowance for credit losses. The determination of the appropriate level of the provision 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** ~~many~~ - **may** ~~forms~~ **undergo material changes, as we have experienced. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification** of ~~payments offered by~~ **additional problem loans and other factors,** both ~~bank~~ **within and outside of our control, may require an increase in the amount reserved in the allowance for credit losses. Due to the declining economic conditions, our customers may not be able to repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain our allowance to provide for loan defaults** and non- **performance, losses may exceed the value of the collateral securing the loans and the allowance may not fully cover any excess loss. In addition,** bank ~~providers~~ **regulatory agencies periodically review our provision and the total allowance for credit losses and may require an increase in the allowance for credit losses or future provisions for credit losses** , ~~including~~ **based on judgments different than those of management. Any increases in the provision or allowance for credit losses will result in** a **decrease in** ~~variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web- based and wireless payment platforms or~~ **our net income** ~~technologies, digital or " crypto " currencies, prepaid systems~~ and ~~payment services targeting users of social networks~~ , **potentially** ~~communications platforms and online gaming. Our future success may depend~~ , **capital** ~~in part~~ , **and may have a material adverse effect** on our ~~ability to use technology competitively to offer products and services that provide convenience to customers and create additional efficiencies in our operations. If we are unable to attract and retain banking clients, we may be unable to continue to grow our loan and deposit portfolios, and our business,~~ financial condition ~~and~~ **or** results of operations ~~may~~ **. In addition, we expect that the allowance for credit losses under the CECL standard to** be ~~adversely affected~~ **more volatile and as such could have an impact on our results of operations** . **For a discussion of changes in accounting standards and regulatory capital implications, see " Business — Supervision and Regulation — Capital Requirements. "** If we do not effectively manage our asset quality and credit risk, we could experience ~~loan~~ **credit** losses. Making any loan involves various risks, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt, and risks resulting from changes in economic and market conditions. Our credit risk approval and monitoring procedures may fail to identify or reduce these credit risks, as some of these risks are outside of our control, and they cannot completely eliminate all credit risks related to our loan portfolio. If the overall economic climate, including employment rates, real estate markets, interest rates and general economic growth, in the United States, generally, or Wisconsin, specifically, experiences material disruption, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and the levels of nonperforming loans, charge- offs and delinquencies could rise and require additional provisions for ~~loan~~ **credit** losses, which would cause our net income and return on equity to decrease. The future effects of the continued elevated inflationary and interest rate environment on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. If borrowers fail to repay their loans, our financial condition and results of operations would be adversely affected. ~~Our provision~~ **We face strong competition from financial services companies** and ~~allowance~~ **other companies that offer banking services. We conduct our banking operations primarily in Wisconsin. Many of our competitors offer the same, or a wider variety of, banking services within our market areas, and we compete with them** for ~~loan losses~~ **the same customers. These competitors include banks with nationwide operations, regional banks and community banks. In** ~~may~~ **many** ~~not be adequate to cover actual~~ **instances these national and regional banks have greater resources than we do, and the smaller community banks may have stronger ties in local markets than we do, which may put us at a competitive disadvantage. We also face competition from many other types of financial institutions, including fintech companies, thrift institutions, finance companies, brokerage firms, insurance companies,** credit ~~losses~~ **unions, mortgage banks and other financial intermediaries. In addition, a number of out- of- state financial institutions have opened offices and solicit deposits in our market areas. Increased competition in our markets may result in reduced loans 25and deposits, as well as reduced net interest margin and profitability** . We **compete with** ~~make various assumptions and judgments about the collectability of our loan and lease portfolio and utilize these assumptions and judgments when determining the provision and allowance for loan losses. The determination of the appropriate level of the provision for loan 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~~ **many forms** ~~undergo material changes, as we have experienced. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification~~ of **payments offered by** ~~additional problem loans and other factors,~~ both **bank** ~~within and outside of our control, may require an increase in the amount reserved in the allowance for loan losses. Due to the declining economic conditions, our customers may not be able to repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain our allowance to provide for loan defaults~~ and non- ~~performance, losses may exceed the value of the collateral securing the loans and the allowance may not fully cover any excess loss. In addition,~~ bank ~~regulatory agencies periodically review~~ **providers, including a variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web- based and wireless payment platforms** ~~our~~ - **or technologies, digital** ~~provision and the total allowance for~~ - **or " crypto " currencies, prepaid systems and payment services targeting users of social networks, communications platforms and online gaming. Our future success may depend, in part, on our ability to use technology competitively to offer products and services that provide convenience to customers and create additional efficiencies in our operations. If we are unable to attract and retain banking clients, we may be unable to continue to grow our** loan ~~losses and may require an~~ **and deposit portfolios, and** ~~increase in the allowance for loan losses or~~ **our business** ~~future provisions for loan losses~~ , ~~based on judgments different than those of management. Any increases in the provision or allowance for loan losses will result in a decrease in 24our net income and, potentially, capital, and may have a material adverse effect on our~~ financial condition ~~or~~ **and** results of operations **may be adversely affected** . **Furthermore,** ~~The current expected credit loss standard established by~~ the ~~Financial Accounting Standards Board will require significant data requirements and changes to methodologies. In the aftermath of the 2007- 2008~~ financial **services industry could** ~~crisis, the Financial Accounting Standards Board, or FASB, decided to review how banks estimate losses in the ALL calculations, and it issued the final Current Expected Credit Loss, or CECL, standard on June 16, 2016. Currently, the impairment model used by many financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model that will~~ become **even more competitive** ~~effective for the Company for the fiscal year beginning after December 15, 2022 in which financial institutions will be required to use historical information, current conditions, and reasonable forecasts to estimate the expected loss over the life of the loan. The Company will record a one- time adjustment to its credit loss allowance, as of the beginning of the first quarter of 2023, equal to the difference between the amounts of its credit loss allowance under the incurred loss methodology and CECL. Moreover, the new accounting standard is likely,~~ as a result of **legislative** ~~its requirement to estimate and recognize expected credit losses on new assets~~ , **regulatory** ~~to introduce greater volatility in our provision for credit loans~~ and **technological changes** ~~allowance for loan losses. Throughout 2022, our management ran a calculation of its allowance under ASU 2016- 13 parallel to its current modeling to assess the functioning of the ASU 2016- 13 model while also documenting the controls that will be in place around the process when the Company implements this standard. Results of these parallel runs indicate that the Bank' s ALL to total loans coverage ratio will increase from 0. 78 % as of December 31, 2022,~~ and **continued consolidation** ~~to 1. 10 %- 1. 20 % upon implementation of ASU 2016- 13 on January 1, 2023~~ . Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses. As of December 31, ~~2022~~ **2023** , approximately ~~73~~ **77** . ~~9~~ **4** % of our loan portfolio was comprised of loans with real estate as a primary or secondary component of collateral. This includes collateral consisting of income producing and residential construction properties, which properties tend to be more sensitive to general economic conditions and downturns in real estate markets. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have a material adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase our ~~ALLL~~ **ACL- Loans** , which could adversely affect our financial condition, results of operations and cash flows ~~.~~ ~~We may be materially and adversely affected by the creditworthiness and liquidity of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions expose us to credit risk in the event of a default by, or questions or concerns about the creditworthiness of, a counterparty or client, or concerns about the financial services industry generally. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on us. 25We may not be able to meet our unfunded credit commitments, or adequately reserve for losses associated with our unfunded credit commitments. A commitment to extend credit is a formal agreement to lend funds to a client as long as there is no violation of any condition established under the agreement. The actual borrowing needs of our customers under these credit commitments have historically been lower than the contractual amount of the commitments. A significant portion of these commitments expire without being drawn upon. Because of the credit profile of our customers, we typically have a substantial amount of total unfunded credit commitments, which is not reflected on our balance sheet. Actual borrowing needs of our customers may exceed our expected funding requirements, especially during a challenging economic environment when our client companies may be more dependent on our credit commitments due to the lack of available credit elsewhere, the increasing costs of credit, or the limited availability of financings from other sources. Any failure to meet our unfunded credit commitments in accordance with the actual borrowing needs of our customers may have a material adverse effect on our business, financial condition, results of operations or reputation. If we are unable to grow our noninterest income, our growth prospects will be impaired. Taking advantage of opportunities to develop new, and expand existing, streams of noninterest income, including service charges, loan servicing fees and income from the Bank' s unconsolidated subsidiaries, is a part of our long- term growth strategy. If we are unsuccessful in our attempts to grow our noninterest income, our long- term growth will be impaired. Furthermore, focusing on these noninterest income streams may divert management' s attention and resources away from our core banking business, which could impair our core business, financial condition and operating results~~ . Our future success is largely dependent upon our ability to successfully execute our business strategy. Our future success, including our ability to achieve our growth and profitability goals, is dependent on the ability of our management team to execute on our long- term business strategy, which requires them to, among other things: maintain and enhance our reputation; attract and retain experienced and talented bankers in each of our markets; maintain adequate funding sources, including by continuing to attract stable, low- cost deposits; enhance our market penetration in our metropolitan markets and maintain our leadership position in our community markets; improve our operating efficiency; implement new technologies to enhance the client experience and keep pace with our competitors; identify attractive acquisition targets, close on such acquisitions on favorable terms and successfully integrate acquired businesses; attract and maintain commercial banking relationships with well- qualified businesses, real estate developers and investors with proven track records in our market areas; attract sufficient loans that meet prudent credit standards; originate conforming residential mortgage loans for resale into secondary market to provide mortgage banking income; maintain adequate liquidity and regulatory capital and comply with applicable federal and state banking regulations; manage our credit, interest rate and liquidity risks; develop new, and grow our existing, streams of noninterest income; oversee the performance of third- party service providers that provide material services to our business; and control expenses in line with current projections. Failure to achieve these strategic goals could adversely affect our ability to successfully implement our business strategies and could negatively impact our business, growth prospects, financial condition and results of operations. Further, if we do not manage our growth effectively, our business, financial condition, results of operations and future prospects could be negatively affected, and we may not be able to continue to implement our business strategy and successfully conduct our operations. ~~We follow a relationship- based operating model~~ **Furthermore, our strategic initiatives may result in** ~~and~~ - **an** ~~our ability to maintain our reputation is critical to~~ **increase in expense, divert management attention, take away from** ~~the~~ **other opportunities that may have proved more** ~~success~~ **successful** ~~of~~ **, negatively impact operational effectiveness** ~~our~~ - **or** ~~business~~ **impact 26employee morale** . **Additionally** ~~We are a community bank~~ , ~~and our reputation is one of the~~ **there can be no assurance that** ~~most valuable components of our business. As such,~~ we ~~strive to conduct~~ **will ultimately realize the anticipated benefits of these strategic initiatives,** ~~our~~ - **or** ~~business in a manner~~ that ~~enhances our reputation. This is done, in part, by recruiting, hiring and retaining bankers and other associates who share our core values of being an integral part of the~~ **these strategic initiatives will positively impact** ~~communities we serve, delivering superior service to our clients and caring about our clients and associates. Furthermore, maintaining our reputation also 26depends on our ability to protect our brand name and associated intellectual property. If our reputation is negatively affected by the actions of our associates or~~ **our organization** ~~otherwise, our business and operating results may be materially adversely affected~~ . We depend on our executive officers and other key individuals to continue the implementation of our long- term business strategy and could be harmed by the loss of their services and our inability to make up for such loss with qualified replacements. We believe that our continued growth and future success will depend in large part on the skills of our management team and our ability to motivate and retain these individuals and other key individuals. The loss of any of their service could reduce our ability to successfully implement our long- term business strategy, our business could suffer and the value of our common stock could be materially adversely affected. The success of our operating model depends on our ability to attract and retain talented bankers and associates in each of our markets. We strive to attract and retain these bankers in each of our markets by fostering an entrepreneurial environment, empowering them with local decision - making authority and providing them with sufficient infrastructure and resources to support their growth while also providing management with appropriate oversight. However, the competition for bankers in each of our markets is intense. We compete for talent with both smaller banks that may be able to offer bankers with more responsibility and autonomy and larger banks that may be able to offer bankers with higher compensation, resources and support. As a result, we may not be able to effectively compete for talent across our markets. Further, our bankers may leave us to work for our competitors and, in some instances, may take important banking and lending relationships with them to our competitors. If we are unable to attract and retain talented bankers in our markets, our business, growth prospects and financial results could be materially and adversely affected. ~~We may not realize all of the anticipated benefits of the acquisition of Denmark and Hometown. Our ability to realize the anticipated benefits of the acquisition of Denmark and Hometown will depend, to a large extent, on our ability to successfully integrate the acquired businesses. The integration and combination of the acquired businesses is a complex, costly and time- consuming process. As a result, we will be required to devote significant management attention and resources to integrating their business practices and operations with ours. The integration process may disrupt our business and the businesses of Denmark and Hometown and, if implemented ineffectively, could limit the full realization of the anticipated benefits of the acquisitions. The failure to meet the challenges involved in integrating the acquired businesses and to realize the anticipated benefits of the acquisitions could cause an interruption of, or a loss of momentum in, our business activities or those of Denmark and Hometown and could adversely impact our business, financial condition and results of operations. In addition, the overall integration of the businesses may result in material unanticipated problems, expenses, liabilities, loss of customers and diversion of our management' s and employees' attention. The challenges of combining the operations of the companies include, among others: difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects, including the potential adverse impact of the Company' s assumption of Denmark' s and Hometown' s outstanding debt obligations; difficulties in the integration of operations and teams; difficulties in the assimilation and retention of employees; difficulties in managing the expanded operations of a larger and more complex company; challenges in keeping existing customers and obtaining new customers; challenges in attracting and retaining key personnel, including personnel that are considered key to future success; challenges related to Denmark' s and Hometown' s credit quality and credit risk; and challenges in keeping key business relationships in place. Many of these factors are outside of our control and any one of them could result in increased costs and liabilities, decreases in expected income and deposits, and diversion of management' s time and energy, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, even if the integration of Denmark and Hometown is successful, the full benefits of the transaction may not be realized, including the synergies, cost savings, growth opportunities or earnings accretion that are expected. These benefits may not be achieved within the anticipated time frame, or at all, and additional unanticipated costs may be incurred in the integration of the businesses. Furthermore, Denmark and / or Hometown may have unknown or contingent liabilities that we assumed in the acquisition that were not discovered during our due diligence. These liabilities could include exposure to unexpected asset quality problems, compliance and regulatory violations, key employee and client retention problems and other problems that could result in 27significant costs to us. All of these factors could cause dilution to our earnings per share, decrease or delay the expected accretive effect of the transaction, negatively impact the price of our common stock, or have a material adverse effect on our business, financial condition and results of operations.~~ Acquisitions may disrupt our business and dilute stockholder value, and integrating acquired companies may be more difficult, costly, or time- consuming than we expect. ~~Our~~ **While we continue to focus on organic growth opportunities, we may pursue attractive bank or non- bank acquisition and consolidation opportunities that arise in our core markets and beyond. The number of financial institutions headquartered in Wisconsin, the Midwest United States, and across the country continues to decline through merger and other consolidation activity. In the event that attractive acquisition opportunities arise, we would likely face competition for such acquisitions from other banking and financial companies, many of which have significantly greater resources and may have more attractive valuations. This competition could either prevent us from being able to complete attractive acquisition opportunities or increase prices for potential acquisitions which could reduce our potential returns and reduce the attractiveness of these opportunities. Furthermore, our** pursuit of acquisitions may disrupt our business, and any equity that we issue as merger consideration may have the effect of diluting the value of your investment. In addition, we may fail to realize some or all of the anticipated benefits of completed acquisitions. We anticipate that the integration of businesses that we may acquire in the future will be a time- consuming and expensive process, even if the integration process is effectively planned and implemented. In addition, our acquisition activities could be material to our business and involve a number of significant risks, including the following: incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operating of our existing business; using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target company or the assets and liabilities that we seek to acquire; exposure to potential asset quality issues of the target company; intense competition from other banking organizations and other potential acquirers, many of which have substantially greater resources than we do; potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including, without limitation, liabilities for regulatory and compliance issues; inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits of the acquisition; incurring time and expense required to integrate the operations and personnel of the combined businesses; inconsistencies in standards, procedures, and policies that would adversely affect our ability to maintain relationships with customers and employees; ~~experiencing~~ **27experiencing** higher operating expenses relative to operating income from the new operations; creating an adverse short- term effect on our results of operations; losing key employees and customers; significant problems related to the conversion of the financial and customer data of the entity; integration of acquired customers into our financial and customer product systems; potential changes in banking or tax laws or regulations that may affect the target company; or risks of impairment to goodwill or litigation risk. If difficulties arise with respect to the integration process, the economic benefits expected to result from acquisitions might not occur. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to move their business to other financial institutions. Failure to successfully integrate businesses that we acquire could have an adverse effect on our profitability, return on equity, return on assets, or our ability to implement our strategy, any of which in turn could have a material adverse effect on our business, financial condition, and results of operations. ~~If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could require a change to earnings. Goodwill represents the amount by which the purchase price exceeds the fair value of net assets acquired in a business combination. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. We evaluate goodwill for impairment by comparing the estimated fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its estimated fair value, an impairment loss is recognized in an amount equal to that excess. Factors that could cause an impairment charge include adverse changes to macroeconomic conditions, declines in the profitability of the reporting unit, or declines in the tangible book value of the reporting unit. Future evaluations of goodwill may result in impairment which could have a material adverse effect on our business, financial condition and results of operations. 28Liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on the Company' s liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. A decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated as well as adverse regulatory actions against us could detrimentally impact our access to liquidity sources. In addition, our access to deposits may be affected by the liquidity and / or cash flow needs of depositors, which may be exacerbated in an inflationary, recessionary, or elevated rate environment. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry generally. Our funding sources may prove insufficient to replace deposits and support our future growth. Deposits, cash flows from operations (including from our mortgage business) and investment securities for sale are the primary sources of funds for our lending activities and general business purposes. However, from time to time we also obtain advances from the Federal Home Loan Bank (" FHLB "), purchase federal funds, engage in overnight borrowing from the Federal Reserve and correspondent banks and sell loans. While we believe our current funding sources to be adequate, our future growth may be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available on acceptable terms to accommodate future growth, which could have a material adverse effect on our financial condition, results of operations or cash flows. Moreover, competition among U. S. banks and non- banks for customer deposits is intense and may increase the cost of deposits (particularly in an elevated rate environment) or prevent new deposits and may otherwise negatively affect our ability to grow our deposit base. This may cause our deposit accounts to decrease in the future, and any such decrease could have a material adverse impact on our sources of funding. Decreased residential mortgage origination, volume and pricing decisions of competitors may adversely affect our profitability. Our mortgage operation originates and sells residential mortgage loans and services residential mortgage loans. Changes in interest rates, housing prices, financial stress on borrowers as a result of economic conditions, regulations by the applicable governmental authorities and pricing decisions by our loan competitors may adversely affect demand for our residential mortgage loan products, the revenue realized on the sale of loans, revenues received from servicing such loans for others, and ultimately reduce our net income. New regulations, increased regulatory reviews, and / or changes in the structure of the secondary mortgage markets which we would utilize to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential mortgage origination business.~~ The fair value of our investment securities may decline. As of December 31, ~~2022~~ **2023** , the fair value of our available for sale securities portfolio was approximately $ ~~304~~ **142** . ~~6~~ **2** million. Factors beyond our control can significantly influence the fair value of our securities and can cause adverse changes to the fair value of these securities. These factors include rating agency actions, defaults by or other adverse events affecting the issuer, lack of liquidity, changes in market interest rates, and continued instability in the capital markets. A prolonged decline in the fair value of our securities could result in an **established allowance for credit losses** ~~other- than- temporary impairment write- down~~ , which would affect our results of operations. System failure or...... affect our business, financial condition or results of operations. The financial services industry is undergoing rapid technological changes and we may not have the resources to implement new technology to stay current with these changes. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology- driven products and services **(including** ~~. These trends were accelerated by the~~ **those** ~~COVID- 19 pandemic~~ **related to or involving artificial intelligence** , ~~increasing~~ **machine learning, blockchain and other distributed ledger technologies) and a growing** demand for mobile **and other phone and computer** banking ~~solutions~~ **applications** . In addition to better serving clients, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience as well as to provide secure electronic environments and create additional efficiencies in our operations as we continue to grow and expand our market area. Many of our larger competitors have substantially greater resources to invest in technological improvements and have invested significantly more than us in technological improvements. As a result, they may be able to offer additional or more convenient products compared to those that we will be able to provide, which would put us at a competitive disadvantage. **Some of these competitors consist of financial technology providers who are beginning to offer more traditional banking products and may either acquire a bank charter or obtain a bank- like charter, such as the Fintech charter provided by the OCC.** Accordingly, we may not be able to effectively implement new technology- driven products and services or be successful in marketing such products and services to our clients, which could impair our growth and profitability. In addition, some of our competitors are subject to less regulation and / or more favorable tax treatment, which may put us at a competitive disadvantage ~~to evolve~~ **results of operations** .System failure or breaches of our network security,or the security of our ~~third- party~~ data processing ~~partner~~ **subsidiary** ,including as a result of cyberattacks or data security breaches,could subject us to increased operating costs as well as litigation and other liabilities.The computer systems and network infrastructure we use may be vulnerable to physical theft,fire,power loss,telecommunications failure or a similar catastrophic event,as well as security breaches,denial of service attacks,viruses,worms and other disruptive problems caused by hackers.Any damage or failure that causes breakdowns or disruptions in our client relationship management,general ledger,deposit,loan and other systems could damage our reputation,result in a loss of client business,subject us to additional regulatory scrutiny,or expose us to civil litigation and possible financial liability,any of which could have a material adverse effect on us. ~~Computer~~ **29Computer** break- ins,phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure.Information security risks have generally increased in recent years in part because of the proliferation of new technologies,the use of the Internet and telecommunications technologies to conduct financial transactions,and the increased sophistication and activities of organized crime,hackers,terrorists,activists,and other external parties.Our operations rely on the secure processing,transmission and storage of confidential information in our computer systems and networks.Although we believe we have robust information security procedures and controls,our technologies,systems,networks,and our clients' devices may become the target of cyberattacks or information security breaches that could result in the unauthorized release,gathering,monitoring,misuse,loss or destruction of our or our clients' confidential,proprietary and other information,or otherwise disrupt our or our clients' business operations.As cyber threats continue to evolve,we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.In addition,as the regulatory environment related to information security,data collection and use,and privacy becomes increasingly rigorous,with new and constantly changing requirements applicable to our business,compliance with those requirements could also result in additional costs.We are under continuous threat of loss due to hacking and cyberattacks especially as we continue to expand client capabilities to utilize internet and other remote channels to transact business.While we are not aware of any successful hacking or cyberattacks into our computer or other information technology systems **,or those of our data processing subsidiary** ,there can be no assurance that we will not be the victim of successful hacking or cyberattacks in the future that could cause us to suffer material losses.The occurrence of any cyberattack or information security breach could result in potential liability to clients,reputational damage **and** ~~,29disclosure obligations,~~ the disruption of our operations,and regulatory concerns,all of which could adversely affect our business,financial condition or ~~results of operations~~ . We are subject to certain operational risks, including, but not limited to, client or employee fraud and data processing system failures and errors. Employee errors and employee and client misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our clients or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against operational risks. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income ~~30documentation~~ -- **documentation** , in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended. **Fraud is an increasing risk for us and for all banks, and as such, we may experience increased losses due to fraud. In recent years, fraud risk increased significantly for us and for all banks. Deposit fraud (check kiting, wire fraud, etc.) and card fraud continue to be significant sources of fraud attempts and losses in our consumer banking business. Moreover, our commercial clients have experienced increased levels of financial fraud risk as well, often requiring our involvement and assistance because of our banking relationship with these clients. The methods used to perpetrate and combat fraud continue to evolve as technology changes and more tools for access to financial services emerge, such as real- time payments. In addition to cybersecurity risks, new techniques have made it easier for bad actors to obtain and use client personal information, mimic signatures, and otherwise create false documents that look genuine. Fraud schemes are broad and can include debit card / credit card fraud, check fraud, NSF fraud, mechanical devices attached to ATM machines, social engineering and phishing attacks to obtain personal information, impersonation of our clients through the use of falsified or stolen credentials, employee fraud, information fraud, and other malfeasance. Criminals are turning to new sources to steal personally identifiable information in order to impersonate our clients to commit fraud. Our anti- fraud actions are both preventative** (anticipating lines of attack, educating employees and clients, making operational changes) and responsive (remediating actual attacks). We have established policies, processes, and procedures to identify, measure, monitor, mitigate, report, and analyze these risks. We continue to invest in systems, resources, and controls to detect and prevent fraud. There are inherent limitations, however, to our risk management strategies, systems, and controls as they may exist, or develop in the future. We may not appropriately anticipate, monitor, or identify these risks. If our risk management framework proves ineffective, we could suffer unexpected losses, we may have to ~~depend~~ - expend ~~on a number of~~ resources detecting and correcting the failure in our systems, and we may be subject to potential claims from third parties ~~- party service providers~~ and government agencies. We may also suffer reputational damage. Any of these consequences could adversely affect our business, financial condition, ~~our~~ - or results of operations. Our regulators require us to report fraud promptly, and regulators often advise banks of new schemes to enable the entire industry to adapt as quickly as possible. However, some level of fraud loss is unavoidable, and the risk of loss cannot be eliminated. 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 ~~interrupted if~~ materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing shareholder value. We have established processes and procedures intended to identify, measure, 30monitor, report, and analyze the types of risk to which we are subject, including strategic, market, credit, liquidity, capital, cybersecurity, operational, regulatory compliance, litigation, and reputational. 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. For example, the financial and credit crisis and resulting regulatory reform highlighted both the importance and some of the limitations of managing unanticipated risks. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected. Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance. Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining and providing growth opportunities for employees who share our core values of being an integral part of the communities we serve, delivering superior service to our clients, caring about our clients and employees, and investing in our information technology and other systems. If our reputation is negatively affected by the actions of our employees or otherwise, including as a result of operational errors, clerical or record- keeping errors, or those resulting from faulty or disabled computer or telecommunications systems or a successful cyberattack against us or other unauthorized release or loss of client information, our reputation, business, and our operating results may be materially adversely affected. Damage to our reputation could also negatively impact our credit ratings and impede our access to the capital markets. We rely on other companies to provide key components of our business infrastructure. Third parties provide key components of our business operations such as our core technology infrastructure, cloud- based operations, data processing, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. We have selected these third- party ~~service providers experience difficulty~~ vendors carefully and have conducted the due diligence consistent with regulatory guidance and best practices. While we have ongoing programs to review third party vendors and assess risk , ~~terminate~~ we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by ~~or fail to comply with banking regulations. We depend on~~ a ~~number of relationships with~~ vendor, issues at a third- party ~~service~~ vendor of a vendor, failure of a vendor to handle current or higher volumes, cyber- attacks and security breaches at a vendor, failure of a vendor to ~~providers~~ -- provide ~~. Specifically, we receive core systems processing, essential web hosting and other Internet systems, deposit processing and other processing~~ services ~~from~~ for any reason, or poor performance of services, could adversely affect our ability to deliver products and services to our clients and otherwise conduct our business. Financial or operational difficulties of a third- party vendor could also hurt our operations if those difficulties interfere with the vendor' s ability to ~~service~~ -- serve ~~providers~~ us . ~~If~~ Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third- party ~~service providers experience difficulties~~ vendors could also create significant delay and expense. Accordingly , ~~or terminate~~ use of such ~~their~~ - third parties creates an unavoidable inherent risk to our business operations. Our digital services growth initiatives , core technology upgrades ~~and we are unable to replace them with other service providers~~ , ~~particularly on a timely basis, our operations could be interrupted. If an~~ and ~~interruption were to~~ digital asset initiatives ~~continue~~ constitute specific increases in ~~for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace~~ third- party risk as such initiatives are distinctly dependent on the performance ~~service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results~~ of ~~operations~~ our third- party partners . We may need to raise additional capital in the future. We are required to meet certain regulatory capital requirements and maintain sufficient liquidity. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we may be unable to raise additional capital if needed or on terms acceptable to us. Further, such additional capital could result in dilution to our existing shareholders. If we or the Bank fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations, as well as our ability to maintain compliance with regulatory capital requirements, would be materially and adversely affected . 31The

costs and effects of litigation, investigations or similar matters involving us or other financial institutions or counterparties, or related adverse facts and developments, could materially affect our business, operating results and financial condition. We may be involved from time to time in a variety of litigation, investigations, inquiries, or similar matters arising out of our business. Furthermore, litigation against banks tend to increase during economic downturns and periods of credit deterioration, which may occur or worsen as a result of current economic uncertainty. Most recently there has been an increase in class action lawsuits filed claiming deceptive practices or violations of account terms in connection with non- sufficient fees or overdraft charges. We manage these risks through internal controls, personnel training, insurance, litigation management, our compliance and ethics processes, and other means. However, the commencement, outcome, and magnitude of litigation cannot be predicted or controlled with any certainty. We establish reserves for legal claims when payments associated with the claims become probable and the losses can be reasonably estimated. However, our insurance may not cover all claims that may be asserted against us and indemnification rights to which we are entitled may not be honored, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, they could have a material adverse effect on our business, financial condition, and results of operations. In addition, premiums for insurance covering the financial and banking sectors are rising. We may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms or at historic rates, if at all . Changes in accounting standards could materially impact our financial statements. From time to time, FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements. Risks related to the business environment and our industryThe Company is subject to extensive government regulation and supervision, which may interfere with our ability to conduct our business and may negatively impact our financial results. The Company, primarily through the Bank and certain non- bank subsidiaries, are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors’ funds and the safety and soundness of the banking system as a whole, and not shareholders. These regulations affect the Bank’ s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company and / or the Bank in substantial and unpredictable ways. Such changes could subject the Company and / or the Bank to additional costs, limit the types of financial services and products the Company and / or the Bank may offer, and / or limit the pricing the Company and / or the Bank may charge on certain banking services, among other things. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties ~~31and~~ -- **and** / or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See “ Business- Supervision and Regulation ”. ~~Federal~~ **32Federal** regulatory agencies, including the Federal Reserve and the OCC, periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect our business. Federal regulatory agencies, including the Federal Reserve and the OCC, periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency ~~were~~ **was** to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin “ unsafe or unsound ” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank’ s capital, to restrict the bank’ s growth, to assess civil monetary penalties against a bank’ s officers or directors, and to remove officers and directors. The CFPB also has authority to take enforcement actions, including cease- and- desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws. If we were unable to comply with future regulatory directives, or if we were unable to comply with the terms of any future supervisory requirements to which we may become subject, then we could become subject to a variety of supervisory actions and orders, including cease- and- desist orders, prompt corrective actions, memoranda of understanding and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. We could also be required to raise additional capital, dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility and overall financial condition. ~~The Federal Reserve~~ **Further, bank failures, such** ~~has~~ - **as** ~~implemented significant economic strategies that~~ **the ones occurring in 2023,** have ~~impacted~~ **and may in the future diminish**

public confidence in small and regional banks' abilities to safeguard deposits in excess of federally insured limits, which could prompt customers to maintain their deposits with larger financial institutions. Concerns over rapid, large- scale deposit movement have and could in the future heighten regulatory scrutiny surrounding liquidity and increase competition for deposits and the resulting cost of funding, which could create pressure on net interest **margin** ~~rates, inflation, asset values,~~ and **results** ~~the shape~~ of **operations** ~~the yield curve, over which the Company has no control and which the Company may not be able to adequately anticipate~~. In **addition** ~~recent years~~, **bank failures have and could in the future prompt the FDIC to increase deposit insurance costs. Increases in funding, deposit insurance or** ~~the~~ **other costs as** ~~Federal Reserve implemented~~ a **result** ~~series of accommodative domestic monetary initiatives. Several~~ of these **types of events** have ~~emphasized so- called quantitative easing strategies~~ and ~~decreases to the Federal funds target rate. The Federal Reserve reduced rates five times during 2019 through 2021. However, in response to the significant increase in the domestic inflation rate in the U. S, the Federal Reserve increased the federal funds target rate seven times in 2022 for a total increase of 4. 25 %, and indicated additional increases would~~ **could** ~~be forthcoming~~ in ~~2023. Also during 2022, The Federal reserve has implemented quantitative tightening. Further rate changes reportedly are dependent on~~ the ~~Federal Reserve' s assessment of economic data as it becomes available. The Company cannot predict the nature or timing of~~ future **materially adversely** ~~changes in monetary, economic, or other policies or the effect~~ **affect our** ~~that they may have on the Company' s business activities,~~ financial condition and results of operations. ~~The current economic environment poses~~ **Further, the disruption following these types of events have and could in the future generate** significant ~~challenges and could adversely affect our financial condition and results of operations. We are operating in a challenging and uncertain economic environment. The global credit and financial markets~~ - **market trading** ~~have from time to time experienced extreme~~ volatility **among publicly traded bank holding companies** and ~~disruptions~~, ~~including severely diminished liquidity and credit availability, declines~~ in **particular** ~~consumer confidence~~, **regional banks like** ~~declines in economic growth, increases in unemployment rates, high rates of inflation, and uncertainty about economic stability. As a result, financial institutions continue to be affected by uncertainty in the real estate market, the credit markets, and the national financial market generally. We retain direct exposure to the commercial and residential real estate markets, and we are affected by events in these~~ -- **the Company** ~~markets. The financial markets and the global 32economy may also be adversely affected by the current or anticipated impact of military conflict, including the current conflict between Russia and Ukraine, which is increasing volatility in commodity and energy prices, creating supply chain issues and causing instability in financial markets. Sanctions imposed by the United States and other countries in response to such conflict could further adversely impact the financial markets and the global economy, and any economic countermeasures by the affected countries or others could exacerbate market and economic instability~~. We are subject to lending concentration risk, which could cause our regulators to restrict our ability to grow. A substantial portion of our loan portfolio is secured by real estate. In weak economies, or in areas where real estate market conditions are distressed, we may experience a higher than normal level of nonperforming real estate loans. The collateral value of the portfolio and the revenue stream from those loans could come under stress, and additional provisions for the allowance for credit losses could be necessitated. Our ability to dispose of foreclosed real estate at prices at or above the respective carrying values could also be impaired, causing additional losses. Commercial real estate (" CRE ") is cyclical and poses risks of loss to us due to our concentration levels and risk of the asset, especially during a difficult economy, including the current stressed economy. As of December 31, ~~2022~~ **2023**, ~~73~~ **50**. ~~9~~ **8** % of our loan portfolio was comprised of loans secured by commercial real estate. The banking regulators continue to give CRE lending greater scrutiny, and banks with higher levels of CRE loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for possible losses and capital levels as a result of CRE lending growth and exposures. Although we are actively working to manage our CRE concentration and believe that our underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance, the OCC or other federal regulators could become ~~concerned~~ **33concerned** about our CRE loan concentrations, and they could limit our ability to grow by, among other things, restricting their approvals for the establishment or acquisition of branches, or approvals of mergers or other acquisition opportunities. Our loan portfolio contains several industry and collateral concentrations including, but not limited to, commercial and residential real estate. Due to the exposure in these concentrations, disruptions in markets, economic conditions, changes in laws or regulations or other events could cause a significant impact on the ability of borrowers to repay and may have a material adverse effect on our business, financial condition and results of operations. The Federal Reserve may require us to commit capital resources to support the Bank. The Federal Reserve, which examines us and the Bank, requires a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. Under the " source of strength " doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. In addition, the Dodd- Frank Act directs the federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as a source of strength for the institution. Under these requirements, in the future, we could be required to provide financial assistance to the Bank if it experiences financial distress. A capital injection may be required at times when we do not have the resources to provide it, and therefore we may be required to borrow the funds. In the event of a bank holding company' s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company' s general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the holding company in order to make the required capital injection becomes more difficult and expensive and will adversely impact the holding company' s cash flows, financial condition, results of operations and prospects. The Company may be subject to more stringent capital requirements. The Bank is subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which the Bank must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If the Bank fails to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. We may also be required to satisfy additional capital ~~33adequacy~~ -- **adequacy** standards as determined by the Federal Reserve. These requirements, and any other new regulations, could adversely affect our ability to pay dividends, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U. S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted. ~~The COVID- 19 pandemic and the resulting adverse economic conditions have adversely impacted, and could continue to adversely impact, our business, financial condition, liquidity, capital and results of operations. While the level of disruption caused by, and the economic impact of, COVID- 19 subsided in 2022, the extent and duration to which the continuing COVID- 19 pandemic will impact our business in the future is unknown and will depend on future developments, which are highly uncertain and outside our control. These developments include the duration and severity of the pandemic (including the possibility of further surges of new or existing COVID- 19 variants of concern), supply chain disruptions, decreased demand for our products and services or those of our borrowers, which could increase our credit risk, rising inflation, our ability to maintain sufficient qualified personnel due to labor shortages, talent attrition, employee illness, quarantine, willingness to return to work, and the actions taken by governments, businesses and individuals to contain the impact of COVID- 19, as well as further actions taken by governmental authorities to limit the resulting economic impact. It is also possible that the pandemic and its aftermath will lead to a prolonged economic slowdown in sectors disproportionately affected by the pandemic or recession in the U. S. economy or the world economy in general.~~ ESG risks could adversely affect our reputation and shareholder, employee, client and third **-** party relationships and may negatively affect our stock price. ~~Our~~ **34Our** business faces increasing public scrutiny related to environmental, social and governance (" ESG ") activities. We risk damage to our brand and reputation if we fail to act responsibly in a number of areas, such as diversity, equity, inclusion, environmental stewardship, human capital management, support for our local communities, corporate governance and transparency, or fail to consider ESG factors in our business operations. Furthermore, as a result of our diverse base of clients and business partners, we may face potential negative publicity based on the identity of our clients or business partners and the public' s (or certain segments of the public' s) view of those entities. Such publicity may arise from traditional media sources or from social media and may increase rapidly in size and scope. If our client or business partner relationships were to become intertwined in such negative publicity, our ability to attract and retain clients, business partners, and employees may be negatively impacted, and our stock price may also be negatively impacted. Additionally, we may face pressure to not do business in certain industries that are viewed as harmful to the environment or are otherwise negatively perceived, which could impact our growth. Additionally, investors and shareholder advocates are placing ever increasing emphasis on how corporations address ESG issues in their business strategy when making investment decisions and when developing their investment theses and proxy recommendations. We may incur meaningful costs with respect to our ESG efforts and if such efforts are negatively perceived, our reputation and stock price may suffer. In addition, ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs. ~~34Our~~ -- **Our** deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings. The FDIC insures deposits at FDIC- insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution' s deposit insurance assessment is based on that institution' s risk classification under an FDIC risk- based assessment system. An institution' s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations. We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties. Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations. We could face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. The Bank Secrecy Act of 1970, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti- money laundering programs and file suspicious activity and currency transaction reports as appropriate. FinCEN, established by the U. S. Department of the Treasury to administer the Bank Secrecy Act, is authorized to impose significant civil money penalties for violations of those requirements and engages in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration and IRS. There is also increased scrutiny of compliance with the rules enforced by OFAC related to U. S. sanctions regimes. If our policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition ~~plans~~ **35plans** , which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. See " Business- Supervision and Regulation. " **Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system. The closures of Silicon Valley Bank and Signature Bank in March 2023 and First Republic Bank in May 2023, and concerns about similar future events, have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks like the Company. These market developments have negatively impacted customer confidence in the safety and soundness of regional banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short- term fixed income securities, all of which could materially adversely impact the Company' s liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC took action to ensure that depositors of these failed banks had access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly. We also anticipate increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Bank, designed to address the recent negative developments in the banking industry, all of which may increase our costs of doing business and reduce our profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, the level of unrealized losses in either available- for- sale or held- to-maturity securities portfolios, contingent liquidity, CRE loan composition and concentration, capital position, and general oversight and internal control structures regarding the foregoing. This could impact our ability to achieve our strategic objectives and may result in changes to our balance sheet position which could, in turn, negatively impact our profitability.** Risks related to our common stockApplicable laws and regulations restrict both the ability of the Bank to pay dividends to the Company and the ability of the Company to pay dividends to our shareholders. Both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends. In addition, the Federal Reserve has the authority to prohibit bank holding companies from engaging in unsafe or unsound practices in conducting their business. These federal and state laws, regulations and policies are described in greater detail in " Business — Supervision and Regulation — Payment of Dividends, " but generally look to factors such as previous results and net income, capital needs, asset quality, existence of enforcement or remediation proceedings, and overall financial condition. For the foreseeable future, the majority, if not all, of the Company' s revenue will be from any dividends paid to the Company by the Bank. Accordingly, our ability to pay dividends also depends on the ability of the Bank to pay dividends to us. Furthermore, the present and future dividend policy of the Bank is subject to the discretion of its board of directors. ~~35We~~ **We** cannot guarantee that the Company or the Bank will be permitted by financial condition or applicable regulatory restrictions to pay dividends, that the board of directors of the Bank will elect to pay dividends to us, nor can we guarantee the timing or amount of any dividend actually paid. Our ~~stock price may be volatile~~ **securities are not FDIC insured** . ~~The market price of~~ **Securities that we issue, including** our common stock ~~may be volatile~~ **, are not savings or deposit accounts or other obligations of any bank, insured by the FDIC, any other governmental agency or instrumentality, or any private insurer,** and **are** ~~could be~~ subject to **investment risk** ~~wide fluctuations in price in response to various factors, some of which are beyond our control~~ , including ~~rising interest rates and~~ the **possible** ~~impact of inflation. In addition, if the market for stocks in our industry, or the stock market in general, experiences a~~ loss of ~~investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management which could materially adversely affect our business, financial condition or results of operations. Future sales of our common stock or securities convertible into our common stock may dilute~~ our shareholders' **investments** ~~ownership in us and may adversely affect us or the market price of our common stock~~ . ~~We are generally not restricted from issuing additional shares of our common stock up to the authorized number of shares set forth in our charter. We may issue additional shares of our common stock or securities convertible into our common stock in the future pursuant to current or future employee stock option plans, employee stock grants, upon exercise of warrants or in connection with future acquisitions or financings. We cannot predict the size of any such future issuances or the effect, if any, that any such future issuances will have on the trading price of our common stock. Any such future issuances of shares of our common stock or securities convertible into common stock may have a dilutive effect on the holders of our common stock and could have a material negative effect on the trading price of our common stock. Future sales of our common stock in the public market could lower our share price, and any additional capital raised by us through the sale of equity or convertible debt securities may dilute our shareholders ownership in us and may adversely affect us or the market price of our common stock. We may sell additional shares of our common stock in public offerings, and issue additional shares of common stock or convertible securities to finance future acquisitions. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares that may be issued in connection with acquisitions), or the~~

~~perception that such issuance could occur, may adversely affect prevailing market prices for our common stock. The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate. The preparation of financial statements and related disclosure in conformity with accounting principles generally accepted in the United States requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in the section captioned " Management' s Discussion and Analysis of Financial Condition and Results of Operations ", describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider " critical " because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures. We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors. We are an " emerging growth company, " as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various regulatory and reporting requirements that are applicable to public companies that are emerging growth companies, including, but not limited to, exemptions from being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes- Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic~~