Risk Factors Comparison 2024-02-27 to 2023-02-24 Form: 10-K

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

We assume and manage a certain degree of risk in order to conduct our business strategy. In addition to the risk factors described below, other risks and uncertainties not specifically mentioned, or that are currently known to, or deemed to be immaterial by management, also may materially and adversely affect our financial condition, results of operations and / or cash flows. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this Form 10- K and our other filings with the SEC. If any of the circumstances described in the following risk factors actually occur to a significant degree, the value of our common stock could decline, and you could lose all or part of your investment. This Form 10- K is qualified in its entirety by these risk factors. Risks Related to our Lending Activities ~~Our loan portfolio is concentrated in loans with a higher risk of loss.~~ Repayment of our commercial business loans, consisting of commercial and industrial loans as well as owner- occupied and non- owner occupied commercial real estate loans, is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. We offer ~~different types~~ **a variety** of commercial business loans **across various** ~~to a variety of businesses in~~ industries such as real estate ~~and rental and leasing~~ , healthcare, accommodation and food services, retail trade and construction. ~~The~~ **Our** primary ~~types of commercial business loans~~ - **loan** ~~offered are~~ **offerings comprise** lines of credit, term equipment financing **,** and term real estate loans. ~~We also originate~~ **Additionally, we facilitate** loans ~~that are~~ guaranteed by the SBA ~~and we are~~ **, holding the designation of** a " preferred lender " ~~of~~ **by** the SBA. Commercial business lending involves **distinct** risks **compared to** ~~that are different from those associated with~~ residential real estate lending. Our commercial business loans are primarily made based on our assessment of the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The **unpredictability of a** borrower' s cash flow ~~may be unpredictable,~~ and **the potential fluctuations in** collateral ~~securing~~ **values underscore the inherent risks in** these loans ~~may fluctuate in value~~ . ~~Although these~~ **While our** commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things. Accordingly, the repayment of commercial business loans ~~depends~~ primarily **relies** on the **borrower's** cash flow and creditworthiness **, supplemented by** ~~of the borrower and secondarily on~~ the underlying collateral ~~provided by the borrower~~ . At December 31, ~~2022~~ **2023** , our commercial business loans totaled $ 3. ~~22~~ **37** billion, or ~~79~~ **77** . ~~4~~ **8** % of our total loan portfolio, of which $ **4.** 5 ~~. 9~~ million, or 0. ~~2~~ **1** % ~~,~~ **of commercial business loans** were classified as nonaccrual ~~at December 31, 2022. The majority of the nonperforming commercial business loans were secured by real estate~~ . Within commercial business loans, agricultural loans totaled $ ~~57~~ **65** . ~~3~~ **7** million, or 1. ~~4~~ **5** % of our total loan portfolio and 1. ~~8~~ **9** % of our commercial business loans at December 31, ~~2022~~ **2023** of which $ **825** ~~2. 6 million~~ , **000,** or ~~4~~ **1** . ~~5~~ **3** % **of agricultural loans** were classified as nonaccrual loans ~~at December 31, 2022~~ . Our **portfolio encompasses** owner and non- owner occupied commercial real estate loans, ~~which include~~ **including** multifamily residential real estate loans ~~,~~ **. These loans often** involve higher principal amounts ~~than~~ **compared to** other ~~loans~~ - **loan types,** and **their** repayment ~~of these loans~~ may be ~~dependent~~ **contingent** on factors ~~outside~~ **beyond our** ~~our~~ - **or our borrowers'** control ~~or the control of our borrowers~~ . We originate commercial real estate loans for individuals and businesses ~~for various purposes~~ , which are secured by commercial properties. These loans typically involve higher principal amounts than other types of loans and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the **project' s** cash flow ~~from~~ **diminishes due to unobtained or unrenewed leases,** the borrower' s **capacity to repay the loan could be impaired. Additionally** ~~project is reduced as a result of leases not being obtained or renewed~~ , **many of these loans have adjustable rates and reprice periodically. A significant increase in rates could increase the payment amount and could impact** the borrower' s ability to repay the loan ~~may be impaired~~ . Commercial real estate ~~loans~~ **lending** also ~~expose~~ **exposes** us to greater credit risk than loans secured by residential real estate ~~because~~ **. Typically,** the collateral securing these loans **is not** ~~typically cannot be sold~~ as easily **liquidated** as residential **properties** ~~real estate~~ . In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property ~~in order to make the payment~~ , **potentially elevating** ~~which may increase~~ the risk of default or non- payment. If we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer ~~than for~~ **compared to** residential real estate loans **due to** ~~because there are~~ fewer potential purchasers ~~of the collateral~~ . Additionally, commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers ~~. Accordingly~~ , ~~if we make~~ **magnifying the impact of** any errors in judgment regarding ~~the~~ **their** collectability **. Consequently** ~~of our commercial real estate loans~~ , ~~any~~ resulting charge- offs **per loan** may be larger ~~on a per loan basis~~ than those incurred with our residential or consumer loan portfolios. As of December 31, ~~2022~~ **2023** , our owner and non- owner occupied commercial real estate loans totaled $ 2. ~~52~~ **66** billion, or ~~62~~ **61** . ~~3~~ **2** % of our total loan portfolio, of which $ ~~212~~ **205** , 000 were classified as nonaccrual ~~at December 31, 2022~~ . Our real estate construction and land development loans are based upon estimates of costs and net operating income and the related value associated with the completed project. These estimates may be inaccurate. Construction lending involves additional risks when compared with permanent commercial and residential **real estate** lending because funds are advanced upon the collateral for the project based on an estimate of costs **to** ~~that will~~ produce a future **project** value at completion. ~~Because of the uncertainties inherent in estimating~~ **Estimating** construction costs, ~~as well as~~ the **project' s** market value **upon**

~~of the complete~~ **completion** ~~project~~ **,** and the ~~effects~~ **impact** of ~~governmental regulation~~ - **regulatory changes** on real property **involve inherent uncertainties.** ~~, it is relatively difficult to evaluate accurately~~ **Accurately evaluating** the total funds required **for** ~~to complete~~ a project and the **resulting** ~~completed project~~ loan- to- value ratio **upon completion is challenging** . **Unforeseen** ~~Changes~~ **changes** in demand ~~and~~ **or** higher ~~than anticipated~~ building costs may ~~cause actual results to vary~~ significantly **deviate** from ~~those~~ **initial** ~~estimated~~ **estimates** . This type of lending also typically involves ~~higher~~ **large** loan principal amounts and may be concentrated ~~with~~ **among** a ~~small~~ **limited** number of builders. A downturn in **the** housing ~~,~~ or the real estate market ~~,~~ could increase delinquencies, defaults and foreclosures, ~~and~~ significantly ~~impair~~ **impairing** the value of our collateral and our ability to sell **it** ~~the collateral~~ upon foreclosure. **Further,** ~~Some~~ **some** ~~of our~~ borrowers **have multiple** ~~are builders with more than one loan~~ **loans** outstanding with us ~~. Consequently~~ , **exposing us** ~~an adverse development with respect~~ to ~~one loan or~~ **higher risk if** one credit relationship **encounters adverse developments** ~~can expose us to a significantly greater risk of loss~~ . **. Construction** ~~As a result, these~~ loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take- out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on- site inspections, these loans are more difficult and more costly to monitor. Increases in market rates of interest **can significantly impact** ~~may have a more pronounced effect on~~ construction loans **, escalating** ~~by rapidly increasing the~~ end- ~~purchaser~~ **purchasers** ' ~~s~~ borrowing costs ~~, thereby possibly~~ **and potentially hindering project financing or** reducing ~~the borrower' s ability to finance the project upon completion or the~~ overall demand for the project. **Moreover,** ~~Properties~~ **properties** under construction are often difficult to sell and typically must be completed ~~in order~~ to be successfully sold ~~, which also complicates~~ **complicating** the ~~process~~ **resolution** of ~~working out problem~~ **problematic** construction loans. This may require us to advance additional funds and / or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. **In** ~~Furthermore, in~~ the case of speculative construction loans, there is added risk associated with identifying an end- tenant or end- purchaser for the finished project. Land development loans also pose additional risk because of the lack of income being produced by the property and ~~potential~~ **potentially** illiquid nature of the collateral. These risks can be significantly impacted by supply and demand conditions. As of December 31, ~~2022~~ **2023** , our real estate construction and land development loans totaled $ ~~294~~ **414** . ~~1~~ **4** million, or ~~7~~ **9** . ~~3~~ **5** % of our total loan portfolio, of which $ ~~80~~ **78** . **6 million, or** 1 ~~million, or 2~~ . ~~0~~ **8** % of our total loan portfolio, were residential construction and $ ~~214~~ **335** . ~~0~~ **8** million, or ~~5~~ **7** . ~~3~~ **7** % of our total loan portfolio, were commercial and multifamily construction. **All** ~~Within this category, $ 37, 000~~ of **these** ~~our total real estate construction and land development~~ loans ~~,~~ were ~~classified~~ **performing in accordance with their repayment terms** as **of** ~~nonaccrual at~~ December 31, ~~2022~~ **2023** . Our ACL on loans may prove to be insufficient to absorb losses in our loan portfolio. Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: • the cash flow of the borrower, guarantors and / or the project being financed; • the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan; • the character and creditworthiness of a particular borrower or guarantor; • changes in economic and industry conditions; and • the duration of the loan. The ACL on loans is a valuation account that is deducted from the amortized cost of loans receivable to present the net amount expected to be collected. Loans are charged- off through the ACL on loans when management believes the uncollectibility of a loan balance is ~~confirmed~~ **considered probable** . Subsequent recoveries, if any, are recorded to the ACL on loans. The ~~Bank~~ **Company** records the changes in the ACL on loans through earnings as a" **Provision for** (~~Reversal~~ **reversal** of) ~~provision for~~ credit losses" on the Consolidated Statements of Income. The determination of the appropriate level of ACL on loans inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the ACL on loans may not be sufficient to cover ~~credit~~ **expected** losses ~~inherent~~ in our loan portfolio, resulting in the need for increases in our ACL on loans through the provision for credit losses. Management also recognizes that significant new growth in loan segments and new loan products can result in loans segments comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our ACL on loans may be insufficient to absorb losses without significant additional provisions. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the ACL on loans. If current conditions in the housing and real estate markets weaken, we expect we will experience increased delinquencies and credit losses. ~~In addition, bank~~ **Bank** regulatory agencies **also** periodically review our ACL on loans and may require an increase in the provision for credit losses or the recognition of further loan charge- offs, based on their judgments about information available to them at the time of their examination. In addition, if charge- offs in future periods exceed the ACL on loans, we will need additional provisions to increase the ACL on loans. **Any increases in the allowance for credit losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations.** Risks Related to our Business Strategy Our strategy of pursuing acquisitions and de novo branching exposes us to financial and operational risks that could adversely affect us. ~~We are pursuing a~~ **As part of our business** strategy ~~of~~ **, we seek to** ~~supplementing~~ --- **supplement our** organic growth by acquiring other financial institutions or their businesses **to achieve** ~~that we believe will help us fulfill~~ our strategic objectives and **bolster** ~~enhance our~~ earnings. **However,** ~~There are risks associated with~~ this strategy **entails several risks** ~~, however, including the following~~ : • ~~we may be exposed to potential~~ **Acquired banks or businesses might carry unforeseen** asset quality issues or ~~unknown or~~ contingent liabilities ~~of the banks, businesses, assets and liabilities we acquire~~ . If these ~~issues or~~

~~liabilities~~ exceed our estimates, **it could significantly impact** our ~~results of operations and~~ financial condition **and operational results** ~~may be materially negatively affected~~ ; • **There is a risk of** higher **-** than ~~expected -~~ **- anticipated** deposit attrition **following an acquisition, potentially affecting our funding base** ; • ~~potential diversion of~~ **The acquisition process may divert** our management' s time and attention **, impacting day- to- day operations and strategic initiatives** ; • **Acquired entities might have** ~~we may be exposed to previously~~ known or unknown regulatory compliance deficiencies ~~from the acquired institution~~ **, exposing us to associated risks** ; • **Market conditions can influence acquisition** prices ~~at which~~ **. Difficulty in making acceptable- priced** acquisitions ~~are made~~ **in specific markets could affect our growth strategy; • The integration of systems, procedures, and personnel from acquired entities into our company is complex and time- consuming. It** can ~~fluctuate with~~ **disrupt the acquired business and its customer base, potentially leading to customer and employee losses if not managed effectively; • Financing acquisitions using borrowed funds will increase our leverage and diminish our liquidity. Raising additional capital to finance acquisition could dilute existing shareholders' interests; • Sustaining our historical growth rate may be difficult due to** market ~~conditions~~ **constraints and / or acquisition complexities** . We have **completed eight** ~~experienced times during which~~ acquisitions ~~could not be made in specific markets at prices we considered acceptable and expect that we may continue to experience this condition in the future; • the acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal effect on the acquired business and its customers, we may not realize the anticipated economic benefits of an acquisition within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful. • to finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing shareholders; •~~ from 2006 through ~~2022, we completed eight acquisitions or mergers, including one acquisition in 2006, two acquisitions during 2010, two acquisitions during 2013, one merger in 2014 and two acquisitions in~~ 2018 ~~that~~ **, which has** enhanced our **growth** rate **over** ~~of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in~~ the ~~future~~ **years** ; • ~~we~~ **While our acquisitions and branching activities are** ~~expect~~ **expected** ~~our~~ **to boost** net income ~~will~~ **, they might also** increase ~~following our acquisitions; however, we also expect our~~ general and administrative expenses ~~and consequently~~ **initially, potentially affecting** our efficiency ratios ~~may also increase~~ . ~~Ultimately, we would~~ **Successful integration is crucial for achieving** ~~expect~~ **expected** ~~our efficiency~~ **efficiencies . If** ~~ratio to improve; however, if~~ we are ~~not successful~~ **unsuccessful** in our integration process, this may not occur, and our acquisitions or branching activities may not be accretive to earnings in the short or long- term; • **When acquisition** ~~to the extent our~~ costs ~~of an acquisition~~ exceed the fair value of the net assets acquired, ~~the acquisition will generate~~ goodwill **is recorded** . ~~As discussed below under~~ **Any future impairment of goodwill could adversely affect our financial condition. See,** the risk factor ~~heading~~ **titled** " We may experience future goodwill impairment, which could reduce our earnings " ~~we~~ **below; and • Acquired loans** are ~~required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operations and financial condition; and • we are required to record~~ **recorded** ~~acquired loans through acquisitions~~ at fair value, which may differ from ~~the~~ **their** outstanding balance ~~of such loans~~ . **Changes in** ~~Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances on the acquisition date. The difference between the fair value and the outstanding balance of such loans is accreted into net interest income. Thus, our net interest margins may initially increase due to accretion. The~~ yields ~~on our loans could decline as our acquired loan portfolio pays down or matures,~~ and **replacement of** ~~we expect downward pressure on our interest income to the extent that the runoff on our acquired loan portfolio is not replaced with comparable~~ high- yielding loans **can impact our** ~~. This could result in higher~~ net interest margins and interest income **over time** ~~in current periods and lower net interest rate margins and lower interest income in future periods~~ . Our ~~business strategy includes significant growth plans, and our~~ financial condition and results of operations could be negatively affected if we **fail to** ~~are not successful in executing~~ **execute** ~~this~~ **our growth** strategy ~~or if we fail to grow~~ or manage our growth effectively. ~~We intend~~ **Our intention is** to ~~pursue a~~ **supplement our** growth **through** ~~strategy for our business. We regularly evaluate potential acquisitions and expansion opportunities. If appropriate opportunities present themselves, we expect to engage in selected~~ - **selective** acquisitions of financial institutions ~~in the future~~ , including branch ~~acquisitions~~ **expansions** , ~~or~~ **and** other ~~business~~ growth **opportunities** ~~initiatives or undertakings~~ . **However,** ~~There~~ **there is** ~~can be~~ no ~~assurance~~ **guarantee** that we will ~~successfully~~ identify ~~appropriate~~ **suitable** opportunities **or effectively** ~~, that we will be able to~~ negotiate ~~or~~ **and** finance ~~such~~ **these** activities **. Even** ~~or that such activities,~~ if undertaken, ~~will~~ **the success of such undertakings cannot** be ~~successful~~ **assured** . Our growth initiatives may require us to recruit experienced personnel to assist in such initiatives, which will increase our compensation costs. In addition, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. To the extent we expand our lending beyond our current market areas, we **could** also ~~could~~ incur additional risk related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets. **Inability to** ~~If we do not successfully~~ execute our acquisition **- focused** growth plan **might** ~~, it could~~ adversely affect **various aspects of** our business, ~~financial condition~~ **including finances** , ~~results of~~ operations, reputation **,** and growth prospects. While we believe **in** ~~we have~~ the **strength of our** executive management ~~resources~~ and internal systems ~~in place~~ to ~~successfully~~ manage ~~our future~~ growth, there can be no assurance that suitable growth opportunities will be available or that we will successfully manage our growth. Risks Related to Economic Conditions The current economic condition in the market areas we serve may adversely impact our earnings and could increase the credit risk associated with our loan portfolio. Substantially all of our loans are to businesses and individuals in the states of Washington ~~and~~ **,** Oregon **and Idaho** . A return of recessionary conditions or adverse economic conditions in the primary market areas of the Pacific Northwest in which we operate could reduce our rate of growth, affect our customers' ability to repay loans and have a material adverse effect on our business, financial condition, and results of operations. General economic conditions, including inflation, unemployment and money supply fluctuations, also may adversely affect our profitability. Weakness in the global economy and global supply chain issues have adversely affected many businesses operating in our markets that are dependent upon international trade ~~and it is not known how changes in tariffs being imposed on international trade may also affect these businesses~~ . Changes in agreements or relationships between the United States and other countries may also affect these businesses. A deterioration in economic conditions in our market areas of the Pacific Northwest as a result of inflation, a recession, ~~the effects of COVID- 19 variants~~ or other factors could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations: • ~~loan~~ **Loan** delinquencies, problem assets and foreclosures may increase; • ~~we~~ **We** may increase our ACL on loans and provision for credit losses; • ~~the~~ **The** sale of foreclosed assets may be slow; • ~~demand~~ **Demand** for our products and services may decline, possibly resulting in a decrease in our total loans; • ~~collateral~~ **Collateral** for loans made may decline further in value, exposing us to increased risk of loss on existing loans; • ~~the~~ **The** net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and • ~~the~~ **The** amount of our deposits may decrease and the composition of our deposits may be adversely affected. A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loans are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a loan is located could negatively affect the borrower' s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as earthquakes and flooding. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected. **External economic factors, such as changes in monetary policy and** ~~Inflation~~ **inflation** ~~can~~ **and deflation, may** have an adverse ~~impact~~ **effect** on our business **, financial condition** and ~~on~~ **results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Board of Governors of the Federal Reserve System,** ~~our~~ - **or** ~~customers~~ **the Federal Reserve** . **Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to** ~~Inflation~~ **inflation** ~~risk is~~ **, deflation, or** ~~the~~ **other** ~~risk~~ **economic phenomena** that **could adversely affect** ~~the value of assets or~~ **our financial performance** ~~income from investments will be worth less in the future as inflation decreases the value of money~~ . Inflation has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years. **Inflationary pressures** ~~As discussed below under " Fluctuating interest rates can adversely affect our profitability~~ , ~~"~~ **while easing recently, remained elevated throughout the first half of 2023. Small to medium- sized businesses may be impacted more during periods of high inflation** as ~~inflation increases and market interest rates rise the~~ **they** ~~value~~ **are not able to leverage economics** of **scale to mitigate** ~~our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating-rate instruments. In addition, inflation increases the~~ cost **pressures compared to larger businesses. Consequently, the ability** of ~~goods and services we use in~~ our business **clients** ~~operations, such as electricity and other utilities, which increases our noninterest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability~~ to repay their loans ~~with us. The economic~~ **may deteriorate quickly, which would adversely** impact ~~of the COVID- 19 Pandemic could continue to affect~~ our **results of operations and** financial condition **. Furthermore, a prolonged period of inflation could cause wages** and **other costs to the Company to increase, which could adversely affect our** results of operations ~~. The COVID- 19 Pandemic could continue to pose risks~~ and **financial condition** ~~could harm our business, our results of operations and the prospects of the Company~~ . **Virtually all** ~~The COVID- 19 Pandemic has adversely impacted the global and national economy and certain industries and geographies in which~~ our **assets** ~~clients operate. Given its ongoing~~ and ~~dynamic~~ **liabilities are monetary in** nature ~~, it is difficult to predict the full impact of the COVID- 19 Pandemic on the business of the Company, its clients, employees and third- party service providers~~ . **As** ~~The extent of such impact will depend on future developments. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify. We could be subject to a number of risks as~~ a result ~~of the COVID- 19 Pandemic~~ , ~~any of which could~~ **interest rates tend to** have a **more significant impact** ~~material, adverse effect~~ on our **performance than general levels** ~~business, financial condition, liquidity, results~~ of **inflation** ~~operations, ability to execute our~~ - **or deflation** ~~growth strategy, and ability to pay dividends~~ . **Interest rates do** ~~These risks include, but are~~ not **necessarily move** ~~limited to, changes~~ in ~~demand~~ **the same direction** ~~for~~ - **or** ~~our products~~ **by the same magnitude as the prices of goods** and services ~~; increased loan losses or other impairments in our loan portfolios and increases in our ACL; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an impairment charge; and increased costs as the Company and our regulators, customers and vendors adapt to evolving pandemic conditions~~ . Risks Related to Market and Interest Rate Changes Fluctuating interest rates can adversely affect our profitability. Our profitability is dependent **primarily** ~~to a large extent~~ upon net interest income, which is the difference (or " spread ") between the interest earned on loans, investment securities and other interest earning assets and the interest paid on deposits, borrowings, and other interest bearing liabilities. Because of the differences in maturities and repricing characteristics of our interest earning assets and interest bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest earning assets and interest paid on interest bearing liabilities. We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investment securities and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate and / or sell loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets, (iii) our ability to obtain and retain deposits in competition with other available investment alternatives, (iv) the ability of our borrowers to repay adjustable or variable rate loans, and (v) the average duration of our investment securities portfolio and other interest earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if interest rates decrease as assets tend to reprice more quickly than liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected. Interest rates are highly sensitive to many factors that are beyond our control, including general and forecasted economic conditions reflected in the rates offered along the yield curve and the FHLB' s fixed- rate advance index, and policies of various governmental and regulatory agencies and, ~~in particular~~ **particularly** ~~,~~ the Federal Reserve. During the year ended December 31, ~~2022~~ **2023** , in response to inflation, the FOMC of the Federal Reserve has increased the target range for the federal funds rate by ~~400~~ **100** basis points to a range of ~~4~~ **5** . 25 % to ~~4~~ **5** . 50 % as of December 31, ~~2022~~ **2023** compared to a range of 0. 00 % to 0. 25 % at December 31, 2021 ~~as it seeks to~~ **with the intention of** ~~control~~ **controlling** inflation without creating a recession. If the FOMC further increases the targeted federal funds rate, overall interest rates will likely rise, which ~~will positively impact our net interest income but~~ may negatively impact both the housing market, by reducing refinancing activity and new home purchases, and the U. S. economy. As is the case with many **financial** ~~banks and saving~~ institutions, ~~our emphasis~~ **we have focused** on **growing** ~~increasing the development of~~ core deposits **—** ~~(those~~ deposits ~~bearing no or a relatively low rate of interest~~ with no ~~stated~~ **or low interest rates and no specified** maturity ~~date)~~ **— which** has **been challenging over** ~~resulted in our interest bearing liabilities having a shorter duration than our assets. We would incur a higher cost of funds to retain these~~ -- **the** ~~deposits in~~ **past couple years. In** a rising interest rate environment **, retaining these deposits could result in higher funding costs** . If the ~~interest~~ rates paid on deposits and other borrowings increase ~~at a~~ faster ~~rate~~ than the ~~interest~~ rates ~~received~~ **earned** on loans and ~~other~~ investments, our net interest income ~~,~~ and ~~therefore~~ earnings ~~,~~ could be adversely affected ~~; or~~ **. Conversely,** if we do not ~~raise~~ **adjust our deposit** interest rates ~~we are paying on deposits~~ to ~~effectively~~ **remain** ~~compete~~ **competitive** with other banks or alternative investment options, we ~~may see~~ **might experience a decrease in** deposits ~~decline~~ **, potentially** leading to either **reduced** ~~a lower level of~~ earning assets or higher borrowings **. Both scenarios** ~~, either of which would~~ could potentially cause a decline in earnings. Changes in interest rates also affect the value of our **available for sale** ~~interest earning assets and in particular our~~ investment securities portfolio. Generally, the fair value of fixed- rate investment securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on investment securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of investment securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. Stockholders' equity, specifically AOCI, is increased or decreased by the amount of change in the estimated fair value of our securities available for sale, net of deferred income taxes. Increases in interest rates generally decrease the fair value of securities available for sale, which adversely impacts stockholders' equity. **The Company could recognize an impairment loss for any security that has declined in fair value below its amortized cost basis if management has the intent to sell the security or if it is more likely than not it will be required to sell the security before recovery of its amortized cost basis.** Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet. For further discussion of how changes in interest rates could impact us and additional information about our interest rate risk management, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk. Changes in the valuation of our investment securities portfolio could hurt our profits and reduce capital levels. Factors beyond our control can significantly influence the fair value of investment securities in our portfolio and can cause potential adverse changes to the fair value of these investment securities, potentially reducing AOCI and / or earnings. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by, or other adverse events affecting the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Our investment securities portfolio is evaluated for estimated credit losses and an ACL on investment securities, as appropriate, is recorded as a contra asset on the financial statement of condition and a provision for credit loss on investment securities through earnings. There can be no assurance that the declines in market value will not result in credit losses, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels. Risks Related to Laws and Regulations Non- compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us and could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. 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 of the discount 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 financial institutions 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. Climate change and related legislative and regulatory initiatives may materially affect the Company' s business and results of operations. The potential effects of climate change are creating a heightened level of concern for the state of the ~~global~~ environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures, such as reentering the Paris Agreement. Further, the U. S. Congress, state legislatures and federal and state regulatory agencies continue to propose ~~numerous~~ initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, the occurrence of unpredictable and more frequent weather disasters may adversely impact the real property, and / or the value of the real property, securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, natural disasters and related events, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate. Overall, climate change, its effects and the resulting unknown impact could have a material adverse effect on our financial condition and results of operations. Risks Related to Cybersecurity, Third- Parties and Technology We rely on ~~other companies~~ **third party services and products** to provide key components of our **technology and banking product** business infrastructure. We rely on ~~numerous external vendors~~ **third party services** to provide ~~us with~~ products and services **in support of** ~~necessary to maintain our~~ day- to- day operations. ~~Accordingly~~ **Due to the nature of the outsourced services** , **some portions of** our **technology offerings, computing environments, architecture, and infrastructure, and banking** ~~operations~~ **operational processes** are exposed to ~~the risk these vendors~~ - **vendor** ~~will not~~ **service risks. Risks include failure to contractually** perform ~~in accordance~~ **, fraud, errors, delays, omissions, failure to comply** with ~~contracted arrangements under~~ **regulatory and / or or legal requirements; and failure to ensure security and availability and integrity of** service ~~level agreements~~ **and / or accuracy of the provided service** . The **bank'** ~~failure of an external vendor to perform in accordance with contracted arrangements under service level agreements because of changes in the vendor'~~ s ~~organizational structure, financial condition, level of support for existing products and services, strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent a service agreement is not renewed by the third- party vendor or is renewed on terms less favorable to us. Additionally, the bank~~ regulatory agencies ~~expect~~ **require** financial institutions to ~~be responsible for all aspects of our vendors' performance~~ **ensure risks associated with outsourced providers and services are appropriately identified** , ~~including aspects which they delegate~~ **assessed, controlled, and continuously monitored** to ~~third parties~~ **ensure risk is appropriately managed** . Disruptions or failures in the physical infrastructure or operating systems that support our business and customers, or cyber- attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in **:** client attrition; regulatory fines, penalties or intervention; reputational damage; reimbursement or other compensation costs and / or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition. We are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a cyber- attack. ~~Communications~~ **Technology architecture, infrastructure,** and information systems **and platforms** are essential to ~~the~~ conduct ~~of~~ our business **.** ~~as we use such systems~~ **Systems** to manage our customer relationships, our core operating systems, our general ledger **,** and virtually all other aspects of our business ~~. Our operations~~ rely on the secure processing, storage **,** and transmission of confidential and ~~other~~ **private** information in our **computing environments** ~~computer systems and networks~~ . Although we take **every** protective ~~measures~~ - **measure** and endeavor to **ensure** ~~modify them as circumstances warrant,~~ the security of our ~~computer~~ **computing environments and the data within the environments,** systems, software and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service ~~attacks~~ , misuse **of information** , ~~computer~~ viruses, ~~malware or other~~ malicious code and **malware and / or ransomware cybercrime incidents** ~~cyber- attacks that could have a security impact~~ . If one or more of these events occur, ~~this~~ **systems, software and / or network availability, and integrity** could ~~jeopardize~~ **be compromised resulting in the loss of the Company' s and /** ~~our~~ - **or** ~~or our~~ customers ~~'~~ **'** confidential and ~~other~~ **private** information ~~processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or~~

~~counterparties~~ . ~~We may be required to expend~~ **In the event of a security incident,** significant additional resources **may be expended** to modify our protective measures or to investigate and remediate vulnerabilities or other exposures and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new ~~discoveries and~~ vulnerabilities in third- party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and / or controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information ~~. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data~~ . Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber- attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures and could result in losses to us or our customers, our loss of business and / or customers, damage to our reputation, incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. Our security measures may not protect us from system failures or interruptions. We have established policies and procedures to **identify threats and vulnerabilities and** prevent or limit the impact of system breaches, failures, and interruptions. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. While the Company selects third-party vendors carefully, it does not control their actions. If our third- party providers encounter difficulties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber- attacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected and to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third- party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot ~~assure~~ **ensure** that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third ~~-~~ parties on which we rely. Further, while we believe we maintain adequate insurance to cover these risks, our insurance coverage may not cover all losses resulting from breaches, system failures or other disruptions. The occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our business, financial condition **,** and results of operations. We are subject to certain risks in connection with our data management or aggregation. We are reliant on our ability to manage data and our ability to aggregate data in an accurate and timely manner to ensure effective risk reporting and management. Our ability to manage data and aggregate data may be limited by the effectiveness of our policies, programs, processes **,** and practices that govern how data is acquired, validated, stored, protected and processed. While we continuously update our policies, programs, processes **,** and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs. Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. **We** ~~The Company and the Bank~~ are susceptible to fraudulent activity that may be committed against us or our customers which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer' s information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering **,** and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes, although such losses have been relatively insignificant to date. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur ~~. Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees or customers, with or without merit, may result in the loss of customers, investors and employees; costly litigation; a decline in revenues and increased governmental regulation~~ . The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we may not be able to effectively compete. The financial services industry is experiencing rapid technological changes with frequent introductions of new technology- driven products and services. Effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Many of our competitors have substantially greater resources to invest in technological improvements than we do. Our future success will depend, to some degree, 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 create additional efficiencies in our operations. We may not be able to effectively implement new technology- driven products or services or be successful in marketing these products and services. Additionally, 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. There can be no assurance that we will be able to successfully manage the risks associated with increased dependency on technology. Risks Related to Accounting Matters New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition. The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our stockholders. These regulations, along with the currently existing tax, accounting, securities, insurance and monetary laws, regulations, rules, standards, policies and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation, change in existing regulation or oversight, whether a change in regulatory policy or a change in a regulator' s interpretation of a law or regulation, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and adversely affect our profitability. Regulatory authorities also have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and adequacy of an institution' s ACL. These bank regulators also have the ability to impose conditions in the approval of merger and acquisition transactions. We may experience ~~future~~ goodwill impairment, which could reduce our earnings. Accounting standards require that we **use the purchase method of** ~~account~~ **accounting** for acquisitions ~~or~~ **and** business combinations ~~using the purchase method of accounting~~ . Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of its net assets, the excess is carried on the acquirer' s balance sheet as goodwill. In accordance with GAAP, **we assess** our goodwill ~~is evaluated~~ for impairment ~~on an annual~~ **annually** ~~basis~~ **,** or more frequently if **specific** events **suggest** ~~or circumstances indicate a~~ potential impairment ~~exists~~ . ~~The~~ **This** evaluation **incorporates various** ~~may be based on a variety of~~ quantitative factors, ~~including~~ **such as** the quoted price of our common stock, market prices of common stock of other banking organizations, common stock trading multiples, discounted cash flows and data from comparable acquisitions. Additionally, we may perform a qualitative assessment that **considers** ~~takes into consideration~~ macroeconomic conditions, industry and market conditions, cost or margin factors, and financial performance. **Assessing** ~~Our evaluation of~~ the fair value of goodwill involves **considerable** ~~a substantial amount of~~ judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill was deemed to exist, we would be required to write down our goodwill resulting in a charge against income, which could materially adversely affect our results of operations and financial condition. We performed our annual impairment assessment for goodwill as of December 31, ~~2022~~ **2023** , and concluded there was no impairment. The Company' s reported financial results depend on management' s selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future. The Company' s accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company' s management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management' s judgment regarding the most appropriate manner to report the Company' s financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in the Company' s reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Company' s financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the ACL on loans, investments and unfunded commitments, and goodwill. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the ACL and / or sustain credit losses that are significantly higher than the reserve provided, or recognize significant losses on the impairment of goodwill. For more information, refer to " Critical Accounting Estimates " included in Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10- K. Other Risks Related to ~~Operational Matters~~ **Our Business Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies and questionable or fraudulent activities of our customers.** We ~~will~~ **have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not** be **fully effective** ~~required to transition from the use of the LIBOR in the future~~ . **Negative publicity regarding** ~~FHLB advances, loans receivable, investment securities, subordinated debentures and trust preferred securities may be indexed to LIBOR to calculate the interest rate. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one- week and two- month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or~~ **our business** ~~reference rates. The transition to a new reference rate requires changes to contracts~~ , **employees** ~~risk and pricing models~~ , ~~valuation tools, systems, product design and hedging strategies. At this time, no consensus exists as to what rate~~ or **customers,** ~~rates may become acceptable alternatives to LIBOR (~~ with ~~the exception of overnight repurchase agreements, which are expected to be based on SOFR). Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR- based loans, and to a lesser extent securities in our~~ - **or** ~~portfolio~~ **without merit** , ~~and may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our trust preferred securities. The language in our LIBOR- based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices~~

~~for the calculation of interest rates under our loan agreements with our borrowers or our borrowings~~ may result in ~~our incurring significant expenses in implementing~~ the ~~transition~~ **loss of customers** , **investors** ~~may result in reduced loan balances if borrowers do not accept the substitute index or indices,~~ and **employees; costly** ~~may result in disputes or~~ litigation **; a decline** ~~with clients and creditors over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. For more information, refer to " Loan Portfolio Overview " included~~ in ~~Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10- K. An increase in interest rates, change in the programs offered by secondary market purchasers or our ability to qualify for their programs may reduce our mortgage~~ revenues ~~, which would negatively impact our non- interest income. We originate~~ and **increased governmental regulation** ~~sell residential real estate loans, or mortgage loans. The related mortgage income is a significant portion of our noninterest income. We generate gains on the sale of residential real estate loans pursuant to programs currently offered by the Federal Home Loan Mortgage Corporation and other secondary market purchasers. Any future changes in these purchase programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, the demand for mortgage loans, particularly refinancing of existing mortgage loans, tends to fall and our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in gain on loans, net and a corresponding decrease in noninterest income. In addition, our results of operations are affected by the amount of noninterest expense associated with mortgage banking activities, such as salaries and employee benefits; occupancy and equipment expense; data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan originations~~ . Ineffective liquidity management could adversely affect our financial results and condition. Liquidity is essential to our business. We rely on **several** ~~a number of different~~ sources ~~in order~~ to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans or investment securities and other sources could have a substantial negative effect on our liquidity. We rely on customer deposits and borrowings from the FHLB and certain other wholesale funding sources to fund our operations. Deposit flows and the prepayment of loans and mortgage- related investment securities are strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and the competition for deposits and loans in the markets we serve. Further, changes to the FHLB' s underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow and could therefore have a significant adverse impact on our liquidity. Although we have historically been able to replace maturing deposits and borrowings if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or market conditions change. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans and deposits are concentrated, negative operating results, or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations. Additionally, collateralized public funds are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities to ensure repayment, which on the one hand tends to reduce our contingent liquidity risk by making these funds somewhat less credit sensitive, but on the other hand reduces standby liquidity by restricting the potential liquidity of the pledged collateral. Although these funds historically have been a relatively stable source of funds for us, availability depends on the individual municipality' s fiscal policies and cash flow needs. See" Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" of this Form 10- K. If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk; credit risk; market risk; interest rate risk; operational risk; information technology and cybersecurity risk; legal and compliance risk; and reputational risk, among others. We also maintain a compliance program to identify, measure, assess and report on our adherence to applicable laws, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. **As** ~~However, as~~ with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business, financial condition and results of operations could be materially adversely affected. We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where we conduct our business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our Chief Executive Officer, Jeffrey J. Deuel, and certain other employees. The loss of key personnel could adversely affect our ability to successfully conduct our business. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance (" ESG ") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. Risk Related to Holding Our Common Stock Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high; further, the resulting dilution of our equity may adversely affect the market price of our common stock. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support our growth or replenish future losses. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we cannot make assurances we will be able to raise additional capital, if needed, on terms that are acceptable to us or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may **dilute** ~~result in the dilution of~~ the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action. We rely on dividends from the Bank for substantially all ~~of~~ our revenue at the holding company level. We are an entity separate and distinct from our subsidiary, the Bank, and derive substantially all ~~of~~ our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on our common stock. The Bank' s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock. Also, our right to participate in a distribution of assets upon a subsidiary' s liquidation or reorganization is subject to the prior claims of the subsidiary' s creditors. **24**