Risk Factors Comparison 2024-03-15 to 2023-03-16 Form: 10-K

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As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the material risks and uncertainties that if realized could have an adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. Consideration should also be given to the other information in this Annual Report on Form 10- K, as well as in the documents incorporated by reference into this Form 10- K. However, other factors not discussed below or elsewhere in this Annual Report on Form 10- K could adversely affect our business, financial condition, results of operations or cash flows and our access to liquidity. Therefore, the risk factors below should not be considered a complete list of potential risks we may face. Risk Factors Summary Our business is subject to numerous material risks and uncertainties, including those described in Part I Item 1A. " Risk Factors " in this Report on Form 10- K. You should carefully consider these material risks and uncertainties when investing in our common stock. The principal risks and uncertainties affecting our business include the following: • Our business and operations are concentrated in the Puget Sound region and we are sensitive to adverse changes in the local economy. • If our allowance for ~~loan~~ **credit** losses is insufficient to absorb actual ~~loan~~ **credit** losses, our results of operations would be negatively affected. • We operate in a highly competitive market and face increasing competition from traditional and new financial services providers. • We are subject to the various risks associated with our banking business and operations, including, among others, credit, market, liquidity, interest rate and compliance risks, which may have an adverse effect on our business, financial condition and results of operations if we are unable to manage such risks. • We may be unable to effectively manage our growth, which could have an adverse effect on our business, financial condition and results of operations. • The success of our relationship with broker dealers, digital financial service providers and other partners to provide BaaS is subject to risks associated with managing such relationships. • We operate in a highly regulated industry, and the current regulatory framework and any future legislative and regulatory changes, may have an adverse effect on our business, financial condition and results of operations. • We are subject to regulatory requirements, including stringent capital requirements, consumer protection laws, and anti- money laundering laws, and failure to comply with these requirements could have an adverse effect on our business, financial condition and results of operations. • We are subject to laws regarding privacy, information security and protection of personal information and any violation of these laws or incidents involving personal, confidential or proprietary information of individuals, including, among others, system failures or cybersecurity breaches of our network security, could damage our reputation and otherwise adversely affect our business, financial condition and results of operation. • Our charter documents contain certain provisions, including anti- takeover provision, that limit the ability of our shareholders to take certain actions and could delay or discourage takeover attempts that shareholders may consider favorable. Risks Related to Credit Matters We are subject to interest rate risk and fluctuations in interest rates may adversely affect our earnings. The majority of our banking assets and liabilities are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest- earning assets, such as loans and investment securities, and interest paid by us on our interest- bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience " gaps " in the interest rate sensitivities of our assets and liabilities, meaning that either our interest- bearing liabilities will be more sensitive to changes in market interest rates than our interest- earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this " gap " will negatively impact our earnings. The impact on earnings is more adverse when the slope of the yield curve flattens, that is, when short- term interest rates increase more than long- term interest rates or when long- term interest rates decrease more than short- term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international economic weakness and disorder and instability in domestic and foreign financial markets. Our interest rate sensitivity profile was ~~asset~~ **liability** sensitive as of December 31, ~~2022~~ **2023**, meaning that we estimate our net interest income would increase more from ~~rising~~ **falling** interest rates than from ~~falling~~ **rising interest rates. Loans and deposits in our CCBX segment are more sensitive to interest rate changes than our community bank segment. Over time we anticipate that this will increase sensitivity to both increasing and decreasing** interest rates. Interest rates have risen significantly following the historically low levels during the COVID- 19 pandemic. **As interest rates have increased, so have competitive pressures on the deposit cost of funds. This has been exacerbated by the bank failures in the first half of 2023 and the resulting heightened competition for deposits, which has also affected the interest we pay on deposits. We expect our funding costs will continue to increase if interest rates continue to remain high if we are required to maintain or increase higher cost deposit products as depositors seek such higher rate products. It is not possible to predict the pace and magnitude of changes in interest rates, or the impact rate changes will have on our results of operations.** Due to elevated levels of inflation and corresponding pressure to raise interest rates, the Federal Reserve announced in January of 2022 that it would be slowing the pace of its bond purchasing and increasing the target range for the federal funds rate over time. The FOMC since has increased the **federal funds rate to 5** ~~target range seven times throughout 2022~~. ~~As~~ **50 % as** of December 31, ~~2022~~ **2023 . The FOMC stated that recent indicators suggest that economic activity has been expanding at a solid pace**, **job gains have moderated since early last year but remain strong, and** the **unemployment rate has remained low. Inflation has eased over the past year but remains elevated. The economic outlook is uncertain, and the FOMC remains highly attentive to inflation risks. In support of its goals, the FOMC decided to maintain the current** target range for the federal funds rate **at its most recent meeting** ~~had been increased to 4. 25 % to 4. 50~~

~~% and the FOMC signaled that future increases may be appropriate in order to attain a monetary policy sufficiently restrictive to return inflation to more normalized levels~~. Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default and could result in a decrease in the demand for loans. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates. In addition, in a low interest rate environment, loan customers often pursue long- term fixed rate credits, which could adversely affect our earnings and net interest margin if rates increase. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have an adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. At the same time, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income. Our commercial real estate lending activities expose us to increased lending risks and related ~~loan~~ **credit** losses. At December 31, ~~2022~~ **2023** , our commercial real estate loan portfolio totaled $ 1. ~~05~~ **30** billion, or ~~39~~ **43** . ~~8~~ **0** % of our total loan portfolio. Our current business strategy is to continue our originations of commercial real estate loans. Commercial real estate loans generally expose a lender to greater risk of non- payment or late payment and loss than one- to- four family residential mortgage loans because repayment of the loans often depends on the successful operation of the properties and the income stream of the borrowers. These loans involve larger loan balances to single borrowers or groups of related borrowers compared to one- to- four family residential mortgage loans. To the extent that borrowers have more than one commercial real estate loan outstanding, an adverse development with respect to one loan or one credit relationship could expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to- four family residential real estate loan. Moreover, if loans that are collateralized by commercial real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time we originated the loan, which could cause us to increase our provision for ~~loan~~ **credit** losses and would adversely affect our business, financial condition and results of operations **. Furthermore, should the fundamentals of the commercial real estate market deteriorate due to macroeconomic and other factors, our business, financial condition and results of operations could be adversely affected** . We may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio. In the course of our business, we may purchase real estate in connection with our acquisition and expansion efforts, or we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those 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 we 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. The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties, we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the property or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could adversely affect our business, financial condition and results of operations. Our commercial business lending activities expose us to additional lending risks. As of December 31, ~~2022~~ **2023** , commercial and industrial loans totaled $ ~~312~~ **291. 3 million and represented 9** . 6 ~~million and represented 11. 8~~ % of total loans ~~. Included in commercial and industrial loans are $ 4. 7 million in PPP loans, which are 100 % guaranteed by the by the U. S. Government~~ . We make commercial business loans in our market area to a variety of professionals, sole proprietorships, partnerships and corporations. As compared to commercial real estate loans, which are secured by real property, the value of which tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower' s ability to make repayment from the cash flow of the borrower' s business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself and the conditions in the general economy. Further, any losses incurred on a small number of commercial loans could have an adverse impact on our financial condition and results of operations due to the larger average size of commercial loans as compared with other loans and the risk that collateral securing such loans may depreciate over time, may be difficult to appraise, may fluctuate in value and may depend on the borrower' s ability to collect receivables. We have increased our focus on commercial business lending in recent years and intend to continue to focus on this type of lending in the future. Our concentration of residential mortgage loans exposes us to increased lending risks. At December 31, ~~2022~~ **2023** , $ ~~449~~ **463** . ~~2~~ **4** million, or ~~17~~ **15** . ~~1~~ **3** %, of our loan portfolio was secured by one- to- four family real estate. One- to- four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Declines in real estate values could cause some of our residential mortgages to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral. As of

December 31, ~~2022~~ **2023**, $ ~~204~~ **225**. ~~6~~ **4** million of our residential mortgage loans were made through the community bank, and 82. ~~7~~ **1** % are secured by property in Washington State, and a significant majority of that is located in the Puget Sound region. A decline in residential real estate values as a result of a downturn in the Puget Sound housing market could reduce the value of the real estate collateral securing these types of loans. As of December 31, ~~2022~~ **2023**, $ ~~140~~ **161**. ~~7~~ **3** million of our residential mortgage loans made through the community bank were made to investors. These loans may behave more like multi-family loans than individual 1- 4 family loans that are occupied by their owners. As of December 31, ~~2022~~ **2023**, $ ~~244~~ **238**. ~~6~~ **0** million of our residential mortgage loans were made through CCBX partners and are located in different regions across the U. S. A decline in residential real estate values across the U. S. would reduce the value of this residential real estate collateral. These home equity lines of credit are secured by residential real estate and are accessed by using a credit card. Our origination of construction loans exposes us to increased lending risks. At December 31, ~~2022~~ **2023**, $ ~~214~~ **157**. 1 million, or ~~8~~ **5**. ~~1~~ **2** % of our total loans was construction, land and land development loans. We originate commercial construction loans primarily to professional builders for the construction of one- to- four family residences, apartment buildings, and commercial real estate properties. To a lesser degree, we also originate land acquisition loans for the purpose of facilitating the ultimate construction of a home or commercial building. Our construction loans present a greater level of risk than loans secured by improved, occupied real estate due to: (1) the increased difficulty at the time the loan is made of estimating the building costs and the selling price of the property to be built; (2) the increased difficulty and costs of monitoring the loan; (3) the higher degree of sensitivity to increases in market rates of interest; and (4) the increased difficulty of working out loan problems. In addition, construction costs may exceed original estimates as a result of increased materials, labor or other costs. Construction loans also often involve the disbursement of funds with repayment dependent, in part, on the success of the project and the ability of the borrower to sell or lease the property or refinance the indebtedness. Our focus on lending to the small to medium- sized businesses may adversely affect our business, financial condition and results of operations. We focus our business development and marketing strategy primarily on small to medium- sized businesses. Small to medium- sized businesses frequently have smaller market shares than larger firms, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower' s ability to repay a loan. In addition, the success of a small and medium- sized business often depends on the management skills, talents and efforts of a small group of people, and the death, disability or resignation of one or more of these people could have an adverse effect on the business and its ability to repay its loan. If our borrowers are unable to repay their loans, our business, financial condition and earnings could be adversely affected. 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 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. Many of our loans are made to small to medium- sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. 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 administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting customers and the quality of the loan portfolio. A failure to effectively measure and limit the credit risk associated with our loan portfolio could lead to unexpected losses and adversely affect our business, financial condition and results of operations. We originate and purchase loans through our CCBX partners **,** which exposes us to increased lending and compliance risks. At December 31, ~~2022~~ **2023**, $ 1. ~~01~~ **20** billion, or ~~38~~ **39**. ~~5~~ **4** % of our total loans were originated or purchased through CCBX partners. Our partners underwrite these loans in compliance with our credit standards and policies. Our CCBX partners service $ ~~866~~ **1**. ~~5~~ **11** ~~million~~ **billion** of these loans. Our partners provide fraud and credit enhancements on many of our CCBX loans, but if they are unable to fulfill their contracted obligations then the Bank would be exposed to writing off all or a part of the credit enhancement asset and to additional ~~loan~~ **credit** losses as a result of this counterparty risk. We are subject to compliance and regulatory risk if partners do not follow our servicing policies, lending laws and regulations. Our allowance for ~~loan~~ **credit** losses may prove to be insufficient to absorb losses in our loan portfolio. Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: • the cash flow of the borrower, guarantors and / or the project being financed; • the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan; • the character and creditworthiness of a particular borrower or guarantor; • changes in economic and industry conditions; and • the duration of the loan. ~~We~~ **The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. At each reporting period, the Company evaluates whether the loans in a pool continue to exhibit similar risk characteristics as the other loans in the pool and whether it needs to evaluate the allowance on an individual basis. The Bank must estimate expected credit losses over the loans' contractual terms, adjusted for expected prepayments. In estimating the life of the loan, the Bank cannot extend the contractual term of the loan for expected extensions, renewals, and modifications, unless the extension or renewal options are included in the contract at the reporting date and are not unconditionally cancellable by the Bank. Because expected credit losses are estimated over the contractual life adjusted for estimated prepayments, determination of the life of the loan may significantly affect the ACL. The Company has chosen to segment its portfolio consistent with the manner in which it manages the risk of the type of credit. • Community Bank Portfolio: The ACL calculation is derived for loan segments utilizing loan level information and relevant information from internal and external sources related to past events and current conditions. In addition, the Company incorporates a reasonable and supportable forecast. • CCBX Portfolio: The Bank calculates the ACL on loans on an aggregate basis based on each partner and product level, segmenting the**

risk inherent in the CCBX portfolio based on qualitative and quantitative trends in the portfolio. Also included in the ACL are qualitative reserves to cover losses that are expected, but in the Company' s assessment may not be adequately represented in the quantitative method. For example, factors that the Company considers include environmental business conditions, borrower' s financial condition, credit rating and the volume and severity of past due loans and non-accrual loans. Based on this analysis, the Company records a provision for credit losses to maintain ~~an~~ **the allowance at appropriate levels. The determination of the appropriate level of the** allowance for **credit** ~~loan losses, which is a reserve established through a provision for loan losses charged against earnings, which we believe is appropriate to absorb probable incurred losses in our loan portfolio. The amount of this allowance is determined by our management through a periodic comprehensive review and consideration of several factors, including, but not limited to: • our general reserve, based on our historical default and loss experience; • our specific reserve, based on our evaluation of impaired loans and their underlying collateral or discounted cash flows; and • current macroeconomic factors and regulatory requirements. The determination of the appropriate level of the allowance 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 undergo material changes. If our estimates are incorrect, the allowance for ~~loan~~ **credit** losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for increases in our allowance for ~~loan~~ **credit** losses through the provision for losses on loans which is charged against income. Management also recognizes that significant new growth in loan portfolios, through the community bank and / or CCBX, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Many of the agreements with our CCBX partners provide for a credit enhancement which helps protect the Bank by absorbing incurred losses. CCBX credit enhancements are free- standing and are accounted separately from the allowance for ~~loan~~ **credit** loss. In accordance with accounting guidance, we estimate and record a provision for probable losses for these CCBX loans, without regard to the credit enhancement. If a CCBX lending partner is unable to fulfill ~~their~~ **its** contractual obligations with the Bank, then the Bank would be exposed to additional ~~loan~~ **credit** losses as a result of this counterparty risk and would have to absorb any ~~loan~~ **credit** losses associated with the CCBX partner that cannot fulfill its contractual obligations. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for ~~loan~~ **credit** losses. If current conditions in the housing and real estate markets weaken, we expect we will experience increased delinquencies and credit losses. In addition, bank regulatory agencies periodically review our allowance for ~~loan~~ **credit** losses and may require an increase in the provision for ~~loan~~ **credit** losses or the recognition of further loan charge-offs, based on their judgments about information available to them at the time of their examination. In addition, if charge- offs in future periods exceed the allowance for ~~loan~~ **credit** losses, we will need additional provisions to increase the allowance for ~~loan~~ **credit** losses. While we believe that our allowance for ~~loan~~ **credit** losses was adequate at December 31, ~~2022~~ **2023**, there is no assurance that it will be sufficient to cover future ~~loan~~ **credit** losses, especially if there is a significant deterioration in economic conditions. The FASB adopted a new accounting standard referred to as CECL which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. **We adopted** ~~This~~ **this** ~~will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. This~~ accounting pronouncement ~~was adopted by us~~ effective for our fiscal year beginning January 1, 2023 ~~. The federal banking regulators, including the Federal Reserve and the FDIC, have adopted a rule that gives a banking organization the option to phase in over a three year period the day one adverse effects of CECL on its regulatory capital. Any increases in the allowance for loan losses due to the one- time cumulative- effect adjustment will result in a decrease in capital and may have a material adverse effect on our financial condition and results of operations~~. The current economic condition in the market areas we serve may adversely impact our earnings and could increase the credit risk associated with our loan portfolio. While there is not a single employer or industry in our market area on which a significant number of our customers are dependent, a substantial portion of our loan portfolio is comprised of loans secured by property located in the Puget Sound region and substantially all of our loan and deposit customers are businesses and individuals in greater Puget Sound region. A deterioration of the economy in the market areas we serve could result in the following consequences, any of which would have an adverse impact, which could be material, on our business, financial condition, and results of operations: **• high short- term interest rates may cause deposits to decline and deposit costs to increase as depositors seek higher returns on their deposits;** • loan delinquencies may increase; • problem assets and foreclosures may increase; • collateral for loans made may decline in value, in turn reducing customers' borrowing power, reducing the value of assets and collateral associated with existing loans; • certain securities within our investment portfolio could become other than temporarily impaired, requiring a write- down through earnings to fair value, thereby reducing equity; • CCBX partners may experience financial difficulties or fail, our BaaS revenue may decrease, and ~~loan~~ **credit** losses could increase if the partner cannot fulfill its credit enhancement obligations; • low cost or noninterest bearing deposits may decrease; and • demand for our loan and other products and services may decrease. A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower' s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as earthquakes and flooding. Further, deterioration in local economic conditions could drive the level of ~~loan~~ **credit** losses beyond the level we have provided for in our allowance for ~~loan~~ **credit** losses, which in turn could necessitate an increase in our provision for ~~loan~~ **credit** losses and a resulting reduction to our earnings and capital. In addition, weakening in regional and general economic conditions such as inflation, recession, business closings, restrictions on business activity, unemployment, natural disasters, epidemic illness, or other factors beyond our control could reduce our growth rate and negatively affect demand for loans, the ability of our borrowers to repay their loans and our financial condition and results of operations. Our SBA lending program is dependent upon the U. S. federal government, and we face specific risks associated with originating SBA loans. As of December 31, ~~2022~~ **2023** , the balance of owned SBA loans and SBA loans net of the sold portion was $ ~~12~~ **8** . ~~3~~ **0** million, which includes $ ~~4~~ **3** . ~~7~~ **0** million in PPP loans that are 100 % guaranteed, and an additional $ ~~3.~~ 1 **. 9** million in non- PPP SBA loans which are also guaranteed. As of December 31, ~~2022~~ **2023** , the balance of SBA loans sold and serviced was $ ~~14~~ **8** . ~~3~~ **7** million, resulting in $ ~~69~~ **49** , 000 in servicing income for the year ended December 31, ~~2022~~ **2023** . Our SBA lending program is dependent upon the U. S. federal government. As an approved participant in the SBA Preferred Lender' s Program, referred to herein as an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender' s SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience an adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress or exhaustion of the available funding for SBA programs may also have an adverse effect on our business, financial condition and results of operation. In addition, any default by the U. S. Government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could adversely affect our business, financial condition and results of operations. Included in this category are PPP loans, which have a contractual rate of 1. 0 %, with maturity terms of two to five years, are unsecured, 100 % guaranteed and the loan proceeds of which may be forgiven by the U. S. Government / SBA if used for certain purposes. Outside of the PPP, the SBA' s 7 (a) Loan Program is the SBA' s primary program for helping start- up and existing small businesses, with financing guaranteed for a variety of general business purposes. Generally, we sell the guaranteed portion of our non- PPP SBA 7 (a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or sell them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7 (a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non- guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro- rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could adversely affect our business, financial condition and results of operations. The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business, financial condition and results of operation. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our ability to operate profitably. Economic conditions could increase our level of nonperforming loans and / or reduce demand for our products and services, which could have an adverse effect on our results of operations. Prolonged deteriorating economic conditions could significantly affect the markets in which we do business, the value of our loans and investment securities, and our ongoing operations, costs and profitability. Further, declines in real estate values and sales volumes and elevated unemployment levels may result in higher loan delinquencies, increases in our nonperforming and classified assets and a decline in demand for our products and services. These events may cause us to incur losses and may adversely affect our financial condition and earnings. Reduction in problem assets can be slow, and the process can be exacerbated by the condition of the properties securing nonperforming loans and the lengthy foreclosure process in Washington. To the extent that we must work through the resolution of assets, economic problems may cause us to incur losses and adversely affect our capital, business, financial condition, results of operations or cash flows and our access to liquidity. Nonperforming assets take significant time and resources to resolve and adversely affect our business, financial condition and results of operations. Nonperforming assets adversely affect our net income in various ways. We generally do not record interest income on other real estate owned (" OREO "), or on nonperforming loans, thereby adversely affecting our income and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair market value of the collateral, which may ultimately result in a loss. An increase in our level of nonperforming assets increases our risk profile and may impact the capital levels regulators believe are appropriate in light of the ensuing risk profile. While we seek to reduce problem assets through loan workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, financial condition and results of operations. In addition, the resolution of nonperforming assets requires significant commitments of time from management, which may adversely impact their ability to perform their other responsibilities. We may not experience future increases in the value of nonperforming assets. Risks Related to Compliance and Operational Matters Imposition of limits by the bank regulators on commercial real estate lending activities could curtail our growth and adversely affect our earnings. In 2006, the federal banking regulators issued joint guidance entitled " Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices " (" CRE Guidance "). Although the CRE Guidance did not establish specific lending limits, it provides that a bank' s commercial real estate lending exposure could receive increased supervisory scrutiny where total non- owner- occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300 % or more of an institution' s total risk- based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50 % or more during the preceding 36 months. Our total non- owner- occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, totaled $ ~~920.~~ 1 **. 1** ~~million~~ **billion** and represented **238. 3 % and** 269. 2 ~~% and 305. 1~~ % of its capital, at December 31, **2023 and** 2022 ~~and 2021~~ , respectively. The outstanding balance of the Bank' s regulatory CRE portfolio has increased by **16. 8 % and** 30. 9 ~~% and 7. 8~~ %, for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. The level of CRE has exceeded regulatory guidelines in the previous 36 months **, it was 305. 1 % at December 31, 2021,** but the growth rate ~~is~~ **was** within regulatory guidelines. In December 2015, the federal banking regulators released a new statement on prudent risk management for commercial real estate lending, referred to herein as the 2015 Statement. In the 2015 Statement, the federal banking regulators, among other things, indicate their intent to " continue to pay special attention " to commercial real estate lending activities and concentrations going forward. If the Federal Reserve, our primary federal regulator, were to impose restrictions on the amount of commercial real estate loans we can hold in our portfolio, for reasons noted above or otherwise, our earnings would be adversely affected. Our business is subject to the risks of epidemic illnesses, earthquakes, tsunamis, floods, fires and other natural catastrophic events or effects of climate change. A major catastrophe, such as an epidemic illness, earthquake, tsunami, flood, fire or other natural disaster or effects of climate change could result in a prolonged interruption of our business. For example, our headquarters are located in Everett, Washington and we serve the broader Puget Sound region, a geographical region that has been and may continue to be affected by earthquake, tsunami, wildfires and flooding activity. These activities may increase as the effects of climate change increase. Because we primarily serve individuals and businesses in the Northwest, a natural disaster, epidemic illness, significant effect of climate change or other major catastrophe in the Northwest likely would have a greater impact on our business, financial condition and results of operation than if our business were more geographically diverse. The occurrence of any of these natural disasters. epidemic illnesses, effects of climate change or other major catastrophes could negatively impact our performance by disrupting our operations or the operations of our customers, which could adversely affect our business, financial condition, results of operations. Appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, OREO and repossessed personal property may not accurately reflect the net value of the asset. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO, and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our financial statements may not reflect the correct value of our OREO, and our allowance for ~~loan~~ **credit** losses may not reflect accurate loan impairments. This could adversely affect our business, financial condition and results of operations. As of December 31, ~~2022~~ **2023** , we did not hold any OREO or repossessed property and equipment. We derive a percentage of our deposits, total assets and income from deposit accounts generated through our BaaS relationships. Deposit accounts acquired through these relationships totaled $ 1. ~~28~~ **86** billion, or ~~45~~ **55** . 4 % of total deposits at December 31, ~~2022~~ **2023** . We provide oversight over these relationships, which must meet all internal and regulatory requirements. We may exit relationships where such requirements are not met or be required by our regulators to exit such relationships. Also, our CCBX partner (s) could terminate a relationship with us for many reasons, including being able to obtain better terms from another provider or dissatisfaction with the level or quality of our services. If a relationship were to be terminated, it could materially reduce our deposits, assets and income. We cannot assure you that we could replace such relationship. If we cannot replace such relationship, we may be required to seek higher rate funding sources as compared to the existing relationship and interest expense might increase. We may also be required to sell securities or other assets to meet funding needs which would reduce revenues or potentially generate losses. Our strategy of partnering with broker dealers and digital financial service providers to offer BaaS has been adopted by other institutions with which we compete. Several online banking operations as well as the online banking programs of conventional banks have instituted BaaS strategies similar to ours. As a consequence, we have encountered competition in this area and anticipate that we will continue to do so in the future. This competition may increase our costs, reduce our revenues or revenue growth or, because we are a relatively small banking operation without the name recognition of other, more established banking operations, make it difficult for us to compete effectively in obtaining these relationships. Our agreements with BaaS partners may produce limited revenue and may expose us to liability for compliance violations by BaaS partners. We have entered into agreements with BaaS partners, which includes broker dealers and digital financial service providers, pursuant to which we will provide certain banking services for the BaaS partner customers, including serving as the issuing bank for debit cards issued to their customers and establishing one or more settlement accounts for the purpose of settling customer transactions in the cash management account program. The agreements have varying terms and may be terminated by the parties under certain circumstances. If our BaaS partners are not successful in achieving customer acceptance of their programs or terminate the agreement before the end of its term, our revenue under the agreement may be limited or may cease altogether. In addition, because we will provide banking services with respect to the cash features of our BaaS partner account programs, our bank regulators may hold us responsible for their activities with respect to the marketing or administration of their programs, which may result in increased compliance costs for us or potentially compliance violations as a result of BaaS partner activities. ~~Uncertainty~~ **In recent years, a significant number of banks that provide BaaS have become subject to enforcement actions** relating to ~~the~~ **their partners' activities** ~~LIBOR calculation process and phasing out of LIBOR may adversely affect our results of operations. On July 27~~ , **indicating** ~~2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced~~ that **banking regulators have made** ~~it intends to stop persuading or compelling~~ banks **' oversight over** ~~to submit rates for the~~ **their BaaS partners a supervisory priority and** ~~calibration of LIBOR to the administrator of LIBOR after 2021. In November 2020, the ICE Benchmark Administration, which administers LIBOR, announced its intention to extend the publication of most tenors of LIBOR through June 30, 2023. The U. S. federal banking agencies encouraged banking organizations to cease entering into new contracts~~ that **there is** ~~use US Dollar LIBOR as a reference rate by no later than December 31, 2021, and~~ **an increased risk** ~~to ensure existing contracts have robust fallback language~~ that **we could similarly become subject** ~~includes a clearly defined alternative reference rate. Several domestic and international groups, including the Alternative Reference Rate Committee and the International Swaps and Derivatives Association, have developed LIBOR replacements, and a consensus appears~~ to **additional regulatory scrutiny** ~~have emerged that the SOFR as observed by the Federal Reserve Bank of New York should be the successor rate. In March 2022, President Biden signed into law the Adjustable Interest Rate (LIBOR) Act (the " LIBOR Act "). The LIBOR Act provides default rules for~~ **or enforcement** ~~tough legacy contracts that do not have clearly defined and practicable fallback provisions for replacing LIBOR~~ . **Additionally** ~~The LIBOR Act also establishes a litigation safe harbor for lenders that select a LIBOR replacement under certain situations~~ , ~~including the use of a replacement rate selected by the Federal Reserve. On December 16, 2022, the Federal Reserve adopted a final rule that implements the LIBOR Act by identifying benchmark rates based on SOFR that will replace LIBOR in certain~~ financial **weaknesses at** ~~contracts after June 30, 2023. Nevertheless, uncertainty surrounding the transition away from LIBOR may adversely affect LIBOR rates and the value of LIBOR- based loans, and debt instruments. If and when LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under our loan agreements with our borrowers or~~ **our** ~~our existing borrowings, we may incur additional~~ **BaaS partners could cause us to record greater** expenses ~~in effecting the transition, and may be subject to disputes or litigation with customers and creditors over the appropriateness or comparability to LIBOR of the substitute indices, which could have an adverse effect on our~~ **or losses** ~~business, financial condition and results of operations. As of December 31, 2022, we had 51 loans totaling $ 206. 6 million that are tied to LIBOR. We have $ 3. 6 million in floating rate junior subordinated debentures to Coastal (WA) Statutory Trust I, which was formed for~~ **or suffer reputational harm** ~~the issuance of trust preferred securities. These debentures are also tied to LIBOR. The move to an alternate index may impact the rates we receive on loans and rates we pay on our junior subordinated debentures. We have identified the loans and debt instruments impacted, and we believe we will be able to use the benchmark replacements and transition protections provided by the LIBOR Act, Federal Reserve rule, and relevant FASB guidance to manage through the transition away from LIBOR. See " Note 2- Recent accounting standards " in the Consolidated Financial Statements, for discussion on ASU 2020- 04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. We no longer issue any loans or debt tied to LIBOR~~ . We may be adversely affected by changes in U. S. tax laws and regulations. From time to time, the U. S. Government may introduce new tax laws and regulations, or interpretations of existing income tax laws could change, causing an adverse effect on our business, financial condition and results of operations. For example, changes in tax laws contained in the Tax Cuts and Jobs Act of 2017 (the " Tax Cuts and Jobs Act "), which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for residential real estate. Included in this legislation was a reduction of the corporate income tax rate from 35 % to 21 %. In addition, other changes included: (i) a lower limit on the deductibility of mortgage interest on single- family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. We are subject to additional state and local taxes as a result of CCBX operations. We are subject to additional state and local taxes and related reporting requirements related to our CCBX operations. The added recordkeeping burden as well as additional expense that could result from the expansion of CCBX into new regions may have an adverse impact on our business, financial condition and results of operations. ~~We expect that the implementation of a new accounting standard could require us to increase our allowance for loan losses and may have an adverse effect on our business, financial condition and results of operations. The FASB, has adopted a new accounting standard, CECL, which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. We adopted CECL effective January 1, 2023. CECL will change the current method of providing allowances for loan losses that are probable, which we expect could require us to increase our allowance for loan losses, and will likely greatly increase the data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have an adverse effect on our financial condition and results of operations. In addition, new accounting standards are issued or existing standards are revised periodically, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our business, financial condition and results of operations.~~ Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks, including, but not limited to, customer, employee or third- party fraud and data processing system failures and errors. We rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud or other misconduct by employees or outside persons, the improper use of confidential information, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control system and compliance requirements, high volume of transactions processed for our strategic partners, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions, including claims for negligence, that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulations, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. We maintain a system of internal controls to mitigate operational risks, including data processing system failures and errors and customer or employee fraud, as well as insurance coverage designed to protect us from material losses associated with these risks, including losses resulting from any associated business interruption. It is not always possible to prevent employee or third- party errors or misconduct. Although our control testing has not identified any ~~significant deficiencies~~ **material weaknesses** in our internal control system, a breakdown in our internal control system, improper operation of our systems or improper employee actions could result in material financial loss to us, the imposition of regulatory action, and damage to our reputation. We are dependent on the use of data and modeling in our management' s decision- making, and faulty data or modeling approaches could negatively impact our decision- making ability or possibly subject us to regulatory scrutiny in the future. The use of statistical and quantitative models and other quantitative analyses is widespread in bank decision- making, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, and the identification of possible violations of anti- money laundering regulations are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not subject to stress testing under the Dodd- Frank Act, we anticipate that model- derived testing may become more extensively implemented by regulators in the future. We anticipate data- based modeling will penetrate further into bank decision- making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision- making, they also create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision- making ability or, if we become subject to regulatory stress testing in the future, adverse regulatory scrutiny. Further, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision- making. We depend on the accuracy and completeness of information provided to us by our borrowers and counterparties and any misrepresented information could adversely affect our business, financial condition and results of operations. In deciding whether to approve loans or to enter into other transactions with borrowers and counterparties, we rely on information furnished to us by, or on behalf of, borrowers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of borrowers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. 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 and we may be subject to regulatory action. Whether a misrepresentation is made by the loan applicant, another third party, or one of our employees, we generally bear the risk of loss associated with the misrepresentation. Our controls and processes may not have detected, or may not detect all, misrepresented information in our loan originations or from our business clients. Any such misrepresented information could adversely affect our business, financial condition and results of operations. We could recognize losses on investment securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate. While we attempt to invest a significant majority of our total assets in loans (our loan- to- asset ratio was ~~83~~ **80** . 6 % as of December 31, ~~2022~~ **2023**), we invest a percentage of our total assets (~~3~~ **4** . ~~2~~ **0** % as of December 31, ~~2022~~ **2023**) in investment securities with the primary objectives of providing a source of liquidity and meeting pledging requirements. As of December 31, ~~2022~~ **2023** , the fair value of our available for sale investment securities portfolio was $ ~~97~~ **99** . ~~3~~ **5** million, which included a net unrealized loss of $ **537, 000** ~~3. 0 million~~ , and the fair value of our held to maturity investment securities was $ ~~916, 000~~ **51. 0 million** , which included a net unrealized ~~loss~~ **gain** of $ ~~120~~ **181** , 000. Factors beyond our control can significantly and adversely influence the fair value of securities in our portfolio. For example, fixed- rate securities are generally subject to decreases in market value when interest rates rise. Additional factors include, but are not limited to, rating agency downgrades of the securities, defaults by the issuer or individual borrowers with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause other- than- temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other- than- temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Although we have not recognized other- than- temporary impairment related to our investment portfolio as of December 31, ~~2022~~ **2023** , changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, among other factors, may cause us to recognize losses in future periods, which could have an adverse effect on our business, financial condition and results of operations. 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 disclosures in conformity with U. S. Generally Accepted Accounting Principles (" GAAP ") requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and related notes to those financial statements. Our critical accounting policies, which are included in the section entitled " Management' s Discussion and Analysis of Financial Condition and Results of Operations " in this Report on Form 10- K, 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 or regulatory views concerning such analysis 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, in each case resulting in our needing to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations. Dependency on external security systems expose us to greater operational risk. External security systems with which we are connected, whether directly or indirectly, through the community bank or CCBX, can be sources of risk to us. We may be exposed not only to a systems failure with which we are directly connected, but also to a systems breakdown of a party to CCBX or other relationship to which we are connected. This is particularly the case where activities of customers or those parties are beyond our security and control systems, including through the use of the internet, cloud computing services and personal smart phones and other mobile devices or services. If that party experiences a breach of its own systems or misappropriates that data, this could result in a variety of negative outcomes for us and our customers, including: • losses from fraudulent transactions, as well as potential liability for losses that exceed thresholds established in consumer protection laws and regulations, • increased operational costs to remediate the consequences of the external party' s security breach, • negative impact on future revenues; and • harm to reputation arising from the perception that our systems may not be secure. We are highly dependent on the accuracy and effectiveness of ~~its~~ **our** operational processes and systems and the operational processes and systems of external parties related to the community bank and CCBX. We rely comprehensively on financial, accounting, transaction execution, data processing and other operational systems to process, record, monitor and report a large number of transactions on a continuous basis, and to do so accurately, quickly and securely. In addition to the proper design, installation, maintenance and training of our own operational systems, we rely on the effective functioning of operational systems of external parties related to the community bank and CCBX. Breakdowns in these operational systems could result in: • the inability to accurately and timely settle transactions, • the possibility that funds transfers or other transactions are executed erroneously, or with unintended consequences, • financial losses incurred, or possible restitution to customers, resulting from contractual agreements with external parties related to the community bank and CCBX, • regulatory issues, • higher operational costs, associated with replacing or recovering systems that are inoperable or unavailable, • loss of confidence in our ability to protect against and withstand operational disruptions, thus impacting our ability to market and establish new relationships in the CCBX segment, and • harm to our reputation. As the speed, frequency, volume, interconnectivity and complexity of transactions within our CCBX segment continues to increase, it becomes more challenging to effectively maintain systems and mitigate risks such as: • errors made by us or external parties doing business with the community bank and CCBX, whether inadvertent or malicious; and • isolated or seemingly insignificant errors or losses, which migrate to other systems or grow in number, to become larger issues or losses. We may be subject to potential business risk from actions by our regulators related to CCBX relationships. Our regulators could impose restrictions on the businesses served in our CCBX segment or restrict the number of different relationships the Company can hold. Regulatory restrictions placed on the parties served in the Company' s CCBX segment could result in reduced demand for services, reduced future revenue in the CCBX segment, or loss of current relationships. Regulatory restrictions that limit the number of relationships the Company can hold in its CCBX segment would result in reduced future revenue and limit the potential for growth in that segment. Risks Related to Strategic and Reputational Matters Our business strategy includes growth, and our business, financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Growing our operations could also cause our expenses to increase faster than our revenues. Our business strategy includes growth in assets, deposits and the scale of our operations. Achieving such growth will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, competition from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in expanding deposit and lending capacity that generally require a period of time to generate the necessary revenues to offset these costs, especially in areas in which we do not have an established presence and that require alternative delivery methods. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in modernizing existing facilities, opening new branches or deploying new services. Our expansion strategy focuses on organic growth of our community bank and the expansion of our CCBX segment. We may not be able to execute on aspects of our expansion strategy, which may impair our ability to sustain our historical rate of growth or prevent us from growing at all. More specifically, we may not be able to generate sufficient new loans and deposits within acceptable risk and expense tolerances, obtain the personnel or funding necessary for additional growth or find suitable new strategic partners. The success of our strategy also depends on our ability to effectively manage growth, which is dependent upon a number of factors, including our ability to adapt our credit, operational, technology and governance infrastructure to accommodate expanded operations. If we fail to implement one or more aspects of our strategy, we may be unable to maintain our historical earnings trends, which could have an adverse effect on our business, financial condition and results of operations. Strong competition within our market area could hurt our profits and slow growth. Our profitability depends upon our continued ability to compete successfully in our market area. We face intense competition both in making loans and attracting deposits. Our competitors for commercial real estate loans include other community banks and commercial lenders, some of which are larger than us and have greater resources and lending limits than we have and offer services that we do not provide. We face stiff competition for one- to- four family residential loans from other financial service providers, including large national residential lenders and local community banks. Other competitors for one- to- four family residential loans include credit unions and mortgage brokers which keep overhead costs and mortgage rates down by selling loans and not holding or servicing them. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which reduces net interest income. We expect competition to remain strong in the future. The Washington DFI has entered into a multi- state agreement with six other states that is intended to streamline the licensing process for money service businesses, which include money transmitters and payment service providers. Increasing the relative ease of obtaining a license to operate a money service business within the state of Washington may encourage financial technology, or fintech, companies to offer services in the state, thereby increasing competition for such services. We rely heavily on our executive management team and other key employees, and we could be adversely affected by the unexpected loss of their services. Our success depends in large part on the performance of our executive management team and other key personnel, as well as on our ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees. Competition for qualified employees is intense, and the process of locating key personnel with the combination of skills, attributes and business relationships required to execute our business plan may be lengthy. We may not be successful in retaining our key employees, and the unexpected loss of services of one or more of our key personnel could have an adverse effect on our business because of their skills, knowledge of and business relationships within our primary markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, or at all, which could have an adverse effect on our business, financial condition and results of operations. Anti- takeover provisions in our corporate organizational documents and provisions of federal and state law may make an attempted acquisition or replacement of our board of directors or management more difficult. Our second amended and restated articles of incorporation and our amended and restated bylaws, (" bylaws "), may have an anti- takeover effect and may delay, discourage or prevent an attempted acquisition or change of control or a replacement of our incumbent board of directors or management. Our governing documents include provisions that: • empower our board of directors, without shareholder approval, to issue preferred stock, the terms of which, including voting power, are to be set by our board of directors; • establish a classified board of directors, with directors of each class serving a three- year term; • provide that directors may be removed from office without cause only by vote of 80 % of the outstanding shares then entitled to vote; • eliminate cumulative voting in elections of directors; • permit our board of directors to alter, amend or repeal our bylaws or to adopt new bylaws; • require the request of holders of at least one- third of the outstanding shares of our capital stock entitled to vote at a meeting to call a special shareholders' meeting; • require shareholders that wish to bring business before annual meetings of shareholders, or to nominate candidates for election as directors at our annual meeting of shareholders, to provide timely notice of their intent in writing; • require that certain business combination transactions with a significant shareholder be approved by holders of two- thirds of the shares held by persons other than the significant shareholder; and • enable our board of directors to increase, between annual meetings, the number of persons serving as directors and to fill the vacancies created as a result of the increase by a majority vote of the directors present at a meeting of directors. In addition, certain provisions of Washington law, including a provision which restricts certain business combinations between a Washington corporation and certain affiliated shareholders, may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect " control " of an FDIC- insured depository institution or its holding company. These laws include the BHC Act, the Change in Bank Control Act, and comparable banking laws in the State of Washington. These laws could delay or prevent an acquisition. We are subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage our reputation and otherwise adversely affect our business, financial condition and earnings. Our business requires the collection and retention of large volumes of customer data, including personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services **to customers and partners** . We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. We are subject to complex and increasingly demanding laws and regulations governing the privacy and protection of personal information of individuals (including customers, employees, suppliers and other third parties). For example, our business is subject to the Gramm- Leach- Bliley Act which, among other things: (i) imposes certain limitations on our ability to share nonpublic personal information about our customers with nonaffiliated third parties; (ii) requires that we provide certain disclosures to customers about our information collection, sharing and security practices and afford customers the right to " opt out " of any information sharing by us with nonaffiliated third parties (with certain exceptions); and (iii) requires that we develop, implement and maintain a written comprehensive information security program containing appropriate safeguards based on our size and complexity, the nature and scope of our activities, and the sensitivity of customer information we process, as well as plans for responding to data security breaches. Various state and federal laws and regulations impose data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in certain circumstances in the event of a security breach. Ensuring that our collection, use, transfer and storage of personal information complies with all applicable laws and regulations can increase our costs. ~~Furthermore~~ **While we have implemented a vendor management program with the third- party service providers, to help ensure third party relationships are effectively managed by providing risk- focused controls and processes that are designed to monitor our vendors' compliance with relevant laws, regulations, and industry standards** , we may not be able to ensure that all of our clients, suppliers, counterparties, broker dealers and financial providers in CCBX, and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused (in situations where, for example, such information was erroneously provided to parties who are not permitted to have the information, or where such information was intercepted or otherwise compromised by third parties), we could be exposed to litigation or regulatory sanctions under personal information laws and regulations. Concerns regarding the effectiveness of our measures to safeguard personal information, or even the perception that such measures are inadequate, could cause us to lose customers or potential customers for our products and services and thereby reduce our revenues. Accordingly, any failure or perceived failure to comply with applicable privacy or data protection laws and regulations may subject us to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage our reputation and otherwise adversely affect our business, financial condition and earnings. We are dependent on our information technology and telecommunications systems and third-party service providers; systems failures, interruptions, security breaches and cybersecurity threats could have an adverse effect on our business, financial condition and results of operations. Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party service providers. The failure of these systems, 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 customer business, and / or subject us to additional regulatory scrutiny and possible financial liability, any of which could have an adverse effect on our business, financial condition and results of operations. In the ordinary course of our business, we collect and store sensitive data, including our proprietary business information and that of our customers, suppliers and business partners, as well as personally identifiable information about our customers and employees. The processing that takes place with our strategic partners could potentially have an adverse impact on us in the event of a security breach of their systems. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. We, our customers, and other financial institutions with which we interact, are subject to increasingly frequent, continuous attempts, including ransomware and malware attacks, to penetrate key systems by individual hackers, organized criminals, and in some cases, state- sponsored organizations. Our systems and our third- party service providers' systems have been, and will likely continue to be, subject to advanced computer viruses or other malicious codes, ransomware, unauthorized access attempts, denial of service attacks, phishing, social engineering, hacking and other cyber- attacks. We have ~~a cybersecurity~~ **an Information Security** ~~program~~ **Program** that includes internal / external penetration testing, regular vulnerability assessments, detailed vulnerability management, data loss prevention controls, file access and integrity monitoring and reporting and threat intelligence. While we have established policies and procedures to prevent or limit the impact of cyber- attacks, there can be no assurance that such events will not occur or will be adequately addressed if they do. In addition, we also outsource certain cybersecurity functions, such as penetration testing, to third- party service providers, and the failure of these service providers to adequately perform such functions could increase our exposure to security breaches and cybersecurity threats. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other malicious code and cyber- attacks that could have an impact on information security. Any such breach or attacks could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties; disrupt our operations and the services we provide to customers; damage our reputation; and cause a loss of confidence in our products and services, all of which could adversely affect our business, financial condition and results of operations. Further, to the extent that the activities of our third-party service providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation costs and other possible liabilities **. For further information, see the section titled " Cybersecurity " in Part I, Item 1C of this Annual Report on Form 10- K. As noted above, federal banking agency rules require banking organizations to notify their primary federal regulator of significant security incidents within 36 hours of determining that such an incident has occurred as soon as possible and no later than within 36 hours of a significant cybersecurity incident. Failure to comply with these requirements in the event of such an incident could result in sanctions by regulatory agencies, civil money penalties, and / or damage to our reputation, all of which could have an adverse effect on our business, financial condition and results of operations. Additionally, the SEC recently enacted rules, effective as of December 18, 2023, requiring public companies to disclose material cybersecurity incidents that they experience on Form 8- K within four business days of determining that a material cybersecurity incident has occurred and to disclose on an annual basis material information regarding their cybersecurity risk management, strategy and governance. If we fail to comply with these new requirements we could incur regulatory fines in addition to other adverse consequences to our reputation, business, financial condition and results of operations** . Risks Related to Our Capital and Liquidity Ineffective liquidity management could adversely affect our business, financial condition and results of operations. Effective liquidity management is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities / withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities are 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 are loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might 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. A failure to maintain adequate liquidity could adversely affect our business, financial condition and results of operations. We may need to raise additional capital in the future, and such capital may not be available when needed or at all. We may need to raise additional capital, in the form of additional debt or equity, in the future to have sufficient capital resources and liquidity to meet our commitments and fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial condition. Economic conditions and a loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital or make such capital only available on unfavorable terms, including interbank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, depositors of our bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have an adverse effect on our business, financial condition and results of operations. There may be future sales or other dilution of our equity, which may adversely affect the market price of our securities. We may seek to raise additional capital in the future through equity offerings. The issuance of additional shares of common stock or the issuance of convertible securities would dilute the ownership interest of our existing common shareholders. The market price of our common stock could decline as a result of an equity offering, as well as other sales of a large block of shares of our common stock or similar securities in the market after an equity offering, or the perception that such sales could occur. Both we and our regulators perform a variety of analyses of our assets, including the preparation of stress case scenarios, and as a result of those assessments we could determine, or our regulators could require us, to raise additional capital. Risks Related to Our Industry Regulation of the financial services industry is intense, and we may be adversely affected by changes in laws and regulations. We are subject to extensive government regulation, supervision and examination at both the federal and state level. The Bank' s deposits are insured in whole or in part by the FDIC. The Bank is subject to regulation by the Federal Reserve and the Washington DFI. The Federal Reserve also has supervisory authority over the Company. Such regulation, supervision and examination govern the activities in which we may engage, and are intended primarily for the protection of the deposit insurance fund and the Bank' s depositors, rather than for shareholders. Compliance with applicable laws and regulations can be difficult and costly, and changes to laws and regulations can impose additional compliance costs. The Dodd- Frank Act, which imposed significant regulatory and compliance changes on financial institutions, is an example of this type of federal law. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or the value of collateral for loans. Future legislative changes could also require changes to business practices and potentially expose us to additional costs, liabilities, enforcement action and reputational risk. Federal regulatory agencies have the ability to take strong supervisory actions against financial institutions that have experienced increased loan production and losses and other underwriting weaknesses or have compliance weaknesses. These actions include entering into formal or informal written agreements and cease and desist orders that place certain limitations on their operations. If we were to become subject to a regulatory action, such action could negatively impact our ability to execute our business plan, and result in operational restrictions, as well as our ability to grow, pay dividends, repurchase stock or engage in mergers and acquisitions. See " Item 1. Business — Regulation and Supervision — Bank Regulation and Supervision — Capital Adequacy " for a discussion of regulatory capital requirements. Additional increases in Federal Deposit Insurance Corporation insurance premiums could adversely affect our earnings and results of operations. The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments. The Bank' s regular assessments are determined by the level of its assessment base and its risk classification, which is based on its regulatory capital levels and the level of supervisory concern that it poses, as well as by its usage of brokered deposits. Moreover, the FDIC has the unilateral power to change deposit insurance assessment rates and the manner in which deposit insurance is calculated and also to charge special assessments to FDIC- insured institutions. The FDIC utilized all of these powers during the financial crisis for the purpose of restoring the reserve ratios of the Deposit Insurance Fund, and more recently increased assessment rates to address extraordinary growth in the amount of insured deposits resulting from the COVID- 19 pandemic. Any future special assessments, increases in assessment rates or premiums, or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could adversely affect our business, financial condition, and results of operations. Federal banking agencies periodically conduct examinations of our business, including 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 could adversely affect us. As part of the bank regulatory process, the Federal Reserve and the Washington DFI periodically conduct comprehensive examinations of our business, including compliance with laws and regulations. If, as a result of an examination, either of these banking agencies were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, asset sensitivity, risk management or other aspects of any of our operations had become unsatisfactory, or that our Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. The Federal Reserve may enjoin " unsafe or unsound " practices or violations of law, require affirmative actions to correct any conditions resulting from any violation or practice, issue an administrative order that can be judicially enforced, direct an increase in our capital levels, restrict our growth, assess civil monetary penalties against us, the Bank or their respective officers or directors, and remove officers and directors. The FDIC also has authority to review our financial condition, and, if the FDIC were to conclude that the Bank or its directors were engaged in unsafe or unsound practices, that the Bank was in an unsafe or unsound condition to continue operations, or the Bank or the directors violated applicable law, the FDIC could move to terminate the Bank' s deposit insurance. If we become subject to such regulatory actions, our business, financial condition, and results of operations as well as our reputation could be adversely affected. Many of our new activities and expansion plans require regulatory approvals, and failure to obtain these approvals may restrict our growth. We **may** ~~intend to~~ complement and expand our business by growing our BaaS segment, expanding the Bank' s banking location network, or de novo branching, and pursuing strategic acquisitions of financial institutions and other complementary businesses. Generally, we must receive federal and state regulatory approval before we can acquire a depository institution or related business insured by the FDIC or before we open a de novo branch. In determining whether to approve a proposed acquisition, federal banking regulators will consider, among other factors, the effect of the acquisition on competition, our financial condition, our future prospects, and the impact of the proposal on U. S. financial stability. The regulators also review current and projected capital ratios and levels, the competence, experience and integrity of management and its record of compliance with laws and regulations, the convenience and needs of the communities to be served (including the acquiring institution' s record of compliance under the CRA) and the effectiveness of the acquiring institution in combating money laundering activities. Such regulatory approvals may not be granted on terms that are acceptable to us, or at all. Federal bank regulators have increasingly focused on the risks related to bank and fintech company partnerships, raising concerns regarding risk management, oversight, internal controls, information security, change management **, compliance** , and information technology operational resilience. This focus is demonstrated by recent regulatory enforcement actions against other banks that have allegedly not adequately addressed these concerns while growing their BaaS offerings. We could be subject to additional regulatory scrutiny with respect to our CCBX business that could have a material adverse effect on the business, financial condition, results of operations and growth prospects of the Company. Financial institutions, such as the Bank, face a risk of noncompliance with and enforcement action under the Bank Secrecy Act and other anti- money laundering statutes and regulations. The Bank Secrecy Act, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (" USA PATRIOT Act "), and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti- money laundering program and file suspicious activity and currency transaction reports as appropriate. The Financial Crimes Enforcement Network, established by the Treasury Department to administer the Bank Secrecy Act, has authority to impose significant civil money penalties for violations of these requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration and the Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department' s Office of Foreign Assets Control. In order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti- money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and de novo branching. We are subject to numerous laws designed to promote community reinvestment or protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA requires the Federal Reserve to assess the Bank' s performance in meeting the credit needs of the communities it serves, including low- and moderate- income neighborhoods, and if the Bank performs unsatisfactorily, various adverse regulatory consequences may ensue, including an inability to secure regulatory approval of expansionary transactions or new branches. Additionally, ~~in May~~ **on October 24,** ~~2022~~ **2023 ,** the **FDIC, the** ~~federal~~ **Federal** ~~banking agencies issued~~ **Reserve and the OCC released** a ~~proposed~~ **final** rule **revising the framework that they use to evaluate banks' records of community reinvestment under the CRA** that may make it more challenging and / or costly for insured depository institutions to achieve an " Outstanding " or " Satisfactory " CRA rating, which could negatively impact our ability to obtain regulatory approval for an acquisition. In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The federal banking agencies, the CFPB, the U. S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd- Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are " unfair, deceptive, or abusive " in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. A successful regulatory challenge to an institution' s performance under fair lending laws or regulations, or other consumer 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 an adverse effect on our business, financial condition and results of operations. Federal, state and local consumer lending laws may restrict our ability to originate certain mortgage loans or increase our risk of liability with respect to such loans and could increase our cost of doing business. Federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered " predatory. " These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make. The expanding body of federal, state and local regulations and / or the licensing of loan servicing, collections or other aspects of our business and our sales of loans to third parties may increase the cost of compliance and the risks of noncompliance and subject us to litigation. We service most of our own community bank loans and CCBX partners service most loans originated through them. Loan servicing is subject to extensive regulation by federal, state and local governmental authorities, as well as various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities, including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur additional significant costs to comply with such requirements, which may further adversely affect us. In addition, were we to be subject to regulatory investigation or regulatory action regarding our loan modification and foreclosure practices, our business, financial condition and results of operations could be adversely affected. Our failure to comply with applicable laws and regulations could possibly lead to: civil and criminal liability; loss of licensure; damage to our reputation in the industry; fines and penalties and litigation, including class action lawsuits; and administrative enforcement actions. Any of these outcomes could adversely affect us. The Federal Reserve may require us to commit capital resources to support the Bank. The Federal Reserve requires a bank holding company to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. Under the " source of strength " doctrine that was codified by the Dodd- Frank Act, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank at times when the bank holding company may not otherwise be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to such a subsidiary bank. Under the prompt corrective action regime, if the Bank were to become undercapitalized, we would be required to guarantee the Bank' s plan to restore its capital subject to certain limits. See " Item 1. Business — Regulation and Supervision — Bank Regulation and Supervision — Prompt Corrective Action. " Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress. A capital injection may be required at a time when our resources are limited, and we may be required to borrow the funds or raise capital to make the required capital injection. Any loan by a bank holding company to its subsidiary bank is subordinate in right of payment to deposits and certain other indebtedness of such subsidiary bank. 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 any note obligations. Thus, any borrowing by a bank holding company for the purpose of making a capital injection to a subsidiary bank often becomes more difficult and expensive relative to other corporate borrowings. We could be adversely affected by the soundness 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 clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Any such losses could adversely affect our business, financial condition and results of operations. **Additionally, we may be adversely affected by the soundness of other financial institutions even when we do not have direct or indirect relationships with those institutions. For example, the failures of Silicon Valley Bank, Signature Bank and First Republic Bank in 2023 resulted in significant disruption in the financial services industry and negative media attention, which has also adversely impacted the volatility and market prices of the securities of financial institutions and resulted in outflows of deposits for many financial institutions.** We could be adversely affected by the soundness of our CCBX partners. A growing portion of our revenue, deposits and loans are derived from CCBX partner activities. If our partners are not operating soundly, we may be adversely impacted through decreased revenue, increased ~~loan~~ **credit** losses and reduced deposits. Our CCBX partners originate their loans in compliance with our credit standards and policies. Additionally, partners provide fraud and credit enhancements on many of our CCBX loans. If any CCBX partners encounter operating difficulties, we may experience reduced revenue, increased ~~loan~~ **credit** losses if credit and fraud enhancement obligations are not met, and reduced deposits, which may impact liquidity. Any such losses could adversely affect our business, financial condition and results of operations. General Risk Factors National and global economic and other conditions could adversely affect our future results of operations or market price of our stock. Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, changes in government monetary and fiscal policies and inflation, foreign policy, and financial market volatility, all of which are beyond our control. Global economies continue to face significant challenges to achieving normalized economic growth rates and there are continuing concerns related to the level of U. S. government debt and fiscal actions that may be taken to address that debt. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Any deterioration in the economies of the nation as a whole or in our markets would have an adverse effect, which could be material, on our business, financial condition, results of operations and could also cause the market price of our stock to decline. While it is impossible to predict how long challenging economic conditions may exist, a slow or fragile recovery could continue to present risks into the future for the industry and our company. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, economic conditions in Asia, particularly the economies of China, South Korea and Japan, ~~and~~ **GDP, inflation, higher interest rates, unemployment, global unrest,** the Russian invasion of Ukraine **, conflicts in the Middle East, the political environment, trade issues** and resulting economic impact, can impact the economy and financial markets here in the United States. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, and lower home sales and commercial activity. Further, our business could be adversely affected by the effects of a widespread outbreak of epidemic illness in the human population. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U. S. federal government, its agencies and government- sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have an adverse effect on our business, financial condition and results of operations. We are subject to certain risks in connection with growing through mergers and acquisitions. It is possible that we could acquire other banking institutions, other financial services companies or branches of banks in the future. Acquisitions typically involve the payment of a premium over book and trading values and, therefore, may result in the dilution of our tangible book value per share and / or our earnings per share. Our ability to engage in future mergers and acquisitions depends on various factors, including: (1) our ability to identify suitable merger partners and acquisition opportunities; (2) our ability to finance and complete transactions on acceptable terms and at acceptable prices; and (3) our ability to receive the necessary regulatory and, when required, shareholder approvals. Our inability to engage in an acquisition or merger for any of these reasons could have an adverse impact on the implementation of our business strategies. Furthermore, mergers and acquisitions involve a number of risks and challenges, including our ability to achieve planned synergies and to integrate the branches and operations we acquire, and the internal controls and regulatory functions into our current operations, as well as the diversion of management' s attention from existing operations, which may adversely affect our ability to successfully conduct our business and negatively impact our financial condition and results of operations. We must keep pace with technological change to remain competitive. Financial products and services have become increasingly technology- driven. Our ability to meet the needs of our customers competitively, and in a cost- efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available, as well as related essential personnel. In addition, technology has lowered barriers to entry into the financial services market and made it possible for financial technology companies and other non- bank entities to offer financial products and services traditionally provided by banks. The ability to keep pace with technological change is important, and the failure to do so, due to cost, proficiency or otherwise, could have an adverse impact on our business, financial condition and results of operations. Negative public opinion regarding our company or failure to maintain our reputation in the communities we serve could adversely affect our business, financial condition and results of operations and prevent us from growing our business. As a community bank, our reputation within the communities we serve, including the BaaS space, is critical to our success. We believe we have set ourselves apart from our competitors by building strong personal and professional relationships with our customers and being active members of the communities we serve. As such, we strive to enhance our reputation by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve and delivering superior service to our customers. If our reputation is negatively affected by the actions of our employees or otherwise, we may be less successful in attracting new talent and customers or may lose existing customers, and our business, financial condition and results of operations could be adversely affected. Further, negative public opinion can expose us to litigation and regulatory action and delay and impede our efforts to implement our expansion strategy, which could further adversely affect our business, financial condition and results of operations.