

Risk Factors Comparison 2024-03-21 to 2023-03-24 Form: 10-K

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

The material risks and uncertainties that management believes affect us are described below. Any of these risks, if they are realized, could materially adversely affect our business, financial condition and results of operations, and consequently, the market value of our common stock. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also materially and adversely affect us. This Form 10-K also contains forward-looking statements that involve risks and uncertainties. If any of the matters included in the following information about risk factors were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially and adversely affected. **Market Risks** **Related to the Economy, Financial Markets, Interest Rates and Liquidity** Our business and operations may be materially adversely affected by weak economic conditions. Our business and operations, which primarily consist of banking activities, including lending money to customers and borrowing money from customers in the form of deposits, are sensitive to general business and economic conditions in the U. S. generally, and in the Washington, D. C. metropolitan area in particular. The economic conditions in our local markets may be different from the economic conditions in the U. S. as a whole. If economic conditions in the U. S. or any of our markets weaken, our growth and profitability from our operations could be constrained. In addition, foreign economic and political conditions could affect the stability of global financial markets, which could hinder economic growth. The current economic environment is characterized by rising interest rates as a result of contractionary monetary policy which could impact our ability to attract deposits and to generate attractive earnings through our loan and investment portfolios. All these factors can individually or in the aggregate be detrimental to our business, and the interplay between these factors can be complex and unpredictable. Unfavorable market conditions, ~~including as a result of events such as the COVID-19 pandemic and related disruptions,~~ **including as a result of events such as the COVID-19 pandemic and related disruptions,** can result in a deterioration in the credit quality of our borrowers and the demand for ~~our products~~ **our products** and services, an increase in the number of loan delinquencies, defaults and charge-offs, additional provisions for ~~loan credit~~ **loan credit** losses, a decline in the value of our collateral, and an overall material adverse effect on the quality of our loan portfolio. Our business is significantly affected by monetary and related policies of the U. S. federal government and its agencies. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates are concerns for businesses, consumers and investors in the U. S. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial conditions and results of operations. We are subject to interest rate risk, which could adversely affect our profitability. Our profitability, like that of most financial institutions, depends to a large extent on our net interest income, which is the difference between our interest income on interest-earning assets, such as loans and investment securities, and our interest expense on interest-bearing liabilities, such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but such changes could affect our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our assets. 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. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse impact on our business, financial condition and results of operations. When short-term interest rates rise, the rate of interest we pay on our interest-bearing liabilities may rise more quickly than the rate of interest that we receive on our interest-earning assets, which may cause our net interest income to decrease. Additionally, a shrinking yield premium between short-term and long-term market interest rates, a pattern usually indicative of investors' waning expectations of future growth and inflation, commonly referred to as a flattening of the yield curve, typically reduces our profit margin as we borrow at shorter terms than the terms at which we lend and invest. In addition, an increase 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. These circumstances could not only result in increased loan defaults, foreclosures and charge-offs, but also reduce collateral values and necessitate further increases to the allowance for ~~loan credit~~ **loan credit** losses, which could have a material adverse effect on our business, financial condition and results of operations. Inflation can have an adverse impact on our business and on our customers. In 2022 **and continuing into 2023**, the United States experienced the highest rates of inflation since the 1980s. In an effort to reduce inflation, the Federal Reserve increased the federal funds target rate seven times in 2022 **and four times in 2023** from 0.25% at the beginning of ~~2022 the year to 4.5~~ **2022 the year to 4.5** . 25 ~~—4.5~~ **—4.5** . 50% as of December 31, ~~2022-2023~~ **2022-2023** . Market interest rates increased in response ~~over to the course of the year~~ **over to the course of the year** ~~Federal Reserve's actions~~ **Federal Reserve's actions** . Inflation generally increases the cost of products and services we use in our business operations, as well as labor costs. We may find that we need to give higher than normal raises to employees and start new employees at a higher wage. Furthermore, our clients are also affected by inflation and the rising costs of products and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. **Further rate hikes would continue to increase the cost of business investment and consumer goods, which would place downward pressure on demand and cause declines in cash flow and profitability, further impacting the ability of borrowers to repay their loans** . As market interest rates rise, the value of our investment

securities generally decreases, although this effect can be less pronounced for floating rate instruments. Higher interest rates reduce the demand for loans and increase the attractiveness of alternative investment and savings products, like U. S. Treasury securities and money market funds, which can make it difficult to attract and retain deposits. **Transition away from Insufficient liquidity could impair our ability to fund operations and meet our obligations as they become due, and London Interbank Offered Rate (“LIBOR”) to another benchmark rate could materially adversely affect our growth operations.** The administrator of LIBOR announced that the most commonly used U. S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. Management cannot predict whether or when LIBOR will actually cease to be available or what impact such a transition may have on our business, **profitability and financial condition and results of operations.** **Liquidity is essential** The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to **our business** replace LIBOR with a benchmark rate based on the Secured Overnight Funding Rate (“SOFR”) for contracts governed by U. S. law. **Liquidity risk is the potential** that **we** have no or ineffective fallbacks. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved **unable to meet** or **our** meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. We require sufficient liquidity to fund asset growth, meet customer loan requests, customer deposit maturities and withdrawals, payments on our debt obligations as they become due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. Liquidity risk can increase due to a number of factors, including an over-reliance on a particular source of funding or market-wide phenomena such as market dislocation and major disasters. **Factors** that the use **could detrimentally impact access to liquidity sources include** but are not limited to, a decrease in the level and volatility of LIBOR **our business activity as a result of a slowdown in our market, adverse regulatory actions against us, or changes in the liquidity needs of our depositors.** **Market conditions** or other interest rates events could also negatively affect the level or cost of funding, affecting **our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner, and without adverse consequences.** **Our inability to raise funds through deposits, borrowings, the sale of loans, the other value sources, and our ability to maintain sufficient deposits, could have a substantial negative effect on our business, and could result in the closure of LIBOR-based securities will not the Bank. Our access to funding sources in amounts adequate to finance our activities or on acceptable terms could be adversely impaired by factors that affected-- affect our organization specifically or the financial services industry or economy in general.** Any There continues to be substantial uncertainty, **unexpected, and / or prolonged change in the level or cost of liquidity could impair our ability to fund operations and meet our obligations as to the they become due** ultimate effects of the LIBOR transition, including with respect to the acceptance and use of SOFR and other benchmark rates. The transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. To mitigate the risks associated with the expected discontinuation of LIBOR, we have ceased originating LIBOR-linked loans, implemented fallback language for LIBOR-linked commercial loans, adhered to the International Swaps and Derivatives Association 2020 Fallbacks Protocol for interest rate swap agreements, and have updated our systems to accommodate SOFR-linked loans. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations. **We rely on customer deposits** The ongoing COVID-19 pandemic and measures intended to prevent its spread could adversely affect our business, **including brokered deposits, and to a lesser extent on advances from the FHLB and federal funds purchased to fund our operations.** Although we have historically been able to replace customer deposit withdrawals, maturing deposits, and advances if desired, we may not be able to replace such funds in the future if our financial condition, **the financial condition of the FHLB or market conditions were to change.** FHLB borrowings and other current sources of **Liquidity liquidity Risks may not be available or, if available, sufficient to provide adequate funding for operations.** We may not be able to retain or grow our core deposit base, which could adversely impact our funding costs. Like many financial institutions we rely on customer deposits as our primary source of funding for our lending activities, and we continue to seek customer deposits to maintain this funding base. Our future growth will largely depend on our ability to retain and grow our diverse deposit base. As of December 31, 2022-2023, we had \$ 1. 83-85 billion in deposits **and approximately 9 % of our deposits are derived from one customer relationship.** Our deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of our control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, customer perceptions of our financial health and general reputation, **and** adverse developments in general economic conditions of an individual's business, **and a loss of confidence by customers in us or the banking sector generally,** which could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current customer deposits or attract additional deposits. **Additionally, negative news about us or the banking industry in general could negatively impact market and / or customer perceptions of our company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals, particularly among those with uninsured deposits.** Furthermore, **as many regional banking organizations experienced in 2023, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed “ too big to fail ” or remove deposits from the banking system entirely.** As of December 31, 2023, approximately 31.1 % of our deposits were uninsured when excluding collateralized deposits, and we

rely on these deposits for liquidity. Any such loss of funds could result in lower loan originations **and decrease in liquidity**, which could have a material adverse effect on our business, financial condition and results of operations. Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and failure to maintain sufficient liquidity could materially adversely affect our growth, business, profitability and financial condition. Liquidity is essential to our business. Liquidity risk is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. We require sufficient liquidity to fund asset growth, meet customer loan requests, customer deposit maturities and withdrawals, payments on our debt obligations as they become due and other cash commitments under both normal operating conditions and other unpredictable circumstances, including events causing industry or general financial market stress. Liquidity risk can increase due to a number of factors, including an over-reliance on a particular source of funding or market-wide phenomena such as and results of operations. **Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system. The COVID-19 pandemic has closures of Silicon Valley Bank and Signature Bank in March 2023, and First Republic Bank in May 2023, and concerns about similar future events, have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks. More recently, concerns about commercial real estate concentrations at regional and community banks have exacerbated this volatility. These market developments have negatively impacted economic customer confidence in the safety and commercial activity-soundness of regional and community banks. As a result, customers may choose to maintain deposits with larger financial markets institutions or invest in higher yielding short-term fixed income securities**, both globally all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and within results of operations. While federal bank regulators took action to ensure that depositors of the failed banks had access to the their United States. Measures to contain deposits, including uninsured deposit accounts, ~~the virus, is no guarantee that such as stay-at-home orders actions will be successful in restoring customer confidence in regional and community banks and the banking system more broadly. Furthermore, there is travel restrictions, closure of non-essential businesses, occupancy limitations~~ **guarantee that regional bank failures or bank runs similar to the ones that occurred in 2023 will not occur in the future** and social distancing requirements, if they were to occur, they may have a material and adverse impact on customer and investor confidence in regional and community banks, negatively impacting the Company's liquidity, capital, ~~resulted~~ results of operations and stock price. Unrealized losses in our securities portfolio could affect liquidity. As market interest rates have increased, we have experienced significant unrealized losses on our available for sale securities portfolio business and operational disruptions, including business closures, supply chain disruptions, and mass layoffs and furloughs. Though consumer **Unrealized losses related to available for sale securities are reflected in accumulated other comprehensive income in our consolidated statements of condition and reduce the business spending and unemployment levels-level** have improved significantly of our book capital and tangible common equity. However, the economic recovery has been uneven, with industries such **unrealized losses do not affect our regulatory capital ratios** as travel, entertainment, hospitality, and food service lagging. Supply chain disruptions precipitated by the abrupt economic slowdown have contributed to increased costs, lost revenue, and inflationary pressures for many segments of the economy. Further, a significant number of workers left their jobs during **During 2023** the COVID-19 pandemic, **we rebalanced** leading to wage inflation in many industries as businesses attempt to fill vacant positions. The continuation of the COVID-19 pandemic, or the emergence of another health emergency, could (i) reduce the demand for loans and other financial services, (ii) result in increases in loan delinquencies, problem assets, and foreclosures, (iii) cause the value of collateral for loans, especially real estate, to decline in value, (iv) reduce the availability and productivity of our employees, (v) cause our vendors and counterparties to be unable to meet existing obligations to us, (vi) negatively impact the business and operations of third-party service providers that perform critical services for our business, (vii) cause the value of our investment securities portfolio **by selling \$ 102.5 million in book value available-for-sale securities with a weighted average rate of 1.54%, resulting in realized losses of \$ 15.6 million, which are expected to be earned back over approximately 3 years. The net proceeds of the rebalancing were used to pay down FHLB advances and fund newly originated loans. We actively monitor our available-for-sale securities portfolio and we do not currently anticipate the need to realize material losses from the sale of securities for liquidity purposes. Furthermore, we believe it is unlikely that we would be required to sell any such securities before recovery of their amortized cost basis, which may be at maturity. Nonetheless, our access to liquidity sources could be affected by unrealized losses if securities must be sold at a loss; tangible capital ratios continue to decline from**, (viii) and ~~an~~ **cause increase in unrealized losses or realized credit losses; the FHLB or net worth and liquidity of loan guarantors to decline, impairing their other funding sources reduce capacity; or bank regulators impose restrictions on us that impact the level of interest rates we may pay on deposits or our ability to access brokered deposits** honor commitments to us. **Additionally** Any one of the combination of events described above could have a material, **significant unrealized losses could negatively** adverse effect on our business, financial condition, and results of operations. **Credit Risks** We are subject to credit risk, which could adversely affect our profitability. Our business depends on our ability to successfully measure and manage credit risk. As a lender, we are exposed to the risk that the principal of, or interest on, a loan will not be paid timely or at all or that the value of any collateral supporting a loan will be insufficient to cover our outstanding exposure. In addition, we are exposed to risks with respect to the period of time over which the loan may be repaid, risks relating to loan underwriting, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual loans and borrowers. The creditworthiness of a borrower is affected by many factors including local market conditions and general economic conditions. If the overall economic climate in the U. S. generally, or in our market areas specifically, experiences material disruption, **including as a result of the COVID-19 pandemic and related disruptions**, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in

value or become illiquid, and our level of nonperforming loans, charge-offs and delinquencies could rise and require significant additional provisions for **loan-credit** losses. Our risk management practices, such as monitoring the concentrations of our loans and our credit approval, review and administrative practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting related customers and the quality of the loan portfolio. Many of our loans are made to small businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. Consequently, we may have significant exposure if any of these borrowers becomes unable to pay their loan obligations as a result of economic or market conditions, or personal circumstances, such as divorce, unemployment or death. A failure to effectively measure and limit the credit risk associated with our loan portfolio may result in loan defaults, foreclosures and additional charge-offs, and may necessitate that we significantly increase our allowance for **loan-credit** losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and results of operations. A substantial portion of our loans are and will continue to be real estate related loans in the Washington, D. C. metropolitan area. Adverse changes in the real estate market or economy in this area could lead to higher levels of problem loans and charge-offs, adversely affecting our earnings and financial condition. We make loans primarily to borrowers in the Washington, D. C. and Baltimore metropolitan areas, focusing on the Virginia counties of Arlington, Fairfax, Loudoun and Prince William and the independent cities located within those counties, Washington D. C., and its Maryland suburbs, and have a substantial portion of our loans secured by real estate. These concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in such areas, or the continuation of such adverse developments, could increase the levels of nonperforming loans and charge-offs, and reduce loan demand and deposit growth. In that event, we would likely experience lower earnings or losses. Additionally, if economic conditions in the area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, our provision for **loan-credit** losses may increase, the value of collateral may decline and loan demand may be reduced. Increases to our nonperforming assets or other problem assets will have an adverse effect on our earnings. As of December 31, ~~2022~~ **2023**, we had nonperforming loans and loans 90 days or more past due of \$ ~~4.1~~ **5.8** million, or ~~0.24~~ **10** % of total loans, net of deferred fees. ~~At that date, we had two loans considered troubled debt restructurings ("TDRs") totaling \$ 830 thousand.~~ If loans become 90 or more days past due and still accruing and move to nonaccrual ~~loans~~, we will not record interest income on such loans, and may be required to reverse prior accruals, thereby adversely affecting our earnings. If the level of our nonperforming or other problem assets increases, we may be required to make additional provisions for **loan-credit** losses, which will negatively impact our earnings. If we are required to foreclose on any collateral properties securing our loans, we will incur legal and other expenses in connection with the foreclosure and sale process and possible losses on the sale of other real estate owned ("OREO") or other collateral. Additionally, the resolution of nonperforming assets, ~~TDRs~~ and other problem assets requires the active involvement of management, which can distract management from its overall supervision of operations and other income producing activities. **As of December 31, 2023, we had no OREO.** Our concentrations of loans may create a greater risk of loan defaults and losses. A substantial portion of our loans are OREO secured by various types of real estate in the Washington, D. C. metropolitan area and substantially all of our loans are to borrowers in that area. At December 31, ~~2022~~ **2023**, ~~86.87~~ **3.7** % of our total loans were secured by real estate; commercial real estate loans, excluding construction and land development, comprised the largest portion of these loans at ~~59.8~~ **7** % of our portfolio. This concentration exposes us to the risk that adverse developments in the real estate market, or the general economic conditions in our market, could increase our nonperforming loans and charge-offs, reduce the value of our collateral and adversely impact our results of operations and financial condition. Management believes that the commercial real estate concentration risk is mitigated by diversification among the types and characteristics of real estate collateral properties, sound underwriting practices, rigorous portfolio monitoring and ongoing market analysis. Construction and land development loans comprised ~~8.0~~ **1** % of total loans at December 31, ~~2022~~ **2023**. Commercial and industrial loans, ~~excluding PPP~~, comprised ~~13.11~~ **2.8** %, of total loans at December 31, ~~2022~~ **2023**. These categories of loans have historically carried a higher risk of default than other types of loans, such as single family residential mortgage loans. The repayment of these loans often depends on the successful operation of a business or the sale or development of the underlying property, and, as a result, are more likely to be adversely affected by adverse conditions in the real estate market or the economy in general. While we believe that our loan portfolio is well diversified in terms of borrowers and industries, these concentrations expose us to the risk that adverse developments in the real estate market, or in the general economic conditions in the Washington, D. C. metropolitan area, could increase the levels of nonperforming loans and charge-offs, and reduce loan demand. In that event, we would likely experience lower earnings or losses. Additionally, if, for any reason, economic conditions in our market area deteriorate, or there is significant volatility or weakness in the economy or any significant sector of the area's economy, our ability to develop our business relationships may be diminished, the quality and collectability of our loans may be adversely affected, our provision for **loan-credit** losses may increase, the value of collateral may decline and loan demand may be reduced. Commercial real estate loans tend to have larger balances than single family mortgage loans and other consumer loans **because repayment of the loans often depends on the successful operation of the properties and the income stream of the borrowers.** Because the loan portfolio contains a significant number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming assets. **Some segments have shown some signs of weakness as rising expenses and debt costs and lower valuations have impacted credit quality metrics. Vacancy rates have risen in the office sector, which is experiencing significant structural shifts that could take several years to fully materialize as remote work practices normalize.** An increase in nonperforming loans could result in a loss of earnings from these loans, an increase in the provision for **loan-credit** losses, or an increase in loan charge-offs, which could have an adverse impact on our results of

operations and financial condition. Our portfolio of loans to small....., financial condition and results of operations. Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability. The federal banking agencies have issued guidance governing financial institutions that have concentrations in commercial real estate lending. The guidance provides that institutions which have (i) total reported loans for construction, land development, and other land loans which represent 100 % or more of an institution's total risk-based capital; or (ii) total reported commercial real estate loans, excluding loans secured by owner-occupied commercial real estate, representing 300 % or more of the institution's total risk-based capital, where the institution's commercial real estate loan portfolio has increased 50 % or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. We have a concentration in commercial real estate loans, and we have experienced significant growth in our commercial real estate portfolio in recent years. As of December 31, 2022-2023, commercial real estate loans, as defined for regulatory purposes, represented 405-399 % of our total risk-based capital. Of those loans, commercial construction, development and land loans represented 57 % of our total risk based capital. Owner-occupied commercial real estate loans represented an additional 81 % of our total risk based capital. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened portfolio monitoring and reporting, and strong underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, we could be required to maintain higher levels of capital as a result of our commercial real estate concentration, which could limit our growth, require us to obtain additional capital, and have a material adverse effect on our business, financial condition and results of operations. Our portfolio of loans to small and mid-sized community-based businesses may increase our credit risk. Many of our commercial business and commercial real estate loans are made to small business or middle market customers. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the market area in which we operate negatively impact this important customer sector, our results of operations and financial condition may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. The deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations. Our government contractor customers, and businesses in the Washington, D.C. metropolitan area in general, may be adversely impacted by the federal government and a budget impasse. At December 31, 2023-2022, 11-13.8-2 % of our total loans were outstanding to commercial and industrial customers. Of that, approximately 47-40.9-3 % of outstanding commercial and industrial loans are to government contractors or their subcontractors specializing in the defense and homeland security and defense readiness sectors, and we have commitments of \$ 311-305.4-1 million to such borrowers. We are actively seeking to expand our exposure to this business segment. While we believe that our loans to government contractor customers are unlikely to experience more than a delay in payment as a result of government shutdowns, the current emphasis on defense readiness presents an opportunity for many of our customers. In the event of a government shutdown, this could cause these customers to have their government contracts reduced or terminated for convenience, or have payments delayed, causing a loss of anticipated revenues or reduced cash flow, resulting in an increase in credit risk, and potentially defaults by such customers on their respective loans. Our government contractor customers could also withdraw their deposit balances during a shutdown to fund current operations, resulting in additional liquidity risk. Additionally, temporary layoffs, salary reductions or furloughs of government employees or government contractors could have adverse impacts on other businesses in our market and the general economy of the Washington, D.C. metropolitan area, and may indirectly lead to a loss of revenues by our customers. As a result, a government shutdown could lead to an increase in the levels of past due loans, nonperforming loans, loan loss reserves and charge-offs, and a decline in liquidity. We have extended off-balance sheet commitments to borrowers which expose us to credit and interest rate risk. We enter into off-balance sheet arrangements in the normal course of business to meet the financing needs of our customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit and guarantees which would impact our liquidity and capital resources to the extent customers accept or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and guarantees written is represented by the contractual or notional amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Our allowance for credit losses may be inadequate to absorb actual losses inherent in the loan portfolio, which could have a material adverse effect on our business, financial condition and results of operations. Experience in the banking industry indicates that a portion of our loans will become delinquent, and that some may only be partially repaid or may never be repaid at all. We maintain may experience losses for reasons beyond our control, such as the impact of general economic conditions on customers and their businesses. In determining the size of our allowance for credit losses in, we rely on an analysis of our loan amount that is believed to be appropriate to provide for expected losses inherent in the portfolio considering historical. We have a proactive program to monitor credit quality and to identify loans that may become non-performing; however, at any time there could be loans in the portfolio that may result in losses -- loss experience, volume and types of but that have not been identified as non-performing or potential problem credits. We may be unable to identify all deteriorating credits prior to them becoming non-performing assets, or to limit losses on those loans that are identified. As a result, trends future additions to the allowance may be necessary. Additionally, future additions to the allowance may be required based on changes in the forecasted classification, volume and trends in delinquencies and nonaccruals, economic conditions and changes in the other pertinent information loans comprising the portfolio and changes in the financial condition of borrowers, or as a result of

assumptions used by management in determining the allowance. Although we endeavor to maintain our allowance for credit losses at a level adequate to absorb any **inherent** losses in the loan portfolio, the determination of the appropriate level of the allowance for credit losses is inherently highly subjective and requires us to make significant estimates of and assumptions regarding current credit risk and future trends, and the accuracy of our judgments depends on the outcome of future events. Further, despite our underwriting criteria and historical experience, we may be particularly susceptible to losses due to: (i) the geographic concentration of our loans, (ii) the concentration of higher risk loans, such as commercial real estate, and commercial and industrial loans, and (iii) the relative lack of seasoning of certain of our loans. Deterioration of economic conditions affecting borrowers, new information regarding existing loans, inaccurate management assumptions, identification of additional problem loans and other factors, both within and outside of our control, may result in our experiencing higher levels of nonperforming assets and charge-offs, and incurring credit losses in excess of our current allowance for credit losses, requiring us to make material additions to our allowance for credit losses, **which could have a material adverse effect on our business, financial condition and results of operations.** Our federal and state banking regulators, as an integral part of their supervisory function, periodically review the **adequacy of our** allowance for credit losses. These regulatory agencies may require us to increase our provision for credit losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. If we need to make significant and unanticipated increases in the loss allowance in the future, or take additional charge-offs for which we have not established adequate reserves, our results of operations and financial condition could be materially adversely affected at that time. Lack of seasoning of our loan portfolio could increase risk of credit defaults in the future. As a result of our organic growth over the past several years, as of December 31, **2023-2022**, approximately \$ **1.0605** billion, or **57-56.8-9**%, of the loans in our loan portfolio **(excluding PPP loans)** were first originated during the past three years. The average age by loan type for loans originated in the past three years is: commercial real estate loans — **1.76-30** years; commercial and industrial loans — **1.45-46** years; commercial construction loans — **1-0.44-89** years; consumer residential loans — **1.54-14** years; and consumer nonresidential loans — **1.34-48** years. In general, loans do not begin to show signs of credit deterioration or default until they have been outstanding for some period of time, a process referred to as "seasoning." As a result, a portfolio of older loans will usually behave more predictably than a newer portfolio. Therefore, the recent and current level of delinquencies and defaults may not represent the level that may prevail as the portfolio becomes more seasoned and may not serve as a reliable basis for predicting the health and nature of our loan portfolio, including net charge-offs and the ratio of nonperforming assets in the future. Our limited experience with these loans may not provide us with a significant history with which to judge future collectability or performance. However, we believe that our stringent credit underwriting process, our ongoing credit review processes, and our history of successful management of our loan portfolio, mitigate these risks. Nevertheless, if delinquencies and defaults increase, we may be required to increase our provision for **credit-loan** losses, which could have a material adverse effect on our business, financial condition and results of operations. Strategic Risks We operate in a highly competitive market and face increasing competition from a variety of traditional and new financial services providers, which could adversely impact our profitability. The banking business is highly competitive. We compete as a financial intermediary with other commercial banks, savings banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds and other financial institutions operating in the Washington, D.C. metropolitan area and elsewhere, as well as nontraditional competitors such as fintech companies and internet-based lenders, depositories and payment systems. Our profitability depends upon our continued ability to successfully compete with traditional and new financial services providers, some of which maintain a physical presence in our market areas and others of which maintain only a virtual presence. Our primary market area is a highly competitive, highly branched, banking market. Competition in the market area for loans to small and middle-market businesses and professionals, our target market, is intense and pricing is important. Several of our competitors have substantially greater resources and lending limits than us, and offer certain services, such as extensive and established branch networks and trust services, that we do not currently provide or currently expect to provide in the near future. Moreover, larger institutions operating in the Washington, D.C. metropolitan area may have access to borrowed funds at a lower cost than will be available to us. Additionally, deposit competition among institutions in the market area is strong. Increased competition could require us to increase the rates we pay on deposits or lower the rates that we offer on loans, which could reduce our profitability. Our failure to compete effectively in our market could restrain our growth or cause us to lose market share, which could have a material adverse effect on our business, financial condition and results of operations. The success of our growth strategy depends, in part, on our ability to identify and retain individuals with experience and relationships in our market. Our success depends, in large part, on our management team and key employees. The loss of any of our management team or our key employees could materially adversely affect our ability to execute our business strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able to retain the services of any members of our management team or other key employees. Failure to attract and retain a qualified management team and qualified key employees could have a material adverse effect on our business, financial condition and results of operations. In order to continue to grow successfully, we must also identify and retain experienced **banking-loan** officers with local expertise and relationships. We expect that competition for experienced loan **and deposit** officers will continue to be intense and that there will be a limited number of qualified loan officers with knowledge of, and experience in, the community banking industry in our market area. Even if we identify individuals that we believe could assist us in building our franchise, we may be unable to recruit these individuals away from their current banks. In addition, the process of identifying and recruiting loan officers with the combination of skills and attributes required to carry out our strategy is often lengthy. Our inability to identify, recruit and retain talented personnel could limit our growth and could adversely affect our business, financial condition and results of operations. The lack of acquisition opportunities in the future, or our inability to successfully bid for such opportunities as are available, could result in a slower pace of growth. We may not be able to successfully manage continued growth. As our capital base grows, so does our legal lending

limit. We cannot be certain as to our ability to manage increased levels of assets and liabilities, or to successfully make and supervise higher balance loans. Further, we may not be able to maintain the relatively low number and level of nonperforming loans and charge-offs that we have experienced. We may be required to make additional investments in equipment, software, physical facilities and personnel to accumulate and manage higher asset levels and loan balances, which may adversely impact earnings, shareholder returns, and our efficiency ratio. Increases in operating expenses or nonperforming assets may have an adverse impact on the value of our common stock. There can be no assurance that we will be able to continue to grow and to remain profitable in future periods, or, if profitable, that our overall earnings will remain consistent with our prior results of operations, or increase in the future. A downturn in economic conditions in our market, particularly in the real estate market, heightened competition from other financial services providers, an inability to retain or grow our core deposit base, regulatory and legislative considerations, a failure to maintain adequate internal controls and compliance processes, and failure to attract and retain high-performing talent, among other factors, could limit our ability to grow assets, or increase profitability, as rapidly as we have in the past. Sustainable growth requires that we manage our risks by following prudent loan underwriting standards, balancing loan and deposit growth **without materially increasing interest rate risk or compressing our net interest margin, maintaining more than adequate capital at all times, hiring and retaining qualified employees and successfully implementing our strategic initiatives. Our failure to sustain our historical rate of growth or adequately manage the factors that have contributed to our growth could have a material adverse effect on our earnings and profitability and therefore on our business, financial condition and results of operations** We may face risks with respect to future expansion or acquisition activity. We selectively seek to expand our banking operations through limited de novo branching or opportunistic acquisition activities. We cannot be certain that any expansion activity, through de novo branching, acquisition of branches of another financial institution or a whole institution, or the establishment or acquisition of nonbanking financial service companies, will prove profitable or will increase shareholder value. The success of any acquisition will depend, in part, on our ability to realize the estimated cost savings and revenue enhancements from combining our business and that of the target company. Our ability to realize increases in revenue will depend, in part, on our ability to retain customers and employees, and to capitalize on existing relationships for the provision of additional products and services. If our estimates turn out to be incorrect or we are not able to successfully combine companies, the anticipated cost savings and increased revenues may not be realized fully or at all, or may take longer to realize than expected. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business, diversion of management attention, or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. As with any combination of banking institutions, there also may be disruptions that cause us to lose customers or cause customers to withdraw their deposits. Customers may not readily accept changes to their banking arrangements that we make as part of or following an acquisition. Additionally, the value of an acquisition to us is dependent on our ability to successfully identify and estimate the magnitude of any asset quality issues of acquired companies. We may not be successful in overcoming these risks or other problems encountered in connection with potential acquisitions or other expansion activity. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy and enhance shareholder value, which, in turn, could have a material adverse effect on our business, financial condition or results of operations. Additionally, at December 31, ~~2022~~ **2023**, we had \$ 7.2 million of goodwill related to our acquisition of Colombo. Goodwill and other intangible assets are tested for impairment on an annual basis or when facts and circumstances indicate that impairment may have occurred. Our financial condition and results of operations may be adversely affected if that goodwill is determined to be impaired, which would require us to take an impairment charge. New lines of business, products, product enhancements or services may subject us to additional risk. From time to time, we may implement new lines of business or offer new products and product enhancements as well as new services within our existing lines of business. There are substantial risks and uncertainties associated with these efforts. In developing, implementing or marketing new lines of business, products, product enhancements or services, we may invest significant time and resources. We may underestimate the appropriate level of resources or expertise necessary to make new lines of business or products successful or to realize their expected benefits. We may not achieve the milestones set in initial timetables for the development and introduction of new lines of business, products, product enhancements or services, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the ultimate implementation of a new line of business or offerings of new products, product enhancements or services. Any new line of business, product, product enhancement or service could have a significant impact on the effectiveness of our system of internal controls. We may also decide to discontinue businesses or products, due to lack of customer acceptance or profitability. Failure to successfully manage these risks in the development and implementation of new lines of business or offerings of new products, product enhancements or services could have a material adverse effect on our business, financial condition and results of operations. **Liquidity Risks** We may not be able..... to provide adequate funding for operations. **Operational Risks** We depend on information technology and telecommunications systems of third parties, and any systems failures or interruptions could adversely affect our operations and financial condition. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems. We outsource many of our major systems, such as data processing, deposit processing, loan origination, email and anti-money laundering monitoring systems. ~~Of particular significance is our long-term contract for core data processing services with Fidelity National Information Services, Inc.~~ The failure of these systems, or the termination of a third party software license or service agreement on which any of these systems is based, could interrupt our operations, and we could experience difficulty in implementing replacement solutions. In many cases, our operations rely heavily on secured processing, storage and transmission of information and the monitoring of a large number of transactions on a minute-by-minute basis, and even a short interruption in service could have significant consequences. Because our information technology and telecommunications systems interface

with and depend on third party systems, we could experience service denials if demand for such services exceeds capacity or such third party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, failure of third parties to comply with applicable laws and regulations, or fraud or misconduct on the part of employees of any of these third parties, could disrupt our operations or adversely affect our reputation. We are subject to cybersecurity risks and security breaches and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents, and we may experience harm to our reputation and liability exposure from security breaches. Our business involves the storage and transmission of customers' proprietary information and security breaches could expose us to a risk of loss or misuse of this information, litigation and potential liability. While we have incurred no material cyber- attacks or security breaches to date, a number of other financial services and other companies have disclosed cyber- attacks and security breaches, some of which have involved intentional attacks. Attacks may be targeted at us, our customers or both. Although we devote significant resources to maintain, regularly update and backup our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us or our customers, our security measures may not be effective against all potential cyber- attacks or security breaches. Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate, or implement effective preventive measures against, all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber- attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. These risks may increase in the future as we continue to increase our internet- based product offerings and expand our internal usage of web-based products and applications. If an actual or perceived security breach occurs, customer perception of the effectiveness of our security measures could be harmed and could result in the loss of customers. A successful penetration or circumvention of the security of our systems, including those of third party providers or other financial institutions, or the failure to meet regulatory requirements for security of our systems, could cause serious negative consequences, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage to our computers or systems or those of our customers or counterparties, significant increases in compliance costs (such as repairing systems or adding new personnel or protection technologies), and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation and regulatory exposure, and harm to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations. Failure to keep up with the rapid technological changes in the financial services industry could have a material adverse effect on our competitive position and profitability. The financial services industry is undergoing rapid technological changes, with frequent introductions of new technology driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements than we have. We may not be able to implement new technology driven products and services effectively or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could harm our ability to compete effectively and could have a material adverse effect on our business, financial condition or results of operations. As these technologies are improved in the future, we may be required to make significant capital expenditures in order to remain competitive, which may increase our overall expenses and have a material adverse effect on our business, financial condition and results of operations. **A successful penetration or circumvention of the..... financial condition and results of operations.** Our risk management framework may not be effective in mitigating risks and / or losses to us. Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences. **We are at risk of increased losses from fraud. Fraudulent activity that may be committed against us or our customers may result in financial losses or increased costs to us. Criminals are committing fraud at an increasing rate and are using more sophisticated techniques. Such fraudulent activity has taken many forms, ranging from wire fraud, debit card fraud, check fraud, mechanical devices attached to ATMs, social engineering and phishing attacks to obtain personal information, business email compromise, or impersonation of clients through the use of falsified or stolen credentials. While we have policies and procedures, as well as fraud detection tools, designed to prevent fraud losses, such policies, procedures and tools may be insufficient to accurately detect and prevent fraud. A significant increase in fraudulent activities could lead us to take additional steps to reduce fraud risk, which could increase our costs. Fraud losses may materially and adversely affect our business, financial condition, and results of operations.** We may be adversely affected by the soundness of other financial institutions. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry

generally, could lead to market- wide liquidity problems and losses or defaults by us or other institutions. These losses ~~could have a material adverse effect on our business, financial condition and results of operations. If we fail to design and maintain effective internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which could have a material adverse effect on us. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with U. S. generally accepted accounting principles (" GAAP"). Effective internal control over financial reporting is necessary for us to provide reliable reports and prevent fraud. We believe that a control system, no matter how well designed and managed, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. We may not be able to identify all significant deficiencies and/ or material weaknesses in our internal control system in the future, and our failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes- Oxley Act and FDIC regulations~~ could have a material adverse effect on our business, financial condition and results of operations. Litigation and regulatory actions, including possible enforcement actions, could subject us to significant fines, penalties, judgments or other requirements resulting in increased expenses or restrictions on our business activities. In the normal course of business, from time to time, we may be named as a defendant in various legal actions, arising in connection with our current and / or prior business activities. Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. Further, we may in the future be subject to consent orders or other formal or informal enforcement agreements with our regulators. We may also, from time to time, be the subject of subpoenas, requests for information, reviews, investigations and proceedings (both formal and informal) by governmental agencies regarding our current and / or prior business activities. Any such legal or regulatory actions may subject us to substantial compensatory or punitive damages, significant fines, penalties, obligations to change our business practices or other requirements resulting in increased expenses, diminished income and damage to our reputation. Our involvement in any such matters, whether tangential or otherwise, and even if the matters are ultimately determined in our favor, could also cause significant harm to our reputation and divert management attention from the operation of our business. Further, any settlement, consent order, other enforcement agreement or adverse judgment in connection with any formal or informal proceeding or investigation by government agencies may result in litigation, investigations or proceedings as other litigants and government agencies begin independent reviews of the same activities. As a result, the outcome of legal and regulatory actions could have a material adverse effect on our business, financial condition and results of operations. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to environmental, social and governance (" ESG ") practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to ESG practices and disclosure. **In March 2024, the SEC adopted rules requiring public companies, such as the Company, to provide climate- related disclosures in their annual reports and registration statements.** Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to climate risk, hiring practices, the diversity of the work force, and racial and social justice issues. 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, ability 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. Risks Related to Our Securities We may need to raise additional capital in the future, and we may not be able to do so. Access to sufficient capital is critical in order to enable us to implement our business plan, support our business, expand our operations and meet applicable capital requirements. The inability to have sufficient capital, whether internally generated through earnings or raised in the capital markets, could adversely impact our ability to support and to grow our operations. If we grow our operations faster than we generate capital internally, we will need to access the capital markets. We may not be able to raise additional capital in the form of additional debt or equity on acceptable terms, or at all. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, our financial condition and our results of operations. Economic conditions and a loss of confidence in financial institutions may increase our cost of capital and limit access to some sources of capital. Further, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse impact on our business, financial condition and results of operations. We have no current plans to pay cash dividends. Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. The Bank is our primary operating business and the source of substantially all of our earnings, and our ability to pay dividends will be subject to the earnings, capital levels, capital needs and limitations relating to the payment of dividends by the Bank to us. The amount of dividends that a bank may pay is limited by state and federal laws and regulations. While we have sufficient retained earnings and expect our future earnings to be sufficient to pay cash dividends, our board of directors currently intends to retain earnings for the purpose of financing growth. In addition, we are a bank holding company, and our ability to declare and pay dividends to our shareholders is dependent on federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that bank holding companies should generally pay dividends on common stock only out of earnings, and only if prospective earnings retention is consistent with the organization' s expected future needs, asset quality and financial condition. Risks Related to Our Industry We operate in a highly regulated industry and the laws and regulations that govern our operations, corporate governance, executive compensation and financial accounting or reporting, including changes in them or our failure to comply with them, may adversely affect our results of

operations. We are subject to extensive regulation and supervision that govern almost all aspects of our operations. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on our business activities, limit the dividends or distributions that we can pay, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than **US generally accepted accounting principles ("GAAP")**. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. We face increasing regulation and supervision of our industry. The Dodd- Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations, or regulatory policies, or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect us in substantial and unpredictable ways. Such additional regulation and supervision has increased, and may continue to increase, our costs and limit our ability to pursue business opportunities. Further, our failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition. ~~We may be required to act as a source of financial and managerial strength for our Bank in times of stress. Under federal law and long-standing Federal Reserve policy, we, as a bank holding company, are required to act as a source of financial and managerial strength to the Bank and to commit resources to support the Bank if necessary. We may be required to commit additional resources to the Bank at times when we may not be in a financial position to provide such resources or when it may not be in our, or our shareholders' or creditors', best interests to do so. A requirement to provide such support is more likely during times of financial stress for us and the Bank, which may make any capital we are required to raise to provide such support more expensive than it might otherwise be. In addition, any capital loans we make to the Bank are subordinate in right of repayment to deposit liabilities of the Bank.~~ 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. The nature of our business makes us sensitive to the large body of accounting rules in the U. S. From time to time, the governing bodies that oversee changes to accounting rules and reporting requirements may release new guidance for the preparation of our financial statements. These changes can materially impact how we record and report our financial condition and results of operations. ~~For example, we are required to adopt the CECL model on January 1, 2023, which will require us to calculate the allowance for credit losses on the basis of the current expected credit losses over the lifetime of our loans. The Company adopted Accounting Standards Update ("ASU") 2016-13 as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment recorded at adoption was not significant to the overall allowance for credit losses or shareholders' equity as compared to December 31, 2022 and consisted of adjustments to the allowance for credit losses on loans as well as an adjustment to the Company's reserve for unfunded commitments.~~ In some instances, we could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements. These changes could adversely affect our capital, regulatory capital ratios, ability to make larger loans, earnings and performance metrics. Any such changes could have a material adverse effect on our business, financial condition and results of operations. Regulatory initiatives regarding bank capital requirements may require heightened capital. We are subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and / or other regulatory requirements, our financial condition would be materially and adversely affected. The Basel III rules require bank holding companies and their subsidiaries to maintain significantly more capital as a result of higher required capital levels and more demanding regulatory capital risk weightings and calculations. The Bank must also comply with the capital requirements set forth in the " prompt corrective action " regulations pursuant to Section 38 of the FDIA. Satisfying capital requirements may require us to limit our banking operations, retain net income or reduce dividends to improve regulatory capital levels, which could negatively affect our business, financial condition and results of operations. Our use of third party vendors and our other ongoing third party business relationships are subject to increasing regulatory requirements and attention. We regularly use third party vendors in our business and we rely on some of these vendors for critical functions including, but not limited to, our core processing function. Third party relationships are subject to increasingly demanding regulatory requirements and attention by bank regulators. We expect our regulators to hold us responsible for deficiencies in our oversight or control of our third party vendor relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or that such vendors have not performed adequately, we could be subject to administrative penalties or fines as well as requirements for consumer remediation, any of which could have a material adverse effect on our business, financial condition and results of operations. General Risks Severe weather, natural disasters, geopolitical conditions, acts of war or terrorism, public health issues, and other external events could significantly impact our business. Severe weather, natural disasters, geopolitical conditions, acts of war or terrorism, public health issues, and other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and / or cause us to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.