Risk Factors Comparison 2024-03-06 to 2023-03-08 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. You should carefully consider these risks, together with all of the information included herein. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition or results of operations. SUMMARY Risk FactorDescription ~~•~~ • Credit RisksBorrowers or counterparties may be unable or unwilling to repay their obligations to us in accordance with the underlying contractual terms which could lead to unexpected losses. ~~•~~ • Interest Rate RisksFluctuations in interest rates may reduce our earnings or the value of our financial instruments. • ~~• Reference Rate ReformWe have financial instruments – including loans, securities, debt, and interest rate swaps – that include LIBOR as a " benchmark " or " reference rate ". The phase- out of LIBOR may adversely impact the value of, return on, and market for our LIBOR- based financial instruments or lead to disputes or litigation with counterparties. •~~ Liquidity RisksAn inability to obtain liquid funds at a reasonable price to timely meet our financial obligations may have a material adverse impact on our operations and jeopardize our business. ~~•~~ • Technology and Cybersecurity RisksOur business is highly dependent upon secure and uninterrupted information technology systems. A disruption or breach to these systems may have a material adverse impact on our business. ~~•~~ • Legal and Regulatory Compliance RisksThe banking industry is highly regulated. Failure to comply with **regulatory capital requirements, changes in** the **United States' monetary policy, legislative and regulatory actions taken now or in the future regarding the financial services industry, financial reform legislation and increased regulatory rigor around consumer protection mortgage- related issues, or federal, state and local consumer lending** laws ~~and regulations to which we are subject, or changes in them,~~ may adversely impact us. ~~•~~ • Business StrategyOur strategy of pursuing growth via suitable acquisitions exposes us to heightened operational risks and could have a material adverse impact on our financial condition, results of operations, and growth prospects. ~~•~~ • Ownership of Our Common StockOur principal stockholder, Heartland Bancorp, Inc. Voting Trust U / A / D 5 / 4 / 2016, has significant influence over us, and its interests could conflict with those of our other stockholders. ~~•~~ • External RisksAdverse changes in the economic conditions, particularly such changes in the Illinois and Iowa markets we operate, may adversely impact our borrowers and our business. CREDIT ~~RISKSWe~~ -- **RISKS We** may not be able to adequately measure and limit our credit risk, which could lead to unexpected losses. 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 repaid 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 proper 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 our market areas, specifically, experience a material disruption, our borrowers may experience difficulties in repaying their loans, the collateral we hold may decrease in value or become illiquid, and the level of nonperforming loans, charge- offs and delinquencies could rise and require significant additional provisions for credit losses. In general, these risks have increased as a result of the recent increases in prevailing interest rates ~~and uncertainties associated with inflation~~, which have potentially increased the risk of a near- term decline in growth or an economic downturn. Our risk management practices, such as monitoring the concentration of our loans within specific industries 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 customers and the quality of the loan portfolio **. Moreover, default risk may arise from events or circumstances that are difficult to detect, such as fraud, or difficult to predict, such as the impact of catastrophic events on certain industries** . 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 credit losses, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have an adverse effect on our business, financial condition and results of operations. ~~Our allowance for credit losses may prove to be insufficient to absorb potential losses in our loan portfolio. As of and prior to December 31, 2022, the Company estimated and established an allowance for loan losses using an incurred loss method which considered historical losses and qualitative adjustments for current conditions. Effective January 1, 2023 and after, with the adoption of ASU 2016- 13 which is commonly referred to as the current expected credit losses (" CECL ") model, our allowance for credit losses will be estimated using a lifetime expected loss method which considers historical losses, qualitative adjustments for current conditions, and reasonable and supportable forecasts. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and held- to- maturity debt securities, at the net amount expected to be collected. The CECL model also requires that an allowance for credit losses be established for any unfunded loan commitments that are not cancelable. The measurement of expected credit losses requires significant use of management judgments and is based on information from past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model previously required under accounting principles generally accepted in the United States of America (" GAAP "), which delayed recognition until it is probable a loss has been incurred. Accordingly, the adoption of the CECL model materially affected how we determine our allowance for credit losses and could require us to significantly increase our~~

~~allowance in future periods. Moreover, the CECL model may create more volatility in the level of the allowance for credit losses. 23Although management believes that its credit loss estimates are appropriate, such estimates may prove to be insufficient. As a result, we may be required to recognize additional provisions for credit losses in the future to further supplement the allowance for credit losses, either due to management' s decision or because our banking regulators require us to do so. These adjustments may adversely affect our business, financial condition and results of operations.~~ The small to midsized businesses to which we lend may have fewer resources to weather adverse business developments, which may impair a borrower' s ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition. We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid- sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, can have less access to capital sources and loan facilities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete, and may experience substantial volatility in operating results, any of which may impair a borrower' s ability to repay a loan. In addition, the success of a small ~~and~~ **or** medium- sized business often depends on the management talents and efforts of one **person** ~~or two people~~ or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate or any of our borrowers otherwise are affected by adverse business developments, our small to mid- sized borrowers may be disproportionately affected and their ability to repay outstanding loans may be negatively affected, resulting in an adverse effect on our results of operations and financial condition. We depend on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions, and in evaluating and monitoring our loan portfolio on an ongoing basis, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers or counterparties or of other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate, incomplete, fraudulent or misleading financial statements, credit reports or other financial or business information, or the failure to receive such information on a timely basis, could result in credit losses, reputational damage or other effects that could have a material adverse effect on our business, financial condition or results of operations. The appraisals and other valuation techniques we use in evaluating and monitoring loans secured by real property, foreclosed real estate and other repossessed assets may not accurately describe the fair value of the asset. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and real estate values may change significantly in relatively short periods of time (especially in periods of heightened economic uncertainty). Therefore, this estimate may not accurately describe the fair value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. We also rely on appraisals and other valuation techniques to establish the value of real estate and personal property that we acquire through foreclosure proceedings and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our foreclosed assets, and our allowance for credit losses may not be accurate. This could have a material adverse effect on our business, financial condition or results of operations. ~~24We~~ **We** are subject to environmental liability risk associated with lending activities. A significant portion of our loan portfolio is, and is expected to be, secured by real property and during the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In addition, we own the vast majority of our branch properties. If hazardous or toxic substances are found on our foreclosed or branch properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations. The majority of our loan portfolio consists of commercial and regulatory CRE loans, which **may** have a higher degree of risk than **some** other types of loans. Commercial and regulatory CRE loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. ~~For example, the cumulative effects of decreased economic activity, changes in the economy and overall business environment, and labor availability shortages have adversely affected some of our commercial and regulatory CRE loans. This trend may continue or worsen for certain portions of our loan portfolio, depending on the strength of the economy and other factors.~~ Accordingly, a downturn in the real estate market or a challenging business and economic environment may increase our risk related to commercial **and** ~~loans, particularly~~ commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture **. Economic events, including decreases in office occupancy following the COVID- 19 pandemic, or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties** . Our commercial operating loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, this collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower' s ability to repay the loan may be impaired. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily- marketable, losses incurred on a small number of commercial or regulatory CRE loans could have a material adverse impact on our financial condition and results of operations. ~~Additionally, as a result of the recent increase in interest rates and other factors, we have started to observe a decline in the value of some commercial real estate securing these loans.~~ Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects. Real estate construction lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan- to- value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional ~~25amounts~~ -- **amounts** to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it. We provide loans and services to the agriculture industry and the health of this industry is impacted by factors outside our control and the control of our customers. Our loan portfolio includes loans to agricultural producers and loans secured by farmland. In addition, our commercial loan portfolio includes loans to farm implement dealerships, grain elevators and other businesses that provide products and services to agricultural producers. The success of our agricultural loans, and commercial loans serving the agriculture industry, may be adversely affected by many factors outside the control of the borrower, including: ~~●~~ • adverse weather conditions, adverse impacts of climate change, restrictions on water supply or other conditions that prevent the planting of a crop or limit crop yields, or that affect crop harvesting; ~~●~~ • loss of crops or livestock due to disease or other factors; ~~●~~ • declines in the market prices or demand for agricultural products (both domestically and internationally), for any reason; ~~●~~ • increases in production costs (such as the costs of labor, rent, feed, fuel and fertilizer); ~~●~~ • adverse changes in interest rates, currency exchange rates, agricultural land values or other factors that may affect delinquency levels and credit losses on agricultural loans; ~~●~~ • the impact of government policies and regulations (including changes in price supports, subsidies, government- sponsored crop insurance, minimum ethanol content requirements for gasoline, tariffs, trade barriers and health and environmental regulations); ~~●~~ • access to technology and the successful implementation of production technologies; and ~~●~~ • changes in the general economy that could affect the availability of off- farm sources of income and prices of real estate for borrowers. Although we attempt to account for the possibility of such factors in underwriting, structuring and monitoring our agriculture loans, there is no guarantee that our efforts will be successful. As a result, we may experience increased delinquencies or defaults in this portfolio or be required to increase our provision for credit losses, which could have an adverse effect on our business, financial condition and results of operations. Additionally, we provide farm management advice, engage in farmland sale services, and arrange for crop insurance as part of our wealth management services. Decreases in commodity prices or lower crop yields may result in a decrease in wealth management fees collected for our agricultural services. INTEREST RATE **RISKS** ~~RISKSFluctuations~~ ----- **Fluctuations** in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations. The majority of our banking assets are monetary in nature and are subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest- bearing liabilities mature or reprice more quickly, or to a greater degree than interest- earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest- earning assets mature or reprice more quickly, or to a greater degree than interest- bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in interest rates may, among other things, reduce the demand for loans, increase the cost of deposit and wholesale funding, reduce our ability to originate loans and decrease prepayments on our loan and securities portfolio. ~~A~~ **Conversely, a** decrease in the general level of interest rates may, among other things, decrease ~~26our~~ -- **our** net interest margin and increase prepayments on our loan and securities portfolios. Although our asset- liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. We may seek to mitigate our interest rate risk by entering into interest rate swaps and other interest rate derivative contracts from time to time with counterparties. Our hedging strategies rely on assumptions and projections regarding interest rates, asset levels and general market factors and subject us to counterparty risk. There is no assurance that our interest rate mitigation strategies will be successful and if our assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that could adversely affect our earnings. The value of the financial instruments we own may decline in the future. An increase in market interest rates may affect the fair value of our securities portfolio, potentially reducing accumulated other comprehensive income ~~and /~~ or earnings. The fair value of these investments may also be affected by factors other than the underlying performance of the issuer of the securities or the mortgages underlying the securities, such as changes in the interest rate environment, negative trends in the residential and commercial real estate markets, ratings downgrades, adverse changes in the business climate and a lack of liquidity for certain investment securities. In addition, we may ~~determine to~~ sell securities in our available- for- sale investment securities portfolio, and any such sale could cause us to realize currently unrealized losses that resulted from the recent increases in the prevailing interest rates. Additionally, an increase in market interest rates may reduce the value of our loan portfolio, although, in accordance with GAAP, such a decline in value may not be reflected in the carrying balance of our loans in the same manner as our debt securities available- for- sale. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations **. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted** . In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U. S. government securities, adjustments to the federal funds target rate, and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. ~~The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.~~ In the current environment, economic and business conditions are significantly affected by U. S. monetary policy, particularly the actions of the Federal Reserve in its effort to fight elevated levels of inflation. The Federal Reserve is mandated to pursue the goals of maximum employment and price stability, and beginning in March 2022 it made a series of significant increases to the target Federal Funds rate as part of an effort to combat elevated levels of inflation affecting the U. S. economy. This has helped drive a significant increase in prevailing interest rates and, while this increased our net interest income, it also ~~lead~~ - **led** to $ 105. 5 million of unrealized losses in the available- for- sale debt securities portfolio during the year ended December 31, 2022, which ~~has~~ negatively affected our tangible book value per share **. Some of this unrealized loss reversed during the year ended December 31, 2023 with a $ 16. 9 million unrealized gain on debt securities available- for- sale** . Higher interest rates can also negatively affect our customers' businesses and financial condition, and the value of collateral securing loans in our portfolio. ~~27Given~~ -- **Given** the complex factors affecting the strength of the U. S. economy, including uncertainties regarding the persistence of inflation **; record- high U. S. credit card debt; increasing delinquencies in mortgages** , **auto loans, and credit cards;** geopolitical developments **,** such as ~~the war in~~ **Russia' s invasion of** Ukraine and ~~resulting disruptions in~~ the **Israeli- Palestinian conflict;** ~~global energy market, the effects of the pandemic in China, and~~ tight labor market conditions **;** and supply chain issues, there is a meaningful risk that the Federal Reserve and other central banks may **continue to** raise interest rates ~~too much~~ **or maintain them at elevated levels** , ~~thereby limiting~~ **which may negatively impact the entire national** ~~economic~~ **economy** ~~growth and potentially causing an economic recession~~ . As noted above, this could decrease loan demand, harm the credit characteristics of our existing loan portfolio and decrease the value of collateral securing loans in the portfolio. **LIQUIDITY** RISKS ~~RELATED TO REFERENCE RATE REFORMWe may be adversely impacted by the transition from LIBOR as a reference rate. The United Kingdom Financial Conduct Authority (the " FCA "), the authority that regulates LIBOR, ceased to publish the 1- week and 2- month U. S. dollar LIBOR at the end of 2021, with the remaining U. S. dollar LIBOR rates ceasing at the end of June 2023. The transition away from LIBOR to alternative reference rates could have a negative impact on the value of, return on, and trading market for the LIBOR- based loans and securities in our portfolio and an adverse impact on the availability and cost of hedging instruments and borrowings. In addition, we may incur expenses if we are required to renegotiate the terms of existing agreements that govern LIBOR- based products as a result of the transition away from LIBOR, and could be subject to disputes or litigation with counterparties regarding the interpretation and enforceability of provisions in existing LIBOR- based products regarding fallback language or other related provisions, as the economies of various alternative reference rates differ from LIBOR. The impact on the valuation, pricing, and operation of our LIBOR- based financial instruments and the cost of transitioning to the use of alternative reference rates is not yet known and could have an adverse effect on our results of operations. We have issued fixed- to- floating subordinated notes which include the Secured Overnight Financing Rate (" SOFR ") as the reference rate during the floating rate period. SOFR differs fundamentally from, and may not be a comparable substitute for, LIBOR. The Alternative Reference Rates Committee (the" ARRC") has selected SOFR as its recommended alternative to LIBOR. However, because SOFR is a broad U. S. Treasury repo financing rate that represents overnight secured funding transactions, it differs fundamentally from LIBOR. For example, SOFR is a secured overnight rate, while LIBOR is an unsecured rate that represents interbank funding over different maturities. In addition, because SOFR is a transaction- based rate, it is backward- looking, whereas LIBOR is forward- looking. Because of these and other differences, there can be no assurance that SOFR will perform in the same way as LIBOR would have done at any time, and there is no guarantee that it is a comparable substitute for LIBOR. LIQUIDITY RISKSLiquidity~~ ----- **Liquidity** risks could affect operations and jeopardize our business, financial condition and results of operations. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and / or investment securities and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits. Such deposit balances can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk / return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low **-** cost source of funds, which ~~would~~ **could** require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income. In addition to our deposit base, our liquidity is provided by cash from operations and investment maturities, redemptions and sales as well as cash flow from loan prepayments and maturing loans that are not renewed. When needed, additional liquidity is sometimes provided by our ability to borrow from the Federal Reserve Bank of Chicago and the Federal Home Loan Bank of Chicago (the" FHLB"), through federal funds lines with ~~28our~~ -- **our** correspondent banks, and through other wholesale funding sources including brokered certificates of deposits or deposits placed with the Certificate of Deposit Account Registry Service. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. In addition, increased competition with ~~the~~ **other** ~~largest~~ banks and ~~Fintechs~~ **FinTechs** for retail deposits may impact our ability to raise funds through deposits and could have a negative effect on our liquidity. For example, as customer deposit levels have decreased over the past **two** ~~year~~ **years**, we have observed that the sensitivity of market deposit rates to changes in prevailing interest rates has increased. Any decline in available funding could adversely impact our ability to continue to implement our business plan, including originating loans, investing in securities, meeting our expenses or fulfilling obligations such as repaying our borrowings and meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, 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 form of debt or equity securities, in the future to have sufficient capital resources to meet our commitments and our regulatory requirements, and to fund our business needs and future growth, particularly if the quality of our assets or earnings were to deteriorate significantly. 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 condition. We may not be able to obtain capital on acceptable terms or at all. Any occurrence that may limit our access to capital, such as a decline in the confidence of debt purchasers, depositors of the Bank or counterparties participating in the capital markets or other disruption in capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. 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. In particular, if we were required to raise additional capital in the current interest rate environment, we believe the pricing and other terms investors may require in such an offering may not be attractive to us. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition or results of operations. We may be adversely affected by changes in the actual or perceived soundness or condition of other financial institutions. Financial institutions are interconnected as a result of trading, investment, liquidity management, clearing, counterparty and other relationships. Concerns about, or a default by, one institution could lead to significant liquidity problems and losses or defaults by other institutions, as the commercial and financial soundness of many financial institutions is closely related as a result of these credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market- wide liquidity problems and losses or defaults by various institutions. This systemic risk may adversely affect financial intermediaries with which we interact on a daily basis or key funding providers such as the FHLB, any of which could have a material adverse effect on our access to liquidity or otherwise have a material adverse effect on our business, financial condition or results of operations. Loss of customer deposits could increase our funding costs. We rely on deposits as a low cost and stable source of funding. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our business, financial condition, and results of operations. ~~29TECHNOLOGY~~ -- **TECHNOLOGY** AND CYBERSECURITY ~~RISKSThe~~ --- **RISKS The** occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity- related incidents could have a material adverse effect on our business, financial condition or results of operations. As a financial institution, we are susceptible to fraudulent activity, information security breaches and cybersecurity- related incidents that may be committed against us or our customers, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity- related incidents may include fraudulent or unauthorized access to systems used by us or our customers, denial or degradation of service attacks, and malware or other cyber- attacks. There continues to be a rise in electronic fraudulent activity, security breaches and cyber- attacks within the financial services industry, ~~especially in the commercial banking sector due to~~ **including as a result of increasingly sophisticated methods of conducting** cyber ~~criminals targeting commercial bank accounts~~ **- attacks, including those employing artificial intelligence**. Moreover, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers and employees and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches, which could increase their risks of identity theft and other fraudulent activity that could involve their accounts with us. We also face risks related to cyber- attacks and other security breaches in connection with debit card and credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including retailers and payment processors. Some of these parties have in the past been the target of security breaches and cyber- attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber- attacks affecting any of these third parties could affect us through no fault of our own. In some cases, we may have exposure and suffer losses for breaches or attacks relating to them, including costs to replace compromised debit and credit cards and to address fraudulent transactions. We depend on information technology and telecommunications systems of third parties, and any systems failures, interruptions or data breaches involving these systems could adversely affect our operations and financial condition. Our business is highly dependent on the secure and uninterrupted functioning of our information technology and telecommunications systems, third- party servicers, accounting systems, digital banking platforms and financial intermediaries. We outsource to third parties many of our major systems, such as digital banking and card processing systems. 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. 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 sustained or repeated, a system failure or service denial could result in a deterioration of our ability to process loans or gather deposits and provide customer service, compromise our ability to operate effectively, result in potential noncompliance with applicable laws or regulations, damage our reputation, result in a loss of customer business and / or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our 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. It may also be difficult for us to replace some of our third- party vendors, particularly vendors providing our core banking **and** ~~, debit~~ card **processing** ~~and credit card services and information~~ services, in a timely manner if they are unwilling or unable to provide us with these services in the future for any reason and even if we are able to replace them, ~~30it~~ **it** may be at higher cost or result in the loss of customers. Any such events could have a material adverse effect on our business, financial condition or results of operations. Our operations rely heavily on the secure 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. We also interact with and rely on retailers, for whom we process transactions, as well as financial counterparties and regulators. Each of these third parties may be targets of the same types of fraudulent activity, computer break- ins and other cybersecurity breaches described above or herein **, including as a result of increasingly sophisticated methods of conducting cyber- attacks, including those employing artificial intelligence** , and the cybersecurity measures that they maintain to mitigate the risk of such activity may be different than our own and may be inadequate. As a result of financial entities and technology systems becoming more interdependent and complex, a cyber- incident, information breach or loss, or technology failure that compromises the systems or data of one or more financial entities could have a material impact on counterparties or other market participants, including ourselves. Although we review business continuity and backup plans for our vendors and take other safeguards to support our operations, such plans or safeguards may be inadequate. As a result of the foregoing, our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. Our use of third- party vendors and our other ongoing third- party business relationships is subject to increasing regulatory requirements and attention. Our use of third- party vendors for certain information systems is subject to increasingly demanding regulatory requirements and attention by our bank regulators. Regulatory guidance requires us to enhance our due diligence, ongoing monitoring and control over our third- party vendors and other ongoing third- party business relationships. In certain cases we may be required to renegotiate our agreements with these vendors to meet these enhanced requirements, which could increase our costs. **If** ~~Our regulators may hold us responsible for deficiencies in our oversight and control of our third- party 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 other ongoing third- party~~ business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition or results of operations. We continually encounter technological change and may have fewer resources than many of our larger competitors to continue to invest in technological improvements. 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 to 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. We also may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our customers. The widespread adoption of new technologies, including internet services, cryptocurrencies and payment systems, could require us in the future to make substantial expenditures to modify or adapt our existing products and services as we grow and develop new products to satisfy our customers' expectations and comply with regulatory guidance. In addition, we expect that new technologies and business processes applicable to the banking industry will continue to emerge, and these new technologies and business processes may be better than those we currently ~~31use~~ -- **use** . The implementation of technological changes and upgrades to maintain current systems and integrate new ones may cause service interruptions, transaction processing errors and system conversion delays and may cause us to fail to comply with applicable laws. Because the pace of technological change is high and our industry is intensely competitive, we may not be able to sustain our investment in new technology as critical systems and applications become obsolete or as better ones become available. A failure to maintain current technology and business processes could cause disruptions in our operations or cause our products and services to be less competitive, all of which could have a material adverse effect on our business, financial condition or results of operations. LEGAL AND REGULATORY COMPLIANCE ~~RISKSThe~~ --- **RISKS The** banking industry is highly regulated, and the regulatory framework, together with any future legislative or regulatory changes, may have a significant adverse effect on our business, financial condition, results of operations and future prospects. As a bank holding company, we and our subsidiaries are subject to extensive examination, supervision and comprehensive regulation under both federal and state laws and regulations that are intended primarily for the protection of depositors, customers, the DIF and the overall financial stability of the United States, not for the protection of our stockholders and creditors. We are subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC and the IDFPR. The banking laws and regulations applicable to us govern a variety of matters, including, among other things, the types of business activities in which we and our subsidiaries can engage; permissible types, amounts and terms of loans and investments we may make; the maximum interest rate that we may charge; the amount of reserves we must hold against deposits we take; the types of deposits we may accept; maintenance of adequate capital and liquidity; changes in the control of us and the Bank; restrictions on dividends or other capital distributions; and establishment of new offices or branches. These requirements may constrain our operations or require us to obtain approval from our regulators before engaging in certain activities, with no assurance that such approvals may be obtained, either in a timely manner or at all. Also, the burden imposed by those federal and state regulations may place banks in general at a competitive disadvantage compared to their non- bank competitors. Applicable banking laws, regulations, interpretations, enforcement policies, and accounting principles have been subject to significant changes in recent years and may be subject to significant future changes. In addition, regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for bank holding companies in a manner that impacts our ability to implement our strategy and could affect us in substantial and unpredictable ways. Compliance with existing and any potential new or changed regulations, as well as regulatory scrutiny, may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner. Our failure to comply with banking laws, regulations and policies, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, the commencement of informal or formal enforcement actions against us, and other negative consequences, including reputational damage, any of which could adversely affect our business, financial condition, results of operations, capital base and the price of our securities. Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings. The Federal Reserve (with respect to us) and the FDIC and the IDFPR (with respect to the Bank) periodically examine our business, including our compliance with applicable laws and regulations. These regulatory agencies have extremely broad discretion in their interpretation of regulations and laws, and in their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, lending practices, investment practices, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a ~~32number~~ -- **number** of different remedial actions as it deems appropriate. These actions include the power to enjoin" unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition, results of operations and growth prospects. ~~Prior to October 11, 2019, we were treated as an S Corp, and claims of taxing authorities related to our prior status as an S Corp could harm us. Effective October 11, 2019, the Company revoked its S Corp status and became a taxable entity that is subject to U. S. federal income tax. If the unaudited, open tax years in which we were an S Corp are audited by the IRS and we are determined not to have qualified for, or to have violated, our S Corp status, we will be obligated to pay back taxes, interest and penalties. The amounts that we would be obligated to pay could include tax on all of our taxable income while we were an S Corp. Any such claims could result in additional costs to us and could have a material adverse effect on our results of operations and financial condition. We could become obligated to make payments to the pre- IPO stockholders for any additional federal, state or local income taxes assessed against such pre- IPO stockholder for tax periods prior to the completion of the IPO. Prior to October 11, 2019, we were treated as an S Corp for U. S. federal income tax purposes. Because we had been an S Corp, our pre- IPO stockholders had been taxed on our income as individuals. Therefore each pre- IPO stockholder has received certain distributions (" tax distributions") from us that were generally intended to equal the amount of tax such was required to pay with respect to our income. In connection with the IPO, our S Corp status was terminated and we are now subject to federal and increased state income taxes. In the event of an adjustment to our reported taxable income for periods prior to termination of our S Corp status, it is possible that each pre- IPO stockholder will be liable for additional income taxes for those prior periods. Pursuant to the Amended Restated Stockholder Agreement, upon our filing any tax return (amended or otherwise), in the event of any restatement of our taxable income or pursuant to a determination by, or a settlement with, a taxing authority, for any period during which we were an S Corp, depending on the nature of the adjustment we may be required to make a payment to each of the pre- IPO stockholders in an amount equal to such pre- IPO stockholder' s incremental tax liability, which amount may be material. In addition, we agreed to indemnify each pre- IPO stockholder with respect to unpaid income tax liabilities to the extent that such unpaid income tax liabilities are attributable to an adjustment to our taxable income for any period after our S Corp status terminates. In both cases, the amount of the payment would assume that such pre- IPO stockholder is taxed at the highest rate applicable to individuals for the relevant periods. We also agreed to indemnify each pre- IPO stockholder for any interest, penalties, losses, costs or expenses arising out of any claim under the agreement. However, each pre- IPO stockholder agreed to indemnify us with respect to our unpaid tax liabilities (including interest and penalties) to the extent that such unpaid tax liabilities are attributable to a decrease in the shareholder' s taxable income for any for tax period and a corresponding increase in the Company' s taxable income for any period.~~ We are subject to capital adequacy requirements and may be subject to more stringent capital requirements and, if we fail to meet these requirements, we will be subject to restrictions on our ability to make capital distributions and other restrictions. The Basel III Rule require us to maintain a minimum Common Equity Tier 1 capital ratio of 4. 5 %, a minimum total Tier 1 capital ratio of 6 %, a minimum total capital ratio of 8 % and a minimum Tier 1 leverage ratio of 4 %, and a capital conservation buffer of greater than 2. 5 % of riskweighted assets (the" Capital Conservation Buffer"). Failure to maintain the Capital Conservation Buffer would result in increasingly stringent restrictions on our ability to make dividend payments and other capital distributions and to pay discretionary bonuses to ~~33our~~ -- **our** executive officers. See" Supervision and Regulation — The Role of Capital" for more information on the capital adequacy standards that we must meet and maintain. While we currently meet the requirements of the Basel III Rule, we may fail to do so in the future and may be unable to raise additional capital to remediate any capital deficiencies. The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities or restricting the commencement of new activities, including our growth initiatives, and could affect customer and investor confidence, our costs of funds and level of required deposit insurance assessments to the FDIC, our ability to pay dividends on our capital stock, our ability to make acquisitions, and our business, results of operations and financial conditions generally. Future legislative or regulatory change could impose higher capital standards on us or the Bank. The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. The Federal Reserve may require us to commit capital resources to support the Bank. Federal law requires a bank holding company to act as a source of financial and managerial strength to its subsidiary ~~banks~~ - **bank** , and to commit resources to support such subsidiary ~~banks~~ - **bank** . Under the" source of strength" doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the Company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary ~~banks~~ - **bank** are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company' s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution' s general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection into the Bank could be more difficult and expensive to obtain and could have an adverse effect on our business, 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 or that it will adequately mitigate any risk or loss to us. If our 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. Future consumer legislation or regulation could harm our performance and competitive position. The Dodd- Frank Act established the CFPB as an independent federal agency that has broad rulemaking authority over consumer financial products and services for all financial institutions, including deposit products, residential mortgages, home- equity loans and credit cards. In addition, the CFPB also has exclusive supervisory and examination authority and primary enforcement authority with respect to various federal consumer financial laws and regulations for insured depository institutions with more than $ 10 billion in total consolidated assets. The Bank is not subject to the examination and supervisory authority of the CFPB because it has less than $ 10 billion in total assets, but it is required to comply with the rules and regulations issued by the CFPB. The FDIC has the primarily responsibility for supervising and examining the Bank' s compliance with ~~34federal~~ -- **federal** consumer financial laws and regulations, including CFPB regulations. See" Supervision and Regulation — Supervision and Regulation of the Bank — Consumer Financial Services" for additional information. In addition to the enactment of the Dodd- Frank Act, various state and local legislative bodies have adopted or have been considering augmenting their existing framework governing consumers' rights. These considerations could also be impacted by the recent changes in federal administration. Such legislative or regulatory changes to consumer financial laws and regulations could result in changes to our pricing, practices, products and procedures; increases in our costs related to regulatory oversight, supervision and examination; or result in remediation efforts and possible penalties. We may be required to add additional compliance personnel or incur other significant compliance- related expenses to meet the demands of these consumer protection laws. We cannot predict whether new legislation or regulation will be enacted and, if enacted, the effect that it would have on our activities, financial condition, or results of operations. We are subject to numerous laws and regulations designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The ~~Community Reinvestment Act of 1977 ("~~ CRA ~~")~~ requires the Bank, consistent with safe and sound operations, to ascertain and meet the credit needs of their entire communities, including low and moderate income areas. The Bank' s failure to comply with the CRA could, among other things, result in the denial or delay of certain corporate applications filed by us or the Bank, including applications for branch openings or relocations and applications to acquire, merge or consolidate with another banking institution or holding company. In addition, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U. S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution' s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also challenge an institution' s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects. See" Supervision and

Regulation — Supervision and Regulation of the Bank — Community Reinvestment Act Requirements". The expanding body of federal, state and local regulations and / or the licensing of loan servicing, collections or other aspects of our business and our sales of loans to third parties may increase the cost of compliance and the risks of noncompliance and subject us to litigation. Loan servicing is subject to extensive regulation by federal, state and local governmental authorities as well as to various laws and judicial and administrative decisions imposing requirements and restrictions on those activities. The volume of new or modified laws and regulations has increased in recent years and, in addition, some individual municipalities have begun to enact laws that restrict loan servicing activities including delaying or temporarily preventing foreclosures or forcing the modification of certain mortgages. If regulators impose new or more restrictive requirements, we may incur significant additional costs to comply with such requirements which may adversely affect us. In addition, were we to be subject to regulatory investigation or regulatory action regarding our loan modification and foreclosure practices, our financial condition and results of operation could be adversely affected. We have also sold loans to third parties. In connection with these sales, we, or certain of our subsidiaries, make or have made various representations and warranties, breaches of which may result in a requirement that we repurchase the loans or otherwise make whole or provide other remedies to counterparties. These aspects of our business or our failure to comply with applicable laws and regulations could possibly lead to, among other things, civil and criminal liability, loss of licensure, damage to our reputation in the industry or with customers, fines and penalties, litigation (including class action lawsuits) and administrative enforcement actions. Any of these outcomes could materially and adversely affect us. ~~35Non --~~ **Non** - compliance with the USA PATRIOT Act, the Bank Secrecy Act ~~(the" BSA")~~ , or other laws and regulations could result in fines or sanctions. Financial institutions are required under the USA PATRIOT Act of 2001 and the BSA to develop programs to prevent financial institutions from being used for money- laundering, terrorist financing and other illicit activities. Financial institutions are also obligated to file suspicious activity reports with the Office of Financial Crimes Enforcement Network (" FinCEN") of the Treasury if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. In recent years, several banking institutions have received large fines for non- compliance with these laws and regulations. In addition, FinCEN requires financial institutions to enhance their customer due diligence programs, including verifying the identity of beneficial owners of qualifying business customers. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations, but these policies may not be effective to provide such compliance. If we violate these laws and regulations, or our policies, procedures and systems are deemed deficient, we could face severe consequences, including sanctions, fines, regulatory actions and reputational consequences. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Regulation in the areas of privacy and data security could increase our costs. We are subject to various regulations related to privacy and data security, and we could be negatively impacted by these regulations. For example, we are subject to the safeguards guidelines under the Gramm- Leach- Bliley Act (" GLBA"). The safeguards guidelines require that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’ s size and complexity, the nature and scope of the financial institution’ s activities and the sensitivity of any customer information at issue. Further, there are various other statutes and regulations relevant to the direct email marketing, debt collection and text- messaging industries including the Telephone Consumer Protection Act. In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data security regulations and laws requiring varying levels of consumer notification in the event of a security breach and / or requirements to disclose to consumers information collected about them. Also, federal legislators and regulators are increasingly pursuing new guidelines, laws and regulations **, including with respect to the use of artificial intelligence by financial institutions and service providers,** that, if adopted, could further restrict how we collect, use, share and secure consumer information, which could impact some of our current or planned business initiatives. The interpretation of many of these statutes and regulations is evolving in the courts and administrative agencies and an inability or failure to comply with them may have an adverse impact on our business. 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. Our business is subject to increased litigation and regulatory enforcement risks due to a number of factors, including the highly regulated nature of the financial services industry and the focus of state and federal prosecutors on banks and the financial services industry generally. This focus has intensified in recent years, with regulators and prosecutors focusing on a variety of financial institution practices and requirements, including foreclosure, overdraft fees, compliance with applicable consumer protection laws, and compliance with anti- money laundering statutes, the BSA and sanctions administered by the Office of Foreign Assets Control of the Treasury. ~~36In~~ **In** the normal course of business, from time to time, we have in the past and may in the future be named as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our **business activities** ~~current and /~~ or **the** prior business activities **of a company acquired by us** . Legal actions could include claims for substantial compensatory or punitive damages or claims for indeterminate amounts of damages. In addition, while the arbitration provisions in certain of our customer agreements historically have limited our exposure to consumer class action litigation, there can be no assurance that we will be successful in enforcing our arbitration clause in the future. 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 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 ~~be material to our business, results of operations, financial condition and cash flows depending on, among other factors, the level of our earnings for that period, and could~~ have a material adverse effect on our business, **results of operations,** financial condition **and cash flows** ~~or results of operations~~ . See " Note ~~23~~ **22** – Commitments and Contingencies – Legal Contingencies " to the consolidated financial statements for additional information regarding certain legal actions and litigation to which we are subject, including a discussion of potential losses and related accruals. The preparation of our consolidated financial statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results. Our consolidated financial statements are prepared in accordance with GAAP, which requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance, require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions, which may have a material adverse effect on our financial condition or results of operations in subsequent periods. From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. In addition, trends in financial and business reporting, including environmental social and governance (" ESG ") related disclosures, could require us to incur additional reporting expense. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. RISKS RELATED TO OUR BUSINESS ~~STRATEGYWe~~ -- **STRATEGY We** may not be able to continue growing our business, particularly if we cannot make acquisitions or increase loans through organic loan growth, either because of an inability to find suitable acquisition candidates, constrained capital resources or otherwise. We anticipate that much of our future growth will be dependent on our ability to successfully implement our acquisition growth strategy because certain of our market areas are comprised of mature, rural communities with limited population growth. A risk exists, however, that we will not be able to identify suitable additional candidates for acquisitions. In addition, even if suitable targets are identified, we expect to compete for such businesses with other potential bidders, which may have greater financial resources than we have, which may ~~37adversely~~ -- **adversely** affect our ability to make acquisitions at attractive prices. In light of the foregoing, our ability to continue to grow successfully will depend to a significant extent on our capital resources. It also will depend, in part, upon our ability to attract deposits, identify favorable loan and investment opportunities, and maintain cost controls and asset quality, as well on other factors beyond our control, such as national, regional and local economic conditions and interest rate trends. Our strategy of pursuing growth via acquisitions exposes us to financial, execution and operational risks that could have a material adverse effect on our business, financial position, results of operations and growth prospects. We have been pursuing a strategy of leveraging our human and financial capital by acquiring other financial institutions in our target markets, including acquisitions of failed insured depository institutions with the assistance of the FDIC. We continue to opportunistically seek acquisitions that are either located within our market footprint, in adjacent markets or provide a new growth opportunity that is strategically and financially compelling and consistent with our culture. Our acquisition activities could require us to use a substantial amount of cash, other liquid assets, and / or issue debt or additional equity. In addition to the general risks associated with any growth plans, acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things: ~~•~~ **•** the time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions; ~~•~~ **•** inaccuracies in the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to the target institution. If the actual results fall short or exceed our estimates, our earnings, capital and financial condition may be materially and adversely affected; ~~•~~ **•** the ability to finance an acquisition and possible dilution to existing stockholders; ~~•~~ **•** the failure to realize some or all of the anticipated transaction benefits within the expected time frame, or ever; ~~•~~ **•** compliance and legal risks associated with acquiring unfamiliar customers, products and services, and branches in new geographical markets; and ~~•~~ **•** risks associated with integrating the operations and personnel of the acquired business in a manner that permits growth opportunities and does not materially disrupt existing customer relationships or result in decreased revenues resulting from any loss of customers. With respect to the risks particularly associated with the integration of an acquired business, we may encounter a number of difficulties, such as: (1) customer loss and revenue loss; (2) the loss of key employees; (3) the disruption of its operations and business; (4) the inability to maintain and increase its competitive presence; (5) possible inconsistencies in standards, control procedures and policies; and / or (6) unexpected problems with costs, operations, personnel, technology and credit. In addition to the risks posed by the integration process itself, the focus of management' s attention and effort on integration may result in a lack of sufficient management attention to other important issues, causing harm to our business. Also, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful integration of an acquired business. Generally, any acquisition of financial institutions, banking centers or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, including the Federal Reserve, the IDFPR, and the FDIC. Such regulators could deny our applications based on various prescribed criteria or other considerations, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell banking centers as a condition to receiving regulatory approvals and such a condition may not be acceptable to us or may reduce the benefit of any acquisition. These regulatory approvals and the factors considered in reviewing such applications are described in greater detail in" Supervision and Regulation — Acquisitions and Branching." ~~38We~~ **We** cannot assure you that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome risks associated with acquisitions could have an adverse effect on our ability to successfully implement our acquisition growth strategy and grow our business and profitability. ~~Attractive acquisition opportunities may not be available to us in the future. While we seek continued organic growth, we anticipate continuing to evaluate merger and acquisition opportunities presented to us in our core markets and beyond. We expect that other banking and financial companies, many of which have significantly greater resources, will compete with us to acquire financial services businesses. This competition could increase prices for potential acquisitions, which could reduce our potential returns and reduce the attractiveness of these opportunities to us.~~ RISKS RELATED TO OWNERSHIP OF OUR COMMON ~~STOCKOur~~ --- **STOCK** ~~principal stockholder, Heartland Bancorp, Inc. Voting Trust U / A / D 5 / 4 / 2016, has significant influence over us, and its interests could conflict with those of our other stockholders.~~ As of December 31, ~~2022~~ **2023**, our principal stockholder, Heartland Bancorp, Inc. Voting Trust U / A / D 5 / 4 / 2016 (" the Voting Trust "), owned approximately ~~59~~ **54**. ~~9~~ **3** % of the outstanding shares of our common stock and its trustee is our **Executive** Chairman ~~and Chief Executive Officer~~. As a result, the Voting Trust is able to influence matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. The Voting Trust may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may also have the effect of delaying, preventing or deterring a change of control of the Company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock. The Voting Trust could sell its interest in us to a third- party in a private transaction, which may not lead to your realization of any change of control premium on shares of our common stock and would subject us to the influence of a presently unknown third- party. The ability of the Voting Trust to sell its shares of our common stock privately, with no requirement for a concurrent offer to be made to acquire all of the shares of our outstanding common stock, could prevent our stockholders from realizing any change of control premium on shares of our common stock that they own that may accrue to the Voting Trust on its private sale of our common stock. Even if the Voting Trust' s ownership of our shares falls below a majority, the Voting Trust may continue to be able to influence or effectively control ~~out~~ **our** decisions. We are classified as a" controlled company" for purposes of the Nasdaq Listing Rules and, as a result, we qualify for certain exemptions from certain corporate governance requirements. You may not have the same protections afforded to stockholders of companies that are subject to such requirements. As of the date of this report, the Voting Trust controls a majority of the voting power of our outstanding common stock. As a result, we are a" controlled company" within the meaning of the corporate governance standards of the Nasdaq Listing Rules. Under the Nasdaq Listing Rules, a company of which more than 50 % of the outstanding voting power is held by an individual, group or another company is a" controlled company" and may elect not to comply with certain stock exchange corporate governance requirements, including: ~~•~~ **•** the requirement that a majority of the board of directors consists of independent directors; ~~•~~ **•** the requirement that nominating and corporate governance matters be decided solely by independent directors; ~~and39~~ -- **and** ~~•~~ **•** the requirement that executive and officer compensation matters be decided solely by independent directors. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the Nasdaq corporate governance requirements. Our ability to continue to pay dividends to our stockholders is restricted by applicable laws and regulations and by the ability of our subsidiaries to pay dividends to us. Holders of our common stock are only entitled to receive such cash dividends as our board, in its sole discretion, may declare out of funds legally available for such payments. Any decision to declare and pay dividends will be dependent on a variety of factors, including our financial condition, earnings, legal requirements, our general liquidity needs, and other factors that our board deems relevant. As a bank holding company, our ability to declare and pay dividends to our stockholders is subject to certain banking laws, regulations, and policies, including minimum capital requirements and, as a Delaware corporation, we are subject to certain restrictions on dividends under the DGCL. In addition, we are a separate legal entity, and, accordingly, our ability to pay dividends depends primarily upon the receipt of dividends or other capital distributions from the Bank. The ability of the Bank to make distributions or pay dividends to us is subject to its earnings, financial condition, and liquidity needs, as well as federal and state laws, regulations, and policies applicable to the Bank, which limit the amount the Bank can pay as dividends or other capital distributions to us. Finally, our ability to pay dividends to our stockholders, or the Bank' s ability to pay dividends or other distributions to us, may be limited by covenants in any financing arrangements that we or the Bank may enter into in the future. See " Supervision and Regulation. " As a consequence of these various limitations and restrictions, we may not be able to make, or may have to reduce or eliminate at any time, future dividends on our common stock. Any change in the level of our dividends or the suspension of the payment thereof could have a material adverse effect on the market price of our common stock. We cannot guarantee that we will be able to pay dividends to our stockholders, or that the board of directors of the Bank will be able to or will elect to pay dividends to us, nor can we guarantee the timing or amount of any such dividends actually paid. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it. Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price. Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. The shares of our common stock held by each of our executive officers and directors and the trustee of the Voting Trust may be sold in accordance with the volume, manner of sale, and other limitations under Rule 144, and **may also be sold pursuant** ~~holders of approximately 17, 210, 400 shares of our common stock will have the right~~ to ~~require us to register the sales of~~ **a Registration Statement on Form S- 3 filed by** ~~their~~ -- **the Company** ~~shares under the Securities Act~~, **which was declared effective by** ~~under the terms of an agreement between us and the holders of these~~ -- **the** ~~securities~~ **SEC on April 19, 2023**. In the future, we may also issue securities in connection with acquisitions or investments. The number of shares of our common stock issued in connection with an acquisition or investment could constitute a material portion of our then- outstanding shares of our common stock. ~~40We~~ **We** are an " emerging growth company " and may elect to comply with reduced public company reporting requirements which could make our common stock less attractive to investors. We are an emerging growth company, as defined in the Jumpstart Our Business Act of 2012 (the " JOBS Act "). For as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various public company reporting requirements. These exemptions include, but are not limited to, (i) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes- Oxley Act, (ii) reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company until the end of the fiscal year following the fifth anniversary of the completion of our initial public offering, which is December 31, 2024. However, if certain events occur prior to the end of such five- year period, including if we become a" large accelerated filer," our annual gross revenue exceeds $ 1. 235 billion or we issue more than $ 1. 0 billion of non- convertible debt in any three- year period, we would cease to be an emerging growth company prior to the end of such five- year period. We have taken advantage of certain reduced disclosure obligations regarding executive compensation and may elect to take advantage of other reduced disclosure obligations in future filings. As a result, the information that we provide to holders of our common stock may be different than you might receive from other public reporting companies in which you hold equity interests. We cannot predict if investors will find our common stock less attractive as a result of our reliance on these exemptions. If some investors find our common stock less attractive as a result of any choice we make to reduce disclosure, there may be a less active trading market for our common stock and the price for our common stock may be more volatile. Under the JOBS Act, emerging growth companies may also elect to delay adoption of new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this extended transition period for complying with new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies. Anti- takeover provisions in our charter documents and Delaware law, and the banking laws and regulations to which we are subject, might discourage or delay acquisition attempts for us that you might consider favorable. Our restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of the Company more difficult without the approval of our board of directors. These provisions: ~~•~~ • authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock; ~~•~~ • prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders, if the Voting Trust ceases to own more than 35 % of our outstanding common stock; ~~•~~ • provide that the board of directors is expressly authorized to make, alter or repeal our amended and restated bylaws; ~~•~~ • establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and ~~•~~ • prohibit stockholders from calling special meetings of stockholders. These anti- takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of the Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire. Furthermore, banking laws impose notice, approval and ongoing regulatory requirements on any stockholder or other party that seeks to acquire direct or indirect" control," as defined under applicable law, of an FDIC- ~~41insured~~ -- **insured** depository institution. These laws include the BHCA and the CBCA. These laws could, among other things, limit the equity held by certain stockholders, restrain a stockholder' s ability to influence proxy matters, or prevent an acquisition of the Company, in each case without first obtaining regulatory approval. See " Supervision and Regulation — Supervision and Regulation of the Company — Change in Control." Our restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees. Our restated certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the DGCL, our certificate of incorporation or our by-laws or (iv) any other action asserting a claim against us or any of our directors, officers or other employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder' s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition. EXTERNAL ~~RISKSAdverse~~ **RISKS Adverse** changes in local economic conditions and adverse conditions in an industry on which a local market in which we do business depends could hurt our business in a material way. Our financial performance generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets in which we operate and in the United States as a whole. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in Illinois and

Iowa. The economic conditions in our local markets may be different from, or worse than, the economic conditions in the United States as a whole. Some elements of the business environment that affect our financial performance include short- term and long- term interest rates, the prevailing yield curve, inflation and price levels, tax policy, monetary policy, unemployment and the strength of the domestic economy and the local economy in the markets in which we operate. Unfavorable market conditions can result in a deterioration in the credit quality of our borrowers and the demand for our products and services, an increase in the number of loan delinquencies, defaults and charge- offs, additional provisions for loan losses, adverse asset values and an overall material adverse effect on the quality of our loan portfolio. Unfavorable or uncertain economic and market conditions can be caused by, among other factors, declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; changes in inflation or interest rates; increases in real estate and other state and local taxes; high unemployment; natural disasters; pandemics ~~, such as COVID- 19~~; climate change; acts of terrorism or war **(including the Israeli- Palestinian conflict and the Russian invasion of Ukraine)** ; or a combination of these or other factors ~~. 42The COVID- 19 pandemic could continue to have adverse effects on our business. The COVID- 19 pandemic has had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally. These effects have diminished in the past year, but future developments and uncertainties will be difficult to predict, such as the potential emergence of a new variant, the course of the pandemic in China and other major economies, the persistence of pandemic- related work and lifestyle changes, changes in consumer preferences associated with the emergence of the pandemic, and other market disruptions. Any such developments could have a complex and negative effect on our business, including with respect to the prevailing economic environment, our lending and investment activities, and our business operations~~. Continued elevated levels of inflation could adversely impact our business and results of operations. The United States has recently experienced elevated levels of inflation. Continued levels of inflation could have complex effects on our business and results of operations, some of which could be materially adverse. For example, elevated inflation harms consumer purchasing power, which could negatively affect our retail customers and the economic environment and, ultimately, many of our business customers, and could also negatively affect our levels of non- interest expense. In addition, if interest rates ~~continue~~ **were** to rise in response to elevated levels of inflation, the value of our securities and loan portfolios may be negatively impacted. Continued elevated levels of inflation could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients' ability to repay indebtedness. It is also possible that governmental responses to the current inflation environment could adversely affect our business, such as changes to monetary and fiscal policy that are too strict, or the imposition or threatened imposition of price controls. The duration and severity of the current inflationary period cannot be estimated with precision. Labor shortages and failure to attract and retain qualified employees could negatively impact our business, results of operations and financial condition. A number of factors may adversely affect the labor force available to us or increase labor costs, including high employment levels, decreased labor force size and participation rates, and potential government actions affecting the labor force. Although we have not experienced any material labor shortage to date, we have recently observed an overall tightening and competitive local labor market. A sustained labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased compensation expense to attract and retain employees. In addition, if we are unable to hire and retain employees capable of performing at a high- level, or if mitigation measures we may take to respond to a decrease in labor availability have unintended negative effects, our business could be adversely affected. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on our operations, results of operations, liquidity or cash flows. The State of Illinois has experienced significant financial difficulties, and this could adversely impact certain borrowers and our business. Historically, the financial condition of the State of Illinois has been characterized by significant financial difficulties, including material pension funding shortfalls and large budget deficits. These issues could impact the economic vitality of the State of Illinois and our customers, and could specifically encourage businesses to relocate, and discourage new employers from starting or moving businesses to Illinois. These issues could also result in delays in the payment of accounts receivable owed to borrowers that conduct business with the State of Illinois and Medicaid payments to nursing homes and other healthcare providers in Illinois and impair their ability to repay their loans when due. ~~43Climate~~ -- **Climate** change could have a material negative impact on the Company and our customers. The Company' s business, as well as the operations and activities of our customers, could be negatively impacted by climate change. Climate change presents both immediate and long- term risks to the Company and our customers, and these risks are expected to increase over time. Climate change presents multi- faceted risks, including, but not limited to: ~~•~~ **•** operational risk from the physical effects of climate events on the Company and our customers' facilities and other assets; ~~•~~ **•** credit risk from borrowers with significant exposure to climate risk; ~~•~~ **•** legal and regulatory compliance risk as our regulators, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change, both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities; and ~~•~~ **•** reputational risk from stakeholder concerns about the Company' s practices related to climate change, the Company' s carbon footprint, and the Company' s business relationships with clients who operate in carbon- intensive industries. The risks associated with climate change are changing and evolving in an escalating fashion, making them difficult to assess due to limited data and other uncertainties. The Company could experience increased expenses resulting from strategic planning, litigation, ~~and~~ technology and market changes, and reputational harm as a result of negative public sentiment, regulatory scrutiny, and reduced investor and stakeholder confidence due to the Company' s response to climate change and its climate change strategy, which, in turn, could have a material negative impact on business, results of operations, and financial condition. Our future growth and success will depend on our ability to compete effectively in a highly competitive environment. We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, our competitive strategies have focused on attracting deposits in our local markets and growing our loan portfolio by emphasizing specific loan products in which we have significant experience and expertise, identifying and targeting markets in which we believe we can effectively compete with larger institutions and other competitors, and offering highly competitive pricing to borrowers with appropriate risk profiles. We compete for loans, deposits and other financial services with other commercial banks, credit unions, brokerage houses, mutual funds, insurance companies, real estate conduits, mortgage brokers and specialized finance companies. Many of our competitors offer products and services that we do not offer, and some offer loan structures and have underwriting standards that are not as restrictive as our required loan structures and underwriting standards. Some larger competitors have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans more aggressively than we do, and because of their larger capital bases, their underwriting practices for smaller loans may be subject to less regulatory scrutiny than they would be for smaller banks. Newer competitors may be more aggressive in pricing their products in order to increase their market share. Some of the financial institutions and financial services organizations with which we compete are not subject to the extensive regulations imposed on banks insured by the FDIC and their holding companies. As a result, these nonbank competitors have certain advantages over us in accessing funding and in providing various financial services. Additionally, technology and other changes are allowing consumers and businesses to complete financial transactions through alternative methods that historically have involved banks. For example, the wide acceptance of Internet- based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. Customers can now maintain funds in prepaid debit cards or digital currencies and pay bills and transfer funds directly without the direct assistance ~~44of~~ **of** banks. The diminishing role of banks as financial intermediaries has resulted and could continue to result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the potential loss of lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations. Additionally, while we do not offer products relating to digital assets, including cryptocurrencies and other similar assets, there has been a significant increase in digital asset adoption globally over the past several years. Certain characteristics of digital asset transactions, such as the speed with which such transactions can be conducted, the ability to transact without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, and the anonymous nature of the transactions, are appealing to certain consumers notwithstanding the various risks posed by such transactions. Accordingly, digital asset service providers — which, at present are not subject to the same degree of scrutiny and oversight as banking organizations and other financial institutions — are becoming active competitors to more traditional financial institutions. The process of eliminating banks as intermediaries, known as “ disintermediation, ” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and deposits could have a material adverse effect on our financial condition and results of operations. Potential partnerships with digital asset companies, moreover, could also entail significant investment. Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our stock. We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Maintenance of our reputation depends not only on our success in maintaining our service- focused culture, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti- money laundering, customer personal information and privacy issues, employee, customer and other third- party fraud, recordkeeping, regulatory investigations, and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. If our reputation is negatively affected, by the intentional, inadvertent or unsubstantiated misconduct of our employees, directors, customers, third parties, or otherwise, our business and, therefore, our operating results and the value of our stock may be materially adversely affected. ~~45~~