Risk Factors Comparison 2024-03-08 to 2023-03-03 Form: 10-K

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Volatility and disruptions in global capital and credit markets may adversely impact our business, financial condition and results of operations. Even though we operate in a distinct geographic region in the U. S., we are impacted by global capital and credit markets, which are sometimes subject to periods of extreme volatility and disruption. Disruptions, uncertainty or volatility in the capital and credit markets may limit our ability to access capital and manage liquidity, which may adversely affect our business, financial condition and results of operations. Further, our customers may be adversely impacted by such conditions, which could have a negative impact on our business, financial condition and results of operations **. Adverse developments affecting the financial services industry, including bank failures and the resulting liquidity concerns, may have a material effect on our business, financial condition, results of operations, or cash flows. Recent developments and events within the financial services industry, including the closures of several banks in 2023 due to large- scale deposit withdrawals over a short period of time, created liquidity risks and concerns within the industry, as well as decreased confidence in banks among depositors, investors, and other counterparties. In general, these events have caused volatility and disruption in the capital markets, as well as reduced valuations of equity and other securities of banks, which may increase the risk of a potential recession. These failures also highlighted the importance of maintaining diversified funding sources. These market conditions and related factors may impact the competitive landscape for deposits in the financial services industry in an unpredictable manner. Specifically, these developments and events may materially adversely impact our business, financial condition, results of operations, and / or cash flows, including through potential liquidity pressures, reduced net interest margins, and potential increased credit losses. They may also adversely impact the market price and volatility of our common stock. Government responses to these events may also adversely impact us. Our deposits are insured up to applicable limits by FDIC and are subject to deposit insurance premiums and assessments. The FDIC may increase premiums or impose special assessments on all banks to replenish the Deposit Insurance Fund to ensure that all depositors in failed banks are made whole at no cost to taxpayers. The 2023 bank failures may also prompt changes to laws or regulations governing banks, which could impact our profitability and business** . The soundness of other financial institutions could adversely affect us. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, can lead to market- wide liquidity problems and losses or defaults by us or by other institutions. Many of these transactions could expose us to credit risk in the event of default by a counterparty. In addition, our credit risk may be impacted when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not adversely affect us and possibly be material in nature. Changes in regulation or oversight may have a material adverse impact on our operations. We are subject to extensive regulation, supervision and examination by the Federal Reserve, the FDIC, the Michigan DIFS, the SEC and other regulatory bodies. Such regulation and supervision ~~governs~~ **govern** the activities in which we may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, limitations related to our securities, the classification of our assets, and the determination of the level of our allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on our business, financial condition or results of operations. Additional regulatory focus on the financial services industry is common in connection with an economic downturn, as the industry experienced following the most recent financial crisis. As a result, the adverse effects on our business relating to a future economic downturn could be exacerbated by additional regulations and regulatory scrutiny that accompanied or followed any such downturn. We can neither predict when or whether future regulatory or legislative reforms will be enacted nor what their contents will be. The impact of any future legislation or regulatory actions on our businesses or operations cannot be determined at this time, and such impact may adversely affect us. We are subject to liquidity risk in our operations, which could adversely impact our ability to fund various obligations. Liquidity risk is the possibility of being unable to meet obligations as they come due or capitalize on growth opportunities as they arise because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit obligations to borrowers, loan originations, withdrawals by depositors, repayment of debt, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and earnings retention, principal and interest payments on loans and investment securities, net cash provided from operations and access to other funding. If we are unable to maintain adequate liquidity, then our business, financial condition and results of operations could be negatively impacted. We face cybersecurity risks, including attacks targeting our systems and customers ~~'~~ **'** systems. Our business involves the collection, transmission, and storage **of large amounts** of sensitive data, including personally identifiable information of our customers and employees. **The cybersecurity risks our business face include cyberattacks, other unauthorized access to data, loss or destruction of data, unavailability of service, and similar events. We are also susceptible to cybersecurity risks faced by third party vendors on which we rely for components of our business infrastructure and data processing and which often have access to the sensitive data of our customers.** While we have not to date experienced a ~~significant~~ security breach

that has had a material impact on us , our business is very susceptible to cybersecurity risks, and it is possible we could experience a significant breach in the future **that could materially impact** ~~. The cybersecurity risks our business face include cyberattacks, other unauthorized access, loss or~~ **our** ~~destruction~~ **financial condition or results** of **operations** ~~data, unavailability of service, and similar events~~ . A material data breach or other cybersecurity incident affecting our business could result in significant reputational risk, loss of customers, legal claims, additional costs, financial loss, regulatory penalties, and similar damages. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, the continuing expansion of internet and mobile banking, and similar factors. Operational difficulties, including failure of technology infrastructure, could adversely affect our business and operations. We are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, failure of our controls and procedures and unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or those resulting from computer or telecommunications systems malfunctions. Given the high volume of transactions we process, certain errors may be repeated or compounded before they are identified and resolved. In particular, our operations rely on the secure processing, storage and transmission of confidential and other information on our technology systems and networks. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. We also face the risk of operational disruption, failure or capacity constraints due to our dependency on third party vendors for components of our business infrastructure, including our core data processing systems which are largely outsourced. While we have selected these third party vendors carefully, we do not control their operations. As such, any failure on the part of these business partners to perform their various responsibilities could also adversely affect our business and operations. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses, cyberattacks, spikes in transaction volume and / or customer activity, electrical or telecommunications outages, or natural disasters. Although we have programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity, and availability of our systems, business applications and customer information, such disruptions may give rise to interruptions in service to customers and loss or liability to us. The occurrence of any failure or interruption in our operations or information systems could cause reputational damage, jeopardize the confidentiality of customer information, result in a loss of customer business, subject us to regulatory intervention or expose us to civil litigation and financial loss or liability, any of which could have a material adverse effect on us. Changes in the financial markets, including fluctuations in interest rates and their impact on deposit pricing, could adversely affect our net interest income and financial condition. The operations of financial institutions such as us are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions ~~,~~ **;** the trade, fiscal and monetary policies of the federal government **;** and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affect financial institutions' net interest income. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. Our financial results could be materially adversely impacted by changes in financial market conditions. Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving us, could adversely affect us or the financial services industry in general. We have been, and may in the future be, subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that we will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of our efforts, which by itself could have a material adverse effect on our financial condition and operating results. Further, adverse determinations in such matters could result in actions by our regulators that could materially adversely affect our business, financial condition or results of operations. Methods of reducing risk exposures might not be effective. Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, market and liquidity, operational, compliance, business risks and enterprise- wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk, which could have a material adverse impact on our business, financial condition or results of operations. Risk Factors More Specific to Our Business We have credit risk inherent in our loan portfolios, and our allowance for credit losses may not be sufficient to cover actual credit losses. Our loan customers may not repay their loans according to their respective terms, and the collateral securing the payment of these loans may be insufficient to cover any losses we may incur. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. Non- performing loans amounted to $ **5. 2 million and $** 3. 7 ~~million and $ 5. 1~~ million at December 31, ~~2022~~ **2023 ,** and December 31, ~~2021~~ **2022** , respectively. Our allowance for credit losses coverage ratio of non- performing loans was 1, **044. 69 % and 1,** 409. 16 ~~% and 924. 70~~ % at December 31, ~~2022~~ **2023 ,** and December 31, ~~2021~~ **2022** , respectively. The ~~increase~~ **decrease** in this coverage ratio in ~~2022~~ **2023** was primarily due to ~~a combination of~~ **an increase in non- performing loans that was partially offset by** an increase in the allowance for credit losses ~~and a reduction in non- performing loans~~ . In determining the size of the allowance for credit losses, we rely on our experience and our evaluation of current economic conditions. If our assumptions or judgments prove to be incorrect, our current allowance for credit losses may not be sufficient to cover certain credit losses inherent in our loan portfolio, and adjustments may be necessary to account for different economic conditions or adverse developments in our loan portfolio. Material additions to our allowance for credit losses would adversely impact our operating results. In addition, federal and state regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize additional loan charge- offs, notwithstanding any internal analysis that has been performed. Any increase in our allowance for credit losses or loan charge- offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition. We have credit risk in our securities portfolio. We maintain diversified securities portfolios, which include obligations of the Treasury and government- sponsored agencies as well as securities issued by states and political subdivisions, mortgage- backed securities, corporate securities and asset- backed securities. We seek to limit credit losses in our securities portfolios by principally purchasing highly rated securities (generally rated" AA" or higher by a major debt rating agency) and by conducting due diligence on the issuer. However, gross unrealized losses on securities available for sale and securities held to maturity in our portfolio totaled approximately $ **65. 2 million and $ 55. 9 million, respectively as of December 31, 2023 (compared to approximately $** 87. 3 million and $ 62. 6 ~~million~~ , respectively as of December 31, 2022 ~~(compared to approximately $ 8. 6 million and zero, respectively as of December 31, 2021~~). We believe these unrealized losses are temporary in nature and are expected to be recovered within a reasonable time period as we believe we have the ability to hold the securities to maturity or until such time as the unrealized losses reverse. We evaluate securities available for sale for other impairment related to credit at least quarterly and more frequently when economic or market concerns warrant such evaluation. Those evaluations may result in a provision for credit losses recorded in our earnings. We measure expected credit losses on securities **held to maturity ("** HTM **")** on a collective basis by major security type with each type sharing similar risk characteristics, and **we** ~~considers~~ **consider** historical credit loss information ~~that is adjusted for current conditions and reasonable and supportable forecasts~~ . We may, in the future, experience losses in our securities portfolios which may result in credit losses that could materially adversely affect our results of operations. Our mortgage- banking revenues are susceptible to substantial variations, due in part to factors we do not control, such as market interest rates. A portion of our revenues are derived from net gains on mortgage loans. These net gains primarily depend on the volume of loans we sell, which in turn depends on our ability to originate real estate mortgage loans and the demand for fixed- rate obligations and other loans that are outside of our established interest- rate risk parameters. Net gains on mortgage loans are also dependent upon economic and competitive factors as well as our ability to effectively manage exposure to changes in interest rates. Consequently, they can often be a volatile part of our overall revenues. We realized net gains of $ ~~6~~ **7** . 4 million on mortgage loans during **2023 compared to $ 6. 4 million during** 2022 **and** ~~compared to~~ $ 35. 9 million during 2021 ~~and $ 62. 9 million during 2020~~ . Our parent company must rely on dividends or returns of capital from our bank for most of its cash flow. Our parent company is a separate and distinct legal entity from our bank. Generally, our parent company receives substantially all of its cash flow from dividends or returns of capital from our subsidiary bank. These dividends or returns of capital are the principal source of funds to pay our parent company' s operating expenses and for cash dividends on our common stock. Various federal and / or state laws and regulations limit the amount of dividends that the bank may pay to the parent company. Any future strategic acquisitions or divestitures may present ~~certain~~ **additional** risks to our business and operations. Difficulties in capitalizing on the opportunities presented by a future acquisition may prevent us from fully achieving the expected benefits from the acquisition or may cause the achievement of such expectations to take longer to realize than expected. Further, the assimilation of the acquired entity' s customers and markets could result in higher than expected deposit attrition, loss of key employees, disruption of our businesses or the businesses of the acquired entity or otherwise adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. These matters could have an adverse effect on us for an undetermined period. We will be subject to similar risks and difficulties in connection with any future decisions to downsize, sell or close units or otherwise change our business mix. Compliance with capital requirements may adversely affect us. The capital requirements applicable to **banks and** ~~us as a~~ bank holding ~~company~~ **companies** ~~as well as to our subsidiary bank~~ have been substantially revised in **recent years** ~~connection with Basel III and the requirements of the Financial Reform Act~~ . These more stringent capital requirements, and any other new regulations, could adversely affect our ability to pay dividends in the future, or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our results of operations or financial condition and / or existing shareholders. Maintaining higher levels of capital may reduce our profitability and otherwise adversely affect our business, financial condition, or results of operations. Declines in the businesses or industries of our customers could cause increased credit losses, which could adversely affect us. Our business customer base consists, in part, of customers in businesses and industries that are sensitive to global economic conditions and supply chain factors **,** ~~. These industries include~~ **including businesses that operate within** the automotive ~~production industry~~ , real estate ~~businesses~~ , retail **, commercial and industrial (** C & I **)** , ~~hotels~~ **hotel** , entertainment **,** and food service **industries** . Any decline in ~~one~~ **any** of ~~those~~ **these** ~~customers' businesses or~~ industries **or business sectors** could cause increased credit losses, which in turn could adversely affect us. The introduction, implementation, withdrawal, success and timing of business initiatives and strategies may be less successful or may be different than anticipated, which could adversely affect our business. We make certain projections and develop plans and strategies for our banking and financial products. If we do not accurately determine demand for or changes in our banking and financial product needs, it could result in us incurring significant expenses without the anticipated increases in revenue, which could result in a material adverse effect on our business. We may not be able to utilize technology to efficiently and effectively develop, market, and deliver new products and services to our customers. The financial services industry experiences rapid technological change with regular introductions of new technology- driven products and services. The efficient and effective utilization of technology enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to market and deliver products and services that will satisfy customer demands, meet regulatory requirements, and create additional efficiencies in our operations. We may not be able to effectively develop **or offer** new technology- driven products and services or be successful in marketing or supporting these products and services to our customers, which could have a material adverse impact on our financial condition and results of operations. Competitive product and pricing pressures among financial institutions within our markets may change. We operate in a very competitive environment, which is characterized by competition from a number of other financial institutions in each market in which we operate. We compete with large national and regional financial institutions and with smaller financial institutions **, including credit unions,** in terms of products and pricing **. We also compete with fintech companies, securities brokerage firms, insurance companies, and other non- depository institutions with respect to some of the products and services we offer** . If we are unable to compete effectively in products and pricing in our markets, business could decline, which could have a material adverse effect on our business, financial condition or results of operations. Changes in customer behavior may adversely impact our business, financial condition and results of operations. We use a variety of methods to anticipate customer behavior as a part of our strategic planning and to meet certain regulatory requirements. Individual, economic, political, industry- specific conditions and other factors outside of our control, such as fuel prices, energy costs, real estate values or other factors that affect customer income levels, could alter predicted customer borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect our ability to anticipate business needs and meet regulatory requirements. Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on us, our customers and others in the financial institutions industry. Our ability to maintain and expand customer relationships may differ from expectations. The financial services industry is very competitive. We not only vie for business opportunities with new customers, but also compete to maintain and expand the relationships we have with our existing customers. While we believe that we can continue to grow many of these relationships, we will continue to experience pressures to maintain these relationships as our competitors attempt to capture our customers **, particularly as financial products and services similar to those we offer become more widely available and accessible via the internet and other technology** . Failure to create new customer relationships and to maintain and expand existing customer relationships to the extent anticipated may adversely impact our earnings. Our ability to retain key officers and employees may change. Our future operating results depend substantially upon the continued service of our executive officers and key personnel. Our future operating results also depend in significant part upon our ability to attract and retain qualified management, financial, technical, marketing, sales and support personnel. Competition for qualified personnel is intense, and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for us to hire personnel over time. Further, our ability to retain key officers and employees may be impacted by legislation and regulation affecting the financial services industry. Our business, financial condition or results of operations could be materially adversely affected by the loss of any key employees, or our inability to attract and retain skilled employees. Catastrophic events, including, but not limited to, hurricanes, tornadoes, earthquakes, fires, floods **,** and pandemic outbreaks may adversely affect the general economy, financial and capital markets, specific industries, and us. We have significant operations and a significant customer base in Michigan where natural and other disasters may occur, such as tornadoes and floods. These types of natural catastrophic events at times have disrupted the local economy, our business, and our customers and have posed physical risks to our property. In addition, catastrophic events occurring in other regions of the world may have an impact on our customers and in turn, on us. A significant catastrophic event could materially adversely affect our operating results. Our failure to appropriately apply certain critical accounting policies could result in our misstatement of our financial results and condition. Accounting policies and processes are fundamental to how we record and report our financial condition and results of operations. We must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with U. S. **generally accepted accounting principles ("** GAAP **")** . In some cases, we must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet may result in our reporting materially different results than would have been reported under a different alternative. We have identified certain accounting policies as being critical because they require us to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are subject to internal controls and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding management' s judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. See note # 1, ~~“~~ **"** Accounting Policies ~~”~~ **"** in the Notes to Consolidated Financial Statements in our annual report, to be delivered to shareholders in connection with the April ~~25~~ **23** , ~~2023~~ **2024** Annual Meeting of Shareholders (filed as exhibit 13 to this report on Form 10- K).