

## Risk Factors Comparison 2023-09-11 to 2022-09-12 Form: 10-K

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

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment. Risks Related to Macroeconomic Conditions **COVID-19** ~~Recent events in the financial services industry may have a material adverse effect on us. Recent events in the financial services industry, including the failures of two large U. S. banks in the span of three days in March 2023 and another failure in early May 2023, created industry-wide concerns related to liquidity, deposit outflows, uninsured deposit concentrations and eroding consumer confidence in the banking system. These events occurred against the backdrop of a rapidly rising interest rate environment which, among other things, has resulted in unrealized losses in longer duration securities and loans held by banks, and more competition for bank deposits. These events have had, and may continue to have, an adverse impact on the market price of our common stock. While the U. S. Department of the Treasury, the Federal Reserve, and the FDIC acted to fully protect the insured and uninsured depositors of two of the recently failed banks, and the FDIC secured an agreement with a large financial institution for that institution to assume all the deposits of the third recently failed bank, no assurance can be given that these or similar actions will restore confidence in the banking system, and we may be further impacted by concerns regarding the soundness of other financial institutions, or other future bank failures or disruptions. Any loss of customer deposits could increase our cost of funding or negatively affect our overall liquidity or capital.~~ **The cost of resolving COVID-19 pandemic continues to negatively impact economic and commercial activity and financial markets, both globally and within the United States recent bank failures may prompt the FDIC to charge higher deposit insurance premiums and / or impose special assessments on insured depository institutions. Stay-at-home orders These events and any future similar events may also result in changes to laws or regulations governing bank holding companies and banks, travel including higher capital requirements, or the imposition of restrictions and closure of non-essential businesses and similar orders imposed across the United States to restrict the spread of COVID-19 in 2020 resulted in significant business and operational disruptions, including business closures, supply chain disruptions, and significant layoffs and furloughs. Although through supervisory local jurisdictions have subsequently lifted stay-at-home orders and moved to open businesses, worker shortages, vaccine and testing requirements, new variants of COVID-19 and other health and safety recommendations have impacted the ability of businesses to return to pre-pandemic levels of activity and employment. While the overall economy has improved, disruptions to supply chains continue and significant inflation has been seen in the market. If these effects continue for or enforcement activities a prolonged period or result in sustained economic stress or recession, many any of the risk factors identified in this Form 10-K could be exacerbated, including the following risks of COVID-19:**

- effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls;
- declines in demand for loans and other banking services and products, as well as a decline in the credit quality of our loan portfolio, owing to the effects of COVID-19 in the markets served by us;
- if the economy is unable to remain open in an efficient manner, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could have a material cause loan losses to increase;
- our allowance for credit losses may increase if borrowers experience financial difficulties, which will adversely affect net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments;
- higher operating costs, increased cybersecurity risks and potential loss of productivity as the result of an increase in the number of employees working remotely;
- increasing or protracted volatility in the price of the Company's common stock, which may also impair our goodwill; and
- risks to the capital markets that may impact the performance of our investment securities portfolio, as well as limit our access to capital markets and other funding sources.

We do not yet know the full extent of COVID-19's effects **effect on us** our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, possible future virus variants, the effectiveness of any work-from-home arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels. Adverse economic conditions in the market areas we serve could adversely impact our earnings and could increase the credit risk associated with our loan portfolio. Our primary market areas are concentrated in North Carolina ( ~~including~~ the Asheville metropolitan area, the "Piedmont" region, Charlotte, and Raleigh / Cary), ~~upstate~~ **Upstate** South Carolina (Greenville), East Tennessee ( ~~including~~ Kingsport / Johnson City, Knoxville, and Morristown) ~~and~~, Southwest Virginia ( ~~including~~ the Roanoke Valley ) ~~and Georgia (Greater Atlanta)~~ ). Adverse economic conditions in our market areas can reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weakness in the global economy has 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 U. S. and other countries may also affect these businesses. ~~A. While real estate values and unemployment rates have improved,~~ deterioration in economic conditions, particularly within our primary market areas, could result in the following consequences among others, any of which could materially hurt our business: • loan delinquencies, problem assets and foreclosures may increase; • we may need to increase our ~~ACL allowance for credit losses~~; • the slowing of sales and / or the reduction in value of foreclosed assets; • demand for our products and services may decline, possibly resulting in a decrease in our total loans or assets; • collateral for loans made may decline further in value, exposing us to increased risk of loss on existing loans and reducing customers' borrowing power; • the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and • the amount of our deposits may decrease and the composition of our deposits may be adversely affected. At June 30, ~~2022~~ **2023**, the most significant portion of our loans located outside of our primary market areas were equipment finance, SBA, and purchased HELOCs. As a result, our financial condition and results of operations are subject to general economic conditions and the real estate conditions prevailing in the markets in which the underlying properties securing these loans are located, as well as the conditions in our primary market areas. If economic conditions or the real estate ~~market declines~~ **markets decline** in the areas ~~where~~ **in which** these properties are located, we may suffer decreased net income or losses associated with higher default rates and decreased collateral values on our existing portfolio. Further, because of their geographical diversity, these loans can be more difficult to oversee than loans in our market areas in the event of delinquency. A decline in 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 loan portfolios are more geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage 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. 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. A continued weak economic recovery or ~~a return to~~ **recessionary** conditions could increase our level of nonperforming assets, lower real estate values in our primary market areas and reduce demand for loans, which would result in increased loan losses and lower earnings. ~~A return of recessionary~~ **Recessionary** conditions and / or negative developments in the domestic and 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 values and sales volumes and higher unemployment levels may 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 reduced earnings or even losses, and may adversely affect our capital, liquidity, and financial condition. **Inflationary pressures and rising prices may adversely affect our results of operations and financial condition. Inflation has risen sharply since the end of 2021 to levels not seen in more than 40 years. Small- and medium- sized businesses may be impacted more during periods of high inflation, as they are not able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact 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 and financial condition. The economic impact of the COVID- 19 pandemic could continue to adversely affect us. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our customers reside and operate. As a result of its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the Company and its customers, employees, and third- party service providers. The extent of this impact will depend on future developments, which are highly uncertain. 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 customers, which are difficult to quantify in the near- term or long- term. We could be subject to a number of risks as the result of the COVID- 19 pandemic, any of which could have a material adverse effect on our business, financial condition, liquidity, and / or results of operations. These risks include, but are not limited to, changes in demand for our products 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 to the extent employees work remotely; a prolonged weakness in economic conditions; and increased costs as we and our regulators, customers, and third- party service providers adapt to evolving pandemic conditions. Severe weather and other natural disasters, acts of war or terrorism, new public health issues, or other adverse external events could harm our business. Severe weather and other natural disasters, acts of war or terrorism, new public health issues, or other adverse external events could have a significant impact on our ability to conduct business. Such events could harm our operations through interference with communications, including the interruption or loss of our computer systems, which could prevent or impede us from gathering deposits, originating loans, and processing and controlling the flow of business, as well as through the destruction of our facilities and our operational, financial, and management information systems. There is no assurance that our business continuity and disaster recovery program can adequately mitigate these risks. Such events could also affect the stability of our deposit base, cause significant property damage, adversely affect our employees, adversely impact the values of collateral securing our loans and / or interfere with our borrowers' abilities to repay their debt obligations to us.** Risks Related to Lending Activities Our business may be adversely affected by credit risk associated with residential property. At June 30, ~~2022~~ **2023**, \$ ~~354~~ **529** . ~~2~~ **7** million, or ~~12~~ **14** . ~~8~~ **5** % of our total loan portfolio, was secured by liens on one- to- four family residential loans. These types of loans are generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values resulting from a downturn

in the housing markets in which we operate may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Recessionary conditions or declines in the volume of real estate sales and / or the sales prices coupled with elevated unemployment rates may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity, and damage our financial condition and business operations. A majority of our residential loans are “ non- conforming ” because they are adjustable rate mortgages ~~which that~~ contain interest rate floors or do not satisfy credit or other requirements due to personal and financial reasons ( ~~i. e.~~ ~~g.~~ divorce, bankruptcy, length of time employed, etc.), conforming loan limits (i. e. ~~jumbo mortgages~~), and other requirements, imposed by secondary market purchasers. Some of these borrowers have higher debt- to- income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan- to- value ratios to reduce the risk of these loans. We believe that these loans satisfy a need in our local market areas. As a result, subject to market conditions, we intend to continue to originate these types of loans. High loan- to- value ratios on a portion of our residential mortgage loan portfolio ~~exposes~~ ~~expose~~ us to greater risk of loss. Many of our one- to- four family loans and home equity lines of credit are secured by liens on mortgage properties in which the borrowers have little or no equity because of declines in prior years in home values in our market areas. Residential loans with high combined loan- to- value ratios will be more sensitive to declining property values than those with lower combined loan- to- value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, they may be unable to repay their loans in full from the sale ~~proceeds~~. Further, ~~the a~~ majority of our home equity lines of credit consist of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan and such repayment and the costs associated with a foreclosure are justified by the value of the property. For these reasons, we may experience higher rates of delinquency, default and loss. Our non- owner occupied real estate loans may expose us to increased credit risk. At June 30, ~~2022~~ ~~2023~~, \$ ~~82~~ ~~151~~. ~~3~~ ~~8~~ million, or ~~23~~ ~~30~~. ~~2~~ ~~4~~ % of our one- to- four family loans and ~~3~~ ~~4~~. ~~0~~ ~~1~~ % of our total loan portfolio, consisted of loans secured by non- owner occupied residential properties. Loans secured by non- owner occupied properties generally expose a lender to greater risk of non- payment and loss than loans secured by owner occupied properties because repayment of such loans depends primarily on the tenant’ s continuing ability to pay rent to the property owner who is our borrower, or, if the property owner is unable to find a tenant, the property owner’ s ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non- owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non- owner occupied residential loan borrowers have more than one loan outstanding with HomeTrust Bank ~~,~~ which may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan. Our construction and land development loans have a higher risk of loss than residential or commercial real estate loans. At June 30, ~~2022~~ ~~2023~~, construction and land development loans in our residential real estate loan portfolio were \$ ~~81~~ ~~110~~. ~~8~~ ~~1~~ million, or 3. 0 % of our total loan portfolio, and ~~consist~~ ~~consisted~~ primarily of construction to permanent loans to homeowners building a residence or developing lots in residential subdivisions intending to construct a residence within one year. Construction and development loans in our commercial real estate loan portfolio at June 30, ~~2022~~ ~~2023~~, totaled \$ ~~291~~ ~~356~~. ~~2~~ ~~7~~ million, or ~~10~~ ~~9~~. ~~5~~ ~~7~~ % of our total loan portfolio, and ~~consist~~ ~~consisted~~ of loans to contractors and builders primarily to finance the construction of single and multi- family homes, subdivisions, as well as commercial properties. We originate these loans whether or not the collateral property underlying the loan is under contract for sale. Construction and land development lending generally involves additional risks because funds are advanced upon estimates of costs in relation to values associated with the completed project. Construction and land development lending involves additional risks when compared with permanent residential lending because funds are advanced upon the collateral for the project based on an estimate of costs that will produce a future value at completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the complete project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the completed project loan- to- value ratio. Changes in demand for new housing and higher than anticipated building costs, may cause actual results to vary significantly from those estimated. This type of lending also typically involves higher loan principal amounts and is often concentrated with ~~loans to~~ a small number of builders. For these reasons, a downturn in housing or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of ~~our the~~ collateral ~~underlying our construction and land development loans~~ and our ability to sell the collateral upon foreclosure. Some of the builders we deal with have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss. In addition, during the term of some of our construction and land development loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. 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 costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end- purchasers’ borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold ~~,~~ which also complicates the process of working out problem 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. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end- purchaser for the finished project. At June 30, 2022-2023, \$ 60-80. 4-1 million of our construction and land development loans were for speculative construction loans and none were classified as nonaccruing. Loans on land under development or held for future construction as well as lot loans made to individuals for the future construction of a residence also pose additional risk because the length of time from financing to completion of a development project is significantly longer than for a traditional construction loan, which makes them more susceptible to declines in real estate values, declines in overall economic conditions, which may delay the development of the land and changes in the political landscape that could affect the permitted and intended use of the land being financed, and the potential illiquid nature of the collateral. In addition, during this long period of time from financing to completion, the collateral often does not generate any cash flow to support the debt service. Our commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. While commercial real estate lending may potentially be more profitable than single- family residential lending, it is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans require a more detailed analysis at the time of loan underwriting and on an ongoing basis. At June 30, 2022-2023, commercial real estate loans were \$ 1. 49 billion, or 49-51. 5 % of our total loan portfolio, including multifamily loans totaling \$ 81. 18 million or 2. 92 % of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans and some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to- four family residential mortgage loan. Repayment of these loans is dependent upon income being generated from 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. Commercial real estate loans also expose a lender to greater credit risk than loans secured by one- to- four family residential real estate because the collateral securing these loans typically cannot be sold as easily as residential 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, which may increase the risk of default or non- payment. At June 30, 2022-2023, commercial real estate loans that were nonperforming totaled \$ 881-624, 000, or 36-7. 35 % of our total nonperforming loans. A secondary market for most types of commercial real estate loans is not readily available, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer than for one- to- four family residential loans because there are fewer potential purchasers of the collateral. Accordingly, charge- offs on commercial real estate loans may be larger on a per loan basis than those incurred with our residential and consumer loan portfolios. The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny. The FDIC, the Federal Reserve and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development, and other land represent 100 % or more of total capital, or (ii) total reported loans secured by multifamily and non- farm / non- residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 % or more of total capital. Our Based on this criteria, the Bank has a concentration in commercial real estate lending as total loans for multifamily, non- farm / non- residential, construction, land development and other land represented 292. 3 % of total risk- based capital at June 30, 2022-2023. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide assist banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including Board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. While we believe we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures pursuant to their interpretation of the guidance that may result in additional costs to us. Our equipment finance and auto finance lending increases our exposure to lending risks. At June 30, 2022-2023, \$ 394-462. 5-2 million and \$ 79-105. 1-0 million, or 14-12. 6 % and 2 % and 2. 9-8 % of our total loan portfolio, consisted of equipment finance and indirect auto finance loans, respectively. Equipment finance and indirect auto finance loans are inherently risky as they are secured by assets that depreciate rapidly. In some cases, repossessed collateral for transportation, and construction loans, and manufacturing equipment for equipment finance loans and a defaulted automobile loan for indirect auto finance loans may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Equipment finance loan collections depend on the customer borrower's continuing financial stability, and therefore are more likely to be adversely affected by the cash flows of the borrower's business within certain industries. Similarly, automobile loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. In addition,

for indirect auto finance loans, our ability to originate loans is reliant on our relationships with automotive dealers. In particular, our automotive finance operations depend in large part upon our ability to establish and maintain relationships with reputable automotive dealers that direct customers to our offices or originate loans at the point-of-sale. Although we have relationships with certain automotive dealers, none of our relationships are exclusive and any **of these relationships** may be terminated at any time. If our existing dealer base experiences decreased sales we may experience decreased loan volume in the future, which may have an adverse effect on our business, results of operations, and financial condition. Repayment of our municipal leases is dependent on ~~the fire department~~ **departments** receiving tax revenues from ~~counties~~ **the county/ municipality municipalities**. At June 30, ~~2022~~ **2023**, municipal leases were \$ ~~129.142~~ **8.2** million, or ~~43.79~~ % of our total loan portfolio. We offer ground and equipment lease financing to fire departments located throughout North Carolina and, to a lesser extent, South Carolina. Repayment of our municipal leases is often dependent on the tax revenues collected by the county / municipality on behalf of the fire department. Although a municipal lease does not constitute a general obligation of the county / municipality for which the county / municipality's taxing power is pledged, a municipal lease is ordinarily backed by the county / municipality's covenant to budget for, appropriate and pay the tax revenues to the fire department. However, certain municipal leases contain "non-appropriation" clauses which provide that the municipality has no obligation to make lease or installment purchase payments in future years unless money is appropriated for that purpose on a yearly basis. In the case of a "non-appropriation" lease, our ability to recover under the lease in the event of non-appropriation or default will be limited solely to the repossession of the leased property, without recourse to the general credit of the lessee, and disposition or releasing of the property might prove difficult. At June 30, ~~2022~~ **2023**, \$ ~~22.10~~ **9.7** million of our municipal leases contained a non-appropriation clause. Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio. Lending money is a substantial part of our business, and each 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: • cash flow of the borrower and / or the project being financed; • in the case of a collateralized loan, changes and uncertainties as to the future value of the collateral; • the duration of the loan; • the character and creditworthiness of a particular borrower; and • changes in economic and industry conditions. We maintain an **ACL**, ~~allowance for credit losses~~. This is a reserve established through a provision for expected losses charged against income, which we believe is appropriate to provide for lifetime **ECLs** ~~expected credit losses~~ in our loan portfolio. The amount of this ~~allowance~~ **ACL** is determined by our management through periodic reviews and consideration of several factors, including, but not limited to: • our reserve on loans collectively evaluated, based on peer loss experience, which management believes provides the best basis for its assessment of **ECLs** ~~expected credit losses~~, and consideration of the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio; • a qualitative reserve based on factors that are relevant within the qualitative framework; and • our reserve on loans individually evaluated for loans no longer sharing similar risk characteristics which is based on a DCF analysis unless the loan meets the criteria for use of the fair value of collateral, either by virtue of an expected foreclosure or through meeting the definition of collateral dependent. Our determination of the appropriate level of the **ACL** ~~allowance for credit losses~~ 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 ~~allowance~~ **ACL** may not be sufficient to cover the expected losses in our loan portfolio, resulting in the need for increases in our ~~allowance~~ **ACL**. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our ~~allowance~~ **ACL** may be insufficient to absorb losses without significant additional provisions. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for credit losses or the recognition of further loan charge-offs based on judgments different than those of management. If charge-offs in future periods exceed the ~~allowance~~ **ACL**, we may need additional provisions to increase the ~~allowance~~ **ACL**. Any increases in the ~~allowance~~ **ACL** will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations. If our nonperforming assets increase, our earnings will be adversely affected. Our nonperforming assets (which consist of nonaccruing loans and REO) were \$ ~~6.8~~ **.3** million, or 0.18 % of total assets, at June 30, ~~2022~~ **2023**, compared to \$ ~~12.6~~ **8.3** million, or 0.36-18 % of total assets, at June 30, ~~2021~~ **2022**, respectively. We also had \$ ~~9.8~~ **.2** million in loans classified as performing TDRs at June 30, ~~2022~~ **2023**. Our nonperforming assets adversely affect our net income in various ways: • we record interest income only on a cash basis for nonaccrual loans and any nonperforming debt securities, and do not record interest income for REO; • we must provide for **ECLs** ~~expected credit losses~~ through a current period charge to the provision for credit losses; • noninterest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize credit impairment on nonperforming debt securities; • there are legal fees associated with the resolution of problem assets, as well as carrying costs such as taxes, insurance and maintenance fees related to our REO; and • the resolution of nonperforming assets requires the active involvement of management ~~which can~~, **a distract distraction** ~~them~~ from more profitable activity. If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our nonperforming assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. If our REO is not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced. We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed **upon** and the property taken in as REO and at certain other times during the asset's holding period. Our NBV in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, or if property values decline, the fair value of our REO may not be sufficient to recover our carrying value in such assets, resulting in the need for additional charge-offs. Significant charge-offs to our REO could have a material adverse effect on our

financial condition and results of operations. In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our write-downs may have a material adverse effect on our financial condition, liquidity and results of operations. Risks Related to Market Interest Rates Fluctuating interest rates can adversely affect our profitability. Our earnings and cash flows are largely dependent upon our net interest income, which is the difference, or spread, between the interest earned on loans, securities and other interest-earning assets and the interest paid on deposits, borrowings, and other interest-bearing liabilities. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. In March 2020, in response to the COVID-19 pandemic, the Federal Open Market Committee (“FOMC”) of the Federal Reserve reduced the targeted federal funds rate 150 basis points to a range of 0.00% to 0.25%. The reduction in the targeted federal funds rate resulted in a decline in overall interest rates which negatively impacted our net interest income. **However Starting in March 2022**, the FOMC has ~~recently begun to increase rates. From March through June 2022, in response to inflation, the FOMC increased the targeted federal funds rate three eleven~~ separate times, raising the rate by **150 525** basis points to a range of **1 5.25 % to 5 .50 % to 1.75 %**. ~~The FOMC has indicated further increases are to be expected this year.~~ If the FOMC further increases the targeted federal funds rates, overall interest rates will likely rise, which will positively impact our net interest income but may continue to negatively impact both the housing market, by reducing refinancing activity and new home purchases, and the U. S. economy. In addition, deflationary pressures, while possibly lowering our operational costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of collateral securing loans which could negatively affect our financial performance. We principally manage interest rate risk by managing our volume and mix of 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 investments and the amount of interest we pay on deposits and borrowings, but ~~these changes could also affect~~ (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, which could negatively impact stockholders' 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 debt 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 the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. 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. Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations (generally, if rates increase) or by reducing our margins and profitability (generally, if rates decrease). Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates, up or down, could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. ~~In When we anticipation anticipate~~ of a rising- rate environment, our assets tend to be shorter in duration than our liabilities, so they may adjust faster in response to changes in interest rates. As a result, when interest rates decline, the yield we earn on our assets may decline faster than the rate we pay on funding, causing our net interest margin to contract until the interest rates on interest-bearing liabilities catch up. ~~In When we anticipation anticipate~~ of a declining- rate environment, our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yields on interest-earning assets catch up. Changes in the slope of the “yield curve”, or the spread between short-term and long-term interest rates, could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets in periods where we anticipate a declining- rate environment, when the yield curve flattens or even inverts, we will experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. A sustained increase in market interest rates, **such as the increases experienced over the past 15- 18 months**, could adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings. As is the case with many other financial institutions, our emphasis on increasing the development of core deposits, those deposits bearing no or a relatively low rate of interest with no stated maturity date, has resulted in our having a significant amount of these deposits which have a shorter duration than our assets. At June 30, **2022 2023**, we had \$ **428 642 . 78** million in certificates of deposit that mature within one year and \$ **2. 6 9** billion in checking, savings, and money market accounts **with no stated maturity**. ~~We would have incurred and may continue to~~ incur a higher cost of funds to retain these deposits in a rising interest rate environment, **as well as supplementing any runoff with other types of borrowings also at a higher cost of funds**. Our net interest income **has been and** could **continue to** be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and other investments. In addition, a substantial amount of our loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Further, a significant portion of our adjustable rate loans have interest rate floors below which the loan's contractual interest rate may not adjust. As of June 30, **2022 2023**, our loans with interest rate floors totaled approximately \$ **511 640. 41** million, or **18 17. 5** % of our total loan portfolio, and had a weighted

average floor rate of 3.4 to 8.0%. Of these loans, of which \$22.26 to 3.5 million were at their floor rate and \$17.3 million, or 77.7%, had yields that would begin floating again once prime rates increase at least 100 basis points. The inability of our loans to adjust downward can contribute to increased income in periods of declining interest rates, although this result is subject to the risks that borrowers may refinance these loans during such periods of declining interest rates. Also, when loans are at their floors, there is a further risk that our interest income may not increase as rapidly as our cost of funds during periods of increasing interest rates which could have a material adverse effect on our results of operations. Changes in interest rates also affect the value of our interest-earning assets and in particular our debt securities portfolio. Generally, the fair value of fixed-rate debt securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on debt securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of debt securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. 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, liquidity, 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 consolidated balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information about our interest rate risk management. We may incur losses on our securities portfolio due to factors beyond our control, including changes in interest rates. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. 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 the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and / or unrealized losses in future periods and declines in other comprehensive income, which could have a material effect on our business, financial condition, and results of operations. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. Furthermore, there there can be no assurance that the declines in market value will not result in other-than-temporary impairments of these assets and would lead to accounting charges that could have a material adverse effect on our net income and capital levels. As of For the year ended June 30, 2022-2023, we did an ACL was not incur any other necessary for credit-related than-temporary impairments-impairment on our securities portfolio. Changes in the programs offered by GSEs, our ability to qualify for such programs, and changes in interest rates may affect our gains on sale of loans held for sale, which could negatively impact our noninterest income. Our mortgage banking and SBA lending operations provide a significant portion of our noninterest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac, Ginnie Mae and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. We also generate commercial business loan revenues from gains on the sale of the guaranteed portion of SBA and business and industry loans pursuant to programs currently offered by the SBA and USDA B & I. Any future changes in these programs, significant impairment of 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, result in a lower volume of corresponding loan originations or increase other administrative costs which may materially adversely affect our results of operations. Mortgage production, especially refinancing, generally declines in rising interest rate environments resulting in fewer loans that are available to be sold to investors. When interest rates rise, or even if they do not, there can be no assurance that our mortgage production will continue at current levels. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and sell them in the secondary market at a gain. Thus, in addition to the interest rate environment, our mortgage business is dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans into that market. Similar to mortgage production, our SBA and USDA B & I operations are dependent upon (i) and (ii) previously mentioned. The loans in our held-for-sale portfolio are carried at the lower of cost or fair market value less estimated costs to sell with changes recognized in our statement of operations. Carrying the loans at fair value may also increase the volatility in our earnings. In addition, our results of operations are affected by the amount of noninterest expense associated with mortgage banking and SBA lending activities, such as salaries and employee benefits, occupancy, equipment and 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 loan originations. Also in addition, although we sell loans into the secondary market without recourse, we are required to give customary representations and warranties about the loans to the buyers. If we breach those representations and warranties, the buyers may require us to repurchase the loans and we may incur a loss on the repurchase. Risks Related to Acquisition Activities Our strategy of pursuing acquisitions exposes us to financial, execution, and operational risks that could adversely affect us. We have implemented a strategy of supplementing organic growth by acquiring other financial institutions or other businesses that we believe will help us fulfill our strategic objectives and enhance our earnings -; however, there there are risks associated with this strategy -; however, including the following: • we may be exposed to potential 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, our results of operations and financial condition may be materially negatively affected; • prices at which future acquisitions can be made may not be acceptable to us; • our growth initiatives may require us to recruit experienced personnel to assist in such initiatives. The failure to identify and retain such personnel would place significant limitations on our ability to execute our growth strategy; • our strategic efforts may divert resources or management's attention from ongoing business

operations and may subject us to additional regulatory scrutiny; • 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 particular acquisitions to the extent expected or 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 a future 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 stockholders; • we have completed ~~five-six~~ acquisitions during the past ~~nine-10~~ fiscal years that enhanced our rate of growth. We may not be able to continue to sustain our past rate of growth or to grow at all in the future; and • we expect our net income will increase following our acquisitions; however, we also expect our general and administrative expenses, and consequently our efficiency rates, will also increase. Ultimately, we would expect our efficiency ratio to improve; however, if we are not successful 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.

**We have faced many of these risks in connection with our recently completed merger with Quantum.** The required accounting treatment of loans we acquire through acquisitions, including purchased financial assets with credit deterioration, could result in higher net interest margins and interest income in current periods and lower net interest margins and interest income in future periods. Under US GAAP, we are required to record loans acquired through acquisitions, including PCD, at fair value. Estimating the fair value of such loans requires management to make estimates based on available information and facts and circumstances as of the acquisition date. Actual performance could differ from management's initial estimates. If these loans outperform our original fair value estimates, the difference between our original estimate and the actual performance of the loan (the "discount") is accreted into net interest income. Thus, our net interest margins may initially increase due to the discount. We expect the yields on our loans to decline as our acquired loan portfolio pays down or matures and the discount decreases, and 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. This could result in higher net interest margins and interest income in current periods and lower net interest rate margins and lower interest income in future periods. We may experience future goodwill impairment, which could reduce our earnings. Our annual goodwill impairment test did not identify any impairment for the year ended June 30, ~~2022-2023~~. **In testing goodwill for impairment, the Company first has the option to assess-- assess either qualitative or quantitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit is less than its carrying amount. If we elect as a basis for determining the need to perform the test for goodwill a qualitative assessment and determine that an impairment (the qualitative method). If the qualitative method cannot be used or if the Company determines, based on the qualitative method, that the fair value is more likely than not less than, we are the then carrying amount required to perform a quantitative impairment test, otherwise no further analysis is required. Under the Company compares quantitative impairment test, the estimated evaluation involves comparing the current fair value of a each reporting unit with to its carrying amount value, including goodwill.** Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill ~~was-is~~ deemed to exist, we would be required to write down our goodwill resulting in a charge to earnings, which would adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations, or regulatory capital.

**Risks Related to Regulation** We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations. 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 a company's stockholders. These regulations may sometimes impose significant limitations on operations. Regulatory authorities 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 the adequacy of an institution's **ACL allowance for credit losses**. Bank regulators also have the ability to impose conditions in the approval of merger and acquisition transactions. The significant federal and state banking regulations that affect us are described under the heading "Business -- How We Are Regulated" in Item ~~1-1~~ of this Form 10-K. 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 regulations or oversight, whether a change in regulatory policy or a change in a regulator's interpretation of a law or regulation, may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition, and results of operations. Additionally, actions by regulatory agencies or significant litigation against us may lead to penalties that materially affect us. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. These accounting changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes. 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. ~~Recently several banking~~ **Banking** institutions ~~have~~ **continue to received- receive** large fines for non-compliance with these laws and regulations. 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. Our framework for managing risks may not be effective in mitigating risk and loss to us. 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, 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 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 which could have a material adverse effect on our financial condition and results of operations.

**Risks Related to Cybersecurity, Data, and Fraud** 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 and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, 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 information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber-attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other 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 significant additional resources 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. We could also suffer significant reputational damage. Further, our cardholders use their debit and credit cards to make purchases from third parties or through third party processing services. As such, we are subject to risk from data breaches of such third party's information systems or their payment processors. Such a data security breach could compromise our account information. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for losses associated with reimbursing our clients for such fraudulent transactions on clients' card accounts, as well as costs incurred by payment card issuing banks and other third parties ~~or, we~~ may be subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. We may also incur other costs related to data security breaches, such as replacing cards associated with compromised card accounts. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or our clients' or counterparties' confidential information, including employees. The Company is continuously working to install new and upgrade its existing information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to further protect the Company against cyber risks and security breaches. There continues to be a rise in electronic fraudulent activity, security breaches, and cyber-attacks within the financial services industry, especially in the commercial banking sector, **due** to cyber criminals targeting commercial bank accounts. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address, and mitigate the risk of unauthorized access, misuse, computer viruses, and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for companies, including ours. We are not aware that we have experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of a cyber-security breach or other act, however, some of our clients may have been affected by these breaches, which could increase their risks of identity theft, credit card fraud, and other fraudulent activity that could involve their accounts with 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, 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 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, the 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 **of our own systems or those of our third-party vendors**. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. 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 our ability 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 you 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. We may not be insured against all types of losses as a result of third-party failures and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures, or other disruptions. If any of our third-party service providers experience financial, operational, or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, 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 financial condition and results of operations. Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. As a bank, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, 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. While we have policies and procedures designed to prevent **or reduce the severity of** such losses, there can be no assurance that such losses will not occur. Risks Related to Our Business and Industry Generally **The replacement of LIBOR as a benchmark interest rate may adversely impact us. We will be required had certain loans, investment securities, and borrowings indexed to USD LIBOR to calculate the interest rate. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one-week and to two transition from the use - month USD LIBOR tenors on December 31, 2021, and ended publication of the London Interbank Offered - remaining USD LIBOR tenors on June 30, 2023. The Adjustable Interest Rate ("LIBOR") in Act (the "future. We have certain loans and investment securities indexed to LIBOR Act ") was enacted in March to calculate the interest rate. The continued availability of the LIBOR index is not guaranteed after 2022 and by June 2023, LIBOR is scheduled to permit financing be eliminated entirely. We cannot predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements that contain a , which are expected to be based on the Secured Overnight Financing Rate, or 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 benchmark without adequate " fallback provisions " to be automatically replaced by a benchmark recommended by lesser extent securities in our portfolio, and may impact the Federal Reserve availability and cost of hedging instruments and borrowings. The language in our In January 2023, the Federal Reserve adopted a final rule implementing the LIBOR Act that, among other things, identifies the applicable SOFR - based benchmark replacements under the LIBOR Act. SOFR is considered to be contracts and financial instruments has developed over time and may have various events that trigger when a successor-risk-free rate to the designated while USD LIBOR was a risk-weighted rate would. Thus, SOFR tends to be selected. If a trigger is satisfied, contracts and financial instruments lower rate than USD LIBOR as SOFR does not contain a risk component. This difference may negatively impact give the calculation agent discretion over the substitute index or our net indices for the calculation of interest margin 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 under our existing borrowings may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers and creditors over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse adversely effect affect on our results of operations and financial condition . We began to use SOFR as a substitute for USD LIBOR for new originations in calendar year 2021. As of June 30, 2022-2023, there were no \$ 192.6 million loans in our portfolio tied to USD LIBOR. Ineffective liquidity management could adversely affect our financial results and condition. Liquidity is essential to our business. We rely on 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 debt securities, and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or**

economy in general. 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 **Georgia**, North Carolina, South Carolina, Virginia, and / or Tennessee markets in which the majority of our loans are concentrated 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. In particular, our liquidity position could be significantly constrained if we are unable to access funds from the FHLB Atlanta or other wholesale funding sources, or if adequate financing is not available at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources, our revenues may not increase proportionately to cover our costs. Any decline in available funding 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. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – **Liquidity**” of this Form 10-K. 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. Competition with other financial institutions could adversely affect our profitability. Although we consider ourselves competitive in our market areas, we face intense competition in both making loans and attracting deposits. Price competition for loans and deposits might result in our earning less on our loans and paying more on our deposits, which reduces net interest income. Some of the institutions with which we compete have substantially greater resources than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability will depend upon our continued ability to compete successfully in our market areas. Our ability to retain and recruit key management personnel and bankers is critical to the success of our business strategy and any failure to do so could impair our customer relationships and adversely affect our business and results of operations. 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 the Bank conducts its 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 and certain other employees.~~ Our ability to retain and grow our loans, deposits, and fee income depends upon the business generation capabilities, reputation, and relationship management skills of our ~~lenders~~ **bankers**. If we were to lose the services of any of our bankers, including successful bankers employed by banks that we may acquire, to a new or existing competitor, or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services. In addition, our success has been and continues to be highly dependent upon the services of our directors, ~~many~~ **several** of whom are ~~at or~~ nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors. The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete. The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology- driven products and services. Our future success will depend, in part, on our ability to keep pace with ~~the~~ technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected. We rely on other companies to provide key components of our business infrastructure. We rely on numerous external vendors to provide us with products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor’s organizational structure, financial condition, support for existing products and services or 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 such an agreement is not renewed by the third- party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors’ performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and clients ~~, or cyber-attacks or security breaches of the networks, systems or devices that our clients 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. 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. 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. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. 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 that 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 could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may 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 principal subsidiary, HomeTrust 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. HomeTrust 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 or continue stock repurchases. 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.