**Risk Factors Comparison 2024-03-15 to 2023-03-03 Form: 10-K**

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

Like all financial companies, the Company' s business and results of operations are subject to a number of risks, many of which are outside of the Company' s control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, could materially impact the Company' s business and future results of operations. Risks Related to our Business Regional economic changes in the Company' s markets have in the past adversely impacted, and may in the future adversely impact, results from operations. Like all financial institutions, the Company is subject to the effects of any economic downturn, and in particular a significant decline in home values and reduced commercial development in the Company' s markets has had a negative effect on results of operations in the past. The Company' s success depends primarily on the general economic conditions in the counties in which the Company conducts business, and in the southern Minnesota, northern Iowa and eastern Wisconsin areas in general. Unlike larger financial institutions that are more geographically diversified, the Company provides banking and financial services to clients primarily in the Minnesota counties of Dakota, Dodge, Fillmore, Freeborn, Houston, Mower, Olmsted, Steele, and Winona and portions of Goodhue and Wabasha counties, as well as Marshall county in Iowa. The Bank also offers banking services to the Milwaukee, Wisconsin area through a branch location in Waukesha County in Wisconsin. The local economic conditions in these market areas have a significant impact on the Company' s ability to originate loans, the ability of the borrowers to repay these loans, and the value of the collateral securing these loans. A significant decline in the general economic conditions caused by inflation, recession, unemployment or other factors beyond the Company' s control can affect, and has in the past affected, these local economic conditions and can adversely affect, and has in the past adversely affected, the Company' s financial condition and results of operations. The Company has a significant amount of commercial business and commercial real estate loans and decreases in tenant occupancy and development home sales can have, and in the past have had, a negative effect on the ability of many of the Company' s borrowers to make timely repayments of their loans and the value of the collateral held as security for these loans, which can have, and in the past has had, an adverse impact on the Company' s earnings. During ~~2022~~ **2023**, the U. S. economy continued to perform reasonably well despite the negative impact of ~~rising~~ **higher** interest rates and inflation. However, there are continuing concerns related to a potential slowdown in economic activity as the Federal Open Market Committee continues to ~~raise~~ **maintain** the federal funds rate **at a higher level than what it has been over the past several years** in an effort to reduce inflation and ~~their~~ **its** effects on the financial markets and economic activity. There can be no assurance that current economic conditions will continue or improve, and economic conditions could worsen. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing and saving habits. A return of recessionary conditions and / or other negative developments in the domestic or international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate value and sales volumes and high unemployment may also result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity and financial condition. The Bank may not be able to meet its cash flow needs on a timely basis at a reasonable cost, and its cost of funds for banking operations may significantly increase as a result of general economic conditions, interest rates and competitive pressures. HMN, on an unconsolidated basis, has limited capital resources and liquidity to assist the Bank with its liquidity and capital requirements. Liquidity is the ability to meet cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to pay expenses, make loans and to repay deposit and borrowing liabilities as they become due or are demanded by clients and creditors. Many factors affect the Bank' s ability to meet liquidity needs, including variations in the markets served by its network of offices, its composition of assets and liabilities, reputation and standing in the marketplace and general economic conditions. The Bank' s primary source of funding is retail and commercial deposits gathered through its network of fourteen banking offices. Wholesale funding sources principally consist of borrowing lines from the FHLB of Des Moines and the Federal Reserve Bank of Minneapolis and brokered and internet certificates of deposit obtained from the national market. Borrowings from the FHLB are subject to the FHLB' s credit policies and procedures relating to the valuation of the loans securing advances as well as the amount of funds the FHLB will loan to the Bank. The current collateral pledged to secure advances may become unacceptable, the formulas for determining the excess pledged collateral may change or the Bank' s credit rating with the FHLB could decrease. In these cases, the Bank may not have sufficient collateral to pledge or have the borrowing capacity to meet its funding needs and may be required to rely upon alternate funding sources, such as the Federal Reserve Bank, which typically bear higher borrowing costs. The Bank' s securities and loan portfolios could also be pledged to the FHLB and Federal Reserve Bank to increase the amount of available borrowings. Significant changes in general economic conditions, market interest rates, competitive pressures or otherwise, could cause the Bank' s deposits to decrease relative to overall banking operations, and it would have to rely more heavily on brokered and Internet deposits or borrowings in the future, which are typically more expensive than retail deposits. The Bank actively manages its liquidity position and monitors it using cash flow forecasts. Changes in economic conditions, including consumer savings habits and availability or access to borrowed funds and the brokered and Internet deposit markets could potentially have a significant impact on the Company' s liquidity position, which in turn could materially impact its financial condition, results of operations and cash flows. HMN' s primary source of cash is dividends from the Bank, and the Bank is restricted from paying dividends to HMN unless certain conditions are met under bank regulatory requirements. At December 31, ~~2022~~ **2023**, HMN had $ ~~15~~ **16**. 3 million in cash balances. Primarily, HMN requires cash for the payment of holding company level expenses, including director and management fees, legal expenses and regulatory costs. HMN may also use cash for the repurchase of outstanding HMN stock and the payment of dividends. HMN does not anticipate that it will have, on an ongoing long term stand- alone basis, adequate liquid resources to make all of the required cash payments for these items in the future. To meet these payment requirements or other potential HMN liquidity or capital needs would require dividends from the Bank or external capital. Failure to meet regulatory requirements for any future dividends from the Bank to HMN, or to receive dividends in amounts deemed satisfactory by HMN, could cause HMN to require other sources of liquidity for its needs in ~~2023~~ **2024** and beyond. Further information about HMN' s liquidity position is available in the " Management' s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources " section in Part II, Item 7 of this Annual Report on Form 10- K. Changes in interest rates could negatively impact the Company' s results of operations. The earnings of the Company are primarily dependent on net interest income, which is the difference between interest earned on loans and investments and interest paid on interest- bearing liabilities such as deposits and borrowings. Interest rates are highly sensitive to many factors, including government monetary and fiscal policies and domestic and international economic and political conditions. Conditions such as inflation, recession, unemployment, money supply, government borrowing and other factors beyond management' s control may also affect interest rates. If the Company' s interest- earning assets mature, reprice or prepay more quickly than interest- bearing liabilities in a given period, a decrease in market interest rates could adversely affect net interest income. Likewise, if interest- bearing liabilities mature or reprice, or, in the case of deposits, are withdrawn by the accountholder, more quickly than interest- earning assets in a given period, an increase in market interest rates could adversely affect net interest income. Given the Company' s assets and liability composition as of December 31, ~~2022~~ **2023**, a falling interest rate environment would negatively impact the Company' s results of operations. The effect on our deposits of decreases in interest rates generally lags the effect on our assets. The lagging effect of deposit rate changes is primarily due to the Bank' s deposits that are in the form of certificates of deposit, which do not re- price immediately when the federal funds rate changes. Fixed rate loans increase the Company' s exposure to interest rate risk in a rising rate environment because interest- bearing liabilities would be subject to repricing before assets become subject to repricing. Adjustable rate loans decrease the risks to a lender associated with changes in interest rates but involve other risks. As interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, and the increased payment increases the potential for default. At the same time, for secured loans, the marketability of the underlying collateral may be adversely affected by higher interest rates. In a declining interest rate environment, there is likely to be an increase in prepayment activity on loans as the borrowers refinance their loans at lower interest rates. Under these circumstances, the Company' s results of operations could be negatively impacted. Changes in interest rates also can affect the value of loans, investments and other interest- rate sensitive assets including mortgage servicing rights, and the Company' s ability to realize gains on the sale or resolution of assets. This type of income can vary significantly from quarter- to- quarter and year- to- year based on a number of different factors, including the interest rate environment. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in non- performing assets and increased ~~loan~~ **credit** loss reserve requirements that could have a material adverse effect on the Company' s results of operations. Changes in interest rates could continue to negatively impact the fair market value of our available for sale securities portfolio. The fair market value of our fixed rate available for sale securities portfolio has been negatively impacted ~~during~~ **over** the past **couple of** ~~year~~ **years** due to an increase in market interest rates. The result has been that the Company has recorded a $ ~~19~~ **13** . ~~8~~ **2** million **accumulated** other comprehensive loss (OCL) in equity as of December 31, ~~2022~~ **2023** . Future increases in long term interest rates will **likely** continue to have a negative effect on the fair market value of our fixed rate securities portfolio and increases in OCL may occur in future periods. Furthermore, if we are forced to liquidate any of these investments prior to maturity, including because of a lack of liquidity, we would recognize as a charge to earnings the losses attributable to those securities. Strong competition within the Company' s market area may limit profitability or generate losses. The Company faces significant competition both in attracting deposits and in the origination of loans. Mortgage ~~bankers~~ **brokers** , commercial banks, credit unions and other savings institutions, which have offices in the Bank' s market area have historically provided most of the Company' s competition for deposits and loans; however, the Company also competes with financial institutions ~~that operate through Internet banking operations throughout the United States. In addition~~ , ~~the Company faces additional and significant competition for funds from money market and~~ mutual funds, and securities firms ~~located in the same communities and those~~ that operate through Internet banking operations throughout the United States. Many competitors have substantially greater financial and other resources than the Company. Finally, credit unions do not pay federal or state income taxes and are subject to fewer regulatory constraints than savings banks and as a result, they may enjoy a competitive advantage over the Company. The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it originates and the quality of services it provides to borrowers. This competitive strategy places significant competitive pressure on the prices of loans and deposits. Loss of large checking and money market deposit clients could increase cost of funds and have a negative effect on results of operations. The Company has a number of large deposit clients that maintain balances in checking and money market accounts at the Bank. At December 31, ~~2022~~ **2023** , there was $ ~~134~~ **60** . ~~2~~ **3** million in checking and money market accounts of clients in the alternative energy and other industries that have individual relationship balances greater than $ 5 million. The ability to attract and retain these types of deposits has a positive effect on the Company' s net interest margin as they provide a relatively low cost of funds to the Company compared to certificates of deposits or advances. If these depositors were to withdraw these funds and the Bank was not able to replace them with similar types of deposits, the Banks cost of funds would increase and the Company' s results of operation would be negatively impacted. Because of the asset size of the Company, adverse performance affecting a few large loans or lending relationships can cause significant volatility in earnings. Due to the Company' s asset size, the provision for ~~loan~~ **credit** losses or charge- offs associated with individual loans can be large relative to the Company' s earnings for a particular period. If one or a few relatively large loans become non- performing in a period and the Company is required to increase its loss reserves, or to write off principal or interest relative to such loans, the operating results for that period could be significantly adversely affected. The effect on results of operations for any given period from a change in the performance of a small number of loans may be disproportionately larger than the impact of such loans on the quality of the Company' s overall loan portfolio. The Company generally limits its internal loan originations to loans less than $ 7. 5 million with loans over that amount approved by its Executive Loan Committee. The Company' s regulatory lending limit was $ ~~16~~ **17** . ~~2~~ **1** million at December 31, ~~2022~~ **2023** . The Bank' s largest borrowing relationship had outstanding loans totaling $ 15. ~~1~~ **4** million and was performing at December 31, ~~2022~~ **2023** . The Company has concentrations in commercial business and commercial real estate loans, increasing the risk in its loan portfolio. In order to enhance the yield and shorten the term- to- maturity of its loan portfolio, the Company continues to maintain the balances of its commercial business and commercial real estate portfolios. These categories of loans represented approximately ~~68~~ **64** % of the total loans receivable at December 31, ~~2022~~ **2023** . Some of the Company' s commercial real estate portfolio is in land development loans, while many of the Company' s commercial business loans are made to borrowers associated with the real estate industry. Commercial business and commercial real estate loans generally, and land development loans in particular, present a higher level of risk than loans secured by single family residences. This greater risk is due to several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed or properties intended for resale are not developed and sold), the borrower' s ability to repay the loan and the underlying collateral may be impaired. Commercial business loans to businesses that are dependent on the cash flow generated by the sale or leasing of real estate are similarly impacted. At December 31, ~~2022~~ **2023** , the Company had $ ~~1~~ **3** . ~~9~~ **8** million of non- performing loans, of which $ ~~0~~ **2** . ~~5~~ **7** million related to commercial business and commercial real estate loans. At December 31, ~~2022~~ **2023** , total classified loans included $ ~~34~~ **32** . ~~4~~ **6** million of commercial business and commercial real estate loans. The Company may experience actual losses in respect of these classified loans and further increases in the level of classified loans in our loan portfolio that may require further increases in our provision for ~~loan~~ **credit** losses. Our allowance for ~~loan~~ **credit** losses may prove to be insufficient to absorb losses or appropriately reflect, at any given time, the inherent risk of loss in our loan portfolio. Our non- performing assets were at $ ~~1~~ **3** . ~~9~~ **8** million, or 0. ~~17~~ **34** % of total assets, at December 31, ~~2022~~ **2023** . Classified loans at December 31, ~~2022~~ **2023** were $ ~~37~~ **34** . 9 million, or 4. ~~8~~ **1** % of total loans. Classified loans represent special mention, performing substandard and non- performing loans. The low level of our classified loans is primarily due to the current economic environment. If the favorable economic environment does not continue these assets may not perform according to their terms and the value of the collateral may be insufficient to pay any remaining loan balance. If this occurs, we may experience losses or an increased risk of loss in our loan portfolio, which could have a negative effect on our results of operations. Like all financial institutions, we maintain an allowance for ~~loan~~ **credit** losses to provide for loans in our portfolio that may not be repaid in their entirety. Our allowance for ~~loan~~ **credit** losses may not be sufficient to cover actual ~~loan~~ **credit** losses or the inherent risk of loss in our loan portfolio, and future provision for ~~loan~~ **credit** losses could materially adversely affect our operating results. In evaluating the appropriateness of our allowance for ~~loan~~ **credit** losses, we consider numerous factors, including but not limited to, specific occurrences of loan impairment, our historical charge- off experience, actual and anticipated changes in the size of the portfolios, national, regional and local economic conditions such as unemployment data, loan delinquencies, demand for single family homes, demand for commercial real estate and building lots, loan portfolio composition and observations made by the Company' s ongoing internal audit and regulatory exam processes. In addition, we use information about specific borrower situations, including their financial position and estimated collateral values, to estimate the risk and amount of loss for those borrowers. Our estimates of the risk of loss and amount of loss on any loan are complicated by the significant uncertainties surrounding our borrowers' abilities to successfully execute their business models through changing economic environments, competitive challenges and other factors. Because of the degree of uncertainty and susceptibility of these factors to change, our actual losses and estimates of risk of loss inherent in our loan portfolio have varied and are likely to continue to vary from our current estimates. Such variances may materially and adversely affect our financial condition and results of operations. Federal regulators, as an integral part of their examination process, periodically review our allowance for ~~loan~~ **credit** losses and may require us to increase our allowance for ~~loan~~ **credit** losses by recognizing additional provisions for ~~loan~~ **credit** losses charged to expense, or to decrease our allowance for ~~loan~~ **credit** losses by recognizing loan charge- offs. Any such additional provisions for ~~loan~~ **credit** losses or charge- offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations. Our capital may not be adequate to meet all our needs and requirements in the future and we may need to take steps to meet our capital needs. These actions may reduce our base of earning assets and core deposits and may dilute our shareholders or result in a change of control of the Company. There can be no assurance that we will satisfactorily meet our required future capital needs. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations and protect depositors of the Bank. Depending upon the operating performance of the Bank and our other liquidity and capital needs, we may find it prudent, subject to prevailing market conditions and other factors, to raise additional capital through the issuance of additional shares of our common stock or other equity securities. Additional capital would potentially allow the Bank to grow its assets more aggressively. Depending on circumstances, if we were to raise capital, we may deploy it to the Bank for general banking purposes, or may retain some or all of such capital for use by the Company. If the Company were to raise capital through the issuance of additional shares of common stock or other equity securities, it would dilute the ownership interests of existing stockholders, dilute the Company' s earnings per share and could result in a change in control of the Company and the Bank. New investors may also have rights, preferences and privileges senior to our current stockholders which may adversely impact our current stockholders. Our ability to raise additional capital through the issuance of equity securities, if deemed prudent, would depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. A significant investment by a person or group may also necessitate an amendment to our Certificate of Incorporation, which would require stockholder approval. Accordingly, we may not be able to raise additional capital, if needed, on favorable economic terms or other terms acceptable to us. We may decide to grow our business through acquisitions, which may disrupt or harm our business and dilute stockholder value. The Company continues to regularly monitor acquisition opportunities and from time to time conducts due diligence activities related to possible transactions with banks and other financial institutions. Negotiations may take place and future acquisitions may occur at any time. Our ability to grow through acquisitions will depend, in part, on the availability of suitable acquisition targets at acceptable prices, terms and conditions; our ability to compete effectively for these acquisition candidates; and the availability of capital and personnel to complete such acquisitions and run the acquired business effectively. These risks could be heightened if we complete a large acquisition or multiple acquisitions within a relatively short period of time. The benefits of an acquisition may take more time than expected to develop or integrate into our operations and we cannot guarantee that any acquisition will ultimately produce any benefits. Acquiring other banks, businesses, or branches involves various risks, such as potential disruption of the Company' s business, including diversion of management' s attention; difficulty in valuing the target company; potential exposure to undisclosed, contingent, or other liabilities or problems, unanticipated costs associated with an acquisition, and an inability to recover or manage such liabilities and costs; exposure to potential asset quality issues of the target company; volatility in reported income as goodwill and other impairment losses could occur irregularly and in varying amounts; difficulty and expense of integrating the operations and personnel of the target company or in realizing projected efficiencies, revenue increases, cost savings, increased market presence, or other projected benefits; potential loss of key employees or clients of the Company or the target company; dilution to existing stockholders if securities are issued as part of transaction consideration or to fund transaction consideration; and potential changes in banking or tax laws or regulations that may affect the target company. Any of the foregoing factors could have a material adverse effect on the Company' s financial condition and results of operations. Risks related to the Regulation of Our Industry The Company operates in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations. The Company is and will continue to be subject to extensive examination, supervision and comprehensive regulation by federal bank regulatory agencies. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system and the financial system as a whole, and not holders of our common stock. These regulations affect our lending practices, capital structure, investment practices, dividend policy, and growth, among other things. See Item 1 " Business – Regulation and Supervision " of this Annual Report on Form 10- K for information regarding regulation affecting the Company. Changes in the regulatory landscape may significantly impact the profitability of business activities, require material changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. The FRB assesses the condition, performance and activities of savings and loan holding companies in a manner that is consistent with its established risk- based approach regarding bank holding company supervision to ensure that savings and loan holding companies are effectively supervised and can serve as a source of strength for, and do not threaten the soundness of, subsidiary depository institutions such as the Bank. The CFPB has broad authority to develop new rules and interpretations with respect to consumer financial products and services even though its examination and enforcement authority do not currently extend to the Bank. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, restrict mergers and acquisitions, investments, access to capital, the location of banking offices, or increase the ability of non- banks to offer competing financial services and products, among other things. Failure, or alleged failure, to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil or criminal penalties or money damages in connection with actions or proceedings on behalf of regulators or consumers, and / or reputational damage, any of which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations and to reduce the likelihood of such actions or proceedings, there can be no assurance that such violations will not occur or that such actions or proceedings will not be brought. Changes to laws and regulations, including changes in interpretation or implementation, may also limit the Bank' s flexibility on financial products and fees which could result in additional operational costs and a reduction in our non- interest income. Further, our regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws by financial institutions and holding companies in the performance of their supervisory and enforcement duties. Examples include limits on payment of dividends by banks and regulations governing compensation. Regulation of dividends may limit the liquidity of the Company and restrictions on compensation may adversely affect our ability to attract and retain employees. We are subject to the CRA and fair lending laws, and failure to comply with these laws could lead to material penalties. The CRA and fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, the CFPB and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution' s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. The Bank has implemented policies and procedures designed to ensure compliance with such laws and regulations, but any non- compliance could lead to regulatory actions that could result in material penalties or sanctions. The USA PATRIOT Act and Bank Secrecy Act may subject us to large fines for non- compliance. The USA PATRIOT Act and the Bank Secrecy Act require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If these activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury Department' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of clients seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. In recent years, several banking institutions have received large fines for non- compliance with these laws and regulations. Although the Bank has developed policies and procedures designed to ensure compliance, regulators may take enforcement action against the Bank in the event of non- compliance. Technology and Cybersecurity Risks The extended disruption or compromise of vital infrastructure, including the Company' s technology systems, could negatively impact the Company' s results of operations and financial condition. The Company' s business depends on its ability to process, record and monitor a large number of transactions. The Company' s technological and physical infrastructures, which include its financial, accounting and other data processing systems, are vital to its operation. Extended disruption or compromise of its vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking and viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of the Company' s control, could cause the Company to suffer regulatory consequences, reputational damage and financial losses, any of which could have a material adverse effect either on the financial services industry as a whole, or on the Company' s business, financial condition and results of operations. The Company faces cybersecurity and other external data security risks that could adversely affect the reputation of the Company and that could have a material adverse effect on the Company' s financial condition and results of operations. The Company' s business is dependent upon the transmission and storage of confidential information in digital technologies, computer and email systems, software and networks. The Company has security systems in place and regularly monitors its computer systems and network infrastructure. The Company does not believe that it has experienced a material cybersecurity ~~breach~~ **incident** , but it has experienced immaterial threats to its data and systems, including computer virus and malware attacks and other attempted unauthorized access to our systems. ~~Cyber~~ **Cybersecurity** threats are rapidly evolving and the Company may not be able to anticipate or prevent all future attacks. Other financial institutions have been, and continue to be, the target of various evolving and adaptive ~~cyber attacks~~ **cybersecurity threats** , including malware and denial of service, as part of an effort to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, or obtain confidential, proprietary, or other information. As cybersecurity threats continue to evolve, the Company may incur increasing costs in an effort to minimize these risks. In addition, the Company could be held liable for, and could suffer reputational damage as a result of, any security breach or loss, which could have a material adverse effect on the Company' s financial condition and results of operations. Third parties with which the Company does business or that facilitate its business activities, including vendors and retailers, could also be sources of operational and information security risk to the Company. There have been increasingly sophisticated and large- scale efforts on the part of third parties to breach data security with respect to financial transactions, including intercepting account information at locations where clients make purchases, as well as the use of social engineering schemes such as " phishing. " For example, large retailers have reported data breaches resulting in the loss of client information. In the event that third parties are able to misappropriate financial information of the Bank' s clients, even if such breaches take place due to weaknesses in other parties' internal data security procedures, the Company could suffer reputational or financial losses which could have a material adverse effect on its financial condition and results of operations. Risks related to our Common Stock The price of our common stock has been volatile and could continue to fluctuate in the future. During the year ended December 31, ~~2022~~ **2023** , the price of our common stock on The Nasdaq Global Market ranged from $ ~~20~~ **17. 31 to $ 24** . 95 ~~to $ 25. 98~~ per share, and over the two- year period from January 1, ~~2021~~ **2022** to December 31, ~~2022~~ **2023** it ranged from $ 17. ~~20~~ **31** to $ 25. 98. Our closing sale price on December 31, ~~2022~~ **2023** was $ ~~21~~ **23** . ~~34~~ **00** per share and on February ~~9~~ **16** , ~~2023~~ **2024** it was $ **20.** 22 ~~. 00~~ per share. Our stock generally trades in relatively low volumes and its price may fluctuate in response to a number of events and factors, including, but not limited to, variations in operating results, litigation or governmental and regulatory proceedings, market perceptions of our financial reporting, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. We may issue additional stock, or reissue shares of treasury stock, without shareholder consent. We have authorized 16, 000, 000 shares of common stock. As of December 31, ~~2022~~ **2023** , 9, 128, 662 shares were issued and outstanding (including 4, ~~647~~ **670** , ~~686~~ **757** shares that were held as treasury stock) and 6, 871, 338 shares were unissued. The Company has also granted options to purchase 34, 229 shares of common stock that are currently outstanding and has ~~332~~ **318** , ~~005~~ **040** shares that are available to be awarded pursuant to our current equity incentive plans. The board of directors has authority, without action or vote of the stockholders, to issue all or part of the authorized but unissued shares and to reissue all of the treasury shares. Additional shares may be issued, or treasury shares reissued, in connection with future financing, acquisitions, employee stock plans or otherwise. Any such issuance, or reissuance, will dilute the percentage ownership of existing stockholders. We are also currently authorized to issue up to 500, 000 shares of preferred stock, however, as of December 31, ~~2022~~ **2023** , there were no preferred stock shares issued and outstanding. Under our certificate of incorporation, our board of directors can issue additional preferred stock in one or more series and fix the terms of such stock without shareholder approval. Preferred stock may include the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. The issuance of preferred stock could adversely affect the rights of the holders of common stock and reduce the value of the common stock. In addition, specific rights granted to holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. Our ability to pay dividends on or repurchase our common stock is restricted. We are a stock savings bank holding company and our operations are conducted primarily by the Bank. Since we receive substantially all of our revenue from dividends from the Bank, our ability to pay dividends on our common stock or repurchase common stock depends on our receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations. The ability of the Bank to pay dividends to us is also subject to its profitability, financial condition, capital needs and other cash flow requirements. There is no assurance that the Bank will be able to pay dividends to us in the future or that we will be able to generate adequate cash flow to continue to pay dividends or repurchase our common stock in the future. The inability to receive dividends from the Bank could have an adverse effect on our business and financial condition. Provisions of our certificate of incorporation and bylaws, as well as Delaware and federal law, may discourage, delay or prevent an acquisition of control of us, even in situations that may be viewed as desirable by our stockholders. Provisions included in our certificate of incorporation and bylaws, as well as provisions of the Delaware General Corporation Law and federal law (including banking regulations), may discourage, delay or prevent potential acquisitions of control of us, particularly when attempted in a transaction that is not negotiated directly with and approved by our board of directors, despite perceived short- term benefits to our stockholders (such as an increase in the trading price of our common stock). Specifically, our certificate of incorporation and bylaws include provisions that: • limit the voting power of shares held by a stockholder beneficially owning in excess of 10 % of the outstanding shares of our common stock; • require that, with limited exceptions, business combinations between us and a stockholder beneficially owning in excess of 10 % of the voting power of the outstanding shares of our stock entitled to vote in the election of directors, be approved by at least 80 % of the total number of our outstanding voting shares; • require that prior to acquiring publicly traded equity securities from a stockholder that owns 5 % or more of our publicly traded voting stock, with limited exception, holders of 80 % or more of our voting stock outstanding, other than shares held by the selling stockholder, must approve the transaction; • divide our board of directors, other than directors who may be elected by a class or series of preferred stock, into three classes serving staggered three- year terms and provide that a director may only be removed prior to the expiration of a term for cause by the affirmative vote of the holders of at least 80 % of the voting power of all of the outstanding shares of capital stock entitled to vote in an election of directors; • require that a special meeting of stockholders be called pursuant to a resolution adopted by a majority of our board of directors; • require advance notice of nominations of directors to be made, or business to be brought, by stockholders at our annual meetings; • authorize the issuance of preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors; and • require that amendments to (i) our certificate of incorporation be approved by a two- thirds vote of our board of directors and by a majority of the outstanding shares of our voting stock or, with respect to the amendment of certain provisions (regarding, among other things, provisions relating to number, classification, election and removal of directors, amendment of the bylaws, call of special stockholder meetings, acquisitions of control, director liability, and certain business combinations), by 80 % of the outstanding shares of our voting stock, and (ii) our bylaws be approved by a majority vote of our board of directors or the affirmative vote of at least 80 % of the total votes eligible to be voted at a duly constituted meeting of stockholders. We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a publicly- held Delaware corporation from engaging in a " business combination " with an " interested stockholder " for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a " business combination " includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an " interested stockholder " is a person who, either alone or together with affiliates and associates, owns (or within the past three years, did own) 15 % or more of the corporation' s voting stock. For purposes of Section 203, " voting stock " means stock of any class or series entitled to vote generally in the election of directors. Furthermore, federal law requires FRB or OCC approval prior to any direct or indirect acquisition of control (as defined in regulations) of HMN or the Bank, respectively, including, with respect to the Bank, any indirect acquisition of control through an acquisition of control of HMN.