Risk Factors Comparison 2024-02-22 to 2023-02-23 Form: 10-K

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

The following is a summary of the most significant risks and uncertainties that we believe could adversely affect our business, financial condition or results of operations. In addition to the following summary, you should consider the other information set forth in this " Risk Factors " section and the other information contained in this Report before investing in our securities. Risks Related to Our Business • Increased delinquencies and credit losses could have a material adverse effect on our business, ~~results of operations, and~~ financial condition **or results of operations** . • Changes to the SBA or other government- guaranteed lending programs by the federal government, or the loss of our status as an SBA Preferred Lender, could have a material adverse effect on our business. • ~~Global health crises and~~ **A prolonged U. S. government shutdown or default by the U. S. on government obligations would harm our results of operations. •** ~~pandemics~~ **Pandemics** , **natural disasters** ~~such as the COVID- 19 pandemic~~ , ~~could~~ **global climate change, acts of terrorism and global conflicts may** have a **negative impact** ~~material adverse effect~~ on our business ~~, results of~~ operations ~~, and financial condition~~ . • We face risks, including credit risk and litigation risk, in connection with our participation in government programs enacted in response to the COVID- 19 pandemic. • Changes in our ability to use, or the terms of our use of, intellectual property owned by other third parties could have a material adverse effect on our business. • We must effectively manage risks in connection with our information systems and those of our third- party service providers, which may experience disruption, failure, or security breaches, including those caused by cyber- attacks. • The valuation of our investment securities, loans, and servicing rights is subject to change based on market conditions and various factors that are beyond our control. • We must maintain an appropriate allowance for credit losses. • ~~We must effectively manage our liquidity risk~~ **Errors in the assumptions used to compute gains on sale of loans could result in material revenue misstatements** . • We must effectively manage our **liquidity risk. • We must effectively manage our** interest rate risks **. • Increases in the amount of other real estate owned could result in additional losses, costs and expenses** . • We are subject to environmental liability risk associated with our lending activities. • **Real property appraisals may not accurately reflect the net value of the collateral that we can realize. •** We must effectively manage our counterparty risk. • Our expansion strategy, including new lines of business, new products, acquisitions, and investments, exposes us to risks. • Our investments in tax- advantaged projects may not generate returns as anticipated and may have an adverse effect on our financial results **. • Our investments in other companies may be illiquid and may subject us to material financial, reputational and strategic risks** . • We are less able to diversify our lending risks than larger financial institutions. • Our directors and executive officers own a significant amount of our outstanding common stock, which could limit other shareholders' ability to influence corporate matters and may hinder a third party from acquiring control of the Company. Risks Related to Our Regulatory Environment • We are subject to extensive government regulation and supervision. • We must maintain adequate regulatory capital to support our business. • We **are** ~~will be~~ subject to heightened regulatory requirements ~~if~~ **because** our total assets ~~grow and~~ exceed $ 10 billion **. • Negative developments affecting the banking industry may result in additional regulations that could increase our expenses and affect our operations** . • We may incur increased costs to comply with privacy and data security laws. Risks Related to Our Common Stock • The trading volume in our common stock is less than that of larger financial institutions. • There can be no assurance that we will continue to pay cash dividends. • Federal laws and regulations impose restrictions on the ownership of our common stock. • Anti- takeover provisions in our governing documents could adversely affect our shareholders. • An investment in our common stock is not an insured deposit. General Risk Factors • We compete with larger financial institutions and other financial service providers. • We must attract, retain, and develop key personnel. • Our risk management framework may not effectively mitigate risks or losses to us. • Hurricanes or other adverse weather events could disrupt our operations. • Our failure to maintain an effective system of internal control over financial reporting could harm our business. • Damage to our business reputation could adversely impact our business and results of operations. We may experience increased delinquencies and credit losses, which could have a material adverse effect on our capital, financial condition, and results of operations. Like other lenders, we face the risk that our customers will not repay their loans. A customer' s failure to repay us is usually preceded by missed monthly payments. In some instances, however, a customer may declare bankruptcy prior to missing payments, and, following a borrower filing bankruptcy, a lender' s recovery of the credit extended is often limited. Since many of our loans are secured by collateral, we may attempt to seize the collateral if and when a customer defaults on a loan. However, the value of the collateral might not equal the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customer. Any deterioration or downturn in real estate values in the markets we serve could have a material adverse effect on the value of the real property securing those loans. Our ability to recover on defaulted loans would then be diminished, and we would be more likely to suffer losses on defaulted loans. The resolution of nonperforming assets, including the initiation of foreclosure proceedings, requires significant commitments of time from management, which can be detrimental to the performance of their other responsibilities, and which expose us to additional legal costs. Elevated levels of loan delinquencies and bankruptcies in our market areas, generally, and among our customers specifically, can be precursors of future charge- offs and may require us to increase our allowance for credit losses ~~, or~~ **("** ACL ~~,~~ **")** on loans and leases. Higher charge- off rates, delays in the foreclosure process or in obtaining judgments against defaulting borrowers or an increase in our ACL may negatively impact our overall financial performance, may increase our cost of funds, and could materially adversely affect our business, results of operations and financial condition. SBA lending and other government guaranteed lending is an important part of our business. These lending programs are dependent upon the federal government, and we face specific risks associated with originating SBA and other government guaranteed loans. Our SBA lending program is dependent upon the federal government. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender' s Preferred Lender status. If we lose our status as a Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect ~~to~~ **on** our financial results. Any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, may also have a material adverse effect on our business. We anticipate that gains on the sale of loans will comprise a meaningful component of our revenue in ~~2023~~ **2024** . We sell the guaranteed portion of some of our SBA 7 (a) loans in the secondary market. These sales have resulted in premium income for us at the time of sale and created a stream of future servicing income. We may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue originating and selling SBA 7 (a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7 (a) loans, we incur credit risk on the non- guaranteed portion of the loans, and if a customer defaults on **a loan, we recognize a loss and / or recovery related to** the non- guaranteed portion ~~of a loan, we share any loss and recovery related to the loan pro- rata with the SBA~~ . ~~If~~ **However, if** the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us, which could materially adversely affect our business, results of operations and financial condition. In addition, we make loans through various programs of the United States Department of Agriculture (" USDA "). A typical SBA 7 (a) loan carries a 75 % guarantee while USDA guarantees range from 60 % to 80 % depending on loan size and type. We expect to continue to sell a large proportion of the USDA loans that we originate in the secondary market as they become eligible for sale. The origination and sale of these loans are subject to similar risks associated with the origination and sale of SBA 7 (a) loans as described above. The laws, regulations and standard operating procedures that are applicable to SBA and USDA loan products may change at any time. Because government regulation greatly affects the business and financial results of our organization, changes in the laws, regulations and procedures applicable to SBA and USDA loans could adversely affect our ability to operate profitably. ~~A prolonged U. S. government shutdown or default by the U. S. on government obligations would harm our results of operations.~~ Our results of operations, including revenue, non- interest income, expenses and net interest income, would be adversely affected in the event of widespread financial and business disruption on account of a default by the United States on U. S. government obligations or a prolonged failure to maintain significant U. S. government operations, particularly those pertaining to the SBA, the USDA or the FDIC. Any such failure to maintain such U. S. government operations would impede our ability to originate SBA loans and our ability to sell such loans in the secondary market, which would materially adversely affect our business, results of operations and financial condition. ~~Global health crises and pandemics~~ **Pandemics , natural disasters, global climate change, acts of terrorism and global conflicts may have a negative impact on our business and operations. Pandemics, natural disasters, global climate change, acts of terrorism, global conflicts or other similar events have in the past, and may in the future have, a negative impact on our business and operations. These events impact us negatively to the extent that they result in reduced capital markets activity, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which** could have **an** ~~a material~~ adverse effect on our business **and** ~~, results of~~ operations ~~,~~ and ~~financial condition~~ **may have other adverse effects on us in ways that we are unable to predict** . ~~Global health crises and~~ **Our business operations could be disrupted if significant portions of our workforce were unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with a** ~~pandemics~~ - **pandemic or similar event. Further** , ~~such as~~ **work- from- home and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks, which may result in inefficiencies or delays, and may affect our ability to, or the manner in which we, conduct our business activities. Disruptions to our customers could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. We face risks in connection with our participation in government programs in response to** the COVID- 19 pandemic ~~, could lead to the implementation of various responses, such as travel bans and restrictions, quarantines, shelter- in- place or total lockdown orders, as well as business limitations and shutdowns~~ . **Federal** ~~These measures~~ , ~~among others, were implemented in response to COVID- 19. Although COVID- 19- related restrictions have largely been lifted, they may be reimposed at any time in response to new coronavirus variants or in response to other diseases or public health concerns. Any such restrictions could adversely affect our operations and the operations of our borrowers, customers, and business partners. A number of factors impacting us or our borrowers, customers or business partners could materially adversely affect our business, results of operations, and financial condition, including but not limited to: • elevated levels of unemployment may lead to increases in loan delinquencies, losses, and charge- offs; • disruptions in the supply chains upon which our borrowers depend may have an adverse impact on their financial condition and ability to repay our loans; • collateral for loans, including real estate~~ - **state** ~~, may decline in value, which could cause loan losses to increase; • demand for our products~~ and **local** ~~services may decline, making it difficult to grow or maintain assets and income; • noninterest income from premiums paid in the secondary market for the sale of loans may be reduced due to deteriorating market conditions and a decrease in the number of potential buyers; • the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; • we may experience operational failures due to changes in our normal business practices necessitated by the outbreak and related~~ governmental ~~actions; • third- party vendors on which we rely may not be able to provide us critical services; • our risk management policies and practices may be negatively impacted in general, including, but not limited to, the effectiveness and accuracy of our models~~

~~given the lack of data and comparable precedent; and • cyber and payment fraud risk may increase as cybercriminals attempt to profit from the disruption given increased online and remote activity. In response to a resurgence of COVID- 19 or a similar public heath event, we may take further actions as may be required by government~~ authorities **enacted legislation** ~~or as we determine are in the best interests of our employees~~ , ~~customers~~ **regulations** , and **protocols** ~~business partners. There is no certainty that such measures would be sufficient to mitigate the risks posed by the public health event or would otherwise be satisfactory to government authorities. We face risks in connection with our participation in government programs~~ in response to the COVID- 19 pandemic. ~~Federal, state and local governmental authorities enacted, and may enact in the future, legislation, regulations, and protocols in response to the COVID- 19 pandemic, including governmental programs intended to provide economic relief to businesses and individuals.~~ Our participation in and execution of any such programs may cause operational, compliance, reputational, and credit risks, which could result in litigation, governmental action or other forms of loss. ~~There~~ -- **The** ~~remains significant uncertainty regarding the measures that authorities will enact in the future and the ultimate impact of the legislation, regulations, and protocols that have been and will be enacted. For example, the~~ CARES Act temporarily added a new program titled the Paycheck Protection Program (the " PPP ") to the SBA' s 7 (a) loan program. **We** ~~The PPP was intended to provide economic relief to small businesses nationwide. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved lenders that enrolled in the program, subject to numerous limitations and eligibility criteria. After the PPP launched in 2020, we~~ were an active participant in the program originating a substantial number and principal amount of PPP loans. In addition, the CARES Act provided regulatory relief on deferrals offered to certain borrowers and provided six months of payment relief through the first quarter of 2021 from the SBA for certain loans guaranteed by that agency. We face the risk that payment deferrals and those subsidy payments made by the SBA for borrowers under its programs may skew actual indications of ability to repay. ~~The Economic Aid Act, passed in December 2020, allocated additional funding to the PPP, which funds were used not only by small businesses who had yet to receive a PPP loan but also by some small businesses who were eligible to receive a second PPP loan. The Economic Aid Act also significantly revised various aspects of the PPP terms and conditions, including certain aspects of the forgiveness process. Rules and guidance regarding the PPP were not readily available at the start of the program, and the SBA and other government agencies continued to release additional rules and guidance that changed or updated the requirements and expectations of the regulatory agencies administering the PPP and regulating participating lenders.~~ Banks participating in the PPP have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP and regarding claims for fees to be paid to purported agents and other third parties, and we are exposed to the risk of litigation regarding the PPP. If any such litigation is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. We also face credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank ~~, such as an issue with the eligibility of a borrower to receive a PPP loan~~ . In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Bank, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank. We are dependent upon the use of intellectual property owned by third parties, and any change in our ability to use, or the terms upon which we may use, this intellectual property could have a material adverse effect on our business. The technology- based lending platform that is pivotal to our success is dependent on the use of the nCino Bank Operating System and Salesforce. com, Inc.' s Force. com cloud computing infrastructure platform. We rely on a non- exclusive license to use nCino' s platform. Because our license is non- exclusive, the nCino Bank Operating System is available to other lenders and nothing would prevent our competitors from developing, licensing or using similar technology. Our license currently expires on November 14, 2024. Notwithstanding the term of our agreement, our license may be terminated if we are in material breach of the license and do not cure the breach within 30 days. In addition, nCino relies on a license to use the Salesforce. com platform, and if nCino were unable to maintain its rights under that license, our ability to rely on the nCino license could be adversely affected. We can offer no assurance that we will be able to renew or maintain our license to use the nCino Bank Operating System on terms that are acceptable. Termination of either of these licenses or the reduction or elimination of our licensed rights may result in our having to negotiate new licenses with less favorable terms, or the inability to obtain access to such licensed technology at all. Similarly, Apiture, Inc. (" Apiture ") has provided the Bank significant engineering, development, professional and other services under an agreement to deliver the products and services that comprise our next- generation banking platform that we believe will be important for our future strategy and success. This banking platform enables us to offer checking and other transactional accounts to our customers. Offering these types of banking products to our customers presents greater and more complex operational, compliance and other risks than the risks associated with the deposit products we have offered in the past. There can be no assurance that Apiture will be able to develop and support the implementation of our ~~new~~ banking platform in a timely and cost- effective manner or that Apiture will continue to provide any services on which we rely at appropriate service levels or at prices that would be market competitive. We also rely on numerous other vendors and third parties to provide software and solutions comprising our ~~new~~ banking platform. If this technology is not successfully developed and implemented at our Bank, if we were to lose access to any of this technology, or if we were only able to access the technology on less favorable terms, we would not be able to offer our customers the next- generation banking platform services that we intend to offer, and our business, financial condition, results of operations and prospects could be materially and adversely affected. A failure in or breach of our operational or security systems, or those of our third- party service providers, including as a result of cyber- attacks, could disrupt our business, result in unintentional disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. As a financial institution, our operations rely heavily on the secure data processing, storage and transmission of confidential and other information on our computer systems and networks **, as well**

as those of third- party service providers . This may include sensitive business and personal information about our customers. Maintaining the confidentiality of this information is critical to our business. We also maintain important internal company data such as personal information about our employees and information regarding our operations. Our collection of such customer and company data is subject to extensive regulation and oversight. Cloud technologies, including third- party cloud infrastructure, are also critical to the operation of our systems, and our reliance on cloud technologies ~~is growing~~ **continues to grow** . Any failure, interruption or breach in security or operational integrity of these systems could result in failures or disruptions in our online banking system, customer relationship management, general ledger, deposit and loan servicing and other systems. The security and integrity of our systems and the technology we use, including services and solutions provided by third- party vendors, could be threatened by a variety of interruptions or information security breaches, including those caused by computer hacking, cyber- attacks, electronic fraudulent activity or attempted theft of financial assets or information. The increased use of mobile and cloud technologies, as well as the increase in remote work ~~due to the COVID- 19 pandemic~~ , can heighten these and other operational risks. We may fail to promptly identify or adequately address any such failures, interruptions or security breaches ~~if~~ **when** they ~~do~~ occur. While we have certain protective policies and procedures in place, the nature and sophistication of the threats continue to evolve. The increasing sophistication of cyber criminals and their evolving attempts to breach networks present increasing risk of a security breach **and other data incidents** . We may be required to expend significant additional resources in the future to modify and enhance our protective measures. The nature of our business may make it an attractive target and potentially vulnerable to cyber- attacks, computer viruses, physical or electronic break- ins or similar disruptions. The technology- based platform we use processes sensitive data from our borrowers, depositors and other customers. While we have taken steps to protect confidential **and proprietary** information that we have access to, our security measures and the security measures employed by the owners of the technology in the ~~platform~~ **platforms and services** that we use ~~could~~ **can** be ~~breached~~ **compromised** . ~~Any~~ **Data incidents including those involving phishing, hacking, misdirected communications and other inadvertent disclosures, and other incidents results in unauthorized access to and / or acquisition of confidential and proprietary information, including personal information, can and do occur.** ~~accidental~~ **Accidental** or willful security breaches or other unauthorized access to our systems ~~could~~ **can** cause confidential customer, borrower, employee, vendor, partner or investor information to be stolen and used for criminal purposes. Security breaches or unauthorized access to confidential information ~~could~~ **can** also expose us to liability related to the loss of the information, time-consuming and expensive litigation, and negative publicity. ~~If~~ **When** security measures are breached because of third- party action, employee error, malfeasance or otherwise, or if design flaws in the technology- based platform that we use are exposed and exploited, our relationships with customers, borrowers, employees, vendors, partners and investors could be severely damaged, and we could incur significant liability. Because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, we and our partners and collaborators may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, federal regulators and many federal and state laws and regulations require companies to notify individuals of data security breaches involving their personal information. Certain security breaches **and other data incidents** also require notice to regulators, the media, and / or other parties. These mandatory disclosures regarding a security breach **and other data incidents** are costly to implement and often lead to widespread negative publicity, which may cause customers, borrowers, employees, vendors, partners or investors to lose confidence in the effectiveness of our data security measures. Any security breach **or other data incident** , whether actual or perceived, would harm our reputation and could cause us to lose customers, borrowers, employees, vendors, partners, or investors, and could adversely affect our business and operations. Additionally, we face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems. Any failures, interruptions or security breaches, including with respect to our information systems or our vendors' information systems, or any perception that our security measures are inadequate, could negatively impact our operations, damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, and expose us to civil litigation, enforcement actions by governmental agencies, regulatory fines or other damages or losses, including those not covered by insurance. Our business is dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party providers. The failure of these systems, or the termination of a third- party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity or such third- party systems fail or experience interruptions. If significant, sustained or repeated, a system failure or service denial could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and / or subject us to additional regulatory scrutiny and possible financial liability, any of which could materially adversely affect our business, financial condition, results of operations and prospects, as well as the value of our common stock. The fair value of our investment securities can fluctuate due to factors outside of our control. As of December 31, ~~2022~~ **2023** , the fair value of our available for sale securities portfolio was approximately $ 1. ~~0~~ **13** billion. 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 the issuer or with respect to the underlying securities, monetary tapering actions by the Federal Reserve, and changes in market interest rates and potential instability in the capital markets. Any of these factors, among others, could cause impairments and realized or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects, as well as the value of our common stock. The process for determining whether a security is reported at the proper carrying amount usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Our inability to accurately predict the future performance of an issuer or to efficiently respond to changing market conditions could result in a decline in the value of our investment securities portfolio, which could have a material and adverse effect on our business, results of operations and financial condition. In addition, adjustments to the ACL on available- for- sale investment securities would negatively affect the Company' s earnings and regulatory capital ratios. Our ACL may prove to be insufficient to absorb lifetime losses on loans, leases and off- balance sheet credit exposures. We maintain allowances for credit losses on loans, leases, and off- balance sheet credit exposures. The ACL on loans and leases are contra-asset valuation accounts that are deducted from the amortized cost basis of these assets to present the net amount expected to be collected. In the case of off- balance- sheet credit exposures, **such as committed, but as of yet unfunded loans,** the ACL is a liability account reported as an other liability in our consolidated balance sheets. The amount of each allowance account represents management' s best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. As a result, the determination of the appropriate level of ACL inherently involves a high degree of subjectivity and requires us to make significant estimates related to current and expected future credit risks and trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers; new information regarding existing loans and loan commitments; and identification of additional problem loans, ratings down- grades and other factors, both within and outside of our control, may require an increase in the allowances for credit losses on loans and off-balance sheet credit exposures. In addition, bank regulatory agencies periodically review our ACL and may require an increase in credit loss expense or the recognition of further loan charge- offs, based on judgments different than those of management. Furthermore, if any charge- offs related to loans or off- balance sheet credit exposures in future periods exceed our allowances for credit losses on loans or off- balance sheet credit exposures, we will need to recognize additional credit loss expense to increase the applicable allowance. Any increase in the ACL on loans and / or off- balance sheet credit exposures will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations. See Note 1. Organization and Summary of Significant Accounting Policies to the ~~Consolidated~~ **consolidated** ~~Financial~~ **financial** ~~Statements~~ **statements** for further discussion related to our process for determining the appropriate level of the ACL. The valuation of our loans measured at fair value is based on estimates and subject to fluctuation based on market conditions and other factors that are beyond our control. We have a large portfolio of loans measured at fair value. We determine fair value based on applicable accounting guidance which requires an entity to base fair value on exit price and to maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The fair value of these loans includes adjustments for historical credit losses, market liquidity, and economic conditions at the measurement date. This is an inherently uncertain process, and the fair value of our loans may be adversely impacted by factors that are beyond our control, which may in turn have a material adverse effect on our business, results of operations and financial condition. ~~See Note 1. Organization and Summary of Significant Accounting Policies to the Consolidated Financial Statements for further discussion related to our process for determining the fair value of loans.~~ The valuation of our servicing rights is based on estimates and subject to fluctuation based on market conditions and other factors that are beyond our control. The fair value of our servicing rights is estimated based upon projections of expected future cash flows generated by the loans we service, historical prepayment rates, future prepayment estimates, portfolio characteristics, interest rates based on interest rate yield curves, volatility, market demand for servicing rights and other factors. While this evaluation process uses historical and other objective information, the valuation of our servicing rights is ultimately an estimate based on our experience, judgment and expectations regarding our servicing portfolio and the broader market. This is an inherently uncertain process and the value of our servicing rights may be adversely impacted by factors that are beyond our control, which may in turn have a material adverse effect on our business, results of operations and financial condition. The recognition of gains on the sale of loans reflects certain assumptions. We anticipate that gains on the sale of loans will continue to comprise a meaningful component of our revenue in ~~2023~~ **2024** . The determination of noncash gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs. The value of retained unguaranteed loans and servicing rights ~~are~~ **is** determined ~~by our wholly owned subsidiary, GLS, which applies market- derived factors such~~ as **described above** ~~prepayment rates, current market conditions and recent loan sales to arrive at valuations~~ . Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in **the** assumptions used to compute gains on sale of loans could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability ~~. We believe that the valuations provided by GLS are at arm' s length and reflect fair value. In addition, these valuations are reperformed for indications of bias by an independent third party on a biannual basis. However, if such valuations are not reflective of fair market value, then our business, results of operations and financial condition may be materially and adversely affected~~ . Our rental equipment is subject to residual value risk upon disposition, and may not sell at the prices or in the quantities we expect. The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including: • the market price for new equipment of a like kind; • the age of the equipment at the time it is sold, as well as wear and tear on the equipment relative to its age; • the supply of used equipment on the market; • technological advances relating to the equipment; • demand for the used equipment; and • general economic conditions. We include in income from operations the difference between the sales price and the depreciated value of an item of equipment sold. Changes in our assumptions regarding depreciation could change our depreciation expense, as well as the gain or loss realized upon disposal of equipment. Sales of our used rental equipment at prices that fall significantly below our projections or in lesser quantities than we anticipate will have a negative impact on our results of operations and cash flows. We are subject to liquidity risk in our operations. Liquidity risk ~~includes~~ **refers to** the

~~possibility of being unable, at a reasonable cost and within acceptable risk~~ **risks** ~~tolerances,~~ **arising from the inability** to pay obligations ~~as~~ **when** they come due **without incurring unacceptable losses to earnings and / or capital** , to capitalize on growth opportunities as they arise, or to pay regular dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis. 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. Our liquidity is derived primarily from retail deposit growth and retention, the sale of loans in the secondary market, principal and interest payments on loans and investment securities, net cash provided from operations, and access to other funding sources. A significant portion of our deposit base is gathered through our nationwide direct deposit platform, and we have historically also relied on brokered deposits. If our Bank were to become less than well capitalized, we would be subject to regulatory restrictions that could limit the effective yield we offer on deposits or disrupt our ability to accept brokered deposits. We also could not accept brokered deposits without FDIC approval. See " Capital Adequacy " under the heading " Supervision and Regulation " above for more details on these restrictions. If we became subject to these restrictions, they could have a material adverse effect on our liquidity, results of operations and financial condition. Our access to funding sources in amounts adequate to finance our activities or at a reasonable cost could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could adversely affect our access to liquidity sources include a decrease in the level of our business activity due to a market downturn, failures of or interruptions to our next- generation banking platform, our lack of access to a traditional branch banking network designed to generate core deposits, and adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption in the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Our access to borrowed funds could become limited in the future, and we may be required to pay above market rates for additional borrowed funds, if we are able to obtain them at all, which may adversely affect our business, results of operations and financial condition. Changes in the interest rate environment could reduce our net interest income, which could reduce our profitability. As a financial institution, our earnings depend in part on our net interest income, which is the difference between the interest income that we earn on interest- earning assets, such as **loans and** investment securities ~~and loans~~ , and the interest expense that we pay on interest- bearing liabilities, such as deposits and borrowings. Additionally, changes in interest rates affect the premiums we may receive in connection with the sale of SBA 7 (a) and USDA loans in the secondary market, pre- payment speeds of loans for which we own servicing rights, our ability to fund our operations with customer deposits, and the fair value of securities in our investment portfolio. Therefore, any change in general market interest rates, including changes in federal fiscal and monetary policies, affects us more than non- financial companies and can have a significant effect on our net interest income and results of operations. Our assets and liabilities may react differently to changes in overall market rates or conditions because there may be mismatches between the repricing or maturity characteristics of the assets and liabilities. As a result, an increase or decrease in market interest rates could have material adverse effects on our net interest margin, noninterest income and results of operations. In a rising interest rate environment, potential borrowers could seek to defer loans as they wait for interest rates to settle, and borrowers of variable rate loans may be subject to increased interest rates, which could result in a greater rate of prepayment or default. Changes in interest rates may also present additional challenges to our business that we have not anticipated. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, inflationary trends, changes in government spending and debt issuance and policies of various governmental and regulatory agencies and, in particular, the Federal Open Market Committee. The amount of other real estate owned, or OREO, may increase significantly, resulting in additional losses, and costs and expenses that will negatively affect our operations. In connection with our banking business, we take title to real estate collateral from time to time through foreclosure or otherwise in connection with efforts to collect debts previously contracted. Such real estate is referred to as other real estate owned (" OREO "). As the amount of OREO increases, our losses, and the costs and expenses to maintain the real estate, likewise increase. The amount of OREO we hold may increase due to various economic conditions or other factors. Any additional increase in losses and maintenance costs and other expenses due to OREO may have a material adverse effect on our business, results of operations and financial condition. Such effects may be particularly pronounced in a market of reduced real estate values and excess inventory, which may make the disposition of OREO properties more difficult, increase maintenance costs and other expenses, and reduce our ultimate realization from any OREO sales. In addition, at the time of acquisition of the OREO we are required to reflect its fair market value in our financial statements. If the OREO declines in value subsequent to its acquisition, we are required to recognize a loss. As a result, declines in the value of our OREO will have a negative effect on our business, results of operations and financial condition. As of December 31, ~~2022~~ **2023** , we had ~~no~~ **three** OREO properties **with an aggregate carrying value of $ 6. 5 million** . A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, results of operations and financial condition. Our use of appraisals in deciding whether to make a loan secured by real property or how to value the loan in the future may not accurately reflect the net value of the collateral that we can realize. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may experience changes in value in relatively short periods of time, especially during periods of heightened economic uncertainty, this estimate might not accurately describe the net value of the real property collateral after the loan has been closed. If the appraisal does not reflect the amount that may be obtained upon any sale or foreclosure of the property, we may not realize an amount equal to the indebtedness secured by the property. In addition, we rely on appraisals and other valuation techniques to establish the value of our OREO and to determine certain loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of OREO, and our ACL on loans and leases may not reflect accurate loan impairments. The valuation of the properties securing the loans in our portfolio may negatively impact the continuing value of those loans and could materially adversely affect our business, results of operations and financial condition. We could be subject to losses, regulatory action or reputational harm due to fraudulent and negligent acts on the part of loan applicants, our borrowers, our employees and vendors. In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished by or on behalf of customers and other third parties, including financial statements, property appraisals, title information, employment and income documentation, account information and other financial information which may include information furnished by sellers to our borrowers in connection with business acquisitions that we finance. We may also rely on representations of clients and other third parties as to the accuracy and completeness of such information and, with respect to financial statements, on reports of independent auditors. Any such misrepresentation or incorrect or incomplete information may not be detected prior to funding a loan or during our ongoing monitoring of outstanding loans. In addition, one or more of our employees or vendors could cause a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our loan documentation, operations or systems. Any of these developments could have a material adverse effect on our business, results of operations and financial condition. New lines of business or new products and services may subject us to additional risks. We are focused on our long- term growth and have undertaken various new business initiatives, many of which involve activities that are new to us, or in some cases, are in the early stages of development. From time to time, we may develop, grow and / or acquire new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets for these products and services are not fully developed. Given our evolving business and product diversification, these and other new initiatives may subject us to, among other risks, increased business, reputational and operational risk, as well as more complex legal, third- party, regulatory and compliance costs and risks. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved, and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and / or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations and financial condition. All service offerings, including current offerings and those which may be provided in the future, may become more risky due to changes in economic, competitive and market conditions beyond our control. We are subject to risk in connection with our strategic activities, including acquisitions, joint ventures, partnerships, and investments. We are engaged, and may in the future engage, in strategic activities, including acquisitions, joint ventures, partnerships, investments or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. Our ability to execute strategic activities and new business initiatives successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating an acquired company or a new internally developed growth initiative into our business, operations, services, products, personnel and systems, operating effectively with any partner with whom we elect to do business, meeting applicable regulatory requirements and obtaining applicable regulatory licenses or other approvals, hiring or retaining key employees, achieving anticipated synergies, meeting management' s expectations, actually realizing the anticipated benefits of the activities, and overall general market conditions. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management' s attention from ongoing business operations and may subject us to additional regulatory scrutiny and potential liability. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation or growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations. In addition, in order to finance future strategic undertakings, we might require additional financing, which might not be available on terms favorable to us, or at all. If obtained, equity financing could be dilutive and the incurrence of debt and contingent liabilities could have a material adverse effect on our business, results of operations or financial condition. Our investments in financial technology companies and initiatives, including our investment in Apiture and the activities of our subsidiary Canapi Advisors, subject us to material financial, reputational and strategic risks. Our investments in various financial technology companies have had a significant impact on our results of operations, and we anticipate they will continue to have a significant impact on our results of operations in the future. Investments where we have the ability to exercise significant influence but not control over the operating and financial policies of the investee are accounted for using the equity method of accounting. For investments accounted for under the equity method, we increase or decrease our investment by our proportionate share of the investee' s net income or loss. Those investments where we are not able to exercise significant influence over the investee are accounted for under the equity security accounting method, where changes in fair value resulting from observable price changes arising from orderly transactions are recognized in net income. We also periodically evaluate our investments for impairment. The results of this testing of our investments for potential impairment may be adversely affected by a variety of factors, including market conditions, general economic conditions and unfavorable changes in the businesses underlying the investments. Impairments or write- downs of these assets may result in charges that adversely affect our results of operations. See Note 1. Organization and Summary of Significant Accounting Policies under the subheading entitled " Investments " for more information. Any earnings from our financial technology investments can be volatile and difficult to predict. Furthermore, we invest in many of these financial technology companies for strategic purposes. Where we are a minority shareholder, we may be unable to influence the activities of these organizations which could have an adverse impact on our ability to execute our strategic initiatives and successfully develop and implement the banking platform we are developing with these and other partners. As of December 31, ~~2022~~ **2023** , the carrying amount of our investment in Apiture was $ 60. ~~3~~ **7** million. Apiture' s future success will depend on its ability to develop, sell and deliver new or enhanced solutions to financial institution clients; however, these solutions and related services may not be attractive to existing or prospective clients. In addition, promoting, selling and delivering these new and enhanced solutions may require increasingly costly sales, marketing and implementation efforts. We also anticipate that Apiture will face challenges from its current competitors, which in many cases are more established and enjoy greater resources than it does, as well as by new entrants into the industry. If Apiture is not able to successfully execute its business plan, then the value of our investment in Apiture could decrease, which could have a material adverse effect on our business, financial condition and results of operations. Apiture' s digital banking solution requires sophisticated software and computing systems that may encounter development delays or software defects. Defects in Apiture' s software offerings or delays in the development of such software could result in unforeseen costs, diversion of technical and other resources, loss of credibility with existing and potential clients or reputational harm, any of which could materially adversely affect our business, results of operations and financial condition. Our subsidiary Canapi Advisors is an investment advisor to Canapi Ventures, a series of funds focused on providing venture capital to new and emerging financial technology companies. Canapi Ventures invests in early to growth- stage companies that may include companies that utilize advanced science, technology, engineering and / or mathematics to innovate in the financial technology market. Investments in these companies involve a high degree of business and financial risk that can result in substantial losses. These companies may be unseasoned, unprofitable or have no established operating histories or earnings and may lack technical, marketing, financial and other resources. These companies often have the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Less established companies tend to have lower capitalization and fewer resources and, therefore, are often more vulnerable to financial failure. These companies may be dependent upon the success of one product or service, a unique distribution channel, or the effectiveness of a manager or management team. The failure of this one product, service or distribution channel, or the loss or ineffectiveness of a key executive or executives within the management team may have a materially adverse impact on such companies. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel. If Canapi Advisors is unable to successfully identify investment opportunities, it will likely lose the capital that it invests on behalf of the fund' s investors, including the capital that we invest, ~~and will not generate any carried interest for the benefit of the Company,~~ which would have a materially adverse effect on our results of operations, our reputation and our ability to raise successive funds for similar purposes. Many of the financial technology companies in which we invest directly present risks similar to those in which Canapi Ventures invests. The possibility that the companies in which we and Canapi Ventures invest will not be able to commercialize their technology or product concept presents significant risk to our business operations and financial results. These companies tend to lack management depth, to have limited or no history of operations and to not have attained profitability. Additionally, although some of these companies may already have a commercially successful product or product line at the time of investment, technology products and services often have a more limited market or life span than products in other industries. Thus, the ultimate success of these companies may depend on their ability to continually innovate in increasingly competitive markets. Most of the companies in which we and Canapi Ventures invest will require substantial additional equity financing to satisfy their continuing growth and working capital requirements. Each round of venture financing is typically intended to provide a company with enough capital to reach the next stage of development. The circumstances or market conditions under which such companies will seek additional capital is unpredictable. It is possible that one or more of such companies will not be able to raise additional financing or may be able to do so only at a price or on terms which are unfavorable. Our investments in other companies may be illiquid. The equity securities of the companies in which we and Canapi Ventures invest are at the time of acquisition unmarketable and illiquid, and there can be no assurance that a ready market for these securities will ever exist. Such securities generally cannot be sold publicly without prior agreement with the issuer to register the securities under the Securities Act or by selling such securities under Rule 144 or other provisions of the Securities Act which permit only limited sales under specified conditions. We generally will realize the value of such securities only if the issuer is able to make an initial public offering of its shares or enters into a business combination with another company which purchases our equity securities for cash or exchanges them for publicly traded securities of the acquirer. The feasibility of such transactions depends upon the company' s financial results as well as general economic and equity market conditions. Furthermore, even if the equity securities owned become publicly traded, our ability to sell such securities may be limited by the lack of **,** or limited nature of **,** a trading market for such securities. There can be no assurance that the value at which we carry these assets will necessarily reflect the amount which could be realized upon a sale or other liquidity event. Our investments and / or financings in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on our financial results. We invest in and / or finance certain tax- advantaged projects promoting renewable energy sources. Our investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. We utilize an investment tax credit for the installation of certain solar power facilities. We are subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be fully realized. The possible inability to realize these tax credits and other tax benefits can have a negative impact on our financial results. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of our control, including changes in the applicable provisions of the tax code and the ability of the projects to be completed and properly managed. In addition, we make loans through the REAP of the USDA, which provides guaranteed loan financing and grant funding to agricultural producers and rural small businesses for renewable energy systems or to make energy- efficient improvements. Any changes to applicable provisions of the tax code or other developments could adversely impact demand for these loans even where we are not utilizing an investment tax credit. Our loan portfolio may be affected by deterioration in real estate markets, including declines in the performance of loans. Deterioration in real estate markets could result in declining prices and excess inventories. As a result, developers may experience financial deterioration and banking institutions may experience declines in the performance of construction, development and commercial loans. We make credit and reserve decisions based on the current conditions of borrowers or projects combined with our expectations for the future. If conditions are worse than forecast, we could experience higher charge- offs and delinquencies than is provided in the ACL on loans and leases, which could materially adversely affect our business, results of operations and financial condition. Deterioration in the commercial soundness of our counterparties 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 or other relationships, 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, could create a market- wide liquidity crisis and could lead to losses or defaults by us or by other institutions. The deterioration or failure of our counterparties would have a material adverse effect on our business, results of operations and financial condition. We have different lending risks than larger, more diversified banks. Our ability to diversify our economic risks is limited. We lend primarily to small businesses in selected industries, which may expose us to greater lending risks than those of banks lending to larger, better- capitalized businesses with longer operating histories. Small businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and may have limited operating histories. If economic conditions negatively impact the verticals in which we operate, our business, results of operations and financial condition may be adversely affected. We attempt to manage our credit exposure through careful monitoring of loan applicants and through loan approval and review procedures. We have established an evaluation process designed to determine the adequacy of our ACL on loans and leases. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding our borrowers, and the ~~economies~~ **markets** in which we and our borrowers operate, as well as the judgment of our regulators. This is an inherently uncertain process, and our ~~loan~~ **allowance for credit** ~~loss~~ **losses** ~~reserves~~ may not be sufficient to absorb future loan losses or prevent a material adverse effect on our business, results of operations and financial condition. Insiders have substantial control over us, and this control may limit our shareholders' ability to influence corporate matters and may delay or prevent a third party from acquiring control over us. As of January 31, ~~2023~~ **2024** , our directors and executive officers and their related entities own, in the aggregate, approximately 24. ~~7~~ **3** % of our outstanding common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise. In addition, these shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of ~~our~~ **the** ~~company~~ **Company** or its assets. This concentration of ownership could limit the ability of other shareholders to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other shareholders. For information regarding the ownership of our outstanding stock by our executive officers and directors and related entities, see " Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters " in this Report. We are subject to extensive regulation that could limit or restrict our activities. We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including the declaration and payment of cash dividends to shareholders, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth and operations. See " Supervision and Regulation " above for more information on the federal and state laws, rules and regulations that apply to our business activities. Should we fail to comply with these regulatory requirements, federal and state regulators could impose additional restrictions on the activities of the Company and the Bank, which could materially and adversely affect our business, results of operations and financial condition. The laws and regulations applicable to the banking industry ~~have changed~~ **change frequently** ~~in recent years~~ and may continue to change, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our business, results of operations and financial condition. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could have an adverse effect on our deposit levels, loan demand, or business and earnings, as well as the value of our common stock. We are required to maintain capital to meet regulatory requirements, and, if we fail to maintain sufficient capital, whether due to growth opportunities, losses or an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our compliance with regulatory requirements, would be adversely affected. Both we and the Bank are required to meet regulatory capital requirements and otherwise need to maintain sufficient liquidity to support recent and future growth. We have continued to experience considerable growth recently. Asset growth, diversification of our business, expansion of our financial product offerings and other changes in our asset mix continue to require higher levels of capital. Our ability to raise additional capital, when and if needed in the future, to meet such regulatory capital requirements and liquidity needs will depend on conditions in the capital markets, general economic conditions, the performance and prospects of our business and a number of other factors, many of which are outside of our control. We cannot assure you that we will be able to raise additional capital if needed or raise additional capital on terms acceptable to us. If we fail to meet these capital and other regulatory requirements, our financial condition, liquidity and results of operations could be materially and adversely affected. Although we comply with all current applicable capital requirements, we may be subject to more stringent regulatory capital requirements in the future, and we may need additional capital in order to meet those requirements. If we or the Bank fail to meet applicable minimum capital requirements or cease to be well capitalized, such failure would cause us and the Bank to be subject to regulatory restrictions and could adversely affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on common stock and / or repurchase shares, our ability to make acquisitions, and our business, results of operations and financial condition, generally. **Because** ~~As of December 31, 2022,~~ our total assets ~~were $ 9. 86 billion. We anticipate that our total assets may~~ exceed $ 10 billion **, we are subject** ~~sometime in 2023. In addition~~ to **heightened** ~~our current~~ regulatory requirements, ~~banks~~ **which could have** ~~and~~ - **an adverse effect on our financial condition or results of operations. Various federal banking laws and regulations, including rules adopted by the Federal Reserve pursuant to the requirements of the Dodd- Frank Act, impose additional requirements on** bank holding companies with **total assets of at least** $ 10 billion ~~or more in~~ **. In addition, banks with** total assets **of at least $ 10 billion** are **primarily** examined ~~directly~~ by the CFPB with respect to ~~various~~ federal consumer protection laws **and regulations. In the first quarter of 2023** , **the Company and the Bank each first exceeded $ 10 billion in total assets. As of December 31, 2023, the Company and the Bank had total assets of $ 11. 27 billion and $ 11. 21 billion, respectively, ending their first four consecutive quarters of reported assets in excess of $ 10 billion. As a result, we are** subject to ~~enhanced prudential~~ **additional requirements including, but not limited to, establishing a dedicated risk committee of our Board, calculating our FDIC deposit insurance assessment using the large bank pricing rule and more frequent** ~~regulation~~ - **regulatory examinations. In preparation for these additional compliance obligations** , **we have incurred significant expenses** and ~~subject~~ **expect** to **continue to incur expenses to address heightened regulatory requirements. These** additional regulatory requirements ~~.~~ **and increased** ~~Compliance~~ **compliance** ~~with these additional ongoing requirements may necessitate additional personnel, the design and implementation of additional internal controls, or the incurrence of significant~~ expenses ~~, any of which~~ could have a material adverse effect on our business, financial condition and results of operations. Our deposit operations are subject to extensive regulation, and we expect additional regulatory requirements to be implemented in the future. We are subject to significant anti-money laundering, " know your customer " and other regulations under applicable law, including the Bank Secrecy Act and the USA PATRIOT Act, and we could become subject in the future to additional regulatory requirements beyond those that are currently adopted, proposed or contemplated. We expect that federal and state bank regulators will **continue to** increase their oversight, inspection and investigatory role over our deposit operations and the financial services industry generally. Furthermore, we intend to **further** increase our deposit product offerings and grow our customer deposit portfolio in the future and, as a result, we are, and will continue to be, subject to heightened compliance and operating costs that could adversely affect our business, results of operations and financial condition. In addition, legal and regulatory proceedings and other contingencies will arise from time to time that may have an adverse effect on our business practices and results of operations. Our FDIC deposit insurance premiums and assessments may increase. The deposits of our Bank are insured by the FDIC up to legal limits and, accordingly, subject our Bank to the payment of FDIC deposit insurance assessments. The Bank' s regular assessments are based on its ~~average consolidated total~~ **ability to withstand** ~~assets~~ - **asset** ~~minus average tangible equity as well as~~ **- and funding- related stress, its regulatory ratings, and potential losses to the FDIC in the event of the Bank' s failure, subject to discretionary adjustments** by ~~risk classification, which includes regulatory capital levels and~~ the **FDIC** ~~level of supervisory concern~~ . In order to maintain a strong funding position and restore the reserve ratios of the DIF, the FDIC has, in the past, increased deposit insurance assessment rates and charged a special assessment to all FDIC- insured financial institutions. Further increases in assessment rates or special assessments may occur in the future, especially if there are significant financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have an adverse effect on our business, financial condition and results of operations **. Negative developments affecting the banking industry have eroded customer confidence in the banking system and may result in additional regulations that could increase the Company' s expenses and affect its operations. High- profile bank failures in 2023 generated significant market volatility among publicly traded bank holding companies, such as the Company. These market developments negatively impacted customer confidence in the banking system. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short- term fixed income securities, all of which could materially adversely impact the Company' s liquidity, loan funding capacity, net interest margin, capital and results of operations. In connection with these high- profile bank failures, uncertainty and concern has been, and may be in the future, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence. As a result of these events, the Company anticipates increased regulatory scrutiny — in the course of routine examinations and otherwise — and new regulations, all of which may increase the Company' s costs of doing business**

and reduce its profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition and the level of uninsured deposits . We may incur increased costs to comply with privacy and data security laws and regulations and, to the extent we fail to comply, we could be subject to government enforcement actions, private claims and litigation, adverse publicity, loss of customers, and other negative outcomes. We are subject to complex and evolving laws and regulations governing the privacy and security of personal information associated with consumers, prospective, current, and former customers, employees and contractors, and other individuals. For example, the Gramm- Leach- Bliley Financial Services Modernization Act of 1999 and state financial services laws and regulations impose restrictions on our collection, use, and disclosure of personal information, as well as requirements for protecting personal information. There are federal and state laws and regulations governing our obligations in the event of data security breaches, computer- security incidents, and similar occurrences. States legislatures have also been actively debating and passing new **comprehensive** privacy laws ~~, such as the California Privacy Rights Act~~ . We expect that the body of privacy and data security laws and regulations that may apply to us will continue to grow. These laws and regulations are continually evolving and are subject to potentially differing interpretations, including as to their scope and applicability to our business. The interpretation of these laws and regulations can be uncertain, and they may be applied inconsistently from one jurisdiction to another or may conflict with other laws and regulations or our practices. As a result, our practices may not have complied or may not comply in the future with all such laws and regulations. Any failure, or perceived failure, by us to comply with these laws or regulations could have a materially adverse impact to our reputation and brand, and may result in government investigations and enforcement actions, as well as claims for damages and other forms of relief by affected individuals, business partners, and other parties. Any such investigations, enforcement actions, or claims could require us to change our operations, incur substantial costs and expenses in an effort to comply, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and vendors, result in the imposition of monetary penalties, and otherwise adversely affect our business, financial condition, and results of operations. Efforts intended to ensure that our collection, use, disclosure, maintenance, and protection of personal information complies with all applicable laws and regulations in all relevant jurisdictions, including where the laws of different jurisdictions are in conflict, may pose a variety of challenges, including the following: • Our compliance and operating costs may increase. • The development of new products or services may be hindered, our ability to offer existing products or services may be curtailed, and the manner in which we offer products and services to customers may be impacted. • Our efforts may require significant time, attention, and oversite of management, which may result in reduced focus on other operations. • We may be required to structure our business, operations, and systems in less efficient ways. The low trading volume in our common stock may adversely affect your ability to resell shares at prices that you find attractive or at all. Our common stock is listed for quotation on the NYSE under the ticker symbol " LOB ". The average daily trading volume for our common stock is less than that of larger financial institutions. Due to its relatively low trading volume, sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all. Future sales of shares of our common stock by existing shareholders could depress the market price of our common stock. Live Oak Bancshares, Inc. had 44, ~~066~~ **648** , ~~517~~ **626** shares of common stock outstanding at January 31, ~~2023~~ **2024** . In addition, as of January 31, ~~2023~~ **2024** , there were outstanding options to purchase ~~821~~ **646** , ~~029~~ **161** shares of our common stock that, if exercised, will result in these additional shares becoming available for sale. Also, as of January 31, ~~2023~~ **2024** , there were 2, ~~400~~ **214** , ~~363~~ **346** outstanding restricted stock units that vest over time that, when vested, will result in additional shares becoming available for sale. A large portion of these shares, options and restricted stock units are held by a relatively small number of persons. Sales by these holders of a substantial number of shares could significantly reduce the market price of our common stock. Although we have historically paid cash dividends, there is no assurance that we will continue to pay cash dividends. Future payment of cash dividends, if any, will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, economic conditions, and such other factors as the board may deem relevant. Live Oak Bancshares, Inc. is subject to extensive regulation, and ownership of our common stock may have regulatory implications for its holders. The Company is subject to extensive federal and state banking laws, including the BHCA and federal and state banking regulations, that impact the rights and obligations of owners of our common stock, including, for example, its ability to declare and pay dividends on its common stock. Shares of Live Oak Bancshares, Inc.' s common stock are voting securities for purposes of the BHCA. The BHCA generally requires regulatory approval before any individual or company may acquire 25 % or more of any class of Live Oak Bancshares Inc.' s common stock, and such regulatory approval may be required under certain circumstances if a person, company or group acting in concert acquires 10 % or more, but less than 25 % of Live Oak Bancshares Inc.' s common stock. Holders of our common stock should consult their own counsel with regard to regulatory implications. Anti- takeover provisions could adversely affect Live Oak Bancshares, Inc. shareholders. In some cases, shareholders would receive a premium for their shares if Live Oak Bancshares Inc. were acquired by another company. However, state and federal law and Live Oak Bancshares Inc.' s articles of incorporation and bylaws make it difficult for anyone to acquire the Company without approval of the Live Oak Bancshares Inc.' s board of directors. For example, Live Oak Bancshares Inc.' s articles of incorporation require a supermajority vote of two- thirds of our outstanding common stock in order to effect a sale or merger of the Company in certain circumstances. Consequently, a takeover attempt may prove difficult, and shareholders may not realize the highest possible price for their securities. Shares of Live Oak Bancshares, Inc.' s common stock are not insured deposits and may lose value. Shares of Live Oak Bancshares, Inc.' s common stock are not savings accounts, deposits or other obligations of any depository institution and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality, any other deposit insurance fund or by any other public or private entity. An investment in our common stock is inherently risky for the reasons described in this " Risk Factors " section. As a result, if you acquire shares of our common stock, you may lose some or all of your investment. We face strong competition from a diverse group of competitors. The banking business is highly competitive, and we experience strong competition from many other financial institutions, including some of the largest commercial banks headquartered in the country, as well as other federally and state chartered financial institutions such as community banks and credit unions, finance and business development companies, commercial and consumer finance companies, peer- to- peer and marketplace lenders, securities brokerage firms, insurance companies, money market and mutual funds and other non- bank lenders. We compete with these institutions both in attracting deposits and in making loans, primarily on the basis of the interest rates we pay and yield on these products. We also compete with these institutions in our other business lines, including wealth management. Many of our competitors are well- established, much larger financial institutions. While we believe we can successfully compete with these other lenders in our industry verticals, we may face a competitive disadvantage as a result of our smaller size. Furthermore, nothing would prevent our competitors from developing or licensing a technology- based platform similar to the technology- based platform we currently use in our business. In addition, many of our non- bank competitors have fewer regulatory constraints and may have lower cost structures. We expect competition to continue to intensify due to financial institution consolidation, legislative, regulatory and technological changes, and the emergence of alternative banking sources. Our ability to compete successfully will depend on a number of factors, including, among other things: • our ability to build and maintain long- term customer relationships while ensuring high ethical standards and safe and sound banking practices; • the scope, relevance and pricing of products and services that we offer; • customer satisfaction with our products and services; • industry and general economic trends; and • our ability to keep pace with technological advances and to invest in new technology **to provide products and services that will satisfy customer demands, as well as create additional efficiencies in our operations. Our competitors may have greater resources to invest in technological improvements. 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. In addition, our implementation of certain new technologies, such as those related to artificial intelligence, automation and algorithms, in our business processes may have unintended consequences due to their limitations or our failure to use them effectively** . Increased competition could require us to increase the rates we pay on deposits or lower the rates we offer on loans, which could reduce our profitability. Our failure to compete effectively in our primary markets could cause us to lose market share and could have a material adverse effect our business, results of operations and financial condition. We rely heavily on our management team and depend on our ability to attract and retain key personnel, and the unexpected loss of any of those personnel could adversely affect our operations. We are a customer- focused and relationship- driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers and partners by our chief executive officer, president, and other senior officers. The unexpected loss of any of our key employees could have an adverse effect on our business, results of operations and financial condition. The implementation of our business strategy will also require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. We are not party to non- compete or non- solicitation agreements with any of our officers or employees. The market for qualified employees in the businesses in which we operate is competitive, and we may not be successful in attracting, hiring or retaining key personnel. Our inability to attract, hire or retain key personnel could have a material adverse effect on our business, results of operations and financial condition. Our risk management framework may not be effective in mitigating risks and / or losses to us. We have implemented a risk management framework to manage our risk exposure. This framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance risks. Our framework also includes financial and other modeling methodologies which involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and it may fail to adequately identify or mitigate risk or loss to us. If our framework is not effective, we could suffer unexpected losses and be subject to potentially adverse regulatory consequences, and our business, results of operations and financial condition could be materially and adversely affected. Hurricanes or other adverse weather events could disrupt our operations, which could have an adverse effect on our business or results of operations. North Carolina’ s coastal region is affected, from time to time, by adverse weather events, particularly hurricanes, the nature and severity of which may be impacted by climate change. We cannot predict whether, or to what extent, damage caused by future hurricanes or other weather events will affect our operations. Weather events could cause a disruption in our day- to- day business activities and could have a material adverse effect on our business, results of operations and financial condition. If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting which would harm our business and the trading price of our securities. If we identify material weaknesses in our internal control over financial reporting or are otherwise required to restate our financial statements, we could be required to implement expensive and time- consuming remedial measures and could lose investor confidence in the accuracy and completeness of our financial reports. We may also face regulatory enforcement or other actions, including the potential delisting of our securities from the NYSE. This could have a material adverse effect on our business, financial condition and results of operations, and could subject us to litigation. Changes in accounting standards and management’ s selection of accounting methods, including assumptions and estimates, could materially impact our financial statements. From time to time, the SEC and the Financial Accounting Standards Board (“ FASB ”) update accounting principles generally accepted in the United States (“ GAAP ”) that govern the preparation of our financial statements. In addition, the FASB, SEC, bank regulators and the outside independent auditors may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings. In addition, management is required to use certain assumptions and estimates in preparing our financial statements, including determining the fair value of certain assets and liabilities, among other items. If the assumptions or estimates are incorrect, we may experience unexpected material adverse consequences that could negatively affect our business, results of operations and financial condition. Our business reputation is important and any damage to it could have a material adverse effect on our business. Our reputation is very important to sustain our business, as we rely on our relationships with our current, former and potential customers, our technology and other strategic partners, our shareholders, and the industries that we serve. Any damage to our reputation, whether arising from legal, regulatory, supervisory or enforcement actions, matters affecting our financial reporting or compliance with SEC and exchange listing requirements, negative publicity, the conduct of our business or otherwise could have a material adverse effect on our business, results of operations and financial condition.