Risk Factors Comparison 2024-03-06 to 2023-03-08 Form: 10-K

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

In recent years, economic growth and business activity across a wide range of industries and regions in the U. S. has been slow and uneven. There are continuing concerns related to the level of U. S. government debt and fiscal actions that may be taken to address that debt, further declining oil prices and ongoing federal budget negotiations that may have a destabilizing effect on financial markets. There can be no assurance that economic conditions will continue to improve, and these conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. Such conditions could have a material adverse effect on the credit quality of our loans or our business, financial condition or results of operations. Additionally, financial markets may be adversely affected by the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, **the Middle East,** terrorism and other geopolitical events. Our success depends, to a certain extent, upon global, domestic and local economic and political conditions, as well as governmental monetary policies. Conditions such as changes in interest rates, money supply, levels of employment and other factors beyond our control may have a negative impact on economic activity. Any contraction of economic activity, including an economic recession, may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. In particular, interest rates are highly sensitive to many factors that are beyond our control, including global, domestic and local economic conditions and the policies of various governmental and regulatory agencies and, specifically, the Federal Reserve. Throughout ~~2022~~ **2023** the Federal Open Market Committee (" FOMC ") raised the target range for the federal funds rate on ~~seven~~ **four** separate occasions **,** ~~and~~ citing ~~factors including the hardships caused by the ongoing Russia- Ukraine conflict, continued global supply chain disruptions and imbalances, and increased~~ inflationary ~~pressure~~ **pressures** ~~-~~**. The last Federal Funds Target rate change occurred on July 26, 2023, and** the FOMC has **since adopted a cautious approach as inflationary pressures have moderated but remain uncertain. Forecasts for 2024** ~~indicated~~ - **indicate** ~~that ongoing~~ **potential interest rate reductions, but persistent inflation may either delay reductions or may call for further rate** increases ~~may be appropriate~~ **by the FOMC** . The tightening of the Federal Reserve' s monetary policies, including ~~repeated and aggressive~~ increases in **the** target range for the federal funds rate as well as the conclusion of the Federal Reserve' s tapering of asset purchases, together with ongoing economic and geopolitical instability, increases the risk of an economic recession. Although forecasts have varied, **the potential of slowing** ~~many economists are projecting that U. S.~~ economic growth ~~will slow~~ and **persistent** inflation **could lead to** ~~will remain elevated in~~ the ~~coming quarters, potentially resulting in a~~ contraction of **the** U. S. gross domestic output in ~~2023~~ **2024** . Any such downturn, especially domestically and in the regions in which we operate, may adversely affect our asset quality, deposit levels, loan demand and results of operations. As a result of the economic and geopolitical factors discussed above, financial institutions also face heightened credit risk, among other forms of risk. Of note, because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral, which, in turn, can adversely affect the value of our loan and investment portfolios. Adverse economic developments, specifically including inflation- related impacts, may have a negative effect on the ability of our borrowers to make timely repayments of their loans or to finance future home purchases. Moreover, while commercial real estate values have stabilized as demand has returned to pre- pandemic levels in several markets, the outlook for commercial real estate remains dependent on the broader economic environment and, specifically, how major subsectors respond to a rising interest rate environment and higher prices for commodities, goods and services. In each case, credit performance over the medium- and long- term is susceptible to economic and market forces and therefore forecasts remain uncertain. Instability and uncertainty in the commercial and residential real estate markets, as well as in the broader commercial and retail credit markets, could have a material adverse effect on our financial condition and results of operations. Declines in home values could decrease our loan originations and increase delinquencies and defaults. Declines in home values in our markets could adversely impact results from operations. Like all financial institutions, we are subject to the effects of any economic downturn, and in particular, a significant decline in home values would likely lead to a decrease in new home equity loan originations and increased delinquencies and defaults in both the consumer home equity loan and residential real estate loan portfolios and result in increased losses in these portfolios. Declines in the average sale prices of homes in our primary markets could lead to higher ~~loan~~ **credit** losses **on loans** . Changes in interest rates could adversely affect our results of operations and financial condition. Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest- earning assets, such as loans and securities, and the interest expense we pay on our interest- bearing liabilities, such as deposits, borrowings and trust preferred securities. ~~Changes~~ **14Changes** in interest rates may also affect the average life of loans and mortgage- related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage- related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates. Changes in interest rates also affect the current fair value of our interest- earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. ~~14We~~ **We** may be impacted by the retirement of London Interbank Offered Rate (“ LIBOR ”) as a reference rate. Many of our lending products, securities, derivatives, and other financial transactions utilize a benchmark rate, such as LIBOR, to determine the applicable interest rate or payment amount. The U. K. Financial Conduct Authority and the ICE Benchmark Administration have announced that the publication of the most commonly used U. S. Dollar LIBOR tenors will cease to be provided or cease to be representative after June 30, 2023. The publication of all other LIBOR settings ceased to be provided or ceased to be representative as of December 31, 2021. The Adjustable Interest Rate (LIBOR) Act (LIBOR Act), enacted in March 2022, provides a statutory framework to replace U. S. Dollar LIBOR with a benchmark rate based on the Secured Overnight Financing Rate (“ SOFR ”) for contracts governed by U. S. law that have no fallbacks or fallbacks that would require the use of a poll or LIBOR- based rate, and in December 2022, the FRB adopted rules which identify different SOFR- based replacement rates for derivative contracts, for cash instruments such as floating- rate notes and preferred stock, for consumer loans, for certain government- sponsored enterprise contracts and for certain asset- backed securities. We continue to monitor market developments and regulatory updates related to the cessation of LIBOR. As the transition from LIBOR is ongoing, there continues to be uncertainty as to the ultimate effect of the transition on the financial markets for LIBOR- linked financial instruments. The discontinuation of a benchmark rate, changes in a benchmark rate, or changes in market perceptions of the acceptability of a benchmark rate, including LIBOR, could, among other things, adversely affect the value of and return on certain of our financial instruments or products, result in changes to our risk exposures, or require renegotiation of previous transactions. In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, increased compliance, legal and operational costs, and risks associated with customer disclosures and contract negotiations. Although the LIBOR Act includes safe harbors if the FRB- identified SOFR- based replacement rate is selected, these safe harbors are untested. As a result, and despite the enactment of the LIBOR Act, for the most commonly used U. S. Dollar LIBOR settings, the use or selection of a successor rate could also expose us to risks associated with disputes with customers and other market participants in connection with implementing LIBOR fallback provisions. Strong competition may limit growth and profitability. Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas. We are subject to physical and financial risks associated with climate change and other weather and natural disaster impacts. The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. Although the U. S. rejoined the Paris Agreement, effective as of February 19, 2021, and the U. S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change, each of which may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, which may require us to expend significant capital and incur compliance, operating, maintenance and remediation costs. Given the lack of empirical data on the credit and other financial risks posed by climate change, it is impossible to predict how climate change may impact our financial condition and operations; however, as a banking organization, the physical effects of climate change on the Bank may present certain unique risks. The physical risks of climate change include discrete events, such as flooding, hurricanes, tornadoes, and wildfires, and longer- term shifts in climate patterns, such as extreme heat, sea level rise, and more frequent and prolonged drought. Physical risks may alter the Company’ s strategic direction in order to mitigate certain financial risks. Our operations are located in Montana and are susceptible to severe weather events including severe droughts, wildfires, floods, severe winter storms and tornadoes. Any of these, or any other severe weather event, could cause disruption to our operations and could have a material adverse effect on our overall business, results of operations or financial condition. We have taken certain preemptive measures that we believe will mitigate these adverse effects; however, such measures cannot prevent the disruption that a catastrophic drought, wildfire, tornado or other severe weather event could cause to the markets that we serve and any resulting adverse impact on our customers, such as hindering our borrowers’ ability to timely repay their loans, diminishing the value of any collateral held by us, interrupting supply chains, causing significant property damage, causing us to incur additional expense or resulting in a loss of revenue, and affecting the stability of our deposit base. The severity and impact of future droughts, wildfires, floods, tornadoes and other weather- related events are difficult to predict and may be exacerbated by global climate change. Such events may also cause reductions in regional and local economic activity that may have an adverse effect on our customers, which could limit our ability to raise and invest capital in these areas and communities, each of which could have a material adverse effect on our financial condition and results of operations. Climate change may worsen the frequency and severity of future droughts, wildfires, floods, tornadoes and other extreme weather- related events that could cause disruption to our business and operations. Chronic results of climate change such as shifting weather patterns could also cause disruption to our business and operations. Climate change may also result in new and / or more stringent regulatory requirements for the Company, which could materially affect the Company’ s results of operations by requiring the Company to take costly measures to comply with any new laws or regulations related to climate change that may be forthcoming. New regulations, shift in customer behaviors, supply chain collapse or breakthrough technologies that accelerate the transition to a lower carbon economy may negatively affect certain sectors and borrowers in our loan portfolio, impacting their ability to timely repay their loans or decreasing the value of any collateral held by us. ~~The~~ **15The** ~~ongoing COVID- 19~~ **emergence or continuation of widespread health emergencies or** ~~pandemic~~ **pandemics** ~~and measures intended to prevent its spread~~ could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict. **Pandemics** ~~While COVID- 19 conditions have improved, past and potential future government actions taken to reduce the spread of the virus have been weighing on the macroeconomic environment, and lingering economic uncertainty and reduced economic activity remains. New strains of the virus~~ could adversely impact our workforce and operations and the operations of our borrowers, customers and business partners. As a result, we may experience financial losses due to a number of operational factors impacting us or our borrowers, customers or business partners. These factors may be prevalent for a significant period of time and may adversely affect our business, results of operations and financial condition even after **an** ~~the COVID- 19~~ outbreak has subsided. ~~Renewed spread of COVID- 19 could cause us to modify our business practices (including restricting employee travel, and developing work from home and social distancing plans for our employees), and we may take further actions if required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There~~ -- **The** ~~is no certainty that such measures would be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities. 15The~~ extent to which **an** ~~the COVID- 19~~ outbreak impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak and its variants, its severity, the actions to contain the virus or treat its impact, the effectiveness of vaccination programs for the virus, vaccination rates, and how quickly and to what extent normal economic and operating conditions can resume. Even after **an** ~~the COVID- 19~~ outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus' s global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future ~~. There are no comparable recent events that provide guidance as to the effect the spread of COVID- 19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described herein~~ . Risks Related to Our Business We hold certain intangible assets that could be classified as impaired in the future. If these assets are considered to be either partially or fully impaired in the future, our earnings and the book values of these assets would decrease. As a result of our branch and whole bank acquisitions we record goodwill. Our consolidated balance sheet at December 31, ~~2022~~ **2023** included goodwill of $ 34. 74 million. We are required to test our goodwill for impairment on a periodic basis. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. It is possible that future impairment testing could result in a partial or full impairment of the value of our goodwill. If an impairment determination is made in a future reporting period, our earnings and the book value of goodwill will be reduced by the amount of the impairment. Risks associated with system failures, interruptions, or breaches of security could negatively affect our earnings. Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security. In addition, we outsource a majority of our data processing to certain third- party providers. If these third- party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations. If the allowance for ~~loan~~ **credit** losses is not sufficient to cover actual ~~loan~~ **credit** losses, our earnings could decrease. Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant ~~loan~~ **credit** losses, which may have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If the assumptions prove to be incorrect, the allowance for ~~loan~~ **credit** losses may not be sufficient to cover **expected** losses ~~inherent~~ in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease net income. Our emphasis on the origination of consumer, commercial real estate and commercial business loans is one of the more significant factors in evaluating the allowance for ~~loan~~ **credit** losses. As we continue to increase the amount of such loans, additional or increased provisions for ~~loan~~ **credit** losses may be necessary and would decrease earnings. Bank regulators periodically review our allowance for ~~loan~~ **credit** losses and may require an increase to the provision for ~~loan~~ **credit** losses or further loan charge- offs. Any increase in our allowance for ~~loan~~ **credit** losses or loan charge- offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition. ~~We~~ **16We** could record future losses on our securities portfolio. A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss exists with respect to our investment securities portfolio that constitutes an impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, continued failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and / or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the issuers deteriorates and there is limited liquidity for these securities. ~~16Changes~~ -- **Changes** in our accounting policies or in accounting standards could materially affect how we report our financial condition and results of operations. Our accounting policies are essential to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the value of our assets or liabilities and financial results. Some of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the Financial Accounting Standards Board and the Securities and Exchange Commission change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our financial statements. These changes are beyond our control, can be hard to predict and could materially impact how we report our results of operations and financial condition. We could also be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements in material amounts. Because we have increased our commercial real estate and commercial business loan originations, our credit risk has increased and continued downturns in the local real estate market or economy could adversely affect our earnings. We intend to continue our recent emphasis on originating commercial real estate and commercial business loans. Commercial real estate and commercial business loans generally have more risk than the residential real estate (1- 4 family) loans we originate. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower' s properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Commercial real estate and commercial business loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. A downturn in the real estate market or the local economy could adversely affect the value of properties securing the loan or the revenues from the borrower' s business, thereby increasing the risk of nonperforming loans. As our commercial real estate and commercial business loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase. Many of our commercial real estate and commercial business loans are made to small- to- mid- sized businesses. These small- to- mid- sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower' s ability to repay a loan. In addition, the success of a small- to- mid- sized business often depends on the management talents and efforts of one or two persons or a small group of persons and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could have an adverse effect on our business, financial condition and results of operations. We continually encounter technological change. The financial services industry is continually undergoing rapid technological change with frequent introductions of new, technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we do. We may not be able to effectively implement new, technology- driven products and services or be successful in marketing these products and services to our customers. In addition, the implementation of technological changes and upgrades to maintain current systems and integrate new ones may also cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws or be vulnerable to cyberattacks. Failure to successfully keep pace with technological change affecting the financial services industry and avoid interruptions, errors and delays could have a material adverse effect on our business, financial condition or results of operations. We expect that new technologies and business processes applicable to the consumer credit industry will continue to emerge, and these new technologies and business processes may be better than those we currently use. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations. We depend on the services of our executive officers and other key employees. Our success depends upon the continued employment of certain members of our senior management team. We also depend upon the continued employment of the individuals that manage several of our key functional areas. The departure of any member of our senior management team may adversely affect our operations. ~~We~~ **17We** earn a significant portion of our noninterest income through sales of residential mortgages in the secondary market. We rely on the mortgage secondary market for some of our liquidity. Our mortgage banking activities provide a significant portion of our noninterest income. We originate and sell mortgage loans, including $ ~~551~~ **344** . ~~02~~ **31** million of mortgage loans sold during ~~2022~~ **2023** . We rely on Federal National Mortgage Association (" FNMA "), Federal Home Loan Mortgage Corporation (" FHLMC ") and other purchasers to purchase loans in order to reduce our credit risk and provide funding for additional loans we desire to originate. We cannot provide assurance that these purchasers will not materially limit their purchases from us due to capital constraints or other factors, including, with respect to FNMA and FHLMC, a change in the criteria for conforming loans. In addition, various proposals have been made to reform the U. S. residential mortgage finance market, including the role of FNMA and FHLMC. The exact effects of any such reforms are not yet known ~~,~~ but may limit our ability to sell conforming loans to FNMA and FHLMC. In addition, mortgage lending is highly regulated, and our inability to comply with all federal and state regulations and investor guidelines regarding the origination, underwriting documentation and servicing of mortgage loans may also impact our ability to continue selling mortgage loans. If we are unable to continue to sell loans in the secondary market or we experience a period of low mortgage activity, our noninterest income as well as our ability to fund, and thus originate, additional mortgage loans may be adversely affected, which could have a material adverse effect on our business, financial condition or results of operations. ~~17There~~ -- **There** can be no assurance we will be able to continue paying dividends on our common stock at recent levels. We may not be able to continue paying quarterly dividends commensurate with recent levels given that the ability to pay dividends on our common stock depends on a variety of factors. The payment of dividends is subject to government regulation in that the regulatory authorities may prohibit banks and bank holding companies from paying dividends that would constitute an unsafe or unsound banking practice. Our ability to pay dividends is subject to certain regulatory requirements. The Federal Reserve generally prohibits a bank holding company from declaring or paying a cash dividend which would impose undue pressure on the capital of a subsidiary bank or would be funded only through borrowing or other arrangements that might adversely affect a bank holding company' s financial position. The Federal Reserve Board policy is that a bank holding company should not continue its existing rate of cash dividends on its common stock unless its net income is sufficient to fully fund each dividend and its prospective rate of earnings retention appears consistent with its capital needs, asset quality and overall financial condition. The power of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to statutory and regulatory restrictions which limit the amount available for such distribution depending upon the earnings, financial condition and cash needs of the institution, as well as general business conditions. As a result, future dividends will generally depend on the level of earnings at the Bank. The Bank is subject to Montana law and, in certain circumstances, Montana law places limits or restrictions on a bank' s ability to declare and pay dividends. Also, in the event there shall occur an event of default on any of our debt instruments, we would be unable to pay any dividends on our common stock. Our business strategy includes significant growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. We intend to pursue an organic growth strategy for our business; however, we regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches, the risk of loss of customers and / or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction' s anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management' s attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls and may subject us to additional regulatory scrutiny. Our growth initiatives may also require us to recruit and retain experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets. If we do not successfully execute our acquisition growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth. ~~We~~ **18We** may be unsuccessful in integrating the operations of the business we have acquired or expect to acquire in the future. From time to time, we evaluate and acquire businesses that we believe complement our existing business. The acquisition component of our growth strategy depends on the successful integration of these acquisitions. We face numerous risks and challenges to the successful integration of acquired businesses, including the following: ● the potential for unexpected costs, delays and challenges that may arise in integrating acquisitions into our existing business; ● limitations on our ability to realize the expected cost savings and synergies from an acquisition; ● challenges related to integrating acquired operations, including our ability to retain key employees and maintain relationships with significant customers and depositors; ● challenges related to the integration of businesses that operate in new geographic areas, including difficulties in identifying and gaining access to customers in new markets; and ● the discovery of previously unknown liabilities following an acquisition associated with the acquired business. If we are unable to successfully integrate the businesses we acquire, our business, financial condition and results of operations may be materially adversely affected. Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis. A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements. ~~18Changes~~ -- **Changes** in interest rates may change the value of our mortgage servicing rights portfolio, which may increase the volatility of our earnings. As a result of our mortgage servicing business, which we may expand in the future, we have a portfolio of mortgage servicing rights (" MSR ") assets. An MSR is the right to service a mortgage loan- collect principal, interest and escrow amounts- for a fee. We measure and carry all of our residential MSR assets using the fair value measurement method. Fair value is determined as the present value of estimated future net servicing income, calculated based on a number of variables, including assumptions about the likelihood of prepayment by borrowers. Current trends of rising interest rates have resulted in an increased valuation of the MSR asset, however one of the principal risks associated with MSR assets is that in a declining interest rate environment, they will likely lose a substantial portion of their value as a result of higher than anticipated prepayments. Moreover, if prepayments are greater than expected, the cash we receive over the life of the mortgage loans would be reduced. An increased size of our MSR portfolio could result in us carrying significant asset balances. This could result in a reduction in our liquidity and cause a reduction in our capital ratios. The combination of these impacts along with other impacts, could cause us to not have sufficient liquidity or capital. At December 31, ~~2022~~ **2023** , our MSR asset had a fair value of $ 15. ~~41~~ **85** million. All income related to retained servicing, including changes in the value of the MSR asset, is included in noninterest income. Depending on the interest rate environment and market trends related to MSR sales, it is possible that the fair value of our MSR asset may be reduced in the future. If such changes in fair value significantly reduce the carrying value of our MSR asset, our financial condition and results of operations would be negatively affected. Farmland and agriculture production lending presents unique credit risk. As of December 31, ~~2022~~ **2023** , approximately ~~17~~ **18** . ~~73~~ **05** % of our total gross loan portfolio was comprised of farmland and agricultural production loans. As of December 31, ~~2022~~ **2023** , we had $ ~~240~~ **267** . ~~37~~ **89** million in farmland and agricultural production loans, including $ ~~136~~ **142** . ~~33~~ **59** million in farmland loans, and $ ~~104~~ **125** . ~~04 million~~ **30million** in agricultural production loans. Repayment of farmland and agricultural production loans depends primarily on the successful raising and feeding of livestock or planting and harvest of crops and marketing the harvested commodity. Collateral securing these loans may be a illiquid. In addition, the limited purpose of some agricultural- related collateral affects credit risk because such collateral may have limited or no other uses to support values when loan repayment problems emerge. Our farmland and agricultural production lending staff have specific technical expertise that we depend on to mitigate our lending risks for these loans and we may have difficulty retaining or replacing such individuals. Many external factors can impact our agricultural borrowers' ability to repay their loans, including adverse weather conditions, water issues, commodity price volatility, diseases, land values, production costs, changing government regulations and subsidy programs, changing tax treatment, technological changes, labor market shortages / increased wages, and changes in consumers' preferences, over which our borrowers may have no control. These factors, as well as recent volatility in certain commodity prices could adversely impact the ability of those to whom we have made farmland and agricultural production loans to perform under the terms of their borrowing arrangements with us, which in turn could result in credit losses and adversely affect our business, financial condition and results of operations. ~~Consumers~~ **19Consumers** may decide not to use banks to complete their financial transactions. Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general purpose reloadable prepaid cards. Consumers can also complete transactions such as paying bills and / or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. Rights Related to the Legal and Regulatory Environment We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. The Bank Secrecy Act, the 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 federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those 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 IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including any future acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have an adverse effect on our business, financial condition and results of operations. We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations. We are subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve Board and the Montana Division of Banking and Financial Institutions. The federal banking laws and regulations govern the activities in which we may engage and are primarily for the protection of depositors and the Deposit Insurance Fund at the FDIC. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank' s operations, reclassify assets, determine the adequacy of a bank' s allowance for ~~loan~~ **credit** losses and determine the level of deposit insurance premiums assessed. Any change in such regulation and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Future legislation, regulatory reform or policy changes under the current U. S. administration could have a material effect on our business and results of operations. New legislation, regulatory reform or policy changes under the current U. S. administration, including financial services regulatory reform, tax reform, and GSE reform, could impact our business. At this time, we cannot predict the scope or nature of these changes or assess what the overall effect of such potential changes could be on our results of operations or cash flows. ~~19If~~ **If** our investment in the Federal Home Loan Bank of Des Moines becomes impaired, our earnings and shareholders' equity could decrease. We are required to own common stock of FHLB to qualify for membership in the FHLB System and to be eligible to borrow funds under the FHLB' s advance program. The aggregate cost of our FHLB common stock as of December 31, ~~2022~~ **2023** was $ ~~5~~ **9** . ~~09~~ **19** million. FHLB common stock is not a marketable security and can only be redeemed by the FHLB. FHLB' s may be subject to accounting rules and asset quality risks that could materially lower their regulatory capital. In an extreme situation, it is possible that the capitalization of a FHLB, including the FHLB of Des Moines, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in FHLB of Des Moines common stock could be deemed impaired at some time in the future, and if this occurs, it would cause our earnings and shareholders' equity to decrease by the amount of the impairment charge. **20A continuation of recent turmoil in our industry, and responsive measures to manage it, could have an adverse effect on our financial position or results of operations. Over the past year, several financial services institutions have failed or required outside liquidity support — in many cases, as a result of the inability of the institutions to obtain needed liquidity. The impact of this situation has led to risk of additional stress to other financial services institutions and the financial services industry generally as a result of increased lack of confidence in the financial sector. U. S. regulators have taken action in an effort to strengthen public confidence in the banking system, including the creation of a new Bank Term Funding Program. There can be no assurance that these actions will stabilize the financial services industry and financial markets. While we currently do not anticipate liquidity constraints of the kind that caused certain other financial services institutions to fail or require external support, constraints on our liquidity could occur as a result of unanticipated deposit withdrawals because of market distress or our inability to access other sources of liquidity, including through the capital markets due to unforeseen market dislocations or interruptions. Moreover, some of our customers may become less willing to maintain deposits at the Bank because of broader market concerns with the level of insurance available on those deposits. Our business and our financial condition and results of operations could be adversely affected by continued soundness concerns regarding financial institutions generally and our counterparties specifically and limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system as impact of excessive deposit withdrawals.** ITEM 1B. UNRESOLVED STAFF COMMENTS.