Risk Factors Comparison 2024-03-13 to 2023-03-13 Form: 10-K

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An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report and our other filings **documents filed** with **and furnished to** the SEC. 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 and adversely affect our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects. The risks discussed below also include forward- looking statements, and our actual results may differ substantially from those discussed in these forward- looking statements. The market price of our common stock could decline significantly due to any of these identified or other risks and you could lose some or all of your investment. This report is qualified in its entirety by these risk factors. Risks Related to Macroeconomic Conditions Our business may be adversely affected by downturns in the national economy and in the economies in our market areas. Our loans are primarily to businesses and individuals in the state of Washington with 86 **87** . 6 **2** % of loans to borrowers or secured by properties located in Washington and 13 **12** . 4 **8** % of loans to borrowers or secured by properties in other states. Through our efforts to geographically diversify our loan portfolio, at December 31, 2022 **2023** , our portfolio included $ 158 **152** . 2 **8** million, or 13 **12** . 4 **8** % of loans to borrowers or secured by properties located in 47 **46** other states and Washington, D. C., including $ 37 **35** . 1 million, or 3 **2** . 1 **9** % of loans, secured by properties or to borrowers in California. A decline in the national economy or the economies of the four counties which we consider to be our primary market area could have a material adverse effect on our business, financial condition, results of operations, and prospects. Weakness in the global economy and global supply chain issues have adversely affected many businesses operating in our markets that are dependent upon international trade and it is not known how tariffs being imposed on international trade may also affect these businesses . Changes in agreements or relationships between the United States and other countries may also affect these businesses. A deterioration in economic conditions in the market areas we serve , as a result of inflation, a recession, the effects of COVID- 19 variants or other factors, could result in the following consequences, any of which could have a materially -- **material** adverse impact **effect** on our business, financial condition and results of operations **including, but not limited to** : • **Reduced demand for our products and services, potentially leading to a decline in our overall loans or assets. • Elevated instances of** loan delinquencies, problem **problematic** assets **,** and foreclosures may **. • An** increase **in** ; • we may increase our allowance for **credit looses on** loan **loans .** and lease losses; • **Depreciation** demand for our products and services may decline resulting in **collateral values linked to** a decrease in our total loans or **our loans, thereby diminishing borrowing capacities and** assets - **asset** ; **values tied to existing loans.** • **Reduced** collateral for loans, especially real estate, may decline in value, exposing us to increased risk of loss on existing loans, reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans; • the net worth and liquidity of loan guarantors may decline , **possibly** impairing their ability to honor **meet** commitments to us **.** ; and • **Reducing in** the amount of our low- cost or noninterest- bearing deposits may decrease and the composition of our deposits may be adversely affected . A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower' s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as earthquakes and tornadoes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected. Adverse changes in the regional and general economy could reduce our growth rate, impair our ability to collect loans and generally have a negative effect on our financial condition and results of operations. External economic factors, such as changes in monetary policy and inflation, may have an adverse effect on our business, financial condition and results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Inflation has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years. Inflationary pressures are currently expected to **, while easing recently,** remain **remained** elevated throughout **the first half of** 2023. Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate , and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services. The economic impact of the COVID- 19 pandemic could continue to affect our financial condition and results of operations. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the business of the Company, its clients, employees and third- party service providers. The extent of such impact will depend on future

~~developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify in the near- term or long- term. We could be subject to a number of risks as the result of the COVID- 19 pandemic, any of which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy, and ability to pay dividends. These risks include, but are not limited to, changes in demand for our products and services; increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan and lease losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an impairment charge; and increased costs as the Company and our regulators, customers and vendors adapt to evolving pandemic conditions.~~ Risks Related to Our Lending Our construction / land loans are based upon estimates of costs and the value of the completed project. We make construction / land loans to contractors and builders primarily to finance the construction of single and multifamily homes, subdivisions, as well as commercial properties. We originate these loans **regardless of** whether ~~or not~~ the **property used as** collateral ~~property underlying the loan~~ is under **a sales** contract ~~for sale~~. At December 31, ~~2022~~ **2023** , construction / land loans totaled $ ~~78~~ **60. 9 million, or 5** . 1 ~~million, or 6. 6~~ % of our total loan portfolio. At December 31, ~~2022~~ **2023** , $ ~~52~~ **47** . ~~8~~ **1** million were one- to- four family construction loans and $ ~~15~~ **4** . ~~5~~ **0** million were multifamily construction loans. We had no commercial construction loans at ~~that day~~ **December 31, 2023** . Land loans, which are loans made with land as security, totaled $ 9. 8 million, or 0. 8 % of our total loan portfolio at December 31, ~~2022~~ **2023** . Land loans include ~~land non- development loans for~~ the purchase or refinance of unimproved land held for future residential development, improved residential lots held for speculative investment purposes, lines of credit secured by land, and land development loans. Construction ~~/ land~~ lending involves ~~additional~~ **inherent** risks **due to estimating costs in relation to** ~~when compared with permanent residential lending because funds are advanced upon the collateral for the~~ project ~~based on an estimate of costs that will produce a future value~~ **values** ~~at completion~~ . ~~The uncertainties~~ **Uncertainties** ~~inherent~~ in ~~estimating~~ construction costs, ~~as well as the~~ market value ~~of the completed~~ **, and regulatory impacts make accurately evaluating total** project **funds** and ~~the effects~~ **loan- to- value ratios challenging. Factors like shifts in housing demand and unexpected building costs can significantly deviate actual results from estimates. Additionally, this type** of ~~governmental regulation~~ **lending often involves higher principal amounts and might be concentrated among a few builders. A downturn in housing or real estate markets could escalate delinquencies, defaults, foreclosures, and compromise collateral value. Some builders have multiple outstanding loans with us, meaning problems with one loan pose a substantial risk to us. Moreover, certain construction loans do not require borrower payments during the term, accumulating interest into the principal. Thus, repayment depends heavily** on ~~real property, make it difficult~~ **project success and the borrower' s ability** to ~~evaluate accurately~~ **sell, lease, or secure permanent financing, rather than** ~~the~~ **their ability** ~~total funds required~~ to ~~complete~~ **repay principal and interest directly. Misjudging** a project **' s** ~~and the completed project loan- to-~~ value **could leave us** ~~ratio. Changes in the demand, such as for new housing and higher than anticipated building costs, may cause actual results to vary significantly from those estimated. For these reasons, this type of lending also typically involves higher loan principal amounts and is often concentrated~~ with ~~a small number of builders. A downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Some of our builders have more than one loan outstanding with us and also have residential mortgage loans for rental properties with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss. In addition, during the term of most of our construction loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. As a result, these loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take- out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have~~ inadequate security **and potential losses** ~~for the repayment of the loan~~ upon completion ~~of~~ **. Actively monitoring** construction ~~of the project and may incur a loss. Because construction~~ loans ~~require active monitoring of the building process~~ , ~~including~~ **involving** cost comparisons and on- site inspections, **adds complexity and cost. Market interest rate hikes also might significantly impact construction loans, affecting end- purchaser borrowing costs, potentially reducing demand or** ~~these~~ -- **the** ~~loans~~ **homeowner' s ability to finance the completed home. Further, properties under construction** are **hard** ~~more difficult and costly~~ to ~~monitor~~ **sell and often need completion for successful sales, complicating problem loan resolution** . ~~Increases in~~ **This might require additional funds or engaging another builder, incurring additional costs and** market **risks. Moreover, speculative** ~~rates of interest may have a more pronounced effect on~~ construction loans ~~by rapidly increasing the~~ **pose additional risks, especially regarding finding** end- purchasers ~~' borrowing costs, thereby reducing the overall demand~~ for ~~the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and / or contract with another builder to complete construction. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end- purchaser for the~~ finished ~~project~~ **projects** ~~. Land loans also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can also be significantly impacted by supply and demand conditions~~ . At December 31, ~~2022~~ **2023** , $ ~~56~~ **47** . ~~8~~ **1** million of our construction / land loans were for speculative construction loans. **We also offer land loans for land acquisition and development. However, loans for land development or future construction carry additional risks due to longer development periods, vulnerability to real estate**

value declines, economic fluctuations delaying projects, political changes affecting land use, and the collateral' s illiquid nature. During this extended financing- to- completion period, the collateral often generates no cash flow. All of our ~~permanent~~ construction loans have a take- out commitment for a permanent loan with us. At December 31, ~~2022~~ **2023** , all of our construction / land loans were classified as performing. Our level of commercial and multifamily real estate loans may expose us to increased lending risks. ~~While~~ **Our current business strategy includes an emphasis on** commercial ~~and multifamily~~ real estate lending ~~may~~ **. This type of lending activity, while** potentially ~~be~~ more profitable than ~~single~~ **one** - **to- four** family residential lending, ~~it~~ is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. At December 31, ~~2022~~ **2023** , we had $ ~~407~~ **377** . 9 million of commercial real estate loans, representing ~~34~~ **31** . ~~4~~ **6** % of our total loan portfolio and $ ~~126~~ **138** . ~~9~~ **1** million of multifamily loans, representing ~~10~~ **11** . ~~7~~ **6** % of our total loan portfolio. ~~These~~ **Commercial and multifamily** loans typically involve higher principal amounts than other types of loans ~~and some of our commercial borrowers have more than one loan outstanding with us. Consequently~~ , ~~an~~ **and** ~~adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one - to - four family residential loan. Repayment~~ **repayment** ~~on these loans~~ is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service ~~that~~ **, which** may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower' s project is reduced as a result of leases not being obtained or renewed, the borrower' s ability to repay the loan may be impaired. Commercial ~~and multifamily~~ **real estate** loans also expose a lender to greater credit risk than loans secured by ~~one- to- four family~~ residential real estate **,** because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial ~~and multifamily~~ real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment ~~that~~ **, which** may increase the risk of default or non- payment. A secondary market for most types of commercial and multifamily real estate loans is not readily available, so we have less opportunity to mitigate credit risk by selling part or all ~~of~~ our interest in these loans. As a result of these characteristics, if we foreclose on a commercial or multifamily real estate loan, our holding period for the collateral typically is longer than for one - to - four family residential loans because there are fewer potential purchasers of the collateral. Accordingly, charge- offs on commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny. The FDIC, the Federal Reserve Board and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100 % or more of total capital, or (ii) total reported loans secured by multifamily and non- farm residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 % or more of total capital. Based on the FDIC criteria, the Bank had a concentration in commercial real estate lending as total loans for multifamily, non- farm / non- residential, construction, land development and other land represented ~~346~~ **316** . ~~9~~ **8** % of total capital at December 31, ~~2022~~ **2023** . The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including ~~board~~ **Board** and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. While we believe we have implemented policies and procedures with respect to our commercial real estate lending consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us. ~~Expansion~~ - **Expanding** ~~of~~ our **commercial** business ~~loans~~ **portfolio** may ~~expose~~ **increase** the Company **' s exposure** to ~~greater~~ risk ~~of loss~~ . The Company' s **growth** ~~strategic~~ **strategy** ~~plan~~ includes **increasing** ~~growth in~~ originations of business loans **backed** ~~that are collateralized~~ by non- real estate assets. Our business loans are primarily made based on ~~the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The~~ borrowers' cash flow ~~may prove to be unpredictable~~ , ~~and~~ **with** collateral ~~securing~~ **as a secondary factor. However,** ~~these~~ -- **the** ~~loans may~~ **unpredictability of borrowers' cash flow and the** ~~fluctuate~~ **fluctuating** ~~in~~ value ~~. Most~~ **of collateral,** often ~~, this collateral is~~ **in the form of** accounts receivable, inventory, or equipment **, present significant risks** . ~~In the case of loans~~ **Loans** secured by accounts receivable **are contingent** ~~, the availability of funds for the repayment of these loans may be substantially dependent~~ on the **borrower' s** ability ~~of the borrower~~ to collect ~~amounts due~~ from ~~its~~ **their** customers ~~.~~ **, while** ~~Other~~ **other** collateral ~~securing loans~~ may depreciate ~~over time~~ , ~~may~~ be ~~difficult~~ **challenging** to ~~appraise~~ **assess** , ~~may be illiquid~~ **lack liquidity,** and **vary** ~~may fluctuate~~ in value based on the success of the business. ~~Further~~ **Additionally** , ~~the~~ **economic fluctuations can significantly impact** borrowers ~~'~~ **' repayment** ~~ability~~ **abilities ,** ~~to repay these loans may be impacted~~ more **so than loans secured by** ~~from general economic conditions as compared to~~ real estate ~~secured loans~~ . Our non- owner occupied real estate loans may expose us to increased credit risk. At December 31, ~~2022~~ **2023** , $ ~~242~~ **228** . ~~1~~ **8** million, ~~or 50~~ **representing 44** . ~~9~~ **6** % of our one- to- four family residential loan portfolio and ~~20~~ **19** . ~~5~~ **2** % of our total loan portfolio, consisted of loans secured by non- owner occupied residential properties. Loans secured by non- owner occupied properties generally expose a lender to

greater risk of non- payment and loss than loans secured by owner occupied properties ~~because~~ **. The** repayment of such loans ~~depend primarily~~ **relies predominantly** on the tenant ~~'~~ **'** s **consistent** ~~continuing ability to pay rent~~ **rental payments** to **the borrower, who in turn is our client. In instances where** the property owner **fails** ~~, who is our borrower, or, if the property owner is unable~~ to ~~find~~ **secure** a tenant, **repayment becomes contingent on** the ~~property~~ owner ~~'~~ **'** s ~~ability~~ **capacity** to ~~repay~~ **service** the loan without ~~the benefit of a~~ rental income ~~stream~~ . In addition, the physical condition of non- owner occupied properties is often below that of owner occupied properties due to lenient property maintenance standards that negatively impact the value of the collateral properties **, can negatively impact the collateral property values, heightening potential losses for lenders** . Furthermore, some of our non- owner occupied residential loan borrowers have more than one loan outstanding with us. **Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss.** At December 31, ~~2022~~ **2023** , we had ~~127~~ **128** non- owner occupied residential loan relationships with an outstanding balance over $ 500, 000 and an aggregate balance of $ ~~196~~ **183** . ~~8~~ **9** million ~~. Consequently, an adverse development with respect to one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan~~ . Our business may be adversely affected by credit risk associated with residential property. At December 31, ~~2022~~ **2023** , $ ~~475~~ **513** . ~~8~~ **2** million, or ~~40~~ **43** . ~~3~~ **1** % of our total loan portfolio, was secured by first liens on one - to - four family residential properties. In addition, at December 31, ~~2022~~ **2023** , our home equity lines of credit totaled $ ~~7~~ **12** . ~~7~~ **5** million. A significant portion of our one - to - four family residential real estate loan portfolio consists of jumbo loans that do not conform to secondary market mortgage requirements, and therefore are not immediately salable to Fannie Mae or Freddie Mac because such loans exceed the maximum balance allowable for sale (generally $ 647, 000 to $ 891, 000 for single - family homes in our primary market areas in ~~2022~~ **2023**). Jumbo one - to - four family residential loans may expose us to increased risk because of their larger balances, and because they cannot be immediately sold to government sponsored enterprises. In addition, one- to- four family residential loans are generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values resulting from a downturn in the housing market may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Recessionary conditions or declines in the volume of real estate sales and / or the sales prices coupled with elevated unemployment rates may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity and damage our financial condition and business operations. To meet our growth objectives we may originate or purchase loans outside of our market area which could affect the level of our net interest margin and nonperforming loans. **To** ~~In order to~~ achieve our desired loan portfolio growth, we have **actively pursued** and may continue **seeking opportunities** to ~~opportunistically~~ originate or purchase loans outside of our market area **,** ~~either~~ - **whether** individually, through participations, or in bulk or " pools **.** " ~~. We~~ **Prior to purchase, we** perform certain due diligence procedures and may re- underwrite these loans to our underwriting standards **. Although we** ~~prior to purchase, and~~ anticipate acquiring loans **with** ~~subject to~~ customary limited indemnities, **this approach** ~~however, we may be exposed~~ **exposes us** to **heightened** ~~a greater risk~~ **risks , particularly when** ~~of loss as we acquire~~ **acquiring** loans **in unfamiliar geographic areas or** of a type ~~or in geographic areas~~ where **our** management **lacks** ~~may not have~~ substantial prior experience ~~and which~~ **. Monitoring such loans also** may ~~be more difficult~~ **pose greater challenges** for us ~~to monitor~~ . Further, when determining the purchase price **for these** ~~we are willing to pay to acquire~~ loans, management will make certain assumptions **, including,** ~~about~~ -- **but not limited to** ~~, among other things~~ , how borrowers will prepay their loans, the real estate market **,** and our ability to ~~collect loans~~ successfully **manage loan collections** and, if necessary, ~~to~~ dispose of ~~any~~ **acquired** real estate ~~that may be acquired~~ through foreclosure. To the extent that our underlying assumptions prove ~~to be~~ inaccurate or **undergo unexpected** ~~the basis for those assumptions change~~ **changes** ~~(~~ **,** such as an unanticipated decline in the real estate market ~~)~~ , the purchase price paid **could exceed the actual value** ~~may prove to have been excessive~~ , resulting in a lower yield or a loss of some or all of the loan principal. For ~~example~~ **instance** , ~~if we purchase~~ **purchasing** ~~"~~ **"loan"** pools **"** ~~" of loans~~ at a premium and ~~some of the~~ **experiencing earlier- than- expected** ~~loans~~ - **loan prepayments would yield lower** ~~are prepaid before we anticipate, we will earn less~~ interest income ~~on the acquired loans~~ than ~~expected~~ **initially projected** . Our success in increasing our loan portfolio through loan purchases ~~will depend~~ **depends** on our ability to price the loans properly and **relies** on ~~general~~ **the** economic conditions in the geographic areas where the underlying properties or collateral for the ~~loans~~ acquired **loans** are located. Inaccurate estimates or declines in economic conditions or real estate values in the markets where we purchase loans could significantly adversely affect the level of our nonperforming loans and our results of operations. At December 31, ~~2022~~ **2023** , our loan portfolio included $ ~~80~~ **81** . ~~2~~ **8** million, ~~or~~ **constituting** 6. ~~8~~ **9** % of total loans, **in counties** located ~~in counties~~ within Washington State **but** ~~that are~~ outside of our primary market area. In addition, our portfolio included $ ~~158~~ **152** . ~~2~~ **8** million, or ~~13~~ **12** . ~~4~~ **8** % of total loans, ~~in~~ **of** loans located outside of Washington State. If the lead institutions on our loan participation agreements do not keep us informed about the changes in credit quality on the underlying loans in a timely manner, we could be subject to misstatement in our ~~ALLL~~ **ACL** , or possibly losses on these loans. ~~The~~ **Under our participation agreements, the** lead institution **bears the** ~~in our participation agreements is responsible~~ **responsibility** ~~for obtaining necessary~~ **of acquiring pertinent** credit information **concerning** ~~related to the underlying loans in these~~ -- **the** ~~agreements~~ **associated loans** . ~~If there is~~ **Failure to promptly relay any** credit deterioration ~~on the loans~~ in these **loans** ~~agreements that results in a downgrade, and this information is not provided~~ to us **could lead to inaccuracies** in **grading** ~~a timely manner, we will not have the~~ **these** loans ~~appropriately graded~~ , **consequently** ~~which will result~~ **resulting** in an understatement of our ~~ALLL~~ **ACL** . ~~If the~~ **In scenarios where** credit ~~downgrade was significant~~ **deterioration occurs without timely information reaching us** , ~~and~~ our ~~ALLL was~~ **ACL might** not **accurately reflect the loan risks. Substantial credit downgrades, if not** ~~adequate~~ **adequately accounted for in our ACL** , ~~we~~ could ~~incur a~~ **potentially lead to** ~~loss~~ **losses** on these loans. At December 31, ~~2022~~ **2023** , we had $ ~~39~~ **28** . ~~0~~ **8** million in loan participations

in which we were not the lead lender. We engage in aircraft and classic and collectible car financing transactions, in which high-value collateral is susceptible to potential catastrophic loss. Consequently, if any of these transactions becomes nonperforming, we could suffer a loss on some or all of our value in the assets. ~~Because~~ **As** our primary focus for aircraft loans is on the asset value of the collateral, the collectability of these loans ultimately may be dependent on the value of the underlying collateral. Aircraft values have **historically** ~~from time to time~~ experienced ~~sharp decreases~~ **significant fluctuations** due to a number of factors including, but not limited to, the availability of used aircraft, ~~decreases~~ **shifts** in passenger and air cargo demand, increases in fuel costs, government regulation and the comparative value of newly manufactured similar aircraft. **Similarly,** ~~Classic~~ **classic** and collectible car values are ~~similarly~~ affected by availability and demand ~~,~~ **;** however, due to the unique nature ~~of these cars~~ , ~~the~~ estimated ~~value~~ **values** often **differ from** ~~does not align with~~ listed values ~~,~~ **.** ~~therefore~~ **Therefore** , **loan** approval ~~of~~ **for** ~~the~~ **these** ~~loan~~ **assets** is **predominantly** based on the borrower' s ability to repay. An aircraft, classic or collectible car as collateral also presents unique risks because of its high- value and ~~being susceptible~~ **susceptibility** to rapid ~~movement across different locations~~ - **relocation** ~~and~~ **, as well as the** potential ~~catastrophic~~ **for significant** loss. Although the loan documentation for these transactions will include insurance covenants and other provisions to protect us against risk of loss, there can be no assurance that the insurance proceeds would be sufficient to ensure our full recovery of the loan. Moreover, a **limited** ~~relatively small~~ number of nonperforming loans could have a significant negative impact on the **overall** value of our loan portfolio. **Liquidating** ~~If we are required to liquidate~~ a significant number of ~~aircrafts~~ - **aircraft** or classic or collectible cars during ~~a period~~ **periods** of reduced values ~~,~~ **could adversely affect** our financial condition and profitability ~~could be adversely affected~~ . At December 31, ~~2022~~ **2023** , our loan portfolio included $ ~~53~~ **58** . ~~7~~ **6** million in classic and collectible car loans and $ ~~2.~~ 1 **. 9** million in aircraft loans. Our ~~ALLL~~ **ACL for loans** may prove to be insufficient to absorb losses in our loan portfolio. Future additions to our ~~ALLL~~ **ACL for loans** , as well as charge- offs in excess of reserves, will reduce our earnings. Our business depends on the creditworthiness of our customers. As with most financial institutions, we maintain an ~~ALLL~~ **ACL for loans** to ~~reflect~~ **reserve for estimated** potential **losses on loans from** defaults ~~and nonperformance~~ , ~~which~~ **and** represents management' s best estimate of ~~probable incurred~~ **expected credit** losses ~~inherent in~~ **over the life of** the loan portfolio. **Determining the appropriate level of the ACL for loans involves estimating future losses at the time a loan is originated or acquired, incorporating a broader range of information and future economic scenarios.** The determination of the appropriate level of the ~~ALLL~~ **ACL for loans** inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of ~~our~~ borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the ~~ALLL~~ **ACL for loans** , we review ~~our~~ loans and ~~the~~ **our historical** loss and delinquency experience and evaluate economic conditions ~~and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the ALLL may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for increases in our provision for loan losses which is charged against income. Deterioration in economic conditions, new information regarding existing loans, identification of additional problem loans or relationships, and other factors, both within and outside of our control, may increase our loan charge - offs and / or may otherwise require an increase in the ALLL~~ . Management also recognizes that significant new growth in loan portfolios, new loan products **,** and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our ~~allowance~~ **ACL for loans** may be insufficient to absorb **credit** losses without significant additional provisions. **If our assumptions are incorrect, our ACL for loans may not be sufficient to cover actual losses, resulting in additional provisions for credit losses on loans to replenish the ACL for loans. Deterioration in economic conditions, new information regarding existing loans, identification of additional problem loans or relationships, and other factors, both within and outside of our control, may increase our loan charge- offs and / or otherwise require an increase in our provision for credit losses on loans.** In addition, bank regulatory agencies periodically review our ~~allowance~~ **ACL** for ~~loan~~ **loans** ~~and lease losses~~ **. Based on their assessment, they** and may require ~~an~~ **increased provisions or loan charge- offs. Any** increase in the provision for ~~possible loan losses or the recognition of further loan charge - offs based on their judgment about information available to them at the time of their examination. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations, and capital. In addition, the Financial Accounting Standards Board has adopted an accounting standard referred to as Current Expected Credit Loss, or CECL, which will require financial institutions to determine periodic estimates of lifetime expected~~ credit losses on loans ~~,~~ **affects net income** and ~~recognize the expected credit losses as allowances for credit losses. This will change the current method of providing allowances for credit losses only when they have been incurred and are probable, which may require us to increase our allowance for loan and lease losses, and may greatly increase the types of data we would~~ **could materially** ~~need to collect and review to determine the appropriate level of the allowance for credit losses. This accounting pronouncement will be applicable to us as of January 1, 2023. We are evaluating the~~ impact ~~the CECL accounting model will have on~~ our ~~accounting~~ **financial condition** , **results** ~~but expect to recognize a one- time cumulative- effect adjustment to the allowance for loan and lease losses as~~ of ~~March 31, 2023, the first reporting period in which the new standard is effective. The federal banking regulators, including the Federal Reserve and the FDIC, have adopted a rule that gives a banking organization the option~~ **operations , and** ~~to phase in over a three- year period the day- one adverse effects of CECL on its regulatory~~ capital ~~. For more on this new accounting standard, see Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 of this report~~ . Risks Related to Market and Interest Rate Changes Our results of operations, liquidity and cash flows are subject to interest rate risk. Our earnings and cash flows are largely dependent upon our net interest income. 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. Since March 2022, in response to inflation, the Federal Open Market Committee (" FOMC ") of the Federal Reserve has increased the target range for the federal funds rate by ~~425~~ **525** basis,

including ~~125~~ **100** basis points during ~~the fourth calendar quarter of 2022~~ **2023** , to a range of ~~4~~ **5** . 25 % to ~~4~~ **5** . 50 % as of December 31, ~~2022. As it seeks to control inflation without creating a recession, the FOMC has indicated further increases are to be expected during~~ 2023. If the FOMC further increases the targeted federal funds ~~rate~~ **rates** , **overall** interest rates will likely ~~continue to~~ rise, which will ~~positively~~ **negatively** impact our **net** interest income **and** ~~, however, the increase in interest expense may be greater. In addition, higher rates~~ may negatively impact **both** the housing market ~~,~~ by reducing refinancing activity and new home purchases ~~,~~ and the U. S. economy. We principally manage interest rate risk by managing the volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected. Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates — up or down — could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates increase, the yield we earn on our assets may not rise as fast as our funding costs, causing our net interest margin to contract. Changes in the slope of the " yield curve " — or the spread between short- term and long- term interest rates — could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short- term rates are lower than long- term rates, however, at December 31, ~~2022~~ **2023** , the yield curve was inverted with short- term rates above long- term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage- backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. A sustained increase in market interest rates could adversely affect our earnings. As is the case with many banks our emphasis on increasing core deposits has resulted in an increasing percentage of our deposits being comprised of deposits bearing no or a relatively low rate of interest and having a shorter duration than our assets. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. In addition, a portion of our adjustable- rate loans have interest rate floors below which the loan' s contractual interest rate may not adjust. At December 31, ~~2022~~ **2023** , ~~62~~ **63** . ~~2~~ **5** % of our net loans were comprised of adjustable- rate loans. At that date, $ ~~377~~ **410** . ~~6~~ **8** million, or ~~51~~ **54** . 3 %, of these loans with an average interest rate of 4. ~~21~~ **75** % were at their floor interest rate. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during periods of declining interest rates. Also, when loans are at their respective floor, which is above the fully- indexed rate, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates and could have a material adverse effect on our results of operations. Changes in interest rates also affect the value of securities portfolio. Generally, the fair value of fixed- rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Also, our interest rate risk modeling techniques and assumptions may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see Part II, Item 7A. " Quantitative and Qualitative Disclosures About Market Risk" for additional information about our interest rate risk management. If interest rate swaps we entered into prove ineffective, it could result in volatility in our operating results, including potential losses, which could have a material adverse effect on our results of operations and cash flows. We are exposed to the effects of interest rate changes as a result of the borrowings we use to maintain liquidity and fund our expansion and operations. To limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs while taking into account variable interest rate risk, we may borrow at fixed rates or variable rates depending upon prevailing market conditions. We may also enter into derivative financial instruments such as interest rate swaps in order to mitigate our interest rate risk on a related financial instrument. Our interest rate contracts expose us ~~to~~ **several risks, including** : • **Potential** ~~basis or spread risk, which is the risk of~~ loss ~~associated with~~ **due to** variations in the spread between the interest rate contract and the hedged item ~~;~~ **.** • **Risks related to** ~~credit or counter- party risk, which is the risk of the insolvency or other~~ -- **the counterparty' s** inability ~~of another party~~ to **fulfill** ~~the transaction to perform its~~ obligations ~~;~~ **.** • **Exposure to fluctuations and** ~~interest rate risk; • volatility risk, which is the risk that the expected uncertainty~~ **uncertainties in** ~~relating to the price of the~~ underlying asset **prices due to interest rates** ~~differs from what is anticipated;~~ and **market volatility.** • ~~liquidity~~ **Liquidity** risk **associated with the ease of buying or selling these instruments** . If we suffer losses on our interest rate contracts, our business, financial condition and prospects may be negatively affected, and our net income will decline. We record the swaps at fair value and designate them as an effective cash flow hedge under Accounting Standards Codification (" ASC ") 815, Derivatives and Hedging. Each quarter, we measure hedge effectiveness using the " hypothetical derivative method " and record in earnings any gains or losses resulting from hedge ineffectiveness. The hedge provided by our swaps could prove

to be ineffective for a number of reasons, including early retirement of the debt, as is allowed under the debt, or in the event the counterparty to the interest rate swaps were determined to not be creditworthy. Any determination that the hedge created by the swaps was ineffective could have a material adverse effect on our results of operations and cash flows and result in volatility in our operating results. In addition, any changes in relevant accounting standards relating to the swaps, especially ASC 815, Derivatives and Hedging, could materially increase earnings volatility. As of December 31, ~~2022~~ **2023** , we had interest rate swaps outstanding with an aggregate notional amount of $ ~~95~~ **115** . 0 million. At December 31, ~~2022~~ **2023** , the fair value of our interest rate swaps was a $ ~~10~~ **7** . ~~5~~ **6** million gain. For additional information, see " Management' s Discussion and Analysis of Financial Condition and Results of Operations- Asset and Liability Management ". We may incur losses on our securities portfolio. **The** ~~Factors beyond our control can significantly influence the~~ fair value of **our investment** securities ~~in~~ **is susceptible to significant shifts due to factors beyond** our **control,** ~~portfolio and can cause potential~~ **potentially leading to** adverse changes ~~to~~ **in** ~~the~~ **their valuation** ~~fair value of these securities~~ . These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by ~~, or other~~ -- **the issuer or** adverse events **related** ~~affecting, the issuer or with respect~~ to the underlying securities, **capital market** instability **,** ~~in the capital markets~~ and, as previously ~~discussed~~ **mentioned** , ~~changes~~ **fluctuations** in market interest rates. Any of these factors, among others, could cause ~~other~~ -- **the** ~~-~~ **fair value of these securities to be lower** than **the amortized cost basis resulting in a credit** ~~- temporary impairments and realized and / or unrealized losses~~ -- **loss** ~~in future periods and declines in other comprehensive income~~ , which could have a material effect on our business, financial condition and results of operations. **We** ~~As we~~ are required to ~~have~~ **maintain** sufficient liquidity to ensure a safe and sound operation, **potentially requiring us** ~~we may be required~~ to sell securities at a loss if our liquidity position **falls below** ~~is not at a~~ desirable level and all ~~other~~ **alternative** sources of liquidity are exhausted. In an environment where other market participants are also liquidating securities, our loss could be materially higher than expected, significantly adversely impacting liquidity and capital levels. **Events impacting the financial services industry could adversely affect our results of operations and financial condition. In the first quarter of 2023, the financial services industry was negatively affected by the bank failures involving Silicon Valley Bank and Signature Bank. Subsequently, First Republic Bank was acquired by JP Morgan Chase after the FDIC was appointed receiver.** The **adverse events involving Silicon Valley Bank and Signature Bank caused significant volatility in the trading** ~~process~~ - **prices of stock of publicly traded banks and holding companies and have decreased confidence in banks among depositors and investors. Such ramifications could continue or worsen in light of the recent failure and acquisition of First Republic Bank. Banking regulators' actions in response to these events have included ensuring that depositors of Silicon Valley Bank and Signature Bank would have access to their deposits, including uninsured deposit accounts, establishing the Bank Term Funding Program as an additional source of liquidity** for ~~determining whether impairment~~ **banks generally, and most recently facilitating the acquisition** of **First Republic Bank by JP Morgan Chase. Continued concerns relating to these adverse events could result in** a ~~security~~ **reduction in demand for our products and services, including withdrawals of uninsured deposits, and could impact profitability and stockholders' equity. The premiums of the FDIC' s deposit insurance program are expected to increase, and banking regulators have signaled further review of regulatory requirements and the potential for changes to laws or regulations governing banks and bank holding companies. Changes resulting from these events could include increased regulatory oversight, higher capital requirements or changes in the way regulatory capital** is **calculated, and** ~~other~~ -- **the impositions** ~~- than- temporary usually requires complex, subjective judgments about the future financial performance and liquidity~~ of **additional restrictions through regulatory** ~~the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in other- than- temporary impairments of these assets, and would lead to accounting charges~~ **changes** ~~that~~ **or supervisory or enforcement activities, each of which** could have a material **impact** ~~adverse effect~~ on our **business** ~~net income and capital levels~~ . **Risks contained in our corporate bond portfolio from securities issued by other financial institutions could adversely impact our financial condition and results of operations. The majority of our corporate bond portfolio is comprised of subordinated debentures and bonds issued by other financial institutions. If the market perception of any of these financial institutions** ~~For~~ - **or** the ~~year ended December 31, 2022~~ **financial institutions industry in general deteriorates** , we ~~did not incur~~ **will see additional declines in the value of the securities issued by the financial institutions and it will adversely impact our financial condition. Further, if** any ~~other~~ - **of these financial institutions fail, we will suffer losses** ~~than~~ **that will adversely impact** ~~- temporary impairments on~~ our ~~securities portfolio~~ **financial condition and results of operations** . Risks Related to our Business Strategy Our branching strategy may cause our expenses to increase faster than revenues. Our current business strategy includes branch expansion in strategic areas to enhance our market presence. These new branches tend to be much smaller than traditional bank branch offices, utilizing the improved technology available with our core data processor. This allows us to maintain management' s focus on efficiency, while working to expand our presence into new markets. The success of our expansion strategy into new markets, however, is contingent upon numerous factors, such as our ability to select suitable locations, assess each market' s competitive environment, secure managerial resources, hire and retain qualified personnel and implement effective marketing strategies. The opening of new offices may not increase the volume of our loans and deposits as quickly as or to the degree that we hope, and opening new offices will increase our operating expenses. On average, de novo branches do not become profitable until three to four years after opening. We currently expect to lease rather than own any additional branch properties. Further, the projected timeline and the estimated dollar amounts involved in opening de novo branches could differ significantly from actual results. The success of our acquired branches is dependent on retention of existing customers' deposits as well as expanding our market presence in these locations. We may not successfully manage the costs and implementation risks associated with our branching strategy. Accordingly, any new branch may negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Finally, there is a risk that our new branches will not be successful

even after they have been established or acquired. Risks Related to Regulatory and Compliance Matters Non- compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions. The USA PATRIOT Act and Bank Secrecy Acts and related regulations require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. Failure to comply with these regulations could result in fines or sanctions. During the last few years, several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. If our policies and procedures 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 denial of regulatory approvals to proceed with certain aspects of our business plan, including acquisitions. 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 a material adverse effect on our business, financial condition, results of operations and growth prospects. If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. We also maintain a compliance program designed to identify, measure, assess, and report on our adherence to applicable laws, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business financial condition and results of operations could be materially adversely affected. **We are subject to an extensive body of accounting rules and best practices. Periodic changes to such rules may change the treatment and recognition of critical financial line items and affect our profitability. Our business operations are significantly influenced by the extensive body of accounting regulations in the United States. Regulatory bodies periodically issue new guidance, altering accounting rules and reporting requirements, which can substantially affect the preparation and reporting of our financial statements. These changes might necessitate retrospective application, potentially leading to restatements of prior period financial statements. One such significant change in 2023 was the implementation of the CECL model, which we adopted on January 1, 2023. Under the CECL model, financial assets carried at amortized cost, such as loans and held- to- maturity debt securities, are presented at the net amount expected to be collected. This forward- looking approach in estimating expected credit losses contrasts starkly with the prior," incurred loss" model, which delays recognition until a loss is probable. CECL mandates considering historical experience, current conditions, and reasonable forecasts affecting collectability, leading to periodic adjustments of financial asset values. However, this forward- looking methodology, reliant on macroeconomic variables, introduces the potential for increased earnings volatility due to unexpected changes in these indicators between periods. An additional consequence of CECL is an accounting asymmetry between loan- related income, recognized periodically based on the effective interest method, and credit losses, recognized upfront at origination. This asymmetry might create the perception of reduced profitability during loan expansion periods due to the immediate recognition of expected credit losses. Conversely, periods with stable or declining loan levels might seem relatively more profitable as income accrues gradually for loans where losses had been previously recognized. As a result of the change in methodology from the incurred loss model to the CECL model, on January 1, 2023, the Company recorded a one- time charge, net of tax, of $ 395, 000 to retained earnings and a $ 500, 000 increase to the ACL.** Risks Related to Cybersecurity, Data and Fraud We are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a cyber- attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber- attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage. Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems), or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and

authentication necessary to effect secure transmission of data. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber- attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and / or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. While we select third- party vendors carefully, we do not control their actions. If our third- party providers encounter difficulties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber- attacks and security breaches, or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third- party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot assure you that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses as a result of third party failures and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third- party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations. We are subject to certain risks in connection with our data management or aggregation. We are reliant on our ability to manage data and our ability to aggregate data in an accurate and timely manner to ensure effective risk reporting and management. Our ability to manage data and aggregate data may be limited by the effectiveness of our policies, programs, processes and practices that govern how data is acquired, validated, stored, protected and processed. While we continuously update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs. Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. **The** ~~As a bank~~ **Bank is** ~~, we are~~ susceptible to fraudulent activity that may be committed against us or our customers which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer' s information, misappropriation of assets, privacy breaches against our customers, litigation, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur. Risks Related to Our Business and Industry Generally We rely on other companies to provide key components of our business infrastructure. We rely on numerous external vendors to provide us with 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 the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor' s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent a service agreement is not renewed by the third- party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of their vendors' performance, including aspects which they delegate to third parties ~~. We will be required to transition from the use of the London Interbank Offered Rate (" LIBOR") in the future. We have certain FHLB advances, loans, interest rate swaps and investment securities, indexed to LIBOR to calculate the interest rate. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one- week and two- month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on the Secured Overnight Financing Rate, or SOFR). Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our loans, and our investment securities, and may impact the availability and cost of hedging instruments and borrowings., including the rates we pay on our subordinated debentures and trust preferred securities. The language in our LIBOR- based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected.~~

~~If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers or our existing borrowings may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers and creditors over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations~~ . Ineffective liquidity management could adversely affect our financial results and condition. Effective liquidity management is essential to our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities and withdrawals, payments on our debt obligations as they come due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and at times, borrowings from the FHLB of Des Moines and certain other wholesale funding sources to fund our operations. Deposit flows and the prepayment of loans and mortgage- related securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and the competition for deposits and loans in the markets we serve. Further, changes to the FHLB of Des Moines' s underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. **Although** ~~Historically,~~ we have **historically** been able to replace maturing deposits and borrowings if desired ~~, however~~ , we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB ~~of Des Moines,~~ or market conditions change. **Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans and deposits are concentrated, negative operating results, or adverse regulatory action against us.** Our ~~access~~ **ability** to **borrow** ~~funding sources in amounts adequate to finance our activities or on terms which are acceptable~~ could **also** be impaired by factors that ~~affect~~ **are not specific to** us ~~specifically or the financial services industry or economy in general~~ , such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets ~~. Additional factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, negative operating results, or adverse regulatory action against us~~ . Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could ~~, in turn,~~ have a material adverse effect on our business, financial condition and results of operations ~~. In addition, in order to maintain adequate liquidity we may have to sell investment securities at a loss, which could adversely impact our financial condition and operations, including but not necessarily limited to lower earnings and capital levels~~ . Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed, or the cost of that capital may be very high. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support our growth or replenish future losses. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may result in the dilution of the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action. We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where First Financial Northwest Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing, and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our President, and certain other employees. In addition, our success has been and continues to be highly dependent upon the services of our directors, many of whom are at or nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors. We participate in a multiple employer defined benefit pension plan for the benefit of our employees. If we were to withdraw from this plan, or if Pentegra, the multiple employer defined benefit pension plan sponsor, requires us to make additional contributions, we could incur a substantial expense in connection with the withdrawal or the request for additional contributions. We participate in the Pentegra Defined Benefit Plan for Financial Institutions, a multiple employer pension plan for the benefit of our employees. Effective March 31, 2013, we did not allow additional employees to participate in this plan and froze the future accrual of benefits under this plan with respect to those participating employees. In connection with our decision to freeze our benefit accruals under the plan, and since then, we considered withdrawing from the plan. If we choose to withdraw from the plan, we could incur a substantial expense in connection with the withdrawal. The actual expense that would be incurred in connection with a withdrawal from the plan is primarily dependent upon the timing of the withdrawal, the total value of the plan' s assets at the time of withdrawal, general market interest rates at that time, expenses imposed on withdrawal, and other conditions imposed by Pentegra as set forth in the plan. Even if we do not withdraw from the plan, Pentegra, as sponsor of the plan, may request that we make an additional contribution to the plan, in addition to

contributions that we are regularly required to make, or obtain a letter of credit in favor of the plan, if our financial condition worsens to the point that it triggers certain criteria set out in the plan. If we fail to make the contribution or obtain the requested letter of credit, then we may be forced to withdraw from the plan and establish a separate, single employer defined benefit plan that we anticipate would be underfunded to a similar extent as under the multiple employer plan. We rely on dividends from the Bank for substantially all of our revenue at the holding company level. First Financial Northwest is an entity separate and distinct from our principal subsidiary, the Bank, and derives substantially all of its revenue at the holding company level in the form of dividends from the Bank. Accordingly, First Federal Northwest is, and will be, dependent upon dividends from the Bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on its common stock. The Bank' s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements, including the capital conservation buffer requirement. In the event the Bank is unable to pay dividends to First Financial Northwest, it may not be able to pay dividends on its common stock or ~~continue~~ **repurchase** its stock ~~repurchases~~. If we fail to meet the expectations of our stakeholders with respect to our environmental, social and governance (" ESG ") practices, including those relating to sustainability, it may have an adverse effect on our reputation and results of operation. Our reputation may also be negatively impacted by our diversity, equity and inclusion (" DEI ") efforts if they fall short of expectations. In addition, various private third- party organizations have developed ratings processes for evaluating companies on their approach to ESG and DEI matters. These ratings may be used by some investors to assist with their investment and voting decisions. Any unfavorable ratings may lead to reputational damage and negative sentiment among our investors and other stakeholders. Furthermore, increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.