Risk Factors Comparison 2024-03-08 to 2023-03-07 Form: 10-K

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The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company' s business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Company' s financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company' s common stock could decline significantly, and you could lose all or part of your investment. Risk Factors Summary An investment in the Company' s common stock is subject to risks inherent to the Company' s business. Such risks, including those set forth in the summary of material risks in this Part I. Item 1A. should be carefully considered before purchasing our securities. Interest Rate and Inflation Risk Factors • Changes in market interest rates could adversely impact the Company. • **The impact of interest rates on our mortgage banking business can have a significant impact on revenues. •** Inflationary pressures and rising prices may affect our results of operations and financial condition. **• Rising interest rates have decreased the value of our held- to- maturity securities portfolio, and we would realize losses if we were required to sell such securities to meet liquidity needs.** Operational, Strategic and Business Risk Factors **• Changes and instability in economic conditions, geopolitical matters and financial markets, including contraction of economic activity, could adversely impact our business, results of operations and financial condition.** • Current economic conditions in the State of Alaska pose challenges for us and could adversely affect our financial condition and results of operations. • Our concentration of operations in the Anchorage, Matanuska- Susitna Valley, Fairbanks and Southeast areas of Alaska makes us more sensitive to downturns in those areas. • Our allowance for credit losses may be insufficient **. • We are subject to lending concentration risks. • Our commercial real estate lending may expose us to increased lending risks** . • Residential mortgage lending is a market sector that experiences significant volatility and is influenced by many factors beyond our control. • Our information systems or those of our third- party vendors may be subject to an interruption or breach in security, including as a result of cyber- attacks. • A failure in or breach of the Company' s operational systems, information systems, or infrastructure, or those of the Company' s third ~~-~~party vendors and other service providers, may result in financial losses, or loss of customers. • Our business is highly reliant on third party vendors. • We continually encounter technological change, and we may have fewer resources than many of our competitors to continue to invest in technological improvements. • Our business, financial condition and results of operations are subject to risk from changes in customer behavior. • **Consumers may decide not to use banks to complete their financial transactions. •** If we do not comply with the agreements governing servicing of loans, if these agreements change materially, or if others allege non- compliance, our business and results of operations may be harmed. • Certain hedging strategies that we use to manage interest rate risk may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity. • We ~~have a significant concentration in real estate lending. A downturn in real estate within our markets would have a negative impact on our results of operations. • Real estate values may decrease leading to additional and greater than anticipated loan charge- offs. • We~~ may be unable to attract and retain key employees and personnel **. • Our internal controls may be ineffective** . • Liquidity risk could impair our ability to fund operations and jeopardize our financial conditions. • A failure of a significant number of our borrowers, guarantors and related parties to perform in accordance with the terms of their loans would have an adverse impact on our results of operations. ~~• The ongoing COVID- 19 pandemic, or a similar health crisis, may adversely impact our business and financial results.~~ Regulatory, Legislative and Legal Risk Factors • We operate in a highly regulated environment and changes of or **significant** increases in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us. • **We face risks related to the adoption of future legislation and potential** ~~Changes~~ **changes** in **federal regulatory agency leadership,** ~~the FRB' s monetary or fiscal~~ policies **, and priorities. • Fiscal challenges facing U. S. government** could **negatively impact financial markets which in turn could have an** ~~adversely~~ -- **adverse** ~~affect~~ **effect on our financial position** ~~our~~ - **or** results of operations ~~and financial condition~~ . • Non- compliance with the USA PATRIOT Act, Bank Secrecy Act, Anti- Money Laundering Act of 2020, Real Estate Settlement Procedures Act, Truth- in- Lending Act or other laws and regulations could result in fines, sanctions or other adverse consequences. • Deposit insurance premiums could increase further in the future. **• Recent volatility in the banking sector, triggered by the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, may result in legislative initiatives, agency rulemaking activities, or changes in agency policies and priorities that could subject the Company and the Bank to enhanced government regulation and supervision. • Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business.** Accounting, Tax and Financial Risk Factors • Changes in ~~income~~ **the federal, state, or local** tax laws ~~and interpretations,~~ **may negatively impact our financial performance. • Changes in our accounting policies** or in accounting standards ~~,~~ could materially affect **how we report** our financial ~~condition or~~ results ~~of operations. • The replacement of the London Inter- Bank Offered Rate (" LIBOR") may adversely affect our business~~ . Stock Ownership Risk Factors • Our ability to pay dividends, repurchase our shares, or to repay our indebtedness depends upon liquid assets held by the Company and the results of operations of our subsidiaries and their ability to pay dividends. • There can be no assurance that the Company will continue to repurchase stock. • The market price for our common stock may be volatile. • There may be future sales or other dilution of the Company' s equity, which may adversely affect the market price of our common stock. • The Company' s business or the value of its common stock could be negatively affected as a result of actions by activist shareholders. General Risk Factors • Natural disasters and adverse weather could negatively affect real estate property values and Bank operations. • The soundness of other financial institutions could adversely affect us. • The financial services business is intensely competitive and our success will depend on our ability to compete effectively. • We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so could materially adversely affect our performance. • Social, political, and economic instability, unrest, and other circumstances beyond our control could adversely affect our business operations. • Climate change, severe weather, natural disasters, and other external events could significantly impact our business **. • Increasing, complex and evolving regulatory, stakeholder, and other third party expectations on ESG matters could adversely affect our reputation, our access to capital and the market price of our securities** . We attempt to mitigate the foregoing risks. However, if we are unable to effectively manage the impact of these and other risks, our financial condition, results of operations, our ability to make distributions to our shareholders, or the market price of our common stock could be materially impacted. Interest Rate and Inflation Risks Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest- earning assets such as loans and securities and interest expense paid on interest- bearing liabilities such as deposits and borrowed funds. 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 issuances and policies of various governmental and regulatory agencies and, in particular, the FRB. Changes in **monetary policy, including changes in** interest rates ~~affect the demand for new loans~~ , **could influence not only** the **interest we** ~~credit profile of existing loans, the rates received~~ - **receive** on loans and **investments** ~~securities,~~ and ~~rates paid~~ **the amount of interest we pay** on deposits and borrowings **, but such changes could also affect (i) our ability to originate loans and obtain deposits; (ii) the fair value of our financial assets and liabilities; and (iii) the average duration of our mortgage portfolio and other interest- earning assets. In January 2022, due to elevated levels of inflation and corresponding pressure to raise interest rates, the FRB announced after several periods of historically low federal funds rates and yields on Treasury notes that it would be slowing the pace of its bond purchasing and increasing the target range for the federal funds rate over time. The FOMC since has increased the target range eleven times throughout 2022 and 2023. As of December 31, 2023, the target range for the federal funds rate had been increased to 5. 25 % to 5. 50 %. It remains uncertain whether the FOMC will further increase the target range for the federal funds rate to attain a monetary policy sufficiently restrictive to return inflation to more normalized levels, begin to reduce the federal funds rate or leave the rate at its current elevated level for a lengthy period of time. Our interest rate spread, net interest margin and net interest income increased during this period of rising interest rates as our interest earning assets generally reprice more quickly than our interest earning liabilities** . If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. ~~These~~ -- **The Company' s** ~~impacts may negatively impact our ability to attract deposits, make loans, and achieve satisfactory~~ interest rate ~~spreads~~ **risk profile is such that** , **generally, a higher yield curve adds to income while a lower yield curve has a negative impact on earnings. Our most significant interest rate risk may result from timing differences in the maturity and re- pricing characteristics of assets and liabilities, changes in the shape of the yield curve, and the potential exercise of explicit or embedded options. Although management believes it has implemented effective asset and liability management strategies, including the potential use of derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations, and any related economic downturn, especially domestically and in the regions in** which ~~could~~ **we operate, may** adversely affect our ~~financial condition or~~ **asset quality, deposit levels, loan demand and** results of operations. **Also** ~~In particular~~ , ~~increases~~ **our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet. Changes** in interest rates **can impact** ~~have in the past and will likely in the future reduce~~ RML' s revenues ~~by reducing the market for refinancings, as well as~~ **and net revenues associated with our mortgage activities. A decline in mortgage rates generally increases** the demand for **mortgage** ~~RML' s other residential loan~~ **loans** ~~products. Additionally~~ **as borrowers refinance** , ~~increases~~ **but also generally leads to accelerated payoffs. Conversely,** in ~~interest~~ **a constant or increasing** ~~rates~~ - **rate** ~~may~~ **environment, we would expect fewer loans to be refinanced and a decline in payoffs. Although we use models to assess the** impact ~~our borrowers' ability to make loan payments, particularly in our commercial loan portfolio. Interest rates may be affected by many factors beyond our control, including general and economic conditions and the monetary and fiscal policies~~ of ~~various governmental and regulatory authorities. Beginning early in 2022, in response to growing signs of inflation, the FRB has increased interest rates rapidly. Although it is expected that the FRB will continue to increase the target federal funds rate in 2023 to combat recent inflationary trends, if interest rates do not rise, or if the FRB were to lower the target federal funds rate to below 0 %, these low rates could continue to constrain our interest rate spread and may adversely affect our business forecasts. On the other hand, increases in interest rates, to combat inflation or otherwise, may result in a change in the mix of noninterest and interest- bearing accounts. All else being equal, if the~~ interest rates on **mortgage** ~~the Company' s interest - bearing liabilities increase at a faster pace than~~ **related revenues, the estimates of revenues produced by** ~~the~~ **these** ~~interest rates~~ **models are dependent** on ~~our interest- earning assets~~ **estimates and assumptions of future loan demand** , **prepayment speeds and** ~~the~~ **other factors which may differ from** ~~result would be a reduction in net interest income and with it, a reduction in net income. In addition, anticipated changes in interest rates generally impact the mortgage rate market prior to the~~ actual **subsequent experience** ~~rate change. We are unable to predict changes in interest rates, which are affected by factors beyond our~~

~~control, including inflation, deflation, recession, unemployment, money supply and other changes in financial markets. Exposure to interest rate risk is managed by monitoring the repricing frequency of our rate- sensitive assets and rate- sensitive liabilities over any given period. Although we believe the current level of interest rate sensitivity is reasonable, significant fluctuations in interest rates could potentially have an adverse effect on our business, financial condition and results of operations~~ . Inflation has continued rising in ~~2022~~ **2023** at levels not seen for over 40 years. Inflationary pressures are currently expected to ~~remain elevated throughout 2022 and are likely to~~ continue ~~into~~ **in** ~~2023~~ **2024** . Inflation could lead to increased costs to our customers, making it more difficult for them to repay their loans or other obligations increasing our credit risk. Sustained higher interest rates by the FRB may be needed to tame persistent inflationary price pressures, which could push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our regional markets could result in an increase in loan delinquencies and non- performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations. **As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U. S., including ours, resulting in unrealized losses embedded in the held- to- maturity portion of U. S. banks' securities portfolios. The book value of the Company' s held- to- maturity securities portfolio was $ 36. 8 million at both December 31, 2023 and 2022. Unrealized losses on the held- to- maturities portfolio amounted to $ 3. 3 million and $ 4. 1 million at December 31, 2023 and 2022, respectively. The fair value of the Company' s held- to- maturity securities portfolio was $ 33. 4 million and $ 32. 6 million at December 31, 2023 and 2022, respectively. While we do not currently intend to sell these securities, if we were required to sell such securities to meet liquidity needs, we may incur losses, which could impair our capital, financial condition, and results of operations and, in the event that our other funding sources are insufficient, could require us to raise additional capital. While we have taken actions to maximize our funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.** Operational, Strategic and Business Risks **Changes and instability in economic conditions, geopolitical matters and financial markets, including a contraction of economic activity, could adversely impact our business, results of operations and financial condition. Our success depends, to a certain extent, upon global, domestic and local economic and political conditions, as well as governmental monetary policies. Conditions such as changes in interest rates, money supply, levels of employment and other factors beyond our control may have a negative impact on economic activity. Any contraction of economic activity, including an economic recession, may adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings. In particular, interest rates are highly sensitive to many factors that are beyond our control, including global, domestic and local economic conditions and the policies of various governmental and regulatory agencies and, specifically, the FRB. Throughout 2022 and 2023, the FOMC raised the target range for the federal funds rate on eleven separate occasions, citing factors including the hardships caused by the ongoing Russia- Ukraine conflict, continued global supply chain disruptions and imbalances, and increased inflationary pressure. The tightening of the FRB' s monetary policies, including repeated and aggressive increases in target range for the federal funds rate as well as the conclusion of the FRB' s tapering of asset purchases, together with ongoing economic and geopolitical instability, increases the risk of an economic recession. Although forecasts have varied, many economists are projecting that, while indicators of U. S. economic performance, such as income growth, may be strong and levels of inflation may continue to decrease, the U. S. economy may be flat or experience a modest decrease in gross domestic output in 2024 while inflation is expected to remain elevated relative to historic levels in the coming quarters. Any such downturn in economic output, especially domestically and in the Alaska and other markets in which we operate, may adversely affect our asset quality, deposit levels, loan demand and results of operations. As a result of the economic and geopolitical factors discussed above, financial institutions also face heightened credit risk, among other forms of risk. Of note, because we have a significant amount of real estate loans, decreases in real estate values could adversely affect the value of property used as collateral, which, in turn, can adversely affect the value of our loan and investment portfolios. Adverse economic developments, specifically including inflation- related impacts, may have a negative effect on the ability of our borrowers to make timely repayments of their loans or to finance future home purchases. According to the Federal Reserve' s October 2023 Financial Stability Report, commercial real estate values remained elevated relative to fundamentals, even as prices continued to decline. While commercial real estate values continue to fluctuate, some markets are showing signs of stabilizing prices. However, the outlook for commercial real estate remains dependent on the broader economic environment and, specifically, how major subsectors respond to a rising interest rate environment and higher prices for commodities, goods and services. In any case, credit performance over the medium- and long- term is susceptible to economic and market forces and therefore forecasts remain uncertain; however, some degree of instability in the commercial real estate markets is expected in the coming quarters as loans are refinanced in markets with higher vacancy rates under current economic conditions. Instability and uncertainty in the commercial and residential real estate markets, as well as in the broader commercial and retail credit markets, could have a material adverse effect on our financial condition and results of operations.** We are operating in an uncertain economic environment. The pandemic caused a global economic slowdown, and while we have seen economic recovery, continuing supply chain issues, fluctuations in oil prices, labor shortages and inflation risk are affecting the continued recovery. In the longer term, relatively low oil prices are expected to negatively impact the overall economy in Alaska on a larger scale as we estimate that one third of the Alaskan economy is related to oil. Financial institutions continue to be affected by changing conditions in the real estate and financial markets, along with an arduous regulatory climate. Continued economic uncertainty and a recessionary or stagnant economy could result in financial stress on the Bank' s borrowers, which could adversely affect our business, financial condition and results of operations. Deteriorating conditions in the regional economies of Anchorage, Matanuska- Susitna Valley, Fairbanks, and the Southeast areas of Alaska served by the Company could drive losses beyond that which is provided for in our allowance for ~~loan~~ **credit** losses. We may also face the following risks in connection with events: ▪ Ineffective monetary policy could cause rapid changes in interest rates and asset values that would have a materially adverse impact on our profitability and overall financial condition. ▪ Market developments and economic stagnation may affect consumer confidence levels and may cause adverse changes in payment patterns, resulting in increased delinquencies and default rates on loans and other credit facilities. ▪ Regulatory scrutiny of the industry could increase, leading to harsh regulation of our industry that could lead to a higher cost of compliance, limit our ability to pursue business opportunities and increase our exposure to litigation. ▪ Further erosion in the fiscal condition of the U. S. Treasury could lead to new taxes that would limit the ability of the Company to pursue growth and return profits to shareholders. If these conditions or similar ones develop, we could experience adverse effects on our financial condition and results of operations. Substantially all of our business is derived from the Anchorage, Matanuska- Susitna Valley, Fairbanks, ~~and~~ Southeast **, and Kenai Peninsula** areas of Alaska. The majority of our lending has been with Alaska businesses and individuals. At December 31, ~~2022~~ **2023** ~~, less than 1 % of the Bank' s loans are PPP loans which are 100 % guaranteed by the SBA. Of the remaining loan portfolio, excluding PPP loans~~ , approximately ~~69~~ **72** % of loans are secured by real estate and ~~1~~ **4** % are unsecured. Approximately ~~30~~ **24** % are for general commercial uses, including professional, retail, and small businesses, and are secured by non- real estate assets. Repayment is expected from the borrowers' cash flow or, secondarily, the collateral. Our exposure to credit loss, if any, is the outstanding amount of the loan if the collateral is proved to be of no value. These areas rely primarily upon the natural resources industries, particularly oil production, as well as tourism and government and U. S. military spending for their economic success. In particular, the oil industry plays a significant role in the Alaskan economy. Our business is and will remain sensitive to economic factors that relate to these industries and local and regional business conditions. As a result, local or regional economic downturns, or downturns that disproportionately affect one or more of the key industries in regions served by the Company, may have a more pronounced effect upon our business than they might on an institution that is less geographically concentrated. The extent of the future impact of these events on economic and business conditions cannot be predicted; however, prolonged or acute fluctuations could have a material and adverse impact upon our financial condition and results of operation. We maintain allowances for credit losses on loans, securities and off- balance sheet credit exposures. 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 the allowance for credit losses 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 and securities issuers; new information regarding existing loans, credit commitments and securities holdings; ~~the continuation of the COVID- 19 pandemic or other global pandemics;~~ natural disasters and risks related to climate change; 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, securities and off- balance sheet credit exposures. In addition, bank regulatory agencies periodically review our allowance for credit losses 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, securities or off- balance sheet credit exposures in future periods exceed our allowances for credit losses on loans, securities or off- balance sheet credit exposures, we will need to recognize additional credit loss expense to increase the applicable allowance. Any increase in the allowance for credit losses on loans, securities 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.We are subject to concentration risks.~~ Approximately ~~72~~ **69** % of the Bank' s loan portfolio **,excluding PPP loans,** at December 31, ~~2023~~ **2022** consisted of loans secured by commercial and residential real estate ~~mostly~~ located in Alaska.Additionally,all of the Company' s loans held for sale are secured by residential real estate.A slowdown in the residential sales cycle in our major markets and a constriction in the availability of mortgage financing,would negatively impact residential real estate sales,which would result in customers' inability to repay loans.This would result in an increase in our non- performing assets if more borrowers fail to perform according to loan terms and if we take possession of real estate properties.Additionally,if real estate values decline,the value of real estate collateral securing our loans could be significantly reduced.If any of these effects continue or become more pronounced,loan losses will increase more than we expect and our financial condition and results of operations would be adversely impacted. **Further,** ~~Approximately~~ **approximately** ~~49~~ **55** % of the Bank' s loan portfolio at December 31, ~~2023~~ **2022** consisted of commercial real estate loans **.While our investments in these types of loans have not been as adversely impacted as residential construction and land development loans,there can be no assurance that the credit quality in these portfolios will remain stable** .Commercial construction and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers.Consequently,an adverse development with respect to one commercial loan or one credit relationship exposes us to significantly greater risk of loss compared to an adverse development with respect to a consumer loan. **The credit quality of** ~~Because payments on loans secured by commercial real estate often depend upon the~~ **these loans may deteriorate more than expected** ~~successful operation and management of the properties and the businesses~~ which ~~operate from within them,repayment of such loans~~ may ~~be affected by factors outside~~ **result in losses that exceed** the ~~borrower' s control~~ **estimates that are currently included in our loan loss allowance** , ~~such as~~ **which could** ~~adverse~~ **adversely affect our financial** ~~conditions~~ - **condition and results of operations** ~~in the real estate market or the economy or changes in government regulation~~ . ~~In recent years,commercial real estate markets have~~ financial condition and results of operations. Residential mortgage lending is a market sector that experiences significant volatility and is influenced by many factors beyond our control. The Company earns revenue from the residential mortgage lending activities primarily in the form of gains on the sale of mortgage loans that we originate and sell to the secondary market. Residential mortgage lending in general has experienced substantial volatility in recent periods primarily due to changes in interest rates and other market forces beyond our control. Interest rate changes, such as rate increases implemented by the FRB, have in the past, and may in the future, result in lower rate locks and closed loan volume, which may adversely impact the earnings and results of operations of RML. In addition, the recent increase and future increase, as is currently expected, in interest rates has in the past, and may in the future, materially and adversely affect our future loan origination volume and margins ~~. Our information systems or those of our third- party vendors may be subject to an interruption or breach in security, including as a result of cyber attacks~~. The Company' s technologies, systems, networks and software, and those of other financial institutions have been, and are likely to continue to be, the target of cybersecurity threats and attacks, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. These cybersecurity threats and attacks may include, but are not limited to, breaches, unauthorized access, misuse, malicious code, computer viruses and denial of service attacks that could result in unauthorized access, misuse, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service or other events. These types of threats may result from human error, fraud or malice on the part of external or internal parties, or from accidental technological failure. Further, to access our products and services our customers may use computers and mobile devices that are beyond our security control systems. The risk of a security breach or disruption, particularly through cyber- attack or cyber intrusion, including by computer hackers, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our business requires the collection and retention of large volumes of customer data, including payment card numbers and other personally identifiable information in various information systems that we maintain and in those maintained by third parties with whom we contract to provide data services. We also maintain important internal company data such as personally identifiable information about our employees and information relating to our operations. The integrity and protection of that customer and company data is important to us. As customer, public, legislative and regulatory expectations and requirements regarding operational and information security have increased, our operations systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our customers and employees have been, and will continue to be, targeted by parties using fraudulent e- mails and other communications in attempts to misappropriate passwords, payment card numbers, bank account information or other personal information or to introduce viruses or other malware through " trojan horse " programs to our customers' computers. These communications may appear to be legitimate messages sent by the Bank or other businesses, but direct recipients to fake websites operated by the sender of the e- mail or request that the recipient send a password or other confidential information via e- mail or download a program. Despite our efforts to mitigate these threats through product improvements, use of encryption and authentication technology to secure online transmission of confidential consumer information, and customer and employee education, such attempted frauds against us or our merchants and our third- party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber- crime are complex and continue to evolve. In addition, **following** ~~due to~~ COVID- 19, we have modified our business practices with a portion of our employees working remotely from their homes. The continuation of these work- from- home measures also introduces additional operational risk, including increased cybersecurity risk. In light of several recent high- profile data breaches at other companies involving customer personal and financial information, we believe the potential impact of a cyber security incident involving the Company, any exposure to consumer losses and the cost of technology investments to improve security could cause customer and / or Bank losses, damage to our brand, and increase our costs. Although we make significant efforts to maintain the security and integrity of our information systems and have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well- protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber- attacks and intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk. A security breach or other significant disruption could: disrupt the proper functioning of our networks and systems and therefore our operations and / or those of certain of our customers; result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of confidential, sensitive or otherwise valuable information of ours or our customers, including account numbers and other financial information; result in a violation of applicable privacy, data breach and other laws, subjecting the Bank to additional regulatory scrutiny and exposing the Bank to civil litigation, governmental fines and possible financial liability; require significant management attention and resources to remedy the damages that result; or harm our reputation or cause a decrease in the number of customers that choose to do business with us or reduce the level of business that our customers do with us. The occurrence of any such failures, disruptions or security breaches could have a negative impact on our financial condition and results of operations. ~~A failure in or breach of the Company' s operational systems, information systems, or infrastructure, or those of the Company' s third party vendors and other service providers, may result in financial losses, or loss of customers.~~ The Company relies heavily on communications and information systems to conduct our business. In addition, we rely on third parties to provide key components of our infrastructure, including the processing of sensitive consumer and business customer data, internet connections, and network access. These types of information and related systems are critical to the operation of our business and essential to our ability to perform day- to- day operations, and, in some cases, are critical to the operations of many of our customers. These third parties with which the Company does business or that facilitate our business activities, including exchanges, financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including breakdowns or failures of their own systems or capacity constraints. Although the Company has implemented safeguards and business continuity plans, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and our customers, resulting in financial losses or loss of customers. We rely on third parties to provide services that are integral to our operations. These vendors provide services that support our operations, including the storage and processing of sensitive consumer and business customer data. The loss of these vendor relationships, or a failure of these vendors' systems, could disrupt the services we provide to our customers and cause us to incur significant expense in connection with replacing these services. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many national vendors provide turn- key services to community banks, such as Internet banking and remote deposit capture that allow smaller banks to compete with institutions that have substantially greater resources to invest in technological improvements. We may not be able, however, to effectively implement new technology- driven products and services or be successful in marketing these products and services to our customers. Individual, economic, political, industry- specific conditions and other factors outside of our control, such as fuel prices, energy costs, real estate values, inflation, taxes or other factors that affect customer income levels, could alter anticipated customer behavior, including borrowing, repayment, investment and deposit practices. Such a change in these practices could materially adversely affect our ability to anticipate business needs and meet regulatory requirements. Further, difficult economic conditions may negatively affect consumer confidence levels. A decrease in consumer confidence levels would likely aggravate the adverse effects of these difficult market conditions on us, our customers and adversely affect our future loan origination volume and margins **. Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general- purpose reloadable prepaid cards. Consumers can also complete transactions, such as paying bills and / or transferring funds directly without the assistance of banks. Transactions utilizing digital assets, including cryptocurrencies, stablecoins and other similar assets, have increased substantially over the course of the last several years. Certain characteristics of digital asset transactions, such as the speed with which such transactions can be conducted, the ability to transact without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, and the anonymous nature of the transactions, are appealing to certain consumers notwithstanding the various risks posed by such transactions as illustrated by the current and ongoing market volatility. Accordingly, digital asset service providers, which at present are not subject to the extensive regulation of banking organizations and other financial institutions, have become active competitors for our customers' banking business. The process of eliminating banks as intermediaries, known as " disintermediation, " could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Further, an initiative by the CFPB, as prompted by the current Presidential Administration, to promote " open and decentralized banking " through the proposal of a Personal Financial Data Rights rule designed to facilitate the transfer of customer information at the direction of the customer to other financial institutions could lead to greater competition for products and services among banks and nonbanks alike if a final rule is adopted. The timing of and prospects for any such action are uncertain at this time. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations** . We have contractual obligations under the servicing agreements pursuant to which we service mortgage loans. Many of our servicing agreements require adherence to general servicing standards, and certain contractual provisions delegate judgment over various servicing matters to us. If the terms of these servicing agreements change, we may sustain higher costs. Our servicing practices, and the judgments that we make in our servicing of loans, could also be questioned by parties to these agreements. We could also become subject to litigation claims seeking damages or other remedies arising from alleged breaches of our servicing agreements. Additionally, under our loan servicing program we retain servicing rights on mortgage loans originated by RML and sold to AHFC. If we breach any of the representations and warranties in our servicing agreements with AHFC, we may be required to repurchase any loan sold under this program and record a loss upon repurchase and / or bear any subsequent loss on the loan. We may not have any remedies available to us against third parties for such losses, or the remedies might not be as broad as the remedies available to the Alaska Housing Finance Corporation against us. We use derivative instruments to economically hedge the interest rate risk in our residential mortgage loan commitments. Our hedging strategies are susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact our financial condition and results of operations. Approximately 69 % of the Bank'...... financial condition and results of operations. We will be dependent for the foreseeable future on the services of Joseph M. Schierhorn, our Chairman of the Board, President, Chief Executive Officer, and Chief Operating Officer of the Company; Michael Huston, our President ~~and Chief Lending Officer~~ of Northrim Bank; Jed W. Ballard, our Executive Vice President and Chief Financial Officer; and Amber Zins, our Executive Vice President and Chief Operating Officer of Northrim Bank. While we maintain keyman life insurance on the lives of Messrs. Schierhorn, Huston, Ballard and Ms. Zins in the amounts of $ 2. 4 million, $ 2 million, $ 2 million and $ 2 million, respectively, we may not be able to timely replace these key employees with a person of comparable ability and experience should the need to do so arise, causing losses in excess of the insurance proceeds. The unexpected loss of key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings **. Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, and financial condition** . Liquidity is essential to our business. An inability to raise funds through deposits, borrowings and other sources could have a substantial negative effect on our liquidity and severely constrain our financial flexibility. Our primary source of funding is deposits gathered through our network of branch offices. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or the economy in general. Factors that could negatively impact our access to liquidity sources include: • a decrease in the level of our business activity as a result of an economic downturn in the markets in which our loans are concentrated; • adverse regulatory actions against us; or • our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us or our region, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry and unstable credit markets. Our access to deposits **can** ~~may also~~ be ~~negatively~~ impacted by ~~, among other~~ -- **the liquidity needs** ~~factors, continued periods~~ of **our customers as a substantial portion of our liabilities are demand while a substantial portion of our assets are loans that cannot be sold in the same timeframe. Historically, we have been able to meet its cash** ~~low~~ **flow** ~~interest rates and increased competition~~ **needs as necessary. If a sufficiently large number of depositors sought to withdraw their deposits** for ~~deposits~~ **whatever reason** , ~~including from new financial technology competitors~~ **we may be unable to obtain the necessary funding at favorable term** . A source of risk arises from the possibility that losses will be sustained if a significant number of our borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of our allowance for loan losses, which we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance, and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially affect our financial condition and results of operations. ~~The COVID- 19 pandemic has created economic and financial disruptions that may adversely affect, our business, financial condition, liquidity and results of operations. The extent to which the COVID- 19 pandemic, or a similar health crisis, will negatively affect our business, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted and many of which are outside of our control, including the scope and duration of the pandemic, the emergence of new variants, the effectiveness of our pandemic response plans, the direct and indirect impact of the pandemic on our employees, customers, clients, counterparties and service providers, as well as other market participants, and actions taken, or that may yet be taken, or inaction, by governmental authorities and other third parties in response to the pandemic. Should the pandemic continue for a more extended period or worsen, we may face additional circumstances such as significant draws on credit lines should customers seek to increase liquidity. Furthermore, should the pandemic continue, we may experience increased rates of employee illness or unavailability, and may experience challenges recruiting new employees. Any disruption to our ability to deliver financial products or services to, or interact with, our clients and customers could result in losses or increased operational costs, regulatory fines, penalties and other sanctions, or harm our reputation. We are also subject to litigation and reputational risk arising from our response to the COVID- 19 pandemic. Governments have taken unprecedented steps to partially mitigate the adverse effects of their containment measures. For example, in late March 2020, the CARES Act was enacted to inject more than $ 2 trillion of financial assistance into the U. S. economy, followed by additional COVID relief legislation of approximately $ 900 million in December 2020. In March 2021 the ARP Act was enacted to inject an additional $ 1. 9 trillion in financial relief and economic stimulus. Whether the economic stimulus will have a lasting positive effect or whether it will contribute to higher inflation or other economic ill effects is unknown. To the extent the pandemic adversely affects our business, financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks described in this report.~~ Regulatory, Legislative ~~and~~ **,** Legal **and Reputational** Risks ~~We operate in a highly regulated environment and changes of or significant increases in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect us.~~ We are subject to extensive regulation, supervision and examination by federal and state banking authorities. In addition, as a publicly- traded company, we are subject to regulation by the SEC and NASDAQ. Any change in applicable regulations or federal or state legislation or in policies or interpretations or regulatory approaches to compliance and enforcement, income tax laws and accounting principles could have a substantial impact on us and our operations. Changes in laws and regulations may also increase our expenses by imposing additional fees or taxes or restrictions on our operations. Significant changes in SEC regulations, such as the proposed climate change disclosures and other regulatory initiatives, can dramatically shift resources and costs to ensure adequate compliance. Additional legislation and regulations that could significantly affect our authority and operations may be enacted or adopted in the future, which could have a material adverse effect on our financial condition and results of operations. Failure to appropriately comply with any such laws, regulations or principles could result in sanctions by regulatory agencies or damage to our reputation, all of which could adversely affect our business, financial condition or results of operations. The Dodd- Frank Act has had a substantial impact on our industry, including the creation of the CFPB with broad powers to regulate consumer financial products such as credit cards and mortgages, the creation of a Financial Stability Oversight Council comprised of the heads of other regulatory agencies, has resulted in new capital requirements from federal banking agencies, placed new limits on electronic debit card interchange fees, and requires banking regulators, the SEC and national stock exchanges to adopt significant new corporate governance and executive compensation reforms. Regulators have significant discretion and authority to prevent or remedy practices that they deem to be unsafe or unsound, or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations. Additionally, our business is affected significantly by the fiscal and monetary policies of the U. S. federal government and its agencies, including the FRB. We cannot accurately predict the full effects of recent or future legislation or the various other governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the financial markets and on the Company. The terms and costs of these activities could materially and adversely affect our business, financial condition, results of operations and the trading price of our common stock. ~~Our earnings~~ **Last Congress, Democrats controlled the White House and both Chambers of Congress. As a result, Democrats were able to set the policy agenda both legislatively and in the regulatory agencies that have rulemaking and supervisory authority over the financial services industry generally and the Bank specifically. These dynamics shifted after the 2022 midterm elections. While Democrats retained control of the U. S. Senate, the party has a slim majority of 51 seats. Republicans assumed control of the U. S. House of Representatives, with a slim majority of 222 seats. In consideration of the divided control of Congress, the narrow majorities in each chamber, and the current political environment, the legislative process is expected to be more challenging in the current legislative session. Although agendas are expected to vary substantially in each chamber, congressional committees with jurisdiction over the banking sector have pursued, and likely** will **continue to pursue, oversight in a variety of areas, including addressing climate- related risks, promoting diversity and equality within the banking industry and addressing other ESG matters, improving competition in the banking sector and enhancing oversight of bank mergers and acquisitions, and establishing a regulatory framework for digital assets and markets. The prospects for the enactment of major banking reform legislation under the new Congress are unclear at this time. Moreover, the turnover of the Presidential Administration in 2021 resulted in certain changes in the leadership and senior staffs of the federal banking agencies and the Treasury Department. These changes have impacted the rulemaking, supervision, examination and enforcement priorities and policies of the agencies and likely will continue to do so over the next several years. The potential impact of any changes in agency personnel, policies and priorities on the financial services sector, including the Bank, cannot** be ~~affected~~ **predicted at this time. Fiscal challenges facing the U. S. government could negatively impact financial markets which in turn could have an adverse effect on our financial position or results of operations. Federal budget deficit concerns and the potential for political conflict over legislation to fund U. S. government operations and raise the U. S. government' s debt limit may increase the possibility of a default** by **the U. S. government on its debt obligations, related credit- rating downgrades, or an economic recession in the United States. Many of our investment securities are issued by the U. S. government and government agencies and sponsored entities. As a result of uncertain** domestic **political conditions, including potential future federal government shutdowns, the possibility of the federal government defaulting on its obligations for a period of time due to debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose liquidity risks. In connection with prior political disputes over U. S. fiscal and budgetary issues leading to the U. S. government shutdown in 2011, S & P lowered its long term sovereign credit rating on the U. S. from AAA to AA . In 2023, Congress narrowly averted two separate government shutdowns by passing continuing resolutions. In part due to repeated debt- limit political standoffs and last- minute resolutions, in 2023 a rating agency downgraded the U. S. long- term foreign- currency issuer default rating to AA from AAA. A further downgrade, or a downgrade by other rating agencies, as well as sovereign debt issues facing the governments of other countries, could have a material adverse impact on financial markets and** economic conditions ~~and~~ **in** the **U** ~~monetary and fiscal policies of the United States government and its agencies~~ . **S.** ~~The FRB has, and is likely to continue to have, an~~ **and worldwide** ~~important impact on the operating results of depository institutions through its power to implement national monetary policy, among other things, in order to curb inflation or combat a recession. The FRB affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. The FRB raised the federal funds rate target to 4. 50 %- 4. 75 % in February 2023 and also indicated that due to continuing rising inflation it expects to continue raise interest rates in the near term. While we expect the FRB to raise short- term interest rates in the first half 2023, we cannot predict the nature or impact of future changes in monetary and fiscal policies~~ . Financial institutions are required under the USA PATRIOT Act and Bank Secrecy Act to develop programs to prevent financial institutions from being used for money- laundering and terrorist activities. Financial institutions are also obligated to file suspicious activity reports with the United States Treasury Department' s Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, intervention or sanctions by regulators, and costly litigation or expensive additional controls and systems. In recent years, several banking institutions have received large fines for non- compliance with these laws and regulations. In addition, the federal government has in place laws and regulations relating to residential and consumer lending, as well as other activities with customers, that create significant compliance burdens and financial risks. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations; however, it is possible for such safeguards to fail or prove deficient during the implementation phase to avoid non- compliance with such laws. The FDIC insures deposits at FDIC- insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund (" DIF") at a specific level. Historically, unfavorable economic conditions increased bank failures and these additional failures decreased the DIF. In order to restore the DIF to its statutorily mandated minimums the FDIC significantly increased deposit insurance premium rates, including the Bank' s. FDIC insurance premiums could increase in the future in response to similar declining economic conditions. More recently, extraordinary growth in insured deposits **and losses occasioned by recent bank failures** caused the ratio of the DIF to total insured deposits to fall below the current statutory minimum of 1. 35 %. The FDIC has also established a higher reserve ratio of 2 % as a long term goal and the minimum level needed to withstand future financial crises of the magnitude of past crises. The FDIC may **continue to** increase the assessment rates or impose additional special assessments in the future to restore and then steadily increase the DIF to these statutory target levels. Any increase in the Bank' s FDIC premiums could have an adverse effect on its business, financial condition and results of operations. ~~Accounting~~ **The recent high- profile bank failures involving Silicon Valley Bank** , **Signature Bank** ~~Tax and Financial Risks Further changes in income tax laws could be enacted, or interpretations of existing income tax laws could change, causing an~~ **and** ~~adverse effect on our financial condition~~ **First Republic Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks like the Company. Investor and customer confidence in the banking sector, particularly with regard to mid- size and larger regional banking organizations, waned in response to the failures of Silicon Valley Bank, Signature Bank and First Republic Bank. Congress and the federal banking agencies have and continue to evaluate the events leading to the failures of Silicon Valley Bank, Signature Bank and First Republic Bank to ascertain possible explanations** ~~or~~ **for** ~~results of operations. Similarly, our accounting policies and methods are fundamental to how we report our financial condition and results of operations. Some of~~ these **developments. Legislators** ~~policies require the use of estimates~~ and ~~assumptions~~ **the leadership of the federal banking agencies noted** that **inadequate prudential regulation** ~~may affect the value~~ of ~~our~~ **regional banking organizations (generally, institutions with less than $ 250 billion in total** assets **)** , **insufficient supervision** ~~liabilities, and financial results. Periodically, new accounting standards are issued or existing standards are revised, changing the methods for preparing our financial statements. These changes are not within our control and may significantly impact our financial condition and results~~ of **such organizations, poor management and inadequate risk management practices, specifically including** ~~operations. Certain loans made by us are made at variable rates that use LIBOR as a benchmark for establishing the~~ interest rate **and liquidity risks in consideration of each institution' s business model, and substantial uninsured deposit liabilities were causes of the failures. Further evaluation of recent developments in the banking sector may lead to governmental initiatives intended to prevent future bank failures and stem significant deposit outflows from the banking sector, including (i) legislation aimed at preventing similar future bank runs and failures and stabilizing confidence in the banking sector over the long term, (ii) agency rulemaking to modify and enhance relevant regulatory requirements, specifically with respect to liquidity risk management, deposit concentrations, capital adequacy, stress testing and contingency planning, and safe and sound banking practices, and (iii) enhancement of the agencies' supervision and examination policies and priorities. In fact, in July 2023, the federal banking agencies issued a notice of proposed rulemaking that would substantially revise the regulatory capital framework for banking organizations with total assets of $ 100 billion or more and banking organizations with significant trading activity. Among other things, the proposed rule would require all banking organizations with over $ 100 billion in assets to include unrecognized gains and losses on available for sale debt securities via the inclusion of accumulated other comprehensive income in capital** . In addition, **banking organizations with over $ 100 billion in assets would be subject** ~~we also have investments and interest rate derivatives that reference LIBOR. On July 27, 2017, the United Kingdom' s Financial Conduct Authority (" FCA") announced that it intended~~ to **the supplementary leverage ratio** ~~stop persuading or compelling banks to submit LIBOR rates after 2021. On November 30, 2020 to facilitate an~~ **and countercyclical capital buffer. The proposed rule** ~~orderly LIBOR transition the Office of the Comptroller of the Currency~~ , **if adopted** ~~the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve jointly announced that entering into new contracts using LIBOR~~ as **proposed** ~~a reference rate after December 31~~ , ~~2021~~ would ~~create a safety and soundness risk. On March 5, 2021, the FCA announced that all LIBOR settings will either cease to be provided by any administrator or no~~ **not apply** ~~longer be representative immediately after December 31, 2021, in the case of 1- week and 2- month U. S. dollar LIBOR, and immediately after June 30, 2023, in the case of the remaining U. S. dollar LIBOR settings. In the United States, efforts~~ to ~~identify a set of alternative U. S. dollar reference interest rates are ongoing, and~~ the **Bank directly based on** ~~Alternative Reference Rate Committee (" ARRC") has recommended the use of a Secured Overnight Funding Rate (" SOFR"). SOFR is different from LIBOR in that it is a backward looking secured rate rather than a forward looking unsecured rate. These differences could lead to a greater disconnect between~~ the Bank' s **current asset size. The federal banking agencies may also re- evaluate applicable liquidity risk management standards, such as by reconsidering the mix of assets that are deemed to be" high- quality liquid assets" and / or how" high- quality liquid assets" holdings and cash inflows and outflows are tabulated and weighted for liquidity management purposes. Although we cannot predict with certainty which initiatives may be pursued by lawmakers and agency leadership, nor can we predict the terms and scope of any such initiatives, any of the potential changes referenced above could, among other things, subject us to additional** costs ~~to raise funds~~ **, limit the types of financial services and products we may offer, and limit our future growth, any of which could materially and adversely affect our business, results of operations or financial condition. The current and anticipated effects of climate change are creating an increasing level of concern** for ~~SOFR as compared to LIBOR. For cash products and loans,~~ the ~~ARRC~~ **state of the global environment. As a result, political and social attention to the issue of climate change** has ~~also recommended Term SOFR~~ **increased. In recent years** , ~~which is a forward looking SOFR based on SOFR futures and may~~ **governments across the world have entered into international agreements or have otherwise acted to attempt to reduce global temperatures,** in part **by limiting greenhouse gas** ~~reduce differences between SOFR and LIBOR. To further reduce differences between replacement indices and substitute indices market practitioners have also gravitated towards credit sensitive rates, the leading among them being the Bloomberg Short- term Bank Yield Index~~ (" ~~BSBY~~ **GHG** ") **emissions** . The ~~ARRC announced~~ **FRB became a member of the Network of Central Banks and Supervisors for Greening the Financial System and, in its Financial Stability Report of November 2020, specifically addressed the implications of climate change for markets, financial exposures, financial institutions, and financial stability. The U. S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and**

advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change, including mandatory substantive and / or disclosure requirements regarding climate change. Such initiatives have been pursued with rigor under the current Presidential Administration. The Financial Stability Oversight Council published a report in 2021 identifying climate- related financial risk as an " emerging threat " to financial stability. The leadership of the federal banking agencies have emphasized that climate- related risks are faced by banking organizations of all types and sizes, specifically including physical and transition risks, and are in the process of enhancing supervisory expectations regarding banks' risk management practices. To that end, on October ~~21~~ **24** , ~~2020~~ **2023 , the federal banking agencies issued interagency guidance on principles for climate- related financial risk management by large financial institutions. The guidance reiterates the agencies' view** that ~~they~~ **financial institutions** are **likely** ~~not well positioned~~ to **be affected by both** ~~adjudicate the development of a credit sensitive rate and will not criticize firms solely for using reference rates other~~ -- **the** ~~than SOFR~~ **physical risks and transition risks associated with climate change** , **which can manifest as traditional risks** such as ~~BSBY~~ **credit, market, liquidity, operation, and legal risks. To address these risks, the guidance covers six areas: governance; policies, procedures, and limits; strategic planning; risk management; data, risk management, and reporting; and scenario analysis** . The **guidance applies only** ~~Company has the ability~~ to ~~originate~~ **banking organizations with total consolidated assets of greater than $ 100 billion and therefore does not apply to the Bank directly. Additionally, in March 2022, the SEC proposed** new **climate- related disclosure rules** ~~loans to customers based on SOFR~~ , ~~Term SOFR~~ **which if finalized** , ~~BSBY, Prime~~ **would require new climate- related disclosures in SEC filings** and **audited financial statements, including** ~~other indices but market acceptance or availability of these or other alternate reference rates remain uncertain~~ -- **certain climate- related metrics and direct and indirect GHG emissions data, information about climate- related targets and goals, transition plans, if any, and attestation requirements** . **Disclosure requirements imposed by different regulators** ~~The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers~~ may **not always be uniform** ~~incur significant expenses in effecting the transition~~ , **which** may result in ~~reduced loan balances if borrowers~~ **increased complexity, and cost, for compliance. Additionally, many of our suppliers and business partners may be subject to similar requirements, which may augment or create additional risks, including risks that may not be known to us. Although these new guidelines** do not ~~accept the substitute index~~ **apply to a banking organization of** ~~or~~ **our** ~~indices~~ **size** , **as the Company continues to grow** and **expand the scope of our operations, our regulators generally will expect us to enhance our internal control programs and processes, including with respect to risk management and stress testing under a variety of adverse scenarios and related capital planning. In the event the federal banking agencies were to expand the scope of coverage of the new climate risk guidelines to institutions of our size or promulgate new regulations or supervisory guidance applicable to the Company, we would expect to experience increased compliance costs and other compliance- related risks. The above measures** may **also** result in ~~disputes~~ **the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, each of which may require the Company to expend significant capital and incur compliance, operating, maintenance and remediation costs. Given the lack of empirical data on the credit and other financial risks posed by climate change, it is impossible to predict how climate change may impact** ~~or~~ **our** ~~litigation with customers over~~ **financial condition and operations; however, as a banking organization,** the ~~appropriateness~~ **physical effects of climate change may present certain unique risks to the Company.** ~~or~~ **For** ~~comparability to LIBOR of~~ **example, weather disasters, shifts in local climates and** ~~the~~ **other** ~~substitute index~~ **disruptions related to climate change may adversely affect the value of real properties securing** ~~or~~ **our** ~~indices~~ **loans** , which could **diminish the value of our loan portfolio. Such events may also cause reductions in regional and local economic activity that may** have an adverse effect on our **customers** ~~results of operations. These reforms may cause LIBOR to cease to exist~~ , **which could limit** ~~new methods of calculating LIBOR to be established or~~ **our ability to raise and invest capital in** ~~the establishment of multiple alternative reference rate (s). These~~ **these areas** ~~consequences cannot be entirely predicted~~ and **communities, each of which** could have ~~an~~ **a material** adverse **effect on our financial condition and results of operations. In recognition of the risks posed by climate change, as discussed above, the Company has taken a variety of actions to manage its carbon footprint and has sought to engage in sustainable lending and investment activities. However, we cannot guarantee the success of these actions, nor can we make any assurances that our regulators, investors in our securities or other third parties, such as environmental advocacy organizations, will find our efforts to support climate- related initiatives to be sufficient. Accounting, Tax and Financial Risks We are subject to changes in tax law that could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. For example, legislation enacted in 2017 resulted in a reduction in our federal corporate tax rate from 35 % in 2017 to 21 % in 2018, which had a favorable** impact on **our earnings and capital generation abilities. However, this legislation also enacted limitations on certain deductions, such as the deduction of FDIC deposit insurance premiums, which partially offset the anticipated increase in net earnings from the lower tax rate. Any increase in the corporate tax rate or surcharges that may be adopted by Congress would adversely affect our results of operations in future periods. In addition, the Bank' s customers experienced and likely will continue to experience varying effects from both the individual and business tax provisions of the Tax Act and** ~~the~~ **other** ~~market~~ **future changes in tax law and such effects, whether positive or negative, may have a corresponding impact on our business and the economy as a whole. Further, on August 16, 2022, the Inflation Reduction Act of 2022 was enacted into law. The legislation imposed a non- deductible 1 % excise tax on repurchases of stock by " covered corporations, " including the Company. As a result, our results of operations in future periods may be impacted adversely to the extent of any significant stock repurchases by the Company. Our accounting policies are fundamental to understanding our financial results and condition. Some of these policies require the use of estimates and assumptions that may affect the** value ~~for~~ **of** ~~or~~ **our assets or liabilities** ~~value of~~

~~LIBOR- linked securities, loans,~~ and ~~other~~ financial ~~obligations~~ **results. Some of** ~~or~~ **our accounting policies are critical because they require** ~~extensions of credit held by or due to us. Furthermore, failure to adequately manage~~ **management** ~~this transition process with~~ **to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions** ~~our~~ - **or** ~~customers~~ **using different assumptions. If such estimates or assumptions underlying our financial statements are incorrect, we may experience material losses. From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be hard to predict and** could ~~adversely~~ **materially** impact **how we report our results of operations and financial condition. We could be required to apply a new** ~~our~~ - **or** ~~reputation~~ **revised standard retroactively, resulting in our restating prior period financial statements in material amounts** . The Company is a separate legal entity from our subsidiaries and does not have significant operations of its own. The availability of dividends from the Bank is limited by the Bank' s earnings and capital, as well as various statutes and regulations. Our inability to receive dividends from the Bank could adversely affect our business, financial condition, results of operations and prospects. Our net income depends primarily upon the Bank' s net interest income, which is the income that remains after deducting from total income generated by earning assets the expense attributable to the acquisition of the funds required to support earning assets (primarily interest paid on deposits and borrowings). The amount of interest income is dependent on many factors including the volume of earning assets, the general level of interest rates, the dynamics of changes in interest rates and the levels of nonperforming loans. All of those factors affect the Bank' s ability to pay dividends to the Company. Various statutory provisions restrict the amount of dividends the Bank can pay to us without regulatory approval. Under Alaska law, a bank may not declare or pay a dividend in an amount greater than its net undivided profits then on hand. In addition, the Bank may not pay cash dividends if that payment could reduce the amount of its capital below that necessary to meet the " adequately capitalized " level in accordance with regulatory capital requirements. It is also possible that, depending upon the financial condition of the Bank and other factors, regulatory authorities could conclude that payment of dividends or other payments, including payments to us, is an unsafe or unsound practice and impose restrictions or prohibit such payments. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of net income available over the past year and only if the prospective rate of earnings retention is consistent with the organization' s current and expected future capital needs, asset quality and overall financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines a bank holding company' s ability to serve as a source of strength to its banking subsidiaries. If the Bank earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, then our liquidity may be affected and our stock price may be negatively affected by our inability to pay dividends, which will have an adverse impact on both the Company and our shareholders. During ~~2022~~ **2023** , the Company repurchased ~~333~~ **208** , ~~724~~ **673** shares of common stock at an average price of $ ~~42~~ **43** . ~~42~~ **34** per share under its previously announced share repurchase program. On January ~~27~~ **26** , ~~2023~~ **2024** , the Company announced that its Board of Directors had authorized the repurchase of up to an additional ~~285~~ **110** , 000 shares of common stock. Whether we continue, and the amount and timing of such stock repurchases is subject to capital availability and periodic determinations by our Board. The Company continues to evaluate the potential impact that regulatory proposals may have on our liquidity and capital management strategies, including Basel III and those required under the Dodd-Frank Act. The actual amount and timing of future share repurchases, if any, will depend on market and economic conditions, applicable SEC rules, federal and state regulatory restrictions, and various other factors **, including the recently implemented 1 % excise tax on repurchases of stock** . In addition, the amount we spend and the number of shares we are able to repurchase under our stock repurchase program may further be affected by a number of other factors, including the stock price and blackout periods in which we are restricted from repurchasing shares. Our stock repurchases may change from time to time, and we cannot provide assurance that we will continue to repurchase stock in any particular amounts or at all. A reduction in or elimination of our stock repurchases could have a negative effect on our stock price. The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including those discussed below. The market price of our common stock has in the past fluctuated significantly. We expect to see additional volatility in the financial markets due to the uncertainty caused by **recent high** ~~the continuing COVID - 19 pandemic~~ **profile bank failures involving Silicon Valley Bank, Signature Bank and First Republic Bank** , disruption in global supply chains, uncertainty over the U. S. government debt ceiling and changing FRB policy. Some additional factors that may cause the price of our common stock to fluctuate include: • general conditions in the financial markets and real estate markets. • macro- economic and political conditions in the U. S. and the financial markets generally ~~(including the effects of the COVID- 19 pandemic)~~ . • variations in the operating results of the Company and our competitors. • events affecting other companies that the market deems comparable to the Company. • changes in securities analysts' estimates of our future performance and the future performance of our competitors. • announcements by the Company or our competitors of mergers, acquisitions and strategic partnerships. • additions or departure of key personnel. • the presence or absence of short selling of our common stock. • future sales or other issuances by us of our common stock. The stock markets in general have experienced substantial price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations are expected to continue for the near future, and may adversely affect the trading price of our common stock. There may be future sales or other dilution of the Company' s equity, which may adversely affect the market price of our common stock. We are not restricted from issuing additional shares of common stock, preferred stock, or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock. Our Board of Directors has the power, without shareholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over the common stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. The issuance of any additional shares of common or of preferred stock or convertible securities or the exercise of such securities could be substantially dilutive to existing shareholders. We may also elect to use common stock to fund future acquisitions, which will dilute existing shareholders. Holders of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in dilution to our shareholders. The Company values constructive input from shareholders, and our Board of Directors and management team are committed to acting in the best interests of all of the Company' s shareholders. Activist shareholders who disagree with the composition of the Board of Directors, the Company' s strategic direction, or the way the Company is managed may seek to effect change through various strategies that range from private engagement to public filings, proxy contests, efforts to force transactions not supported by the Board of Directors, and litigation. Responding to some of these actions can be costly and time- consuming, may disrupt the Company' s operations and divert the attention of the Board of Directors and management. Such activities could interfere with the Company' s ability to execute its strategic plan and to attract and retain qualified executive leadership. The perceived uncertainty as to the Company' s future direction resulting from activist strategies could also affect the market price and volatility of the Company' s common stock. Real estate and real estate property values play an important role for the Bank in several ways. The Bank owns or leases many real estate properties in connection with its operations, located in Anchorage, Juneau, Fairbanks, the Matanuska- Susitna Valley, Kodiak, Ketchikan, Sitka, and the Kenai Peninsula. Real estate is also utilized as collateral for many of our loans. A natural disaster could cause property values to fall, which could require the Bank to record an impairment on its financial statements. A natural disaster could also impact collateral values, which would increase our exposure to loan defaults. Our business operations could also suffer to the extent the Bank cannot utilize its branch network due to a natural disaster or other weather- related damage. 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. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market- wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure. There can be no assurance that any such losses would not materially and adversely affect our results of operations. The financial services business in our market areas is highly competitive. It is becoming increasingly competitive due to changes in regulation, technological advances, and the accelerating pace of consolidation among financial services providers. We face competition both in attracting deposits and in originating loans. We compete for loans principally through the pricing of interest rates and loan fees and the efficiency and quality of services. Increasing levels of competition in the banking and financial services industries may reduce our market share or cause the prices charged for our services to fall. Improvements in technology, communications, and the internet have intensified competition. As a result, our competitive position could be weakened, which could adversely affect our financial condition and results of operations. We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results could be materially adversely affected. Our business may be adversely affected by social, political, and economic instability, unrest, or disruption in a geographic region in which we operate, regardless of cause, including legal, regulatory, and policy changes by ~~a new~~ **the current** presidential administration in the U. S., protests, demonstrations, strikes, riots, civil disturbance, disobedience, insurrection, or social and other political unrest. Such events may result in restrictions, curfews, or other actions and give rise to significant changes in regional and global economic conditions and cycles, which may adversely affect our financial condition and operations. Government actions in an effort to protect people and property, including curfews and restrictions on business operations, may disrupt operations, harm perceptions of personal well- being, and increase the need for additional expenditures on security resources. In addition, action resulting from such social or political unrest may pose significant risks to our personnel, facilities, and operations. The effect and duration of demonstrations, protests, or other factors is uncertain, and we cannot ensure there will not be further political or social unrest in the future or that there will not be other events that could lead to social, political, and economic disruptions. If such events or disruptions persist for a prolonged period of time, our overall business and results of operations may be adversely affected. Changes in federal policy, including tax policies, and at regulatory agencies occur over time through policy and personnel changes following elections, which lead to changes involving the level of oversight and focus on certain industries and corporate entities. The nature, timing, and economic and political effects of potential changes to the current legal and regulatory frameworks affecting the financial services industry remain highly uncertain. Severe weather events of increasing strength and frequency due to climate change cannot be predicted and may be exacerbated by global climate change, natural disasters, including volcanic eruptions and earthquakes, and other adverse external events could have a significant impact on our ability to conduct business or upon third parties who perform operational services for us. In addition, there is continuing uncertainty over demand for oil and gas in part due to consumer demand and regulatory changes from climate change related policies. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue, or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, there can be no assurance of the effectiveness of such policies and procedures, and the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations. **The Company is subject to a variety of risks arising from ESG matters as governmental and regulatory bodies, investors, customers, employees and other stakeholders and third parties have been increasingly focused on ESG**

matters. ESG matters include, among other things, climate risk, hiring practices, the diversity of our work force, and racial and social justice issues involving our personnel, customers and third parties with whom we otherwise do business. Risks arising from ESG matters may adversely affect, among other things, our reputation and the market price of our securities. Further, we may be exposed to negative publicity based on the identity and activities of those to whom we lend and with which we otherwise do business and the public' s view of the approach and performance of our customers and business partners with respect to ESG matters. Any such negative publicity could arise from adverse news coverage in traditional media and could also spread through the use of social media platforms. The Company' s relationships and reputation with its existing and prospective customers and third parties with which we do business could be damaged if we were to become the subject of any such negative publicity. This, in turn, could have an adverse effect on our ability to attract and retain customers and employees and could have a negative impact on the market price for securities. Investors have begun to consider the steps taken and resources allocated by financial institutions and other commercial organizations to address ESG matters when making investment and operational decisions. Certain investors are beginning to incorporate the business risks of climate change and the adequacy of companies' responses to the risks posed by climate change and other ESG matters into their investment theses. Additionally, organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Unfavorable ratings of the Company may adversely affect investor sentiment towards the Company or the market price of our securities. Further, as we continue to focus on developing ESG practices, and as investor and other stakeholder expectations, voluntary and regulatory ESG disclosure standards and policies continue to evolve, we have expanded and expect to further expand our public disclosures in these areas. Such disclosures may reflect aspirational goals, targets, and other expectations and assumptions, which are necessarily uncertain and may not be realized. Failure to realize (or timely achieve progress on) such aspirational goals and targets could adversely affect our third party ESG ratings, our reputation or otherwise adversely affect us. Increased attention to ESG matters also has caused public officials, including certain state attorneys general, treasurers, and legislators, to take various actions to impact the extent to which ESG principles are considered by private investors. For instance, certain states have enacted laws or issued directives designed to penalize financial institutions that the state believes are boycotting certain industries such as the fossil fuel and firearms industries. These developments illustrate that ESG-based investing has become a divisive political issue. Shifts in investing priorities based on ESG principles may result in adverse effects on the market price of our securities to the extent that investors that give significant weight to such principles determine that the Company has not made sufficient progress on ESG matters. Conversely, the market price of our securities may be adversely affected if a government official or agency seeks to limit the Company' s business with a certain government entity or initiates an investigation or enforcement action because of what is perceived to be the Company' s unwarranted focus on ESG matters.