Risk Factors Comparison 2024-02-28 to 2023-02-28 Form: 10-K

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In addition to other information contained in this Report that may affect us, the risk factors described below, as well as any cautionary language in this Report, provide examples of risks, uncertainties, and events that could have a material adverse effect on our business, including our operating results and financial condition. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially or adversely affect our business, financial condition, and results of operations. The value or market price of our common stock could decline due to any of these identified or other unidentified risks. Risks Related to Our Business ~~We may fail to realize all of the anticipated benefits~~ **Changes and instability in economic conditions, geopolitical matters and financial markets** , including **a contraction** ~~estimated cost savings,~~ of ~~our acquisition of GrandSouth~~ **economic activity, could adversely impact** ~~or~~ **our** ~~other potential future acquisitions~~ **business, results of operations and financial condition** . ~~The~~ **Our** success ~~of our acquisition of GrandSouth, which was consummated on January 1, 2023, will depend~~ **depends** ~~on~~ , ~~among other things, the ability to continue to successfully complete the integration of the two~~ - **to** ~~companies. Developing successful synergy has demanded and will continue to demand, significant commitments of time, energy and resources from our management and directors, which can be detrimental to the performance of their other responsibilities. If we are unable to achieve the desired levels of integration and synergy, the anticipated benefits of the acquisition may not be realized fully or at all, or may take longer than expected to be realized. There is no guarantee that we will be able to successfully integrate the businesses of the Company and GrandSouth. Combining the two companies may be more difficult, costly or time- consuming than expected and the anticipated benefits and cost savings of the GrandSouth acquisition may not be realized. The success of the GrandSouth acquisition, including anticipated benefits and cost savings, will depend, in part, on the Company' s ability to successfully combine and integrate the businesses of the Company and GrandSouth in~~ a **certain extent, upon global, domestic** ~~manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. Integration of an~~ **and local economic** ~~acquired business can be complex~~ and **political conditions** ~~costly, including combining relevant accounting and data processing systems and management controls~~ , as well as ~~managing relevant relationships~~ **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 and 2023, the FOMC raised the target range for the federal funds rate on eleven separate occasions, citing factors including the hardships caused by the ongoing Russia- Ukraine conflict, continued global supply chain disruptions and imbalances, and increased inflationary pressure. 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 ~~employees~~ **ongoing economic and geopolitical instability** , ~~clients, suppliers~~ **have increased the risk of** ~~and~~ - **an economic recession. Although forecasts have varied, many economists are projecting that, while indicators of U. S. economic performance, such as income growth, may be strong and levels of inflation may continue to decrease,** ~~other~~ - - **the** ~~business~~ **U. S. economy may be flat or experience a modest decrease in gross domestic output in 2024 while inflation is expected to remain elevated relative to historic levels in the coming** ~~partners~~ - **quarters** . ~~Integration efforts~~ **Any such downturn in economic output, especially domestically and in the markets in which we operate, may adversely affect our asset quality, deposit levels, loan demand and results of operations. Recessionary conditions and economic factors** could ~~divert management attention~~ **result in heightened credit risk** and ~~resources,~~ **increases in our level of nonperforming loans** which could adversely ~~affect~~ **impact** our **results of operations and** financial condition ~~and results of operations~~ . **As a** ~~It is possible that the integration process could~~ result ~~in~~ **of the economic and geopolitical factors discussed above, we also face heightened credit risk, among** ~~the~~ **other** ~~loss~~ **forms** of **risk** ~~key employees, the disruption of either company' s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company' s ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the acquisition~~ . ~~The loss~~ **As we have a significant amount** of ~~key employees~~ **real estate loans, decreases in real estate values** could adversely affect the **value of property used as collateral** ~~Company' s ability to successfully conduct its business~~ , which ~~could have~~ **, in turn,** ~~an~~ **can** ~~adverse effect on the Company' s financial results and the value of our common stock. As with any merger of financial institutions, there also may be business disruptions that cause us to lose customers or cause customers to remove their accounts and move their business to competing financial institutions. The lingering economic impact of the COVID- 19 pandemic combined with the current inflationary pressures could~~ adversely affect **the value** ~~our financial condition and results~~ of ~~operations~~ **our loan and investment portfolios** . ~~The COVID~~ **While CRE values continue to fluctuate, some markets are showing signs of stabilizing prices. However, the outlook for CRE 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. Credit performance over the medium** - ~~19 pandemic caused significant~~ **and long- term is susceptible to** economic ~~disruption throughout the United States. Although the economic activity has improved~~ and **market forces** ~~there is growth in demand for goods~~ and **therefore forecasts remain** ~~services, the lingering~~

~~impact the COVID- 19 pandemic has created certain~~ **uncertain** ~~adverse and persistent macroeconomic consequences, including labor shortages and disruptions of global supply chain, which may continue for some time and which have contributed to rising inflationary pressures and the risk of recession~~ . **Instability** ~~As a result of the lingering impact of the COVID- 19 pandemic and the related adverse economic consequences, we could be subject to the following risks, among others, any of which individually or in combination with others could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: • Demand for our products and services may decline, making it difficult to grow assets and income; • If we have high levels of unemployment for an~~ **and uncertainty** ~~extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting~~ in ~~increased charges~~ **the commercial** and **residential** ~~reduced income; • Collateral for loans, especially~~ real estate **markets** , ~~may decline in value, which could cause loan losses to increase; • Limitations may be placed on our ability to foreclose on properties we hold~~ as ~~collateral; • Our ACL may have to be increased if borrowers experience financial difficulties which will~~ **well as in** ~~adversely affect our net income; • The net worth and liquidity of loan guarantors may decline, impairing their~~ -- **the broader commercial** ~~ability to honor commitments to us; • Our cybersecurity risks are increased if employees work remotely; • We rely on third- party vendors for certain services and the unavailability of a critical service could have an~~ **and** ~~adverse effect on us; and • DIC premiums may increase if the FDIC experiences additional resolution costs. Unfavorable economic conditions could adversely affect our business. Our business is subject to periodic fluctuations based on national, regional, and local economic conditions. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on our operations and financial condition. Our banking operations are primarily locally oriented and community- based. Our~~ retail **credit** ~~and commercial banking activities are primarily concentrated within the same geographic footprint. Worsening economic conditions within our~~ markets **,** could have a material adverse effect on our financial condition ~~,~~ **and** results of operations ~~, and cash flows. Accordingly, we expect to continue to be dependent upon local business conditions as well as conditions in the local residential and commercial real estate markets we serve. Unfavorable changes in unemployment, real estate values, interest rates, and other factors could weaken the economies of the communities we serve. While economic growth and business activity has been generally favorable in our market area in recent years, there can be no assurance that economic conditions will persist, and these conditions could worsen. Unfavorable global economic conditions may have a negative impact on financial markets and could adversely impact our customers, which in turn could lead to lower business activity and higher loan delinquencies. Additionally, financial markets may be adversely affected by the current or anticipated impact of military conflict, including continuing hostilities between Russia and Ukraine, terrorism or other geopolitical events. Weakness in any of our market areas could have an adverse impact on our earnings, and consequently our financial condition and capital adequacy~~ . Inflation can have an adverse impact on our customers and their ability to repay. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. ~~Recently~~ **In 2023 and 2022** , there **was** ~~has been~~ a pronounced rise in inflation and the Federal Reserve ~~has~~ raised certain benchmark interest rates in an effort to combat this trend. ~~Our~~ **While the inflation rate has responded favorably to actions taken by the Federal Reserve, our** customers may ~~also~~ **continue** be affected by inflation **pressures** and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us **or to finance future home purchases** . ~~Cybersecurity incidents~~ **Focus on commercial loans may increase the risk of substantial credit losses. We offer a variety of loan products, including residential mortgage, consumer, construction, and commercial loans, with a majority of our portfolio consisting of commercial and industrial loans and commercial loans secured by commercial real estate. Future growth or acquisitions of banks with a portfolio composition different from ours** could ~~disrupt~~ **cause our portfolio mix to change. Commercial lending generally involves more risk than mortgage and consumer lending because loan balances are greater, and the borrower' s ability to repay is contingent on the successful operation of a** business **.Risk** of loan defaults is unavoidable in the banking industry.We attempt to limit exposure to this risk by monitoring carefully the amount of loans in specific industries and by exercising prudent lending practices.However,the risk that substantial credit losses could result in reduced earnings or losses cannot be eliminated.The Company' s focus on lending to small- to mid- sized community- based businesses may increase its credit risk.Most of our commercial business and commercial real estate loans are made to small business or middle- market customers.These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions.Additionally,these loans may increase concentration risk as to industry or collateral securing our loans.If general economic conditions in the market areas in which we operate negatively impact this customer sector,our results of ~~operations and~~ operations ~~, result in the loss of critical~~ and ~~confidential information, and~~ **financial condition may be** adversely **affected** ~~impact our reputation and results of operations~~ . **Further** ~~Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to sophisticated and targeted measures known as advanced persistent threats~~ , ~~directed at~~ **the deterioration of borrowers' businesses may hinder their ability to repay their loans with** the Company **, which could** ~~and / or its third party service providers. While we~~ have **a** ~~experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been~~ material **adverse effect** ~~to the Company. Although we employ comprehensive measures to prevent, detect, address, and mitigate these threats (including access controls, employee training, data encryption, vulnerability assessments, continuous monitoring of our networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending~~ on ~~their nature and scope, could potentially result in the misappropriation, destruction, corruption or~~ **our financial condition** ~~unavailability of critical data~~ and ~~confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, and increased cybersecurity protection and remediation costs, which in turn could materially adversely affect our~~ results of operations. Our ACL may not be adequate to cover actual losses. CECL requires that credit deterioration is reflected in the income statement in the period of origination or acquisition of a loan, with changes in expected credit losses due to further credit deterioration or improvement reflected in the periods in which the expectation changes. CECL also requires significant management judgment that is supported by models, assumptions, and data elements which may be subjective in nature or, as in the case of macroeconomic forecasts, be volatile from period to period. This is expected to increase the complexity and associated **model assumption** risk, particularly in times of economic uncertainty or other unforeseen circumstances, which could impact the Company' s results of operations and capital levels. CECL provides significant flexibility and requires a high degree of judgment with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses. It also may result in small changes to future forecasts having a significant impact on the ACL, which could make the ACL more volatile. Because of the extensive use of estimates and assumptions, our actual loan losses could differ, possibly significantly, from our estimate and it is possible that the ACL will need to be increased for changes in economic forecasts, credit deterioration, or that regulators will require us to increase this allowance. An increase in the ACL could materially and adversely affect our earnings and profitability. ~~Recessionary~~ **We** are subject to interest rate risk,which could negatively impact earnings.Net interest income is the most significant component of our earnings.Our net interest income results from the difference between the yields we earn on our interest- earning assets,primarily loans and investments,and the rates that we pay on our interest- bearing liabilities,primarily deposits and borrowings.When interest rates change, ~~and in particular during periods of rapid rate movements as experienced in 2022,~~ the yields we earn on our interest- earning assets and the rates we pay on our interest- bearing liabilities do not necessarily move in tandem with each other because of the difference between their maturities and repricing characteristics **and which** ~~.This mismatch~~ can negatively impact net interest income ~~if the margin between~~ **.Interest rates are highly sensitive to many factors that are beyond our control,including general economic** conditions **and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but such changes** could ~~result in~~ **also affect (i) our ability to originate loans and obtain deposits; (ii) the fair value of our financial assets and liabilities; and (iii) the average duration of our mortgage portfolio and other interest- earning assets. In January 2022, due to elevated levels of inflation and corresponding pressure to raise interest rates, the Federal Reserve announced after several periods of historically low federal funds rates and yields on Treasury notes that it would be slowing the pace of its bond purchasing and increasing the target range for the federal funds rate over time. Therefore, the FOMC increased the target range eleven times throughout 2022 and 2023. As of December 31, 2023, the target range for the federal funds rate had been increased to 5. 25 %- 5. 50 %. It remains uncertain whether the FOMC will further** ~~increases~~ - **increase** ~~in~~ **the target range for the federal funds rate to attain a monetary policy sufficiently restrictive to return inflation to more normalized levels, begin to reduce the federal funds rate** ~~our~~ - **or leave the rate at its current elevated** level **for a lengthy period** of ~~nonperforming~~ **time. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on** loans and ~~/~~ **other investments, as experienced in 2023,** ~~or~~ **our net interest income, and therefore earnings, will generally be adversely affected. Earnings could also be adversely affected if the interest rates received on our loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Although management believes it has implemented effective asset and liability management strategies to** reduce ~~demand for~~ **the potential effects of changes in interest rates on** our ~~products and services~~ **results of operations** , ~~which~~ **any substantial, unexpected, prolonged change in market interest rates** ~~would~~ **could have a material adverse effect on our financial** ~~lead to lower revenue, higher loan losses and lower earnings. Recessionary conditions~~ - **condition** and ~~/ or continued negative developments in the~~ **results of operations, and any related economic downturn, especially** ~~domestic~~ **domestically** and **in** ~~international credit markets may significantly affect~~ the markets in which we **operate** ~~do business~~ , ~~the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in our levels of nonperforming and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and~~ may adversely affect our ~~inflation~~ **asset quality** , ~~recession~~ **deposit levels** , ~~unemployment trends~~ **loan demand and results of operations.Also** , **our interest rate risk modeling techniques and assumptions likely may not fully predict or capture** the **impact of actual interest rate changes on our balance sheet** ~~Federal Reserve' s monetary policy,domestic and international disorder,and instability in domestic and foreign financial markets~~ .Our financial instruments expose us to certain market risks,including changing interest rates,and may increase the volatility of AOCI and total equity.We hold certain financial instruments measured at fair value,primarily our AFS investments securities.For those financial instruments measured at fair value,we are required to recognize the changes in the fair value of such instruments in AOCI each quarter which impacts our total equity.Fair value can be affected by a variety of factors,many of which are beyond our control,including our credit position,interest rate volatility, ~~capital markets volatility,and other economic factors.Accordingly,the application~~ capital **markets volatility** , **and other economic factors. Accordingly, the application of fair value accounting for our AFS securities may cause AOCI and total equity to be more volatile than would be suggested by our underlying performance.** ~~liquidity~~ **Liquidity** ~~,~~ **risk could impair our ability to fund operations** and **jeopardize our** financial condition **. Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments, and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through from these or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms which are acceptable to us, could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include adverse regulatory action against us or a decrease in the**

level of our business activity as a result of a downturn in the markets in which our loans are concentrated. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations or deterioration in credit markets. The proportion of our deposit account balances that exceed FDIC insurance limits may expose the Bank to enhanced liquidity risk in times of financial distress. In its assessment of the bank failures occurring in the first and second quarters of 2023, the FDIC concluded that a significant contributing factor to the failures of the institutions was the proportion of the deposits held by each institution that exceeded FDIC insurance limits. Uninsured deposits historically have been viewed by the FDIC as less stable than insured deposits. In July 2023, the federal banking agencies issued an interagency policy statement to underscore the importance of robust liquidity risk management and contingency funding planning. In the policy statement, the regulators noted that banks should maintain actionable contingency funding plans that take into account a range of possible stress scenarios, assess the stability of their funding and maintain a broad range of funding sources, ensure that collateral is available for borrowing, and review and revise contingency funding plans periodically and more frequently as market conditions and strategic initiatives change. If a significant portion of our deposits were to be withdrawn within a short period of time such that additional sources of funding would be required to meet withdrawal demands, the Company may be unable to obtain funding at favorable terms, which may have an adverse effect on our net interest margin. Moreover, obtaining adequate funding to meet our deposit obligations may be more challenging during periods of elevated prevailing interest rates, such as the present period. Our ability to attract depositors during a time of actual or perceived distress or instability in the marketplace may be limited. Further, interest rates paid for borrowings generally exceed the interest rates paid on deposits. This spread may be exacerbated by higher prevailing interest rates. In addition, because our AFS investment securities lose value when interest rates rise, after- tax proceeds resulting from the sale of such assets may be diminished during periods when interest rates are elevated. For additional information regarding uninsured deposits and liquidity, see Deposits and Liquidity sections of 2023 MD & A Item 7 following. Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations. Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to sophisticated and targeted measures known as advanced persistent threats, directed at us and / or our third party service providers. While we have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Although we employ comprehensive measures to prevent, detect, address, and mitigate these threats (including access controls, employee training, data encryption, vulnerability assessments, continuous monitoring of our networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of our business operations. Any successful cyberattack may subject us to regulatory investigations, litigation (including class action litigation) or enforcement, or require the payment of regulatory fines or penalties or undertaking costly remediation efforts with respect to third parties affected by a cybersecurity incident, all or any of which could adversely affect our business, financial condition or results of operations and damage our reputation. In addition, we cannot guarantee that any costs and liabilities incurred in relation to an attack or incident will be covered by our existing insurance policies or that applicable insurance will be available to us in the future on economically reasonable terms or at all. Information security risks for financial institutions continue to increase in part because of new technologies, the increased use of the internet and telecommunications technologies (including mobile devices and cloud computing) to conduct financial and other business transactions, political activism, and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. We rely on computer systems, hardware, software, technology infrastructure and online sites and networks for both internal and external operations that are critical to our business. Operational risk related to cyberattacks is increasing as cyberattacks evolve and have a greater and more pervasive economic impact. In addition to cyberattacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against financial institutions designed to disrupt key business services, such as customer- facing web sites. Critical infrastructure sectors, including financial services, increasingly have been the targets of cyberattacks, including attacks emanating from foreign countries. Cyberattacks involving financial institutions, including distributed denial of service attacks designed to disrupt external customer-facing services, nation state cyberattacks and ransomware attacks designed to deny organizations access to key internal resources or systems or other critical data, as well as targeted social engineering and phishing email and text message attacks designed to allow unauthorized persons to obtain access to an institution' s information systems and data or that of its customers, are becoming more common and increasingly sophisticated. Further, threat actors are increasingly seeking to target vulnerabilities in software systems (including bugs, vulnerabilities in third- party systems or software and technical misconfigurations in hardware and software) and weak authentication controls used by large numbers of banking organizations in order to conduct malicious cyber activities. These types of attacks have resulted in increased supply chain and third- party risk. Because the methods of cyberattacks change frequently or, in some cases, are not recognized until launch, we are not able to anticipate or implement effective preventive measures against all possible security breaches and the probability of a successful attack cannot be predicted. Although we employ detection and response mechanisms designed to contain and mitigate security incidents, early detection may be thwarted by persistent sophisticated attacks and malware designed to avoid detection. Our inability to prevent, detect, and respond to cyberattacks may lead to reputational damage, litigation with third parties, and increased cybersecurity protection and

remediation costs, which in turn could materially adversely affect our results of operations. From time to time, we engage in acquisitions, including acquisitions of depository institutions. The integration of core systems and processes for such transactions often occurs after the closing, which may create elevated risk of cyber incidents. We may be subject to the data risks and cyber security vulnerabilities of the acquired company until we have sufficient time to fully integrate the acquiree' s customers and operations. Although comprehensive due diligence of cybersecurity policies, procedures and controls of our acquisition counterparties is performed, and we maintain adequate policies, procedures, controls and information security protocols to facilitate a successful integration, there can be no assurance that such measures, controls and protocols are sufficient to withstand a cyberattack or other security breach with respect to the companies we acquire, particularly during the period of time between the transaction closing and final integration. In the normal course of business, we process large volumes of transactions involving millions of dollars. If our internal controls fail to work as expected, we could experience significant losses. We process large volumes of transactions on a daily basis involving millions of dollars and are exposed to numerous types of operational risk, including the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk also includes potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards. We establish and maintain systems of internal operational controls that provide us with timely and accurate information about our level of operational risk. These systems have been designed to manage operational risk at appropriate, cost- effective levels. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. We continually monitor and improve our internal controls, data processing systems, and corporate- wide processes and procedures, but there can be no assurance that future losses will not occur. Lack of system integrity or credit quality related to funds settlement could result in a financial loss. We settle funds on behalf of financial institutions, other businesses and consumers and receive funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions we facilitate include wire transfers, debit card, credit card and electronic bill payment transactions, supporting consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties and the facilitation of the payment. If the continuity of our operations or integrity of our processing were compromised, this could result in a financial loss to us due to a failure in payment facilitation. In addition, we may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to us . We are subject to extensive regulation, which could have an adverse effect on our operations. The Bank is subject to extensive regulation and supervision from the Commissioner and the Federal Reserve. This regulation and supervision is intended primarily to enhance the safe and sound operation of the Bank and for the protection of the DIF and our depositors and borrowers, rather than for holders of our equity securities and creditors. In the past, our business has been materially affected by these regulations. This trend is likely to continue in the future. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of our assets, and the determination of the level of ACL. Changes in the regulations that apply to us, or changes in our compliance with regulations, could have a material impact on our operations. We face a risk of noncompliance with the BSA and other AML statutes and regulations and related enforcement actions. The BSA, the Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti- money laundering programs and file suspicious activity and currency transaction reports as appropriate. The FINCEN, established by the Treasury to administer the BSA, 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 with the U. S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. There is also increased scrutiny of compliance with the rules enforced by the OFAC. Federal and state bank regulators also focus on compliance with BSA and AML regulations. If our policies, procedures, and systems are deemed deficient or the policies, procedures, and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans, which would negatively impact our business, financial condition, and results of operations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing also could have serious reputational consequences for us **. We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties. Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB, and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our CRA rating and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on or delays in approving merger and acquisition activity, and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition, and results of operations. Recent volatility in the banking sector, triggered by the bank failures occurring in 2023 may result in legislative initiatives, agency rulemaking activities, or changes in agency policies and priorities that could subject the Company and the Bank to enhanced government regulation and supervision. Investor and customer confidence in the banking sector, particularly with regard to mid- size and larger regional banking organizations, waned in response to the failures of Silicon Valley Bank, Signature Bank and First Republic Bank in early**

2023. Congress and the federal banking agencies have and continue to evaluate the events leading to these bank failures. Legislators and the leadership of the federal banking agencies noted that inadequate prudential regulation of regional banking organizations (generally, institutions with less than $ 250 billion in total assets), insufficient supervision of such organizations, poor management and inadequate risk management practices, specifically including interest rate and liquidity risks in consideration of each institution' s business model, and substantial uninsured deposit liabilities were causes of the failures. Further evaluation of recent developments in the banking sector may lead to governmental initiatives intended to prevent future bank failures and stem significant deposit outflows from the banking sector, including (i) legislation aimed at preventing similar future bank runs and failures and stabilizing confidence in the banking sector over the long term, (ii) agency rulemaking to modify and enhance relevant regulatory requirements, specifically with respect to liquidity risk management, deposit concentrations, capital adequacy, stress testing and contingency planning, and safe and sound banking practices, and (iii) enhancement of the agencies' supervision and examination policies and priorities. Although we cannot predict which initiatives may be pursued by lawmakers and regulators, any of the potential initiatives if implemented could subject us to additional costs, limit the types of financial services and products we may offer, and limit our future growth, any of which could materially and adversely affect our business, results of operations or financial condition. We might be required to raise additional capital in the future, but that capital may not be available or may not be available on terms acceptable to us when it is needed. We are required to maintain adequate capital levels to support our operations. In the future, we might need to raise additional capital to support growth, absorb loan losses, or meet more stringent capital requirements. Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot be certain of our ability to raise additional capital in the future if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to conduct our business could be materially impaired . Consumers 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, known as " disintermediation, " 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. Negative public opinion regarding our Company and the financial services industry in general, could damage our reputation and adversely impact our earnings. Reputation risk, or the risk to our business, earnings, and capital from negative public opinion regarding our Company and the financial services industry in general, is inherent in our business. Negative public opinion can result from actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Although we have taken steps to minimize reputation risk in dealing with our clients and communities, this risk always will be present given the nature of our business. The soundness of other financial institutions could adversely affect us. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, and investment banks. Defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. We are subject to interest rate risk,...... condition and results of operations. We could experience losses due to competition with other financial institutions and non-banks. We face substantial competition in all areas of our operations from a variety of different competitors, both within and beyond our principal markets, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and internet banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including, without limitation, thrifts, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries, such as online lenders and banks. The financial services industry could become even more competitive as a result of legislative and regulatory changes and continued consolidation. In addition, as customer preferences and expectations continue to evolve, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Our ability to compete successfully depends on a number of factors, including, among other things: • the ability to develop, maintain, and build upon long- term customer relationships based on top quality service, high ethical standards, and safe, sound assets; • the ability to expand our market position; • the scope, relevance, and pricing of products and services offered to meet customer needs and demands; • the rate at which we introduce new products and services relative to our competitors; • customer satisfaction with our level of service; and • industry and general economic trends. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations. Failure to keep pace with technological change could adversely affect our business. 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. 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. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations. New lines of business or new products and services may subject us to additional risk. From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. We may invest significant time and resources in these efforts. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and / or a new product or service. Furthermore, any new line of business and / or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business and / or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations. Our reported financial results are impacted by management' s selection of accounting methods and certain assumptions and estimates. Our accounting policies and methods are fundamental to the way we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management' s judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting our financial condition and results. They require management to make difficult, subjective, or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting ~~policies~~ **estimates** include: the allowance for credit losses; business combinations, and goodwill and other intangible assets. Our **internal controls may be ineffective. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, and financial condition. As of December 31, 2023, management identified a material weakness regarding management' s failure to maintain effective information technology general controls in the areas of user access management and segregation of duties, within an application supporting the Company' s accounting and reporting processes. As a result, many of the Company' s manual controls dependent upon the information derived from this information technology application were also ineffective, as segregation of duties was not appropriately designed. Management' s report on internal controls over financial reporting and out plan for remediation of the identified material weakness is contained in Item 9A of this Report. We may not be able to attract and retain skilled people. Our success depends, in large part, on our ability to attract and retain skilled people. Competition for the best people in most activities engaged in by us can be intense, and we may not be able to hire sufficiently skilled people or to retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of our markets, years of industry experience, and / or the difficulty of promptly finding qualified replacement personnel. Loss of key employees may disrupt relationships with certain customers. Our business is primarily relationship- driven in that many of our key employees have extensive customer relationships. Loss of a key employee with such customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor or otherwise choose to transition to another financial services provider. While we believe our relationship with our key personnel is good, we cannot guarantee that all of our key personnel will remain with our organization. Loss of such key personnel could result in the loss of some of our customers. Our** business continuity plans or data security systems could prove to be inadequate, resulting in a material interruption in, or disruption to, our business and a negative impact on our results of operations. We rely heavily on communications and information systems to conduct our business. Our daily operations depend on the operational effectiveness of our technology to accurately track and record our assets and liabilities. Any failure, interruption, or breach in security of our computer systems or outside **vendor** technology could result in failures or disruptions in general ledger, deposit, loan, customer relationship management, and other systems leading to inaccurate financial records. While we have disaster recovery and other policies and procedures designed to prevent or limit the effect of any failure, interruption, or security breach of our information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our results of operations. In addition, the Bank provides its customers the ability to bank online and through mobile banking. The secure transmission of confidential information over the internet is a critical element of online and mobile banking. While we use qualified third party vendors to test and audit our network, our network could become vulnerable to unauthorized access, computer viruses, phishing schemes, and other security issues. The Bank may be required to spend significant capital and other resources to alleviate problems caused by security breaches or computer viruses. To the extent that the Bank' s activities or the activities of its customers involve the storage and transmission of confidential information, security breaches and viruses could expose the Bank to claims, litigation, and other potential liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in the Bank' s systems and could adversely affect its reputation and its ability to generate deposits. Additionally, we outsource the processing of our core data system, as well as other systems such as online banking, to third party vendors. Prior to establishing an outsourcing relationship, and on an ongoing basis thereafter, management monitors key vendor controls and procedures related to information technology, which includes reviewing reports of service auditor' s examinations. If our third party ~~provider~~ **vendor** encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations. We rely on certain external vendors. We are reliant upon certain external vendors to provide products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with applicable contractual arrangements or service level agreements. We maintain a system of policies and procedures designed to monitor vendor risks including, among other things, changes in the vendor' s organizational structure, changes in the vendor' s financial condition, and changes in the vendor' s support for existing products and services. While we believe these policies and procedures help to mitigate risk, and our vendors are not the sole source of service, the failure of an external vendor to perform in accordance with applicable contractual arrangements or the service level agreements could be disruptive to our operations, which could have a material adverse impact on our business and its financial condition and results of operations. **We may be adversely affected by risks associated with potential and completed acquisitions. As part of our growth strategy, we regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. We seek merger and acquisition partners that are culturally similar, have experienced management, and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services. Acquiring other financial institutions, financial services companies, or branches involves potential adverse impact to our financial results and various other risks commonly associated with acquisitions, including, among other things: • Incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, and with integrating acquired businesses, resulting in the diversion of resources from the operation of our existing businesses. • Difficulty in estimating the value of target companies or assets and in evaluating credit, operations, management, and market risks associated with those companies or assets. • Payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term. • Potential exposure to unknown or contingent liabilities of the target company, including, without limitation, liabilities for regulatory and compliance issues. • Exposure to potential asset quality issues of the target company. • Difficulties, inefficiencies or cost overruns associated with the integration of the operations, personnel, technologies, services, and products of acquired companies with ours. • Inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits. • Potential disruption to our business. • The possible loss of key employees and customers of the target company. • Potential changes in banking, financial services or tax laws or regulations that may affect the target company. Failure to successfully integrate the entities we acquire into our existing operations could increase our operating costs significantly and have a material adverse effect on our business, financial condition, and results of operations. Attractive acquisition or expansion opportunities may not be available to us in the future. We may consider acquiring other businesses or expanding into new product lines or markets that we believe will help us fulfill our strategic objectives. We expect that other banking and financial companies, some of which have significantly greater resources, will compete with us to acquire such services businesses. Our target base of attractive candidates may be limited, and competition could increase prices for potential acquisitions that we believe are attractive. Acquisitions may also be subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate acquisitions that we believe are in our best interests. Risks associated with acquisitions and the resulting integrations may affect costs, revenues, and market value. A component of our business strategy includes growth through acquisitions. Costs or difficulties related to integrating the acquired business with the Company might be greater than expected. Further, expected revenue and / or operational synergies and cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame.** If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could have a significant negative impact on our profitability. Goodwill represents the amount of consideration exchanged over the fair value of net assets we acquired in the purchase of another **business** ~~financial institution~~ . We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. At December 31, ~~2022~~ **2023** , our goodwill totaled $ ~~364~~ **478** . ~~3~~ **8** million. While we have recorded no impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write- downs, which may have a material adverse effect on our financial condition and results of operations. We are subject to losses due to errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties. We are exposed to many types of operational risk, including the risk of fraud by employees and third parties, clerical recordkeeping errors, and transactional errors. Our business is dependent on our employees as well as third- party service providers to process a large number of increasingly complex transactions. We could be materially and adversely affected if employees, clients, counterparties, or other third parties caused an operational breakdown or failure, either as a result of human error, fraudulent manipulation, or purposeful damage to any of our operations or systems. In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Our financial condition and results of operations could be negatively affected to the extent we rely on financial statements that do not comply with GAAP or are materially misleading, any of which could be caused by errors, omissions, or fraudulent behavior by our employees, clients, counterparties, or other third parties. Risks Related **Our** ~~to the Company' s~~ Common Stock **An investment in our common stock is not an insured deposit. Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described in this" Risk Factors" section and elsewhere in this Report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment. Common stock is equity and is subordinate to our existing and future indebtedness and preferred stock and effectively subordinated to all the indebtedness and other non- common equity claims against our subsidiaries. Shares of the common stock are equity interests in us and do not constitute indebtedness. As such, shares of the common stock rank junior to all of our indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including our liquidation. Upon liquidation, lenders and holders of our debt securities and any preferred stock that may be outstanding, would receive distributions of our available assets prior to holders of our common stock.** There can be no assurance that we will continue to pay cash dividends. Although we have historically paid cash dividends, there is no assurance that we will continue to pay cash dividends. Future payment of cash dividends, if any, will be at the discretion of our Board and will be dependent upon our financial condition, results of operations, capital requirements, economic conditions, and such other factors as the board may deem relevant. Future sales of our stock by our shareholders or the perception that those sales could occur may cause our stock price to decline. Although our common stock is listed for trading on **the** NASDAQ **Global Select Market** under the symbol " FBNC, " the trading volume in our common stock is lower than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the comparatively lower trading volume of our common stock relative to larger institutions, significant sales of our common stock or other volatility in our shares in the public market, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions. We may issue additional shares of stock or equity derivative securities that will dilute the percentage ownership interest of existing shareholders and may dilute the book value per share of our common stock and adversely affect the terms on which we may obtain additional capital. Subject to applicable NASDAQ rules, our Board generally has the authority, without action by or vote of the shareholders, to issue all or part of any authorized but unissued shares of stock for any corporate purpose, including issuances of equity- based incentives under or outside of our equity compensation plans, issuances of equity in business combination transactions, and issuances of equity to raise additional capital to support growth or to otherwise strengthen our balance sheet. Any issuance of additional shares of stock or equity derivative securities will dilute the percentage ownership interest of our shareholders and may dilute the book value per share of our common stock. We may make future acquisitions, which could dilute current shareholders' stock ownership and expose us to additional risks. In accordance with our strategic plan, we evaluate opportunities to acquire other ~~banks~~ **financial institutions** , **financial services companies and** branch locations ~~, and companies that provide products and services related to our banking activities~~ . Such transactions could have a material effect on our operating results and financial condition, including short- and long- term liquidity, and could require us to issue a significant number of shares of common stock or other securities and / or to use a substantial amount of cash, other liquid assets, and / or incur debt. Our acquisition activities could involve a number of additional risks, some of which are described in more detail elsewhere in this ~~report~~ **Report** and include: the possibility that expected benefits may not materialize in the timeframe expected or at all, or may be more costly to achieve; using inaccurate estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target ~~institution~~ **company** or assets; incurring the time and expense required to integrate the operations and personnel of the combined businesses; the possibility that we will be unable to successfully implement integration strategies due to challenges associated with integrating complex systems, technology, banking centers, and other assets of the acquired ~~bank~~ **company** in a manner that minimizes any adverse effect on customers, suppliers, employees, and other constituencies; the possibility of regulatory approval for the acquisition being delayed, impeded, restrictively conditioned or denied due to existing or new regulatory issues surrounding the Company, the target ~~institution~~ **company, the assets acquired** or the proposed combined entity; and losing key employees and customers as a result of an acquisition that is poorly received. ~~Risks associated with acquisitions and the resulting integrations may affect costs, revenues, and market value. A component of our business strategy includes growth through acquisitions. Costs or difficulties related to integrating the acquired business with the Company might be greater than expected. Further, expected revenue and / or operational synergies and cost savings associated with pending or recently completed acquisitions may not be fully realized or realized within the expected time frame. Attractive acquisition or expansion opportunities may not be available to us in the future. We may consider acquiring other businesses or expanding into new product lines or markets that we believe will help us fulfill our strategic objectives. We expect that other banking and financial companies, some of which have significantly greater resources, will compete with us to acquire financial services businesses.~~

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