Risk Factors Comparison 2024-03-28 to 2023-03-30 Form: 10-K

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An investment in our common stock involves risks. Before making any decision whether to invest in our common stock, you should carefully consider the risks described below, together with all of the other information included in this report. These risks are not the only ones we will face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business operations, financial condition, and results of operations. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. Also, please read " Cautionary Note Regarding Forward- Looking Statements. " Risks Related to Our Business As a financial institution, the Bancorp is subject to a number of risks relating to its daily business. As a financial institution, we are subject to a number of risks relating to our daily business. Although we undertake a variety of efforts to manage and control those risks, many of the risks are outside of our control. Among the risks we face are the following: ● Credit Risk – the risk that loan customers or other parties will be unable to perform their contractual repayment obligations. ● Market Risk – the risk that changes in market rates and prices will adversely affect our financial condition and results of operations. ● Liquidity Risk – the risk that the Bancorp or the Bank will have insufficient cash or access to cash to meet its operating needs. ● Operational Risk – the risk of financial and reputational loss resulting from fraud, inadequate or failed internal processes, cyber- security breaches, people and systems, or external events. ● Economic Risk – the risk that the economy in our markets could decline, resulting in increased unemployment, decreased real estate values, and increased loan charge- offs. **Page 34 of 122** ● Compliance Risk – the risk of additional action by our regulators or additional regulation that could hinder our ability to do business profitably. ~~32 of 113~~ ● Regulatory Risk – the risk presented by the need to comply with all laws, rules, and regulations from multiple regulatory agencies, including but not limited to the FDIC, the Consumer Financial Protection Bureau, the IDFI, the FRB, the SEC, and the U. S. Department of Labor. ● Fiduciary Risk – the risk of failing to act in our fiduciary capacity in the best interests of the grantors and beneficiaries of trust accounts and benefit plans. The Bancorp is subject to liquidity risk in its operations, which could adversely affect the ability to fund various obligations. Liquidity risk is the possibility of being unable to meet obligations as they come due, pay deposits when withdrawn, capitalize on growth opportunities as they arise, or pay dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is derived primarily from retail deposit growth and retention, principal and interest payments on loans and investment securities, net cash provided from operation, and access to other funding sources. Liquidity is essential to our business. We must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn, failures of other financial institutions which reduces overall market confidence in the banking and financial services industry, or regulatory action that limits or eliminates our access to alternate funding sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative expectations about the prospects for the financial services industry, as evidenced by the recent failures of certain depository institutions and the resulting market turmoil and volatility stemming from such failures. Unrealized losses in the Bancorp' s investment portfolio could affect liquidity. ~~As~~ **The increase in** market interest rates ~~increased during~~ **experienced in** 2022 and ~~continued into~~ the early months of 2023, **caused** the Bancorp ~~has~~ **to** ~~experienced~~ - **experience** increased unrealized losses within its investment portfolio. The Bancorp' s investment portfolio consists of federal funds, interest bearing balances in other financial institutions, U. S. government securities, federal agency obligations, obligations of state and local municipalities, and corporate securities. All of the instruments held in the Bancorp' s investment portfolio are designated as **AFS** ~~available- for- sale~~, and many of these instruments are particularly sensitive to interest rate fluctuations, especially long- term fixed- income securities, including U. S. Treasury notes and bonds and corporate and municipal bonds. As of December 31, ~~2022~~ **2023**, the Bancorp held approximately $ ~~227~~ **238**. 7 million of municipal securities within the investment portfolio, which comprised approximately ~~61~~ **64**. ~~3~~ **2** % of the portfolio, and approximately $ ~~134~~ **123**. ~~1~~ **5** million of collateralized mortgage obligations and residential mortgage- backed securities within the portfolio, which comprised approximately ~~36~~ **33**. 2 % of the portfolio. From December 31, ~~2021~~ **2022** to December 31, ~~2022~~ **2023**, the investment portfolio experienced unrealized ~~losses~~ **gains** of approximately $ ~~90~~ **16**. ~~0~~ **7** million ~~, which coincided with an increase by the Federal Reserve in the federal funds target rate from 0. 25 % as of December 31, 2021 to 4. 50 % as of December 31, 2022~~. The ~~increase~~ **decrease** in unrealized losses is reflected in Accumulated Other Comprehensive Income (Loss) (AOCI) on the Bancorp' s balance sheet and reduces the Bancorp' s book capital and tangible common equity ratio. However, unrealized losses do not affect the Bancorp' s regulatory capital ratios. Management continues to actively monitor the investment portfolio and does not currently anticipate the need to realize losses from the investment portfolio, and it is unlikely the Bancorp will be required to sell the securities before recovery of their amortized cost bases, which may be at maturity. However, the Bancorp' s access to liquidity sources could be affected by unrealized losses if securities within the investment portfolio must be sold at a loss or tangible capital ratios decline from an increase in unrealized losses or realized credit losses. ~~33~~ **Page 35** of ~~113~~ **122** Above average interest rate risk associated with fixed- rate loans may have an adverse effect on our financial position or results of operations. Peoples Bank' s loan portfolio includes a significant amount of loans with fixed rates of interest. At December 31,

~~2022~~ **2023** , $ ~~809~~ **681** . ~~7~~ **4** million, or ~~53~~ **45** . ~~7~~ **2** % of the Bank' s total loans receivable had fixed interest rates. The Bank offers adjustable rate mortgage (ARM) loans and fixed- rate loans. Unlike ARM loans, fixed- rate loans carry the risk that, because they do not reprice to market interest rates, their yield may be insufficient to offset increases in the Bank' s cost of funds during a rising interest rate environment. Accordingly, a material and prolonged increase in market interest rates could be expected to have a greater adverse effect on the Bank' s net interest income compared to other institutions that hold a materially larger portion of their assets in ARM loans or fixed- rate loans that are originated for committed sale in the secondary market. Higher loan losses could require the Bancorp to increase its ~~allowance~~ **Allowance** for ~~loan~~ **credit** losses through a charge to earnings. When we loan money, we incur the risk that our borrowers will not repay their loans. We reserve for loan losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on our assessment of loan losses inherent in our loan portfolio. The process for determining the amount of the allowance is critical to our financial results and condition. It requires subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of our borrowers to repay their loans. We might underestimate the loan losses inherent in our loan portfolio and have loan losses in excess of the amount reserved. We might increase the allowance because of changing economic conditions. For example, in a rising interest rate environment, borrowers with adjustable rate loans could see their payments increase. There may be a significant increase in the number of borrowers who are unable or unwilling to repay their loans, resulting in our charging off more loans and increasing our allowance. In addition, when real estate values decline, the potential severity of loss on a real estate- secured loan can increase significantly, especially in the case of loans with high combined loan- to- value ratios. Our ~~allowance~~ **Allowance** for ~~loan~~ **credit** losses at any particular date may not be sufficient to cover future loan losses. We may be required to increase our ~~allowance~~ **Allowance** for ~~loan~~ **credit** losses, thus reducing earnings. Commercial business lending may expose the Bancorp to increased lending risks. At December 31, ~~2022~~ **2023** , the Bank' s commercial business loan portfolio amounted to $ ~~93~~ **97** . ~~3~~ **4** million, or 6. ~~2~~ **5** % of total loans. Subject to market conditions and other factors, the Bank intends to expand its commercial business lending activities within its primary market areas. Commercial business lending is inherently riskier than residential mortgage lending. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation value of these assets in the event of a borrower default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use, among other things. Commercial real estate lending may expose the Bancorp to increased lending risks. At December 31, ~~2022~~ **2023** , the Bank' s commercial real estate loan portfolio amounted to $ ~~486~~ **503. 2 million, or 33** . 4 ~~million, or 32. 2~~ % of total loans. Commercial real estate lending is inherently riskier than residential mortgage lending. Because payments on loans secured by commercial properties often depend upon the successful operation and management of the properties **or related businesses** , repayment of such loans may be affected by adverse conditions in the real estate market or the economy, among other things. **Further, these loans typically have larger loan balances, and several of our borrowers have more than one commercial real estate loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four- family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four- family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to emphasize the origination of these loans, it may be necessary to increase our allowance for loan losses because of the increased credit risk associated with these types of loans. Any increase to our allowance for loan losses would adversely affect our earnings. Page 36 of 122** Our mortgage lending profitability could be significantly reduced if we are not able to resell mortgages at a reasonable gain on sale or experience other problems with the secondary market process or we are unable to retain our mortgage loan sales force due to regulatory changes. Currently, we sell a large portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market. ~~34 of 113~~ Our ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single- family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae, Freddie Mac, and Ginnie Mae (the " Agencies ") and other institutional and non- institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including the Agencies, are government- sponsored enterprises whose activities are governed by federal law. Any future changes in laws that significantly affect the activity of such government- sponsored enterprises could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U. S. government. Although to date, the conservatorship has not had a significant or adverse effect on our operations, and during 2010 and 2012 the Federal Housing Finance Agency indicated that the Treasury Department is committed to funding Fannie Mae and Freddie Mac to levels needed in order to sufficiently meet their funding needs, it is currently unclear whether further changes would significantly and adversely affect our operations. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non- institutional investors. Our ability to remain eligible may also depend on having an acceptable peer- relative delinquency ratio for the Federal Housing Administration (" FHA ") and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines. Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time- to- time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria. Our mortgage lending profitability could be significantly reduced as changes in interest rates could affect mortgage origination volume and pricing for selling mortgages on the secondary market. Currently, we sell a large portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to originate and sell mortgages to the secondary market at a gain. A higher interest rate environment can negatively affect the volume of loan originations and refinanced loans reducing the dollar amount of loans available to be sold to the secondary market. Higher interest rates can also negatively affect the premium received on loans sold to the secondary market as competitive pressures to originate loans can reduce pricing. Our information systems may experience an interruption or breach in security. The Bank relies heavily on internal and outsourced digital technologies, communications, and information systems to conduct its business. As our reliance on technology systems increases, the potential risks of technology- related operation interruptions in our customer relationship management, general ledger, deposit, loan, or other systems or the occurrence of cyber incidents also increases. Cyber incidents can result from deliberate attacks or unintentional events including (i) unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruptions; (ii) denial- of- service attacks on websites; or (iii) intelligence gathering and social engineering aimed at obtaining information. The occurrence of operational interruption, cyber incident, or a deficiency in the cyber security of our technology systems (internal or outsourced) could negatively impact our financial condition or results of operations. **Page 37 of 122** We have policies and procedures expressly designed to prevent or limit the effect of a failure, interruption, or security breach of our systems and maintain cyber security insurance. However, such policies, procedures, or insurance may prove insufficient to prevent, repel, or mitigate a cyber incident. Significant interruptions to our business from technology issues could result in expensive remediation efforts and distraction of management. Although we have not experienced any material losses related to a technology- related operational interruption or cyber- attack, there can be no assurance that such failures, interruptions, or security breaches will not occur in the future or, if they do occur, that the impact will not be substantial. ~~35 of 113~~ The occurrence of any failures, interruptions, or security breaches of our technology systems could damage our reputation, result in a loss of customer business, result in the unauthorized release, gathering, monitoring, misuse, loss, or destruction of proprietary information, 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 financial condition, results of operations, or stock price. As cyber threats continue to evolve, we may also be required to spend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors. Employee errors and employee and / or customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation or financial performance. Misconduct by our employees could include, but is not limited to, hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers, or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition, and results of operations. We depend on outside third parties for processing and handling of our records and data. The Bank relies on software developed by third party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. These systems include, but are not limited to, general ledger, payroll, employee benefits, loan and deposit processing, and securities portfolio management. While we perform a review of controls instituted by the vendors over these programs in accordance with industry standards and perform our own testing of user controls, we must rely on the continued maintenance of these controls by the outside party, including safeguards over the security of customer data. In addition, we maintain backups of key processing output daily in the event of a failure on the part of any of these systems. Nonetheless, we may incur a temporary disruption in the ability to conduct our business or process our transactions or incur damage to our reputation if the third party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such disruption or breach of security may have a material adverse effect on our financial condition and results of operations. We continually encounter technological change. The banking and financial services industry continually undergoes technological changes, with frequent introductions of new technology- driven products and services. In addition to better meeting customer needs, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that enhance customer convenience and that create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements, and we may not effectively implement new technology- driven products and services or do so as quickly as our competitors, which could reduce our ability to effectively compete. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition, and results of operations. **Page 38 of 122** We may not be able to attract and retain skilled people. The Bank' s success depends on its ability to attract and retain skilled people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them. The unexpected loss of services of certain of our skilled personnel could have a material adverse impact on our business because of their skills, knowledge of our market, years of industry experience, customer relationships, and the difficulty of promptly finding qualified replacement personnel. ~~36 of 113~~ Loss of key employees may disrupt relationships with certain customers. Our customer relationships are critical to the success of our business, and loss of key employees with significant customer relationships may lead to the loss of business if the customers were to follow that employee to a competitor. While we believe our relationships with key personnel are strong, we cannot guarantee that all of our key personnel will remain with the organization, which could result in the loss of some of our customers and could have a negative impact on our business, financial condition, and results of operations. We may need to raise additional capital in the future, and such capital may not be available when needed or at all. We may need to raise additional capital in the future to fund acquisitions and to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory capital requirements, and business needs, particularly if our asset quality or earnings were to deteriorate significantly. We periodically explore acquisition opportunities with other financial institutions, some of which may be in a less favorable financial condition than we are. Any future acquisition, particularly the acquisition of a significantly troubled institution or an institution of comparable size to us, may require us to raise additional capital in order to obtain regulatory approval and / or to remain well capitalized. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter- bank borrowings, repurchase agreements, and borrowings from the discount window of the Federal Reserve. We cannot guarantee that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition, and results of operations and may restrict our ability to grow. We may be exposed to risk of environmental liabilities with respect to real property to which we take title. In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties (including liabilities for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination), or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. **Page 39 of 122** We are exposed to intangible asset risk in that our goodwill may become impaired. As of December 31, ~~2022~~ **2023** , we had $ ~~27~~ **25** . ~~2~~ **7** million of goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in impairment of goodwill. If we were to conclude that a future write- down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 6, " Summary of Significant Accounting Policies " and " Goodwill and Other Intangible Assets, " to the Consolidated Financial Statements included in Item 8 this report. ~~37 of 113~~ Damage to our reputation could damage our business. Our business depends upon earning and maintaining the trust and confidence of our customers, investors, and employees. Damage to our reputation could cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation, regulatory outcomes, or governmental investigations. In addition, a failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, privacy breach, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs, and harm to our reputation. Adverse publicity about the Bancorp, whether or not true, may result in harm to our existing business, customer relationships and prospects. Should any events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm would not adversely affect our earnings and results of operations. Potential acquisitions may disrupt our business and dilute stockholder value. We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. We generally seek merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of scale, or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things: ● potential exposure to unknown or contingent liabilities of the target company; ● exposure to potential asset quality issues of the target company; ● potential disruption to our business; ● potential diversion of our management' s time and attention away from day- to- day operations; ● the possible loss of key employees, business, and customers of the target company; ● difficulty in estimating the value of the target company; and ● potential problems in integrating the target company' s data processing and ancillary systems, customers, and employees with ours. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of our debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. To the extent we were to issue additional shares of common stock in any such transaction, our current shareholders would be diluted and such an issuance may have the effect of decreasing our stock price, perhaps significantly. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations. In addition, merger and acquisition costs incurred by the Bancorp may temporarily increase operating expenses. ~~38~~ **Page 40** of ~~113~~ **122 The Bancorp and Bank are subject to extensive regulation and oversight, including with respect to the Order and MOU. On November 7, 2023, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order with its bank regulatory agencies, the FDIC and DFI, consenting to the issuance of a consent order (the " Order ") relating to the Bank' s compliance with the Bank Secrecy Act and its implementing regulations (collectively, the " BSA "). In consenting to the issuance of the Order, the Bank did not admit or deny any charges of unsafe or unsound banking practices or violations of law or regulation relating to its BSA compliance. Under the terms of the Order, the Bank or its board of directors is required to take certain affirmative**

actions to comply with the Bank' s obligations under the BSA. These include, but are not limited to, the following: strengthening the board of directors' oversight of BSA activities; developing, adopting, and implementing a revised BSA compliance program; developing a revised system of internal controls designed to ensure full compliance with the BSA; retaining management qualified to oversee the Bank' s BSA compliance program, including retaining a qualified BSA officer; assessing BSA staffing needs and identifying staff positions and personnel for BSA compliance; developing, adopting, and implementing a revised BSA training program; developing, adopting, and implementing a revised suspicious activity reporting program; implementing a board- approved customer due diligence program, and reviewing and enforcing enhanced customer due diligence and risk assessment procedures; eliminating or correcting certain violations of BSA law and regulations, and correcting BSA program weaknesses; ensuring that all reports required by the BSA are accurately and properly filed; and developing and implementing a written plan to review past account and transaction activity to determine whether suspicious activity was properly identified and reported. In addition, under the MOU the Bank has agreed to take various actions and comply with certain requirements to enhance certain areas of the Bank' s operations, including, among other things, the Bank refraining from paying cash dividends without prior regulatory approval and developing and implementing certain plans regarding the Bank' s operations, capital, and strategy. The Order is expected to result in additional non- interest BSA compliance expenses for the Bank and the Bancorp. It also may have the effect of limiting or delaying the Bank' s and the Bancorp' s ability to obtain regulatory approval for certain expansionary activities, to the extent desired by the Bancorp. Our failure to comply with the Order or MOU may result in additional regulatory action, including civil money penalties against the Bank and its officers and directors or enforcement through court proceedings, which could have a material and adverse effect on our business, results of operations, financial condition, cash flows, and stock price. Risks Related to the Banking Industry Our business may be adversely affected by conditions in the financial markets and economic conditions generally. Our financial performance depends to a large extent on the business environment in our geographically concentrated eight- county market area of Lake, Porter, LaPorte, and Newton counties in Indiana, and Cook, DuPage, Lake, and Will counties in Illinois, the nearby suburban metropolitan Chicagoland market, the states of Indiana and Illinois, and the U. S. as a whole. In particular, the current environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans as well as the value of collateral securing those loans. A favorable business environment is generally characterized by economic growth, low unemployment, efficient capital markets, low inflation, high business and investor confidence, strong business earnings, and other factors. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors. In the recent past, our market area, the suburban metropolitan Chicagoland market, the states of Indiana and Illinois, and the U. S. as a whole experienced a downward economic cycle. Significant weakness in market conditions adversely impacted all aspects of the economy. Business activity across a wide range of industries and regions was greatly reduced, and local governments and many businesses experienced serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. In addition, unemployment increased significantly during that period, which further contributed to the adverse business environment for households and businesses. **Page 41 of 122** While economic conditions have improved, significant challenges remain, including continued elevated inflation levels and recent uncertainty in the financial institutions industry. As a result, there can be no assurance that the economic recovery will continue, and future deterioration would likely exacerbate the adverse effects of recent difficult market conditions on us and others in the financial institutions industry. Market stress could have a material adverse effect on the credit quality of our loans, and therefore, our financial condition and results of operations as well as other potential adverse impacts including: ● There could be an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. ● There could be an increase in write- downs of asset values by financial institutions, such as the Bank. ● There could be the loss of collateral value on commercial and real estate loans that are secured by real estate located in our market area. A further significant decline in real estate values in our market would mean that the collateral for many of our loans would provide less security. As a result, we would be more likely to suffer losses on defaulted loans because our ability to fully recover on defaulted loans by selling the real estate collateral would be diminished. ● Our ability to assess the creditworthiness of customers could be impaired if the models and approaches they use to select, manage, and underwrite credits become less predictive of future performance. ● The process we use to estimate losses inherent in our loan portfolio requires difficult, subjective, and complex judgments. This process includes analysis of economic conditions and the impact of these economic conditions on borrowers' ability to repay their loans. The process could no longer be capable of accurate estimation and may, in turn, impact its reliability. ● The Bank could be required to pay significantly higher FDIC premiums in the future if losses further deplete the Deposit Insurance Fund. ● We could face increased competition due to intensified consolidation of the financial services industry. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition, and results of operations. Future economic conditions in our market area will depend on factors outside of our control, such as political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government, military, and fiscal policies, and inflation. ~~39 of 113~~ Concern by customers over deposit insurance may cause a decrease in deposits and changes in the mix of funding sources available to the Bancorp. With increased concerns regarding certain recent high profile bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may have insecurity regarding the extent to which their deposits exceed the current FDIC deposit insurance threshold of $ 250, 000 per depositor and therefore are uninsured. The FDIC has extended deposit insurance relief to uninsured depositors in certain recent high profile bank failures, but there is no assurance the FDIC will extend such relief in connection with any other failure of a financial institution, which may cause uncertainty among customers regarding the safety of their deposits. Customers may withdraw deposits in an effort to ensure the amount they have on deposit with their bank is fully insured and some may seek deposit products or other bank savings and investment products that are collateralized. Decreases in deposits and changes in the mix of funding sources, particularly in light of recent high profile bank failures and customers' responses to such events, may adversely affect the Bancorp' s liquidity, funding costs, and net income. **Page 42 of 122** Turmoil in the financial markets could result in lower fair values for our investment securities. Major disruptions in the capital markets experienced in recent years have adversely affected investor demand for all classes of securities, excluding U. S. Treasury securities, and resulted in volatility in the fair values of our investment securities. Significant prolonged reduced investor demand could manifest itself in lower fair values for these securities and may result in recognition of an other- than- temporary impairment (" OTTI "), which could have a material adverse effect on our financial condition and results of operations. Municipal securities can also be impacted by the business environment of their geographic location. Although this type of security historically experiences extremely low default rates, municipal securities are subject to systemic risk since cash flows generally depend on (i) the ability of the issuing authority to levy and collect taxes; or (ii) the ability of the issuer to charge for and collect payment for essential services rendered. If the issuer defaults on its payments, it may result in the recognition of OTTI or a total loss, which could have a material adverse effect on our financial condition and results of operations. We face strong competition in all phases of our business from other banks, financial institutions, and non- banks. The banking and financial services business in our market areas is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions, neo- banks (a digital or mobile- only bank that exists without any physical bank branches), and other non- bank financial and digital service providers, many of which have greater financial, marketing, and technological resources than us. Many of these competitors are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result. Also, technology and other changes have lowered barriers to entry and made it possible for customers to complete financial transactions using neo- banks, non- banks, and financial technology (" FinTech ") companies that historically have involved banks at one or both ends of the transaction. These entities now offer products and services traditionally provided by community banks and often at lower costs. The wide acceptance of Internet- based commerce has resulted in a number of alternative payment processing systems, deposit, and lending platforms in which banks play only minor roles. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and / or transferring funds directly without the assistance of banks. Use of emerging alternative payment platforms, such as Apple Pay or Bitcoin or other cryptocurrencies, can alter consumer credit card behavior and consequently impact our interchange fee income. ~~40 of 113~~ 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 effects of disintermediation can also impact the lending business because of the fast growing body of FinTech companies that use software to deliver mortgage lending and other financial services. A related risk is the migration of bank personnel away from the traditional bank environments into neo- banks, FinTech companies, and other non- banks. Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to maintain our earnings record, grow our loan portfolios, and obtain low- cost funds. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are larger in total assets and capitalization, have greater access to capital markets, and offer a broader range of financial services than we can offer. **Page 43 of 122** The Bancorp also is experiencing an increase in competition to acquire other banks, due to the overall strength of financial institutions and their high capital levels. In addition, credit unions and FinTech companies are now actively pursuing small bank acquisitions. Increased competition for bank acquisitions may slow the Bancorp' s ability to grow earning assets at comparable historical growth rates. We are subject to federal regulations that seek to protect the Deposit Insurance Fund and the depositors and borrowers of the Bank, and our federal regulators may impose restrictions on our operations that are detrimental to holders of the Bancorp' s common stock. We are subject to extensive regulation, supervision, and examination by the FRB, IDFI, and FDIC, our primary regulators. Such regulation and supervision governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of the Bancorp' s common stock. Our regulators may subject us to supervisory and enforcement actions, such as the imposition of certain restrictions on our operations, requirements that we take remedial action, the classification of our assets and the determination of the level of our ~~allowance~~ **Allowance** for ~~loan~~ **credit** losses, that are aimed at protecting the insurance fund and the depositors and borrowers of the Bank but that are detrimental to holders of the Bancorp' s common stock. Any change in our regulation or oversight, whether in the form of regulatory policy, regulations, legislation, or supervisory action, may have a material impact on our operations. Acquisitions and the addition of branch facilities may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value. We regularly explore opportunities to establish branch facilities and acquire other banks or financial institutions. New or acquired branch facilities and other facilities may not be profitable. We may not be able to correctly identify profitable locations for new branches. The costs to start up new branch facilities or to acquire existing branches, and the additional costs to operate these facilities, may increase our noninterest expense and decrease earnings in the short term. It may be difficult to adequately and profitably manage growth through the establishment of these branches. In addition, we can provide no assurance that these branch sites will successfully attract enough deposits to offset the expenses of operating these branch sites. Any new or acquired branches will be subject to regulatory approval, and there can be no assurance that we will succeed in securing such approvals. The soundness of other financial institutions could adversely affect us. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings. In addition, failures of other financial institutions, including regional and community banks, could decrease customer confidence in the banking industry as a whole and community banks in particular. Reduced confidence in the financial institutions sector could result in customer disintermediation and the loss of deposit and borrowing relationships, among other effects, which could result in a material adverse effect on the Bancorp' s financial condition and results of operations. ~~41~~ **Page 44** of ~~113~~ **122** Risks Related to the Bancorp' s Common Stock An investment in the Bancorp' s common stock is not an insured deposit. The Bancorp' s common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Bancorp' s common stock is inherently risky for the reasons described in this " Risk Factors " section and elsewhere in this prospectus and is subject to the same market forces that affect the price of common stock in any public company. As a result, if you acquire the Bancorp' s common stock, you could lose some or all of your investment. The price of our common stock may fluctuate, sometimes significantly, and this may make it difficult for you to resell our common stock at times or at prices you find attractive. Although our common stock is listed on the Nasdaq Capital Market, our stock price constantly changes, and we expect our stock price to continue to fluctuate in the future. Our stock price is impacted by a variety of factors, some of which are beyond our control. These factors include: ● variations in our operating results or the quality of our assets; ● operating results that vary from the expectations of management, securities analysts, and investors; ● increases in loan losses, non- performing loans, and other real estate owned; ● changes in the U. S. corporate tax rates; ● changes in expectations as to our future financial performance; ● announcements of new products, strategic developments, new technology, acquisitions, and other material events by us or our competitors; ● ability to fund the Bancorp' s assets through core deposits and / or wholesale funding; ● the operating and securities price performance of other companies that investors believe are comparable to us; ● actual or anticipated sales of our equity or equity-related securities; ● our past and future dividend practices; ● our creditworthiness; ● interest rates; ● the credit, mortgage, and housing markets, and the markets for securities relating to mortgages or housing; ● developments with respect to financial institutions generally; and ~~42 of 113~~ ● economic, financial, geopolitical, regulatory, congressional, or judicial events that affect us or the financial markets. In addition, the stock market in general has experienced price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results. **Page 45 of 122** The trading volume in the Bancorp' s common stock is less than that of other larger financial institutions. Although the Bancorp' s common stock is listed on the Nasdaq Capital Market, the trading volume in the common stock may be less 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 the Bancorp' s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Bancorp has no control. During any period of lower trading volume of the Bancorp' s common stock, significant sales of shares of the Bancorp' s common stock, or the expectation of these sales, could cause the Bancorp' s common stock price to fall. The Bancorp' s Articles of Incorporation, Indiana law, and certain banking laws may have an anti- takeover effect. Provisions of the Bancorp' s Articles of Incorporation, the Indiana Business Corporation Law, and the federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire the Bancorp, even if doing so would be perceived to be beneficial by the Bancorp' s shareholders. The combination of these provisions could have the effect of inhibiting a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of the Bancorp' s common stock. The Bancorp may issue additional securities, which could dilute the ownership percentage of holders of the Bancorp' s common stock. The Bancorp may issue additional securities to, among other reasons, raise additional capital or finance acquisitions, and, if it does, the ownership percentage of holders of the Bancorp' s common stock could be diluted potentially materially. We may not be able to pay dividends in the future in accordance with past practice. The Bancorp has traditionally paid a quarterly dividend to common shareholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on our earnings, capital requirements, financial condition, and other factors considered relevant by the Bancorp' s board of directors. The board may, at its discretion, reduce or eliminate dividends or change its dividend policy in the future.