Risk Factors Comparison 2024-03-12 to 2023-03-08 Form: 10-K

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

Risks Relating to Our Business As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions. Our businesses and operations, which primarily consist of lending money to clients in the form of loans, borrowing money from clients in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States and to a lesser degree secondary effects of global geopolitical events. If the U. S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium-term and long- term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries ~~, including uncertainty over the stability of the euro currency,~~ could affect the stability of global financial markets, which could hinder U. S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and / or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U. S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects. We may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses. The business of lending is inherently risky, including risks that the principal of or interest on any loan will not be repaid timely or at all or that the value of any collateral supporting the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower' s business sector and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administrators, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio. Finally, many of our loans are made to middle- market businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and future prospects. Our **ACL- Loans** ~~allowance for loan losses~~ may not be adequate to absorb losses inherent in our loan portfolio, which could have a material adverse effect on our financial condition and results of operations. We maintain an ~~allowance~~ **Allowance** for ~~loan~~ **Credit** ~~losses~~ **Losses for Loans (" ACL- Loans")** to provide for losses inherent in our loan portfolio. Maintaining an adequate **ACL- Loans** ~~allowance for loan losses~~ is critical to our financial results and condition. The level of our **ACL- Loans** ~~allowance for loan losses~~ reflects management' s continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels and adequacy of collateral. The determination of the appropriate level of the **ACL- Loans** ~~allowance for loan losses~~ is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Inaccurate management assumptions, continuing deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our **ACL- Loans** ~~allowance for loan losses~~. In addition, our regulators, as an integral part of their examination process, review our loans and the adequacy of our **ACL- Loans** ~~allowance for loan losses~~ and may direct us to make additions to our **ACL- Loans** ~~allowance for loan losses~~ based on their judgments about information available to them at the time of their examination. If actual charge- offs in future periods exceed the amounts allocated to our **ACL- Loans** ~~allowance for loan losses~~, we may need additional provision for loan losses to restore the adequacy of our **ACL- Loans** ~~allowance for loan losses~~. If we are required to materially increase our level of **ACL- Loans** ~~allowance for loan losses~~ for any reason, such increase could have a material adverse effect on our business, financial condition, results of operations and future prospects. ~~The implementation of Current Expected Credit Loss (" CECL "), which will require us to increase our allowance for loan losses, could have a material adverse effect on our financial condition and results of operation. The Financial Accounting Standards Board (" FASB ") has adopted a new accounting standard, CECL, effective for the Company as of January 1, 2023. CECL will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, other financial instruments and other commitments to extend credit and provide for the expected credit losses as allowances for credit losses. This will change our current method of providing allowance for loan losses that are probable and require us to record an allowance for credit losses as of January 1, 2023 materially in excess of our existing allowance for loan losses. CECL will also greatly increase the data we will need to collect and review to determine the appropriate level of the allowance for credit losses. Although we expect the Bank and the Company will continue to meet all applicable capital adequacy requirements following recording of the impact of adoption to shareholders' equity, future provisioning for expected credit losses under CECL may have a material adverse effect on our financial condition and results of operations.~~ Our concentration of large loans to certain borrowers may increase our credit risk. ~~A majority of our loans have been made to a small number of borrowers, resulting in a high concentration of loans to certain borrowers.~~ As of December 31, ~~2022~~ **2023**, our five largest relationships ranged in exposure from approximately $ ~~83~~ **85**. ~~7~~ **0** million to $ ~~127~~ **92**. ~~5~~ **0** million. In addition to other typical risks related to any loan, such as deterioration of the collateral securing the loans, this high concentration of borrowers presents a risk to our lending operations. If any one of these borrowers becomes unable to repay a loan obligation (s) for any reason, our nonperforming loans and our **ACL- Loans** ~~allowance for loan losses~~ could increase significantly, which could adversely and materially affect our business, financial condition and results of operations. Our commercial real estate loan, commercial loan and construction loan portfolios expose us to **potentially elevated** risks ~~that may be greater than the risks related to our other mortgage loans~~. Our loan portfolio includes non- owner- occupied commercial real estate loans for individuals and businesses for various purposes, which are secured by commercial properties. These loans typically involve repayment dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful leasing of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower' s ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner. These loans expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. Non- owner- occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge- offs on non- owner occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Commercial loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (a) they depreciate over time, (b) they are difficult to appraise and liquidate, and (c) they fluctuate in value based on the success of the business. Risk of loss on a construction loan depends largely upon whether our initial estimate of the property' s value at completion of construction equals or exceeds the cost of the property construction (including interest), the availability of permanent takeout financing, the completion of the project and / or the builder' s ability to ultimately lease or sell the property. During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by sale of collateral. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans. Unexpected deterioration in the credit quality of our commercial real estate loan, commercial loan or construction loan portfolios would require us to increase our provision for loan losses, which would reduce our profitability and could have a material adverse effect on our business, financial condition, results of operations and future prospects. Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future. As a result of our growth **in** ~~over the past~~ recent years, a large portion of loans in our loan portfolio and of our lending relationships are of relatively recent origin. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as " seasoning. " As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Because a large portion of our portfolio is relatively new, the current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge- offs and the ratio of nonperforming assets in the future. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. If defaults increase, we could experience an increase in delinquencies and charge- offs and we may be required to increase our **ACL- Loans** ~~allowance for loan losses~~, which could have a material adverse effect on our business, financial condition, results of operations and **prospects.Our** lending limit may restrict our growth and prevent us from effectively implementing our business strategy.We are limited in the amount we can loan to a single borrower by the amount of our capital.Based upon our current capital levels and our ~~informal,~~ internal limit on loans,the amount we may lend both in the aggregate and to any one borrower is significantly less than that of many of our competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us.We accommodate larger loans by selling participations in those loans to other financial institutions,but this strategy may not always be available.If we are unable to compete effectively for loans from our target clients,we may not be able to effectively implement our business strategy,which could have a material adverse effect on our business,financial condition,results of operations and future ~~prospects~~ prospects. A prolonged downturn in the real estate market could result in losses and adversely affect our profitability. A high percentage our loan portfolio is comprised of commercial real estate loans. The sale of real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. A decline in real estate values could impair the value of our collateral and our ability to sell the collateral upon any foreclosure, which would likely require us to increase our **ACL- Loans** ~~provision for loan losses~~. In the event of a default with respect to any of these loans, the amounts we receive upon sale of the collateral may be insufficient to recover the outstanding principal and interest on the loan. If we are required to re- value the collateral securing a loan to satisfy the debt during a period of reduced real estate values or to increase our **ACL- Loans** ~~allowance for loan losses~~, our profitability could be adversely affected, which could have a material adverse effect on our business, financial condition, results of operations and prospects. We are subject to interest rate risk that could negatively impact our profitability. Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest- earning assets, such as loans and investment securities, and our interest expense on interest bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the ~~U. S. Federal Reserve Board ("~~ FRB ~~")~~ . ~~Throughout~~ **During the** 2022 **- 2023 cycle** , the FRB ~~raised~~ **increased** the target range for the federal funds rate ~~on seven separate occasions and~~ **11 times to slow inflation but has held such rates steady at 5. 25 %- 5. 50 % since July 2023,** citing **several** factors **,** including **reduced** ~~the hardships caused by the ongoing Russia- Ukraine conflict, continued global supply chain disruptions and imbalances, and increased~~ inflationary pressure **and steady job and wage growth** ~~. The FRB has indicated that ongoing increases may be appropriate~~ . Changes in monetary policy, including changes in interest rates, influences not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore net income, could be adversely affected. A prolonged period of extremely volatile and unstable market conditions may increase our funding costs and negatively affect market risk mitigation strategies. Further, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our business, financial condition, results of operations and future prospects. In addition, ~~an increase~~ **increased** ~~in~~ interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations. These circumstances could not only result in increased loan defaults, foreclosures and charge- offs, but also necessitate further increases to our **ACL- Loans** ~~allowance for loan losses~~ , each of which could have a material adverse effect on our business, results of operations, financial condition and future prospects. Strong competition could reduce our profits and slow growth. Competition in the financial services industry is strong. Numerous commercial banks, savings banks and savings associations maintain offices or are headquartered in or near our market area. Commercial banks, savings banks, savings associations, money market funds, mortgage brokers, finance companies, credit unions, insurance companies, investment firms and private lenders compete with us for various segments of our business. These competitors often have far greater resources than we do and are able to conduct more intensive and broader based promotional efforts to reach both commercial and individual clients. Our ability to compete successfully will depend on a number of factors, including, among other things: • Our ability to build and maintain long- term client relationships while ensuring high ethical standards and safe and sound banking practices; • The scope, relevance, and pricing of products and services that we offer; • Client satisfaction with our products and personalized services; • Industry and general economic trends; and • Our ability to keep pace with technological advances and to invest in new technology. Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could reduce our profitability. Our failure to compete effectively could cause us to lose market share and could have a material adverse effect on our business, financial condition, results of operations and future prospects. Our ability to maintain our reputation is critical to the success of our business. Our reputation is one of the most valuable components of our business. We strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of delivering superior service to our clients, caring about our clients and associates, and being an integral part of the communities we serve. If our reputation is negatively affected by the actions of our employees, or otherwise, our business and, therefore, our operating results may be materially adversely affected. We **are dependent on** ~~may not be able to execute~~ our executive management team ' s growth strategy. As part...... are dependent on our executive management team and other key employees **,** and we could be adversely affected by the unexpected loss of their services. We are led by an experienced executive management team and our operating strategy focuses on providing products and services through long- term relationship managers. Accordingly, our success depends in large part on the performance of our key employees, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of identifying qualified candidates with the combination of skills and attributes required to execute our business plan may be lengthy. The general economic conditions plus other factors have made it more difficult to retain employees and to attract new employees. We believe that retaining the services and skills of our executive management team is important to our success. The unexpected loss of services of any of our key employees could have an adverse impact on us because of their skills, knowledge of our market, years of industry experience and the difficulty of promptly finding qualified replacement employees. If any of our key employees should become unavailable for any reason, we may be unable to identify and hire qualified candidates on acceptable terms, which could cause a material adverse effect on our business, financial condition, results of operations and future prospects. ~~The fair value of~~ **We may not be able to execute** our **strategic plan. As part of our strategic plan, we pursue initiatives focused on the organic development and growth of our franchise. Our initiatives focus on delivering superior service to our clients, coupling technology with our deep client relationships. Our ability to execute these initiatives requires** investment ~~securities can fluctuate due to factors outside of our control. Factors beyond our control can significantly influence the fair value of securities~~ in ~~our portfolio~~ **resources as well as hiring** and ~~can cause potential adverse changes to~~ **retaining skilled employees. Our success will depend on** the **ability** ~~fair value~~ of **our management team to manage multiple, concurrent initiatives designed to improve our operational systems and expand our product offerings. Our inability to execute on** these **initiatives may negatively impact** ~~securities. These factors include, but are not limited to, rating agency actions with respect to individual securities, defaults by the issuer or~~ **our** ~~with respect to the underlying securities, changes in market interest rates, and continued instability~~ ---- **ability to attract new client relationships** ~~in the capital markets. Any of these factors~~ , **maintain existing client relationships** ~~among others, could cause other- than- temporary impairments~~ and ~~realized and /~~ **may adversely impact** ~~or~~ **our operating results. Failure or disruption of** ~~unrealized losses in future periods and declines in other~~ -- **the operating systems** ~~comprehensive income, which could materially~~ and **technologies we use, including those of third parties, could** adversely affect our business **. We rely on communication and information systems to conduct business** , **many of which** ~~be successful in completing future acquisitions at all or on terms that~~ are **provided by third- party providers** ~~acceptable to us.Our ability to grow may be limited if we are unable to successfully make acquisitions in the future.We face various technological risks that could adversely affect~~

~~our business.We rely on communication and information systems to conduct business~~ .Potential failures,interruptions or breaches in system security could result in disruptions or failures in our key systems,such as general ledger,deposit or loan systems **as well as online banking** .The risk of electronic fraudulent activity within the financial services industry,especially in the commercial banking sector due to cyber criminals targeting bank accounts and other client information is on the rise.We have developed policies and procedures aimed at preventing and limiting the effect of failure,interruption or security breaches,including cyber- attacks of information systems;however,there can be no assurance that these incidences will not occur,or if they do occur,that they will be appropriately addressed. **Furthermore,we may not be able to ensure all our third- party providers have appropriate controls in place to protect themselves and our information in the event of a cyber- attack.** The occurrence of any failures,interruptions **,** or security breaches,including cyber- attacks of our information systems **and those of our third- party providers** could damage our reputation,result in the loss of business,subject us to increased regulatory scrutiny or to civil litigation and possible financial liability,any of which could have an adverse effect on our ~~results~~ results of ~~operations~~ - **operation** ~~,~~ **and** financial condition **. Unauthorized access, cyber- crime, artificial intelligence,** and ~~prospects financial condition.Unauthorized access,cyber- crime and~~ other threats to data security may require significant resources,harm our reputation,and adversely affect our business.We necessarily collect,use and hold personal and financial information concerning individuals and businesses with which we have a banking relationship.Threats to data security,including unauthorized access and cyber- attacks,rapidly emerge and change,exposing us to additional costs for protection or remediation and competing time constraints to secure our data in accordance with client expectations ~~,~~ **and** statutory and regulatory privacy and other requirements.It is difficult or impossible to defend against every risk being posed by changing technologies, **including the deployment of artificial intelligence (" AI")** as well as ~~criminal~~ **criminals** intent on committing cyber- crime ~~.~~. The ~~process~~ **increasing sophistication of cyber- criminals and terrorists make keeping pace with new threats difficult and could result in a breach. Controls employed by our information technology department and our other employees and third- party providers could prove inadequate. We could also experience a breach due to intentional** ~~for~~ - **or** ~~determining whether impairment~~ **negligent conduct on the part** of **employees or other internal sources, software bugs or other technical malfunctions, or other causes. As** a **result of any of these threats, our client accounts may become vulnerable to account takeover schemes or cyber- fraud. Our systems and those of our third- party providers may also become vulnerable to damage or disruption due to circumstances beyond our or their control, such as from catastrophic events, power anomalies or outages, natural disasters, network failures, and viruses and malware. A breach of our** security ~~is other~~ **, or that of any of our third** - **party providers** ~~than- temporary usually requires complex~~ , ~~subjective judgments about the future financial performance~~ **which results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations as well as to data loss, litigation, damages, fines** and ~~liquidity of the issuer~~ **penalties, significant increases in compliance costs,** and **reputational damage,** any ~~collateral underlying the security in order to assess the probability~~ of ~~receiving all contractual principal and interest payments on the security. We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances,~~ which could ~~harm liquidity~~ **have a material adverse effect on our business** , results of operations ~~and~~ **,** financial condition ~~. When mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations~~ and **future prospects** warranties to purchasers, guarantors and insurers...... and financial condition may be adversely affected . We are subject to losses due to fraudulent and negligent acts on the part of loan applicants, our clients, vendors, bad actors, and / or our employees. When we originate loans, we rely heavily upon information supplied by third parties, including the information contained in the loan application, property appraisal, title information and employment and income documentation **. Additionally, the current and potential future utilization of AI by the Company in support of loan origination could create additional risk for misrepresented information** . If any of this information is intentionally or negligently misrepresented and such misrepresentation is not detected prior to loan funding, the value of the loan may be significantly lower than expected. Whether a misrepresentation is made by the loan applicant, our clients, vendors, bad actors, and / or one of our employees, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsaleable or subject to repurchase if it is sold prior to detection of the misrepresentation, and the persons and entities involved are often difficult to locate and it is often difficult to collect any monetary losses that we have suffered from them. We cannot provide assurance that we have detected or will detect all misrepresented information in our loan originations, however, we have controls and processes designed to help us identify misrepresented information in our loan origination operations **, including human oversight of AI activity** . As a financial institution, we are inherently exposed to risk in the form of theft and other fraudulent activities by clients, vendors, bad actors, and / or employees targeting the Bank or our clients. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering, and other dishonest acts. The increasing sophistication of fraudulent activity from possible perpetrators could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or to civil litigation and possible financial liability, any of which could have an adverse effect on our results of operation and financial condition. To mitigate this risk, we maintain effective policies and internal controls along with ongoing employee training to identify and prevent such incidents **warranties** to purchasers,guarantors and insurers,including government- sponsored entities,about the mortgage loans and the manner in which they were originated.Whole loan sale agreements require us to repurchase or substitute mortgage loans,or indemnify buyers against losses,in the event we breach these representations or warranties.In addition,we may be required to repurchase mortgage loans as a result of early payment default of the borrower on a mortgage loan.If repurchase and indemnity demands increase and such demands are valid claims and are in excess of our provision for potential losses,our liquidity,results of operations and financial condition may be adversely affected ~~.~~. We are subject to environmental liability risk associated with our lending activities. In the course of our business, we may purchase real estate, or we may foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and future prospects. ~~Uncertainty relating to the LIBOR determination process and LIBOR discontinuance may adversely affect our results of operations. LIBOR is used extensively in the United States as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks. The United Kingdom Financial Conduct Authority (" FCA "), which regulates the process for establishing LIBOR, announced in July 2017 that the sustainability of LIBOR cannot be guaranteed. The administrator for LIBOR announced on March 5, 2021 that it would permanently cease to publish most LIBOR settings beginning on January 1, 2022 and will cease to publish the overnight, one- month, three- month, six- month and 12- month USD LIBOR settings on July 1, 2023. Accordingly, the FCA has stated that it does not intend to persuade or compel banks to submit to LIBOR after such respective dates. Until such time, however, FCA panel banks have agreed to continue to support LIBOR. In October 2021, the federal bank regulatory agencies issued a Joint Statement on Managing the LIBOR Transition. In that guidance, the agencies offered their regulatory expectations and outlined potential supervisory and enforcement consequences for banks that fail to adequately plan for and implement the transition away from LIBOR. The failure to properly transition away from LIBOR may result in increased supervisory scrutiny. We have determined that the CME Term SOFR as the alternative rate to replace LIBOR. The discontinuance of LIBOR may result in uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instruments and may also increase operational and other risks to the Company and the industry. We have derivative contracts and limited loan exposure tied to LIBOR. Although we are not yet able to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations. Disruptions caused by, and unpredictable future developments related to or resulting from, the Coronavirus (COVID- 19) pandemic could adversely impact our clients and our business, financial position, results of operations, and future prospects. The COVID- 19 pandemic created extensive disruptions to the global economy, to businesses, and to the lives of individuals throughout the world. Federal and state governments have taken unprecedented actions to respond to such disruptions, including enacting fiscal stimulus measures and legislation designed to deliver monetary aid and other relief. The widespread availability of multiple COVID- 19 vaccines and boosters has helped to curtail rates of infection in many parts of the United States and, in turn, mitigate many of the adverse social and economic effects of the pandemic. The future effects of the COVID- 19 pandemic on the U. S. and global economies, labor markets and financial markets are uncertain and cannot be predicted. Accordingly, the pandemic and related dynamics could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.~~ Climate change and related legislative and regulatory initiatives may materially affect the Company' s business and results of operations. The effects of climate change continue to create an alarming level of concern for the state of the global environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures, such as ~~reentering~~ the Paris Agreement. Further, ~~the~~ U. S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it impossible to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and more frequent weather disasters may adversely impact the value of real property securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our clients and impact the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations **. Adverse developments affecting the financial services industry, such as bank failures, may adversely affect the Bank' s results of operations and financial condition, including capital and liquidity. Bank failures may have a profound impact on the national, regional, and local business environment in which the Bank operates. Although we were not directly affected by the bank failures which occurred in 2023, the speed and ability of depositors to withdraw their funds from these and other financial institutions contributed to the broader volatility in the banking sector observed during the year. In response to these failures and the resulting market reaction, various agencies of the U. S. government took steps to protect depositors and bolster banks' liquidity, but it is uncertain that these or any other potential future actions will be sufficient to reduce the risk of future bank failures or significant depositor withdrawals. Any future bank failure events may adversely impact the Bank' s future operating results and financial condition, including capital and liquidity** . Risks Applicable to the Regulation of our Industry We operate in a highly regulated environment, which could have a material and adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects. Banking is highly regulated under federal and state law. We are subject to extensive regulation and supervision that governs almost all aspects of our operations. As a registered bank holding company, we are subject to supervision, regulation and examination by the Federal Reserve. As a commercial bank chartered under the laws of Connecticut, the Bank is subject to supervision, regulation and examination by the State of Connecticut Department of Banking and the FDIC. The primary goals of the bank regulatory system are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. This system is intended primarily for the protection of the FDIC' s Deposit Insurance Fund and bank depositors, rather than our shareholders and creditors. The banking agencies have broad enforcement power over bank holding companies and banks, including the authority, among other things, to enjoin " unsafe or unsound " practices, require affirmative action to correct any violation or practice, issue administrative orders that can be judicially enforced, direct increases in capital, direct the sale of subsidiaries or other assets, limit dividends and distributions, restrict growth, assess civil monetary penalties, remove officers and directors, and, with respect to banks, terminate our charter, terminate our deposit insurance or place the Bank into conservatorship or receivership. In general, these enforcement actions may be initiated for violations of laws and regulations or unsafe or unsound practices. Compliance with the myriad of laws and regulations applicable to our organization can be difficult and costly. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in interpretation or implementation of these laws, regulations and policies, could affect us in substantial and unpredictable ways and often impose additional compliance costs. Further, any new laws, rules and regulations, could make compliance more ~~difficult~~ **complex** or expensive. All of these laws and regulations, and the supervisory framework applicable to our industry, could have a material adverse impact on our operations and activities, financial condition, results of operations, growth plans and future prospects. Federal and state regulators periodically examine our business and we may be required to remediate adverse examination findings. The Federal Reserve, the FDIC and the Connecticut Department of Banking periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a regulatory agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin " unsafe or unsound " practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have a material adverse effect on our business, results of operations, financial condition and future prospects **. Pursuant to the Economic Relief Act, the Federal Reserve Board raised the asset threshold under its Small Bank Holding Company Policy Statement from $ 1 billion to $ 3 billion for bank or savings and loan holding companies are permitted to have debt levels higher than would be permitted for larger holding companies, provided that such companies meet certain other conditions such as not engaging in significant nonbanking activities. As of June 30, 2023, the Company no longer met the definition of a Small Bank Holding Company as the Company' s assets exceeded $ 3 billion. Effective March 31, 2024, the Company will be subject to the larger company capital requirements as set forth in the Economic Growth Act** . The Bank' s FDIC deposit insurance premiums and assessments may increase. The deposits of the Bank are insured by the FDIC up to legal limits and, consequently, subject it to the payment of FDIC deposit insurance assessments. The Bank' s regular assessments are determined by its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could materially and adversely affect our business, financial condition, results of operations and prospects. The Bank is subject to further reporting requirements under FDIC regulations. We are subject to reporting requirements under the rules of the FDIC, including a requirement for management to prepare a report that contains an assessment by management of the Bank' s effectiveness of internal control structure and procedures for financial reporting as of the end of such fiscal year. In addition, we are required to obtain an independent public accountant' s attestation report concerning our internal control structure over financial reporting. The rules for management to assess the Bank' s internal controls over financial reporting are complex, and require significant documentation, testing and possible remediation. The effort to comply with regulatory requirements relating to internal controls cause us to incur increased expenses and a diversion of management' s time and other internal resources. If the Bank cannot favorably assess the effectiveness of its internal controls over financial reporting, or if its independent registered public accounting firm is unable to provide an unqualified attestation report on the Bank' s internal controls, the price of our common stock as well as investor confidence could be adversely affected and we may be subject to additional regulatory scrutiny. We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act, or CRA, and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. Various laws impose nondiscriminatory lending requirements on financial institutions, including the CRA, the Equal Credit Opportunity Act and the Fair Housing Act. A successful regulatory challenge to an institution' s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and prospects. We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. Financial institutions are required to institute and maintain an effective anti- money laundering program and file suspicious activity and currency transaction reports as appropriate under The Bank Secrecy Act, The USA PATRIOT ACT of 2001 and certain other laws and regulations. Significant civil penalties can be assessed by a variety of regulators and governmental agencies for violations of these laws and regulations. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include 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. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition, results of operations and prospects. General Risk Factors Resources could be expended in considering or evaluating potential acquisitions that are not consummated, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another business. We anticipate that the process of identifying and investigating institutions for potential acquisitions and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If a decision is made not to complete a specific acquisition transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific target institution, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event will result in a loss to us of the related costs incurred, which could materially and adversely affect subsequent attempts to locate and acquire or merge with another institution. We may be adversely affected by the soundness of other financial institutions. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including broker- dealers, commercial banks, investment banks, and other financial intermediaries. Further, our private banking channel relies on relationships with a number of other financial institutions for referrals. As a result, declines in the financial condition of, or even rumors or questions about, one or more financial institutions, financial service companies or the financial services industry generally, may lead to market- wide liquidity, asset quality or other problems and could lead to losses or defaults by us or by other institutions. These problems, losses or defaults could have a material adverse effect on our business, financial condition, results of operations and future prospects. We rely on third parties to provide key components of our business infrastructure, and failure of these parties to perform for any reason could disrupt our operations. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party servicers. The failure of these systems **(including cyber attacks)** , or the termination of a third- party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity or such third- party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of client business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. We may incur impairment to goodwill. We test our goodwill for impairment at least annually. Significant negative industry or economic trends, reduced estimates of future cash flows or disruptions to our business, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. Projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in impairment to our goodwill, we would be required to record a non- cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations. Increasing scrutiny and evolving expectations from clients, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from clients, regulators, investors, and other stakeholders related to their environmental, social and governance (“ ESG ”) practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.