Risk Factors Comparison 2024-02-29 to 2023-03-01 Form: 10-K

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In addition to the other information in this Annual Report on Form 10- K, stockholders or prospective investors should carefully consider the following risk factors: Economic ~~and~~ **,** Market **and Interest Rate** Risks Conditions in the financial market and economic conditions, including conditions in the markets in which we operate, generally may adversely affect our business. We operate primarily in the Quad Cities, Cedar Rapids, Waterloo / Cedar Falls, Des Moines / Ankeny, Iowa and Springfield, Missouri markets. Our general financial performance is highly dependent upon the business environment in the markets where we operate and in particular, the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services ~~it~~ **we** ~~offers~~ **offer** . A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, pandemics or a combination of these or other factors. Uncertainty regarding economic conditions may result in changes in consumer and business spending, borrowing and savings habits. Downturns in the markets where our banking operations occur could result in a decrease in demand for our products and services, an increase in loan delinquencies and defaults, high or increased levels of problem assets and foreclosures and reduced wealth management fees resulting from lower asset values. Such conditions could adversely affect the credit quality of our loans, financial condition and results of operations. Interest rates and other conditions impact our results of operations. Our profitability is in large part a function of the spread between the interest rates earned on investments and loans / leases and the interest rates paid on deposits and other interest- bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan / lease terms, and the mix of adjustable and fixed rate loans / leases in our portfolio, the length of time deposits and borrowings and the rate sensitivity of our deposit customers could have a positive or negative effect on our net income, capital and liquidity. In addition, the size of nonrefundable swap fees earned in connection with our LIHTC permanent loans may fluctuate depending on the interest rate environment. We measure interest rate risk under various rate scenarios using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at" Quantitative and Qualitative Disclosures about Market Risk" included under Item 7A of Part II of this Annual Report on Form 10- K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions **of the nation** . Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U. S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. It is currently expected that during ~~2023~~ **2024** , and perhaps beyond, the Federal Open Market Committee of the Federal Reserve, or FOMC, ~~will~~ **may** continue to increase interest rates to reduce the rate of inflation. In ~~2022~~ **2023** , the FOMC increased at various dates throughout the year the target range for the federal funds rate from **4** ~~0. 00 % to 0~~ . 25 % to **4. 50 % to** a range of ~~4~~ **5** . 25 % to ~~4~~ **5** . 50 %. All of these increases were expressly made in response to inflationary pressures, which **may** ~~are currently expected to~~ continue in ~~2023~~ **2024** . If the FOMC further increases the targeted federal funds rates **in response to inflationary pressures** , overall interest rates will likely rise, which may negatively impact the entire national economy. In addition, our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans and other assets. Rising interest rates also may reduce the demand for loans and the value of fixed- rate investment securities. **Any future change in monetary policy by the FOMC, in an effort to stimulate the economy or otherwise, resulting in lower interest rates would likely result in lower revenue through lower net interest income over time, which could adversely affect our results of operations.** These effects from interest rate changes or from other sustained economic stress or a recession, among other ~~matter~~ **matters** , could have a material adverse effect on our business, financial condition, liquidity, and results of operations. Given the complex factors affecting the strength of the U. S. economy, including uncertainties regarding the persistence of inflation, geopolitical developments **and** ~~such as~~ the ~~war~~ **wars** ~~in~~ **between Russia and** Ukraine **and between Israel and Palestine,** and resulting disruptions in **political systems and** the global energy market ~~, the effects of the pandemic in China~~ , and tight labor market conditions and supply chain issues, there is a meaningful risk that the Federal Reserve and other central banks may raise interest rates more than expected, thereby limiting economic growth and potentially causing an economic recession. This could decrease loan demand, harm the credit characteristics of our existing loan portfolio and decrease the value of collateral securing loans in the portfolio. Declines in asset values may result in impairment charges and adversely affect the value of our investments, financial performance and capital. The market value of investments in our securities portfolio has become increasingly volatile in recent years, and as of December 31, ~~2022~~ **2023** , we had gross unrealized losses of $ ~~116~~ **84** . ~~7~~ **8** million, or ~~11.~~ 8 **. 2** % of amortized cost, in our investment portfolio (offset by gross unrealized gains of $ ~~5~~ **33** . ~~5~~ **6** million). If we are forced to liquidate any of those investments prior to maturity, including because of a lack of liquidity, we would recognize as a charge to earnings the losses attributable to those securities. Our securities portfolio has an average duration of ~~8~~ **6. 2** years, so we expect an increase in realized losses if interest rates continue to increase in ~~2023~~ **2024** . ~~14The~~ -- **The** market value of investments may be affected by factors other than the underlying performance of the servicer of the securities or the mortgages underlying the securities, such as changes in the interest rate environment, negative trends in the residential and commercial real estate markets, ratings downgrades, adverse changes in the business climate and a lack of liquidity in the secondary market for certain investment securities. On a quarterly basis, we formally evaluate investments and other assets for impairment indicators. Reduction in the value, or impairment of our investment securities, can impact our earnings and common stockholders' equity. We maintained a balance of $ ~~928.~~ 1 **. 0** ~~million~~ **billion** , or 12 % of our assets, in investment securities at December 31, ~~2022~~ **2023** . Changes in market interest rates can affect the value of these investment securities, with increasing interest rates generally resulting in a reduction of value. Although the reduction in value from temporary increases in market rates does not affect our income until the security is sold, it does result in an unrealized loss recorded in other comprehensive income that can reduce our common stockholders’ equity. Further, we may have to record provision expense to establish an allowance for credit losses on our carried at fair value debt securities, and we must periodically test our investment securities for other- than- temporary impairment in value. In assessing whether the value of investment securities is impaired, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near- term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Based on management' s evaluation, it was determined that ~~the~~ **16the** gross unrealized losses at December 31, ~~2022~~ **2023** were primarily a function of the changes in certain market interest rates. A large percentage of our investment securities has fixed interest rates and are classified as available for sale. As is the case with many financial institutions, our emphasis on increasing the development of core deposits, those with no stated maturity date, has resulted in our interest- bearing liabilities having a shorter duration than our interest- earning assets. Thisimbalance can create significant earnings volatility because interest rates change over time. As interest rates have increased, our cost of funds has increased more rapidly than the yields on a substantial portion of our interest- earning assets. In addition, the market value of our fixed- rate assets, for example, our investment securities, has declined in recent periods. In line with the foregoing, we have experienced and may continue to experience an increase in the cost of interest- bearing liabilities primarily due to ~~raising~~ **increasing** the rates we pay on some of our deposit products to stay competitive within our market and an increase in borrowing costs from increases in the federal funds rate. Community banks rely more heavily than larger institutions on net interest income as a revenue source. Larger institutions generally have more diversified sources of noninterest income. The stock market can be volatile, and fluctuations in our operating results and other factors could cause our stock price to decline. The stock market has experienced, and may continue to experience, fluctuations that significantly impact the market prices of securities issued by many companies. Market fluctuations could also adversely affect our stock price. These fluctuations have often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations, as well as general economic, systemic, political and market conditions, such as recessions, loss of investor confidence, interest rate changes, or international currency fluctuations, may negatively affect the market price of our common stock. Moreover, our operating results may fluctuate and vary from period to period due to the risk factors set forth herein. As a result, period- to- period comparisons should not be relied upon as an indication of future performance. Our stock price could fluctuate significantly in response to our quarterly or annual results and the impact of these risk factors on our operating results or financial position. Secondary mortgage, government guaranteed loan and interest rate swap market conditions could have a material impact on our financial condition and results of operations. Currently, we sell a portion of the residential real estate and government guaranteed loans we originate. The profitability of these operations depends in large part upon our ability to make loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market. In addition to being affected by interest rates, the secondary markets are also subject to investor demand for residential mortgages and government guaranteed loans and investor yield requirements for those loans. These conditions may fluctuate or even worsen in the future. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse effect on our financial condition and results of operations. The interest rate swap market is dependent upon market conditions. If interest rates move, interest rate swap transactions may no longer make sense for the Company and / or its customers. Interest rate swaps are generally appropriate for ~~15commercial~~ -- **commercial** customers with a certain level of expertise and comfort with derivatives, so our success is dependent upon the ability to make loans to these types of commercial customers. Additionally, our ability to execute interest rate swaps is also dependent upon counterparties that are willing to enter into the interest rate swap that is equal and offsetting to the interest rate swap we enter into with the commercial customer. The mix of loans with interest rate swaps are heavily weighted towards LIHTC permanent loans. Future levels of swap fee income are dependent upon the needs of our traditional commercial and LIHTC borrowers, and the size of the related nonrefundable swap fee may fluctuate on the interest rate environment. **17Our hedging strategies may not be successful in mitigating our exposure to interest rate risk. We use derivative financial instruments, primarily consisting of interest rate swaps, to limit our exposure to interest rate risk within the banking and mortgage origination segments. No hedging strategy can completely protect us, and the derivative financial instruments we elect may not have the effect of reducing our interest rate risk. Poorly designed strategies, improperly executed and documented transactions, inaccurate assumptions or the failure of a counterparty to fulfill its obligations could actually increase our risks and losses. In addition, hedging strategies involve transaction and other costs. Our hedging strategies and the derivatives that we use may not adequately**

offset the risks of interest rate volatility and could result in or magnify losses, which could have an adverse effect on our financial condition and results of operations. Unexpected early termination of interest rate swap agreements may affect earnings. We have entered into interest rate swap agreements, primarily as an asset / liability risk management tool, in order to mitigate the interest rate risk that causes fluctuations in the fair value of specified long- term fixed- rate loans or firm commitments to originate long- term fixed rate loans. In the event of default by the borrowers on our hedged loans, we may have to terminate these designated interest rate swap agreements early, resulting in market value losses that could negatively affect our earnings. If interest rate swaps we entered into prove ineffective, it could result in volatility in our operating results, including potential losses, which could have a material adverse effect on our results of operations and cash flows. We are exposed to the effects of interest rate changes as a result of the borrowings we use to maintain liquidity and fund our expansion and operations. To limit the impact of interest rate changes on earnings, prepayment penalties and cash flows and to lower overall borrowing costs while taking into account variable interest rate risk, we may borrow at fixed rates or variable rates depending upon prevailing market conditions. Our interest rate contracts expose us to: ● basis or spread risk, which is the risk of loss associated with variations in the spread between the interest rate contract and the hedged item; ● credit or counter- party risk, which is the risk of the insolvency or other inability of another party to the transaction to perform its obligations; ● interest rate risk; ● volatility risk, which is the risk that the expected uncertainty relating to the price of the underlying asset differs from what is anticipated; and ● liquidity risk. If we suffer losses on our interest rate contracts, our business, financial condition and prospects may be negatively affected, and our net income will decline. We record the swaps at fair value and designate them as an effective cash flow hedge under ASC 815, Derivatives and Hedging. Each quarter, we measure hedge effectiveness using the " hypothetical derivative method " and record in earnings any gains or losses resulting from hedge ineffectiveness. The hedge provided by our swaps could prove to be ineffective for a number of reasons, including early retirement of the debt, as is allowed under the debt, or in the event the counterparty to the interest rate swaps were determined to not be creditworthy. Any determination that the hedge 18created by the swaps was ineffective could have a material adverse effect on our results of operations and cash flows and result in volatility in our operating results. In addition, any changes in relevant accounting standards relating to the swaps, especially ASC 815, Derivatives and Hedging, could materially increase earnings volatility. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 8 to the Consolidated Financial Statements. Interest rate swaps expose the Company to certain risks, and may not be effective in mitigating exposure to changes in interest rates. The Company has entered into interest rate swap agreements in order to manage a portion of the interest rate volatility risk. The Company anticipates that it will enter into additional interest rate swaps. These swap agreements involve other risks, such as the risk that the counterparty may fail to honor its obligations under these arrangements, leaving the Company vulnerable to interest rate movements. The Bank' s current interest rate swap agreements include bilateral collateral agreements whereby the net fair value position is collateralized by the party in a net liability position. The bilateral collateral agreements reduce the Company' s counterparty risk exposure. There can be no assurance that these arrangements will be effective in reducing the Company' s exposure to changes in interest rates. Moreover, a significant decline in the value of the collateral used to secure loans that have a related interest rate swap agreement may limit our ability to realize enough value from the collateral to cover the outstanding balance of the loan and the related swap liability. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Note 8 to the Consolidated Financial Statements.
Continued elevated levels of inflation could adversely impact our business and results of operations. The ~~United States~~ **U. S.** has recently experienced elevated levels of inflation, with the consumer price index ~~climbing 6~~ **at 3** . ~~5~~ **4** % ~~in~~ **at the end of** ~~2022~~ **2023** . Continued elevated levels of inflation could have complex effects on our business and results of operations, some of which could be materially adverse. For example, elevated inflation harms consumer purchasing power, which could negatively affect our retail customers and the economic environment and, ultimately, many of our business customers, and could also negatively affect our levels of non- interest expense. In addition, if interest rates continue to ~~continue to~~ rise in response to elevated levels of inflation, the value of our securities portfolio could be negatively impacted. Continued elevated levels of inflation could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients **'** ability to repay indebtedness. It is also possible that governmental responses to the current inflation environment ~~could adversely affect our business~~ , such as changes to monetary and fiscal policy that are too strict, or the imposition or threatened imposition of price controls **, could adversely affect our business** . The duration and severity of the current inflationary period cannot be estimated with precision. Labor shortages and failure to attract and retain qualified employees could negatively impact our business, results of operations and financial condition. A number of factors may adversely affect the labor force available to us or increase labor costs, including high employment levels, decreased labor force size and participation rates. Although we have not experienced any material labor shortage to date, we have recently observed an overall tightening and competitive local labor market. A sustained labor shortage or increased turnover rates within our employee base could lead to increased costs, such as increased compensation expense to attract and retain employees. In addition, if we are unable to hire and retain employees capable of performing at a high- level, or if mitigation measures we may take to respond to a decrease in labor availability have unintended negative effects, our business could be adversely affected. An overall labor shortage, lack of skilled labor, increased turnover or labor inflation could have a material adverse impact on our operations, results of operations, liquidity or cash flows. ~~The COVID- 19 pandemic could continue to have adverse effects on our business. The COVID- 19 pandemic has had a significant economic impact on the communities in which we operate, our borrowers and depositors, and the national economy generally. These effects have diminished in the past year, but future developments and uncertainties will be difficult to predict, such as the potential emergence of a new variant, the course of the pandemic in China and other major economies, the persistence of pandemic- related work and lifestyle changes, changes in~~

~~consumer preferences associated with the emergence of the pandemic, and other market disruptions. Any such developments could have a complex and negative effect on our business, including with respect to the prevailing economic environment, our lending and investment activities, and our business operations. Regulatory~~ **19Regulatory** and Legal RisksWe may be materially and adversely affected by the highly regulated environment in which we operate. The Company and its bank subsidiaries are subject to extensive federal and state regulation, supervision and examination. Banking regulations are primarily intended to protect depositors' funds, FDIC funds, customers and the banking system as a whole, rather than stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. As a bank holding company, we are subject to regulation and supervision primarily by the Federal Reserve. QCBT, CRBT and CSB, as Iowa- chartered state member banks, are subject to regulation and supervision primarily by both the Iowa ~~Superintendent~~ **Division of Banking** and the Federal Reserve. GB, as a Missouri- chartered commercial bank, is subject to regulation by both ~~16the~~ -- **the** Missouri Division of Finance and the Federal Reserve. We and our banks undergo periodic examinations by these regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. The primary federal and state banking laws and regulations that affect us are described in Appendix A " Supervision and Regulation " to this report. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. U. S. financial institutions are also subject to numerous monitoring, recordkeeping, and reporting requirements designed to detect and prevent illegal activities such as money laundering and terrorist financing. These requirements are imposed primarily through the Bank Secrecy ~~Act which was most recently amended by the USA Patriot~~ Act. We have instituted policies and procedures to protect us and our employees, to the extent reasonably possible, from being used to facilitate money laundering, terrorist financing and other financial crimes. There can be no guarantee, however, that these policies and procedures are effective. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties, and / or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies. We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected. The Company and each of its banking subsidiaries are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations ~~, which have recently increased due to the effectiveness of the Basel III regulatory capital reforms~~ . We intend to grow our business organically and to explore opportunities to grow our business by taking advantage of attractive acquisition opportunities, and such growth plans may require us to raise additional capital to ensure that we have adequate levels of capital to support such growth on top of our current operations. Our ability to raise additional capital, when and if needed or desired, will depend on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry ~~and~~ **,** market conditions ~~,~~ and governmental activities, many of which are outside our control, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. In particular, if we were required to raise additional capital in the current interest rate environment, we believe the pricing and other terms investors may require in such an offering may not be attractive to us. Our failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on ~~common~~ **20common** and preferred stock and to make distributions on our trust preferred securities, our ability to make acquisitions, and our business, results of operations and financial condition. Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business. The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. 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. Consumers and businesses may also change their behavior on their own as a result of these concerns. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate- friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior. ~~17Given~~ -- **Given** the lack of empirical data on the credit and other financial risks posed by climate change, it is difficult to predict how climate change may impact our financial condition and operations; however, as a banking organization, the physical effects of climate change may present certain unique risks. For example, weather disasters, shifts in local climates and other disruptions related to climate change may adversely affect the value of real properties securing our 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, which could limit our ability to raise and invest capital in these areas and communities. **There is uncertainty surrounding potential legal, regulatory and policy changes by new presidential administrations in the U. S. that may directly affect financial institutions and the global economy. 2024 is a presidential election year. Changes in federal policy 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 the financial services industry. The nature, timing and economic and political effects of potential changes to the current legal and**

regulatory framework affecting financial institutions remain highly uncertain. Uncertainty surrounding future changes may adversely affect our operating environment and therefore our business, financial condition, results of operations and growth prospects. Evolving law impacting cannabis- related businesses in Illinois **, Missouri** and other states may have an impact on the Company' s operations and risk profile. The Controlled Substances Act makes it illegal under federal law to manufacture, distribute, or dispense marijuana. Starting January 1, 2020, however, the Illinois Cannabis Regulation and Tax Act began permitting adults to legally purchase marijuana for recreational use from licensed dispensaries **in Illinois. Moreover, effective December 8, 2022, Missouri also began permitting adults to possess marijuana for recreational use** . It is the Banks' current policy to avoid knowingly providing banking products or services to entities or individuals that: (i) directly or indirectly manufacture, distribute, or dispense marijuana or hemp products, or those with a significant financial interest in such entities; or (ii) derive a significant percentage of revenue from providing products or services to, or other involvement with, such entities. The Banks are taking reasonable measures, including appropriate new account screening and customer due diligence measures, to ensure that existing and potential customers do not engage in any such activities. Nonetheless, the shift in Illinois law legalizing cannabis use has increased the number of direct and indirect cannabis- related businesses in Illinois, and therefore has increased the likelihood that the Banks could interact with such businesses, as well as their owners and employees. Such interactions could create additional legal, regulatory, strategic, and reputational risk to the Banks and the Company. ~~Credit~~ **21Credit** and Lending RisksWe must effectively manage our credit risk. There are risks inherent in making any loan, including risks inherent in dealing with specific borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. In general, these risks have increased as a result of the recent increases in prevailing interest rates and uncertainties associated with inflation, which have potentially increased the risk of a near- term decline in growth or an economic downturn. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries and periodic independent reviews of outstanding loans by our credit review department and an external third party. However, **default risk may arise from events or circumstances that are difficult to detect, such as fraud, or difficult to predict, such as catastrophic events affects on certain industries. Therefore,** we cannot assure you that such approval and monitoring procedures will reduce these credit risks. The majority of our subsidiary banks' loan portfolios are invested in C & I and CRE loans, and we focus on lending to small to medium- sized businesses. The size of the loans we can offer to commercial customers is less than the size of the loans that our **larger** competitors with larger lending limits can offer. This may limit our ability to establish relationships with the area' s largest businesses. Smaller companies tend to be at a competitive disadvantage and generally have limited operating histories, less sophisticated internal record keeping and financial planning capabilities and fewer financial resources than larger companies. As a result, we may assume greater lending risks than financial institutions that have a lesser concentration of such loans and tend to make loans to larger, more established businesses. Collateral for these loans generally includes accounts receivable, inventory, equipment and real estate. However, depending on the overall financial condition of the borrower, some loans are made on an unsecured basis. In addition to C & I and CRE loans, our subsidiary banks are also active in residential mortgage and consumer lending. Our borrowers may experience financial difficulties, and the level of nonperforming loans, charge- offs and delinquencies could rise, which could negatively impact our business through increased provision **expense** , reduced interest income on loans / leases, and increased expenses incurred to carry and resolve problem loans / leases. C & I loans make up a large portion of our loan / lease portfolio. C & I loans were $ 1. ~~7~~ **8** billion, or approximately 28 % of our total loan / lease portfolio, as of December 31, ~~2022~~ **2023** . Our C & I loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Because payments on such loans are often dependent on the successful operation of the borrower involved, repayment of such loans is often more sensitive than the other types of loans to adverse ~~condition~~ **conditions** in the general economy. For example, the cumulative effects of decreased economic activity, changes in the economy and overall business environment, labor availability shortages and supply chain constraints as a result of the COVID- 19 pandemic ~~18have~~ -- **have** adversely affected C & I loans, and we expect this trend to continue for certain portions of our loan portfolio, depending on the strength and speed of economic recovery and other factors, particularly if general economic conditions worsen. Most often, the collateral for C & I loans is accounts receivable, inventory, equipment and real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation value of the pledged collateral and enforcement of a personal guarantee, if any exists. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers, which could decline in the case of an economic recession. The collateral securing these loans may lose value over time, may be difficult to appraise, and may fluctuate in value based on the success of the business. As a result of the recent increase in interest rates and other factors, we have observed a corresponding decline in the value of commercial real estate securing these loans. ~~Our~~ **22Our** loan / lease portfolio has a significant concentration of CRE loans, which involve risks specific to real estate values. CRE lending comprises a significant portion of our lending business. Specifically, CRE loans were $ ~~3~~ **4** . ~~9~~ **2** billion, or approximately ~~64~~ **65** % of our total loan / lease portfolio, as of December 31, ~~2022~~ **2023** . Of this amount, $ ~~629~~ **607** . 4 million, or approximately ~~16~~ **14** %, was owner- occupied. The market value of real estate securing our CRE loans can fluctuate significantly in a short period of time as a result of interest rates and market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events **, including decreases in office occupancy following the COVID- 19 pandemic,** or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties. Included in our CRE lending portfolio are our LIHTC construction and permanent loans, which have the same inherent risks as our other non- owner occupied CRE loans. However, the LIHTC construction and permanent loans, and related nonrefundable swap fee income, rely on federal LIHTCs to help finance the overall real estate projects and are dependent on the continued availability of such LIHTC programs. Changes to the LIHTC programs, including changes to the level of tax credits provided by the federal government on low **-** income housing, may have an adverse effect on our business, results of operations and financial condition. Capital and Liquidity RisksLiquidity risks could affect operations and jeopardize our business, results of operations and financial condition. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of securities and / or loans and other sources could have a substantial negative effect on our liquidity. Our primary sources of funds consist of cash from operations, deposits, investment maturities, repayments, and calls, and loan / lease repayments. Additional liquidity is provided by federal funds purchased from the FRB or other correspondent banks, FHLB advances, wholesale and customer repurchase agreements, brokered deposits, **a line of credit at a correspondent bank** and the ability to borrow at the FRB' s Discount Window. Our access to funding sources in amounts adequate to finance or capitalize our activities ~~or~~ on terms that are acceptable to us could be impaired by factors that **either** affect us ~~directly~~ **specifically** or **that affect** the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. In addition, increased competition with the largest banks and Fintechs for retail deposits may impact our ability to raise funds through deposits and could have a negative effect on our liquidity. Any decline in available funding could adversely impact our ability to originate loans / leases, invest in securities, meet our expenses, pay dividends to our stockholders, or fulfill **our** obligations ~~such as~~ **, including** repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition. As a bank holding company, our sources of funds are limited. We are a bank holding company, and our operations are primarily conducted by ~~our~~ **the** subsidiary ~~banks~~ **Banks** , which are subject to significant federal and state regulation. When available, cash to pay dividends to our stockholders is derived primarily ~~19from~~ -- **from** dividends received from **the** ~~our subsidiary banks~~ **Banks** . Our ability to receive dividends or loans from **the** ~~our subsidiary banks~~ **Banks** is restricted. Dividend payments by our subsidiaries to us in the future will require generation of future earnings by them and could require regulatory approval if any proposed dividends are in excess of prescribed guidelines. Further, as a structural matter, our right to participate in the assets of **the** ~~our subsidiary banks~~ **Banks** in the event of a liquidation or reorganization of any of the ~~banks~~ **Banks** would be subject to the claims of the creditors of such ~~bank~~ **Bank** , including depositors, which would take ~~priority~~ **23priority** except to the extent we may be a creditor with a recognized claim. As of December 31, ~~2022~~ **2023** , **the** ~~our subsidiary banks~~ **Banks** had deposits, borrowings and other liabilities in the aggregate of approximately $ ~~11~~ **7** . ~~9~~ **7** billion. Our allowance **for credit losses** may prove to be insufficient to absorb losses in our loan / lease portfolio. We establish our allowance for credit losses in consultation with management of our subsidiaries and maintain it at a level considered adequate by management to absorb loan / lease losses that are inherent in the portfolio. The amount of future loan / lease losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, ~~2022~~ **2023** , our allowance as a percentage of ~~total~~ gross loans / leases **held for investment** was 1. ~~43~~ **33** %, and as a percentage of total NPLs was **265** ~~1, 000~~ . ~~07~~ **54** %. In addition, we had net charge- offs as a percentage of gross average loans / leases of 0. ~~06~~ **13** % for the year ended December 31, ~~2022~~ **2023** . Because of the concentration of C & I and CRE loans in our loan portfolio, which tend to be larger in amount than residential real estate and installment loans, the movement of a small number of loans to nonperforming status can have a significant impact on these ratios. Although management believes that the allowance as of December 31, ~~2022~~ **2023** was adequate to absorb losses on any existing loans / leases that may become uncollectible, we cannot predict loan / lease losses with certainty, and we cannot assure you that our allowance will prove sufficient to cover actual loan / lease losses in the future, particularly if economic conditions are more difficult than what management currently expects. Additional provisions and loan / lease losses in excess of our allowance may adversely affect our business, financial condition and results of operations. Competitive and Strategic RisksWe face intense competition in all phases of our business from other banks, financial institutions and non- bank financial services providers. The banking and financial services businesses in our markets are highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, Fintech companies, money market mutual funds, credit unions, online lenders and other non- bank financial services providers. Many of these competitors are not subject to the same regulatory restrictions as we are. Many of our unregulated competitors compete across geographic boundaries and are able to provide customers with a feasible alternative to traditional banking services. While we do not offer products relating to digital assets, including cryptocurrencies, stablecoins and other similar assets, there has been a significant increase in digital asset adoption globally over the past 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. Accordingly, digital asset service providers — which at present are not subject to the same degree of scrutiny and oversight as banking organizations and other financial institutions — are becoming active competitors to more traditional financial institutions. 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 deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our business, financial condition and results of operations. Potential partnerships with digital asset companies, moreover, could also entail significant investment. Increased competition may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan / lease rates and deposit rates or loan / lease terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us ~~to~~ **24to** significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to modify our underwriting standards, we could be ~~20exposed~~ -- **exposed** to higher losses from lending and leasing activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets, have larger lending limits and offer a broader range of financial services than we can offer. Potential future acquisitions could be difficult to integrate, divert the attention of key personnel, disrupt our business, dilute stockholder value and adversely affect our financial results. As part of our business strategy, we may consider acquisitions of other banks or financial institutions or **the** branches, assets or deposits of such organizations. There is no assurance, however, that we will determine to pursue any of these opportunities or that if we determine to pursue them that we will be successful. Acquisitions involve numerous risks, any of which could harm our business, including: ● difficulties in integrating the operations, technologies, products, existing contracts, accounting processes and personnel of the target company and realizing the anticipated synergies of the combined businesses; ● difficulties in supporting and transitioning customers of the target company; ● diversion of financial and management resources from existing operations; ● the price we pay or other resources that we devote may exceed the value we realize, or the value we could have realized if we had allocated the purchase price or other resources to another opportunity; ● risks of entering new markets or areas in which we have limited or no experience or are outside our core competencies; ● potential loss of key employees, customers and strategic alliances from either our current business or the business of the target company; ● risks of acquiring loans with deteriorated credit quality; ● assumption of unanticipated problems or latent liabilities; and ● inability to generate sufficient revenue to offset acquisition costs. Future acquisitions may involve the issuance of our equity securities as payment or in connection with financing the business or assets acquired, and as a result, could dilute the ownership interests of existing stockholders. In addition, consummating these transactions could result in the incurrence of additional debt and related interest expense, as well as unforeseen liabilities, all of which could have a material adverse effect on our business, results of operations and financial condition. The failure to successfully evaluate and execute acquisitions or otherwise adequately address the risks associated with acquisitions could have a material adverse effect on our business, results of operations and financial condition. New lines of business or new products and services may subject us to additional risks. From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business in our current markets or new markets. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved ~~and~~ **25and** price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results. If securities or industry analysts do not publish or cease publishing research reports about us, if they adversely change their recommendations regarding our stock or if our operating results do not meet their expectations, the price of our stock could decline. The trading market for our common stock can be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If there is limited or no securities or industry analyst ~~21coverage~~ -- **coverage** of us, the market price for our stock could be negatively impacted. Moreover, if any of the analysts who elect to cover us downgrade our common stock, provide more favorable relative recommendations about our competitors or if our operating results or prospects do not meet their expectations, the market price of our common stock may decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline. Our reputation could be damaged by negative publicity. Reputational risk, or the risk to our business, financial condition or results of operations from negative publicity, is inherent in our business. Negative publicity can result from actual or alleged conduct in a number of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, inadequate protection of customer data, ethical behavior of our employees, and from actions taken by regulators, ratings agencies and others as a result of that conduct. Damage to our reputation could impact our ability to attract new or maintain existing loan and deposit customers, employees and business relationships. **The soundness of** ~~Accounting and Tax RisksThe FASB has issued an accounting standard update that has resulted in a significant change in how the~~ **other** ~~Company recognizes credit losses and may have a material impact on our~~ financial **institutions** ~~condition or results of operations. In June 2016, the FASB issued an accounting standard update," Financial Instruments- Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaced the" incurred loss" model for recognizing credit losses with an" expected loss" model referred to as the CECL model. The new CECL standard became effective for us on January 1, 2021. Under the CECL model, we are required to present certain financial assets carried at amortized cost, such as loans held for investment and held- to- maturity debt securities, at the net amount expected to be collected. CECL also requires that an allowance for credit losses be established for any unfunded loan commitments that are not cancelable. The measurement of expected credit losses requires significant use of management judgments and is based on information from past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement takes place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the incurred loss model previously required under GAAP, which delayed recognition until it is probable a loss has been incurred. Accordingly, the adoption of the CECL model materially affected how we determine our allowance for credit losses and could require us to significantly increase our allowance in future periods. Moreover, the CECL model may create more volatility in the level of the allowance for credit losses. If we are required to materially increase our level of allowance for credit losses for any reason, such increase~~ could adversely affect **us. Financial services institutions are interrelated as a result of trading, clearing, counterparty** ~~our~~ - **or** ~~business~~ **other relationships. We have exposure to many different industries and counterparties** , **and we routinely execute transactions with counterparties in the** financial ~~condition~~ **services industry, including brokers** and **dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose us to credit risk**

in the event of default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations **or earnings** . ~~See Note 1 " Nature of Business~~ **Additionally, we may be negatively affected by** ~~and~~ **brand** ~~Significant~~ **or reputational harm to other community banks or to the community banking industry.** Accounting **and Tax RisksThe** ~~Policies " of the notes to the consolidated financial statements for additional information on the impact of the adoption of this standard. The~~ preparation of our Consolidated Financial Statements requires us to make estimates and judgments, which are subject to an inherent degree of uncertainty and which may differ from actual results. Our Consolidated Financial Statements are prepared in accordance with U. S. GAAP and general reporting practices within the financial services industry, which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Some accounting policies, such as those pertaining to our allowance **for credit losses** , require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these estimates and judgments are subject to an inherent degree of uncertainty and actual results may differ from these estimates and judgments under different assumptions or conditions, which may have a material adverse effect on our financial condition or results of operations in subsequent periods. 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. In addition, trends in financial and ~~business~~ **26business** reporting, including environmental, social and governance (ESG) related disclosures, could require us to incur additional reporting expense. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. ~~22Operational~~ -- **Operational** RisksThe ~~transition to an alternative reference rate could cause instability and have a negative effect on financial market conditions. LIBOR represents the interest rate at which banks offer to lend funds to one another in the international interbank market for short- term loans. On July 27, 2017, the U. K. Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR rates after 2021. The end date for LIBOR has now been set for June 30, 2023, and U. S. Regulators have issued guidance that urges market participants to address their existing LIBOR exposures and transition to robust and sustainable alternative rates. The Alternative Reference Rate Committee has proposed that the SOFR is the rate that represents best practice as the alternative to U. S. dollar- LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR but has also advised participants to conduct a comprehensive evaluation of any alternative reference rates being considered for use. Contracts linked to LIBOR are vast in number and value, are intertwined with numerous financial products and services, and have diverse parties. Although the Company has actively worked to plan for the transition away from LIBOR, the transition is both complex and challenging and the downstream effect of unwinding or transitioning such contracts could cause instability and negatively impact financial markets and individual institutions. If the Company' s selected alternative rate is based on small transaction volume, it could be susceptible to volatility and disruption during times of market stress. Furthermore, if the Company fails to properly address legacy contracts by adding robust fallback positions, it will be exposed to interest rate risks and potential loss of yields. Finally, if the Company or other market participants fail to properly plan to implement alternative rates other than LIBOR it could have an adverse effect on the Company and the financial system as a whole. The~~ Company' s information systems may experience an interruption or breach in security and cyber- attacks, all of which could have a material adverse effect on the Company' s business. The Company relies heavily on internal and outsourced technologies, communications, and information systems to conduct its business, particularly with respect to our core processing provider and our mobile banking provider. Additionally, in the normal course of business, the Company collects, processes and retains sensitive and confidential information regarding our customers. As the Company' s reliance on technology has increased, so have the potential risks of a technology- related operation interruption (such as disruptions in the Company' s customer relationship management, general ledger, deposit, loan, or other systems) or the occurrence of a cyber- attacks (such as unauthorized access to the Company' s systems **or those of our third- party partners, including as a result of increasingly sophisticated methods of conducting cyber- attacks, including those employing artificial intelligence**). These risks have increased for all financial institutions as new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others have also increased. ~~In addition, cyber attackers have taken advantage of the pandemic to create campaigns to leverage individuals fears and uncertainties as well as capitalize on the increased number of transactions occurring on digital channels.~~ Industry trends in ransomware, phishing, and other intrusion methods have increased significantly and will continue to pose increased risk while the Company' s operations remain partially remote. In addition to cyber- attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against financial institutions, retailers and government agencies, particularly denial of service attacks that are designed to disrupt key business or government services, such as customer- facing web sites. The Company ~~is~~ **may** not **be** able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. It is also possible that a cyber incident, such as a security breach, may remain undetected for a period of time, further exposing the Company to technology- related risks. The Company also faces risks related to cyber- attacks and other security breaches in connection with credit card, debit card and other payment related transactions that typically involve the transmission of sensitive information regarding the Company' s customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and its processors. Some of these parties have in the past been the target of security breaches and cyber- attacks, and because the transactions involve third parties and environments such as the point of sale that the Company does not control or secure, future security breaches or cyber- attacks affecting any of these third parties could impact the Company through no fault of its own, and in some cases it may have exposure and suffer losses for breaches or attacks ~~23relating~~ -- **relating** to them. Further cyber- attacks or other breaches in the future, whether affecting the Company or others, could intensify consumer concern and regulatory focus and result in increased costs, all of which could have a material adverse effect on the Company' s business. To the extent we are involved in any future cyber- attacks or other breaches, the Company' s reputation could be affected, which could also have a material adverse effect on the Company' s business, financial condition or results of operations. **Furthermore, there has been a heightened legislative and regulatory focus on privacy, data protection and information security. New or revised laws and regulations, including with the respect to the use of artificial intelligence by financial institutions and service providers, may significantly impact our current and planned privacy, data protection and information security- related practices, the collection, use, retention and safeguarding of customer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could adversely affect our business.** ~~System~~ **27System** failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities. The computer systems and network infrastructure we **or our third- party partners** use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our **or our third- party partners'** operations could have a material adverse effect on our financial condition and results of operations. Computer break- ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through ~~our~~ computer systems and network infrastructure, as well as that of our customers engaging in internet banking activities, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third- party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third- party service providers use to encrypt and protect customer transaction data. Any interruption in, or breach of security of, our computer systems and network infrastructure, or that of our **third- party partners or** internet banking customers, could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. The Company may also need to spend additional resources to enhance protective and detective measures or to conduct investigations to remediate any vulnerabilities that arise. We are subject to certain operational risks, including, but not limited to, customer or employee misconduct or fraud and data processing system failures and errors. Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Despite having business continuity plans and other safeguards, the Company could still be affected. Should our internal controls fail to prevent or detect an occurrence, and if any resulting loss is not insured or exceeds applicable insurance limits, such failure could have a material adverse effect on our business, financial condition and results of operations. The success of our SBA lending program is dependent upon the continued availability of SBA loan programs, our status as a preferred lender under the SBA loan programs and our ability to comply with applicable SBA lending requirements. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose other restrictions, including revocation of the lender' s SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose our ability to compete effectively with other SBA Preferred Lenders, and as a result we would experience a material adverse effect to our financial results. Any changes to the SBA program, including changes to the level of guaranty provided by the federal government on SBA loans or changes to the level of funds appropriated ~~by~~ **28by** the federal government to the various SBA programs, may also have an adverse effect on our business, results of operations and financial condition. ~~24Historically~~ -- **Historically** we have sold the guaranteed portion of our SBA loans in the secondary market. These sales have resulted in our earning premium income and / or have created a stream of future servicing income. There can be no assurance that we will be able to continue originating these loans, that a secondary market will exist or that we will continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA loans, we incur credit risk on the retained, non- guaranteed portion of the loans. In the event of a loss resulting from default and the SBA determines there is a deficiency in the manner in which the loan was originated, funded or serviced by the us, the SBA may require us to repurchase the loan, deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of the principal loss related to the deficiency from us, any of which could adversely affect our business, results of operations and financial condition. Our community banking strategy relies heavily on our subsidiaries' independent management teams, and the unexpected loss of key managers may adversely affect our operations. We rely heavily on the success of our bank subsidiaries' independent management teams. Accordingly, much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain the executive officers and current management teams of our operating subsidiaries will continue to be important to the successful implementation of our strategy. It is also critical, as we manage our existing portfolio and grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. Recent changes in labor market conditions have contributed to heightened levels of employee attrition and increased competition for talent, which has in turn driven wage rates higher and may contribute to an increase in operating expenses. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations. Effective succession planning is also important to our long- term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. We have a continuing need for technological change, and we may not have the resources to effectively implement new technology. The financial services industry continues to undergo rapid technological changes with frequent introductions of new technology- driven products and services. In addition to enabling us to better serve our customers, the effective use of technology increases efficiency and the potential for cost reduction. Our future success will depend in part upon our ability **and the ability of our third- party partners** to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations. The widespread adoption of new technologies, including mobile banking services, **artificial intelligence,** cryptocurrencies and payment systems, could require us in the future to make substantial expenditures to modify or adapt our existing products and services as we grow and develop new products to satisfy our customers' expectations and comply with regulatory guidance. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology- driven products and services or be successful in marketing such products and services to our customers. **29Issues with the use of artificial intelligence in our marketplace may result in reputational harm or liability, or could otherwise adversely affect our business. Artificial intelligence, including generative artificial intelligence, is or may be enabled by or integrated into our products or those developed by our third- party partners. As with many developing technologies, artificial intelligence presents risks and challenges that could affect its further development, adoption, and use, and therefore our business. Artificial intelligence algorithms may be flawed, for example datasets may contain biased information or otherwise be insufficient; and inappropriate or controversial data practices could impair the acceptance of artificial intelligence solutions and result in burdensome new regulations. If the analyses that products incorporating artificial intelligence assist in producing for us or our third-party partners are deficient, biased or inaccurate, we could be subject to competitive harm, potential legal liability and brand or reputational harm. The use of artificial intelligence may also present ethical issues. If we or our third- party partners offer artificial intelligence enabled products that are controversial because of their purported or real impact on human rights, privacy, or other issues, we may experience competitive harm, potential legal liability and brand or reputational harm. In addition, we expect that governments will continue to assess and implement new laws and regulations concerning the use of artificial intelligence, which may affect or impair the usability or efficiency of our products and services and those developed by our third- party partners.** We have a substantial amount of debt outstanding and may incur additional indebtedness in the future, which could restrict our operations. As of December 31, ~~2022~~ **2023** , we had $ 281. ~~3~~ **8** million of total indebtedness outstanding at the holding company level. In the future, it is possible that we may not generate sufficient revenues to service or repay our debt, and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs, and to pay dividends to our common stockholders. Moreover, the degree to which we are leveraged could have important consequences for our stockholders, including: ~~25~~ ● limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; ● making it more difficult for us to satisfy our debt and other obligations; ● limiting our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes; ● increasing our vulnerability to general adverse economic and industry conditions, including changes in interest rates; and ● placing us at a competitive disadvantage compared to our competitors that have less debt. Severe weather, natural disasters, ~~pandemic~~ **pandemics** , acts of terrorism or war or other adverse external events could significantly impact the Company' s business. As the Company' s operating and market footprint continues to grow, severe weather, natural disasters, **pandemics (including the COVID- 19** pandemic **in the U. S.)** , acts of terrorism or war **(including the Russian invasion of Ukraine and the Israeli- Palestinian conflict)** and other adverse external events could have a significant impact on the Company' s ability to conduct business. The Company' s current footprint poses a wide variety of potential weather, natural disaster, or other adverse events that could impact the Company in various ways. In addition, such events could affect the stability of the Company' s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and / or cause the Company to **30** ~~incur additional expenses. The occurrence of any such event could have a material adverse effect on the Company' s business, which in turn, could have a material adverse effect on the financial condition and results of operation. The Company is or may become involved from time to time in suits, legal proceedings, information- gathering requests, investigations and proceedings by governmental and self- regulatory agencies that may lead to adverse consequences. Many aspects of our business and operations involve the risk of legal liability, and in some cases we or our subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from our business activities. In addition, companies in our industry are frequently the subject of governmental and self- regulatory agency information- gathering requests, reviews, investigations and proceedings. The results of such proceedings could lead to significant civil or criminal penalties, including monetary penalties, damages, adverse judgments, settlements, fines, injunctions,~~

~~restrictions on the way in which we conduct our business, or reputational harm. Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Accordingly, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies, which could adversely affect our financial condition and results of operations. 26~~