Risk Factors Comparison 2024-03-29 to 2023-03-31 Form: 10-K

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

An investment in our common stock is not an insured deposit and is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included and incorporated by reference in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, capital levels, cash flows, liquidity, results of operations and prospects. The market price of our common stock could decline significantly due to any of these identified or other risks, and you could lose some or all of your investment. The risks discussed below also include forward- looking statements, and our actual results may differ substantially from those discussed in these forward- looking statements. This report is qualified in its entirety by these risk factors. Risks Related to Macroeconomic Conditions A worsening of economic conditions in our market area could reduce demand for our products and services and / or result in increases in our level of non- performing loans, which could adversely affect our operations, financial condition and earnings. Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans. A return of recessionary conditions or adverse economic conditions in our market areas may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our business, financial condition, and results of operations. A deterioration in economic conditions in the market areas we serve as a result of inflation, a recession, ~~the effects of COVID- 19 variants~~ or other factors could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations: • demand for our products and services may decline; • loan delinquencies, problem assets and foreclosures may increase; • collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans; and • the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us. Moreover, a significant decline in general local, regional or national economic conditions caused by inflation, recession, severe weather, natural disasters, widespread disease or pandemics, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance. Future changes in interest rates could reduce our profits and affect the value of our assets and liabilities. ~~Net~~ **Our net** income is **primarily derived from** the **excess of** ~~amount by which~~ net interest income and non- interest income ~~exceed~~ **over** non- interest ~~expense~~ **expenses** , ~~the provision~~ **provisions** for **credit** ~~loan and lease~~ losses **,** and taxes. ~~Net~~ **The core component of our net income is driven by net** interest income **, which centers** ~~makes up a majority of our net income and is based~~ on the ~~difference~~ **variance** between the interest income **accrued from** ~~we earn on~~ interest- earning assets, such as loans and securities, and the interest expense **incurred** ~~we pay~~ on interest- bearing liabilities, **including** ~~such as~~ deposits and borrowings. The yields we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many financial institutions, our liabilities generally have shorter contractual maturities than our assets. This ~~imbalance can create~~ **mismatch exposes us to** significant earnings volatility ~~because~~ **as** market interest rates **fluctuate** ~~change over time~~ . **Shifts** ~~In addition, changes~~ in interest rates can ~~affect~~ **also impact** the average ~~life~~ **lifespan** of loans and mortgage- backed ~~and related~~ securities. In ~~a period~~ **periods** of rising interest rates, the **growth rate of** interest income ~~we earn~~ **from our assets might lag behind the accelerating interest expenses** on ~~our assets may not increase as rapidly as the interest we pay on our~~ liabilities. ~~A~~ **Conversely,** ~~decline~~ **declining** ~~in~~ interest rates ~~results in~~ **can trigger** increased **loan** prepayments ~~of loans~~ and mortgage- backed ~~and related securities~~ **security redemptions** as borrowers **seek lower** ~~refinance their debt to reduce their~~ borrowing costs **through refinancing** . This ~~creates~~ **introduces** reinvestment risk, **where** ~~which is~~ the **challenge lies in** ~~risk that we may not be able to reinvest~~ **reinvesting** prepayments at rates ~~that are~~ comparable to ~~the~~ **those initially** ~~rates we~~ earned on the prepaid loans or securities. ~~Furthermore~~ **Moreover** , an inverted interest rate yield curve, ~~where~~ **wherein** short- term interest rates (which are usually the rates at which financial institutions borrow funds) **surpass** ~~are higher than~~ long- term ~~interest~~ rates (which are usually the rates at which financial institutions lend funds for fixed- rate loans) **,** can ~~reduce~~ **compress** a financial institution ~~'~~ **'** s net interest margin ~~and create~~ **. This occurrence poses** financial ~~risk~~ **risks , particularly** for ~~financial~~ institutions that originate longer- term, fixed- rate mortgage loans. ~~At~~ **As of** December 31, ~~2022~~ **2023** , ~~41~~ **approximately 43** . ~~5~~ **9** % of our loan and lease portfolio consisted of fixed- rate loans and leases **, potentially exposing us to these risks** . As ~~is the case with many banks our emphasis on increasing core deposits has resulted in an increasing percentage~~ of ~~our deposits being comprised of deposits bearing no or a relatively low rate of interest and having a shorter duration than our assets. At~~ December 31, ~~2022~~ **2023** , ~~we had~~ **our deposit composition included** $ ~~314~~ **349** . ~~3~~ **6** million in certificates of deposit **maturing** ~~that mature~~ within one year and $ ~~544~~ **523** . ~~5~~ **0** million in noninterest **-** bearing, NOW checking, savings **,** and money market accounts. **In an increasing** ~~We would incur a higher cost of funds to retain these deposits in a rising~~ interest rate environment **, retaining these deposits could lead to a higher cost of funds** . ~~If~~ **Should** the interest rates ~~paid on~~ **associated with our** deposits and ~~other~~ borrowings increase at a faster ~~rate~~ **pace** than the ~~interest~~ rates received ~~on~~ **from** loans and other investments, our net interest income ~~,~~ and ~~therefore~~ **overall** earnings **might** ~~, could~~ be adversely affected. ~~Any~~ **A sustained and** substantial ~~prolonged~~ change in market interest rates could **significantly impact** ~~have a material adverse effect on~~ our financial condition, liquidity **,** and **operational** results ~~of operations~~ . ~~Changes~~ **Furthermore,**

fluctuations in ~~the level of~~ interest rates ~~also~~ may ~~negatively~~ **adversely** affect the ~~value~~ **valuation** of our assets and liabilities ~~and~~ **,** ultimately ~~affect~~ **affecting** our earnings. Inflationary pressures and rising prices may affect our results of operations and financial condition. Inflation has ~~risen sharply~~ **surged markedly** since the ~~end~~ **close** of 2021 and **continued its ascent** throughout 2022 ~~at~~ **, marking the highest** levels **experienced in** ~~not seen for~~ over ~~40 years~~ **four decades** . Inflationary pressures **persisted at** ~~are currently expected to remain~~ elevated **rates** ~~throughout~~ --- **through** 2023 ~~.~~ **, creating challenges for businesses, particularly** ~~Small~~ **small** to medium- sized ~~businesses~~ **enterprises that lack the scale advantages enjoyed by larger corporations. This discrepancy in leveraging economies of scale** may **intensify** ~~be impacted more during periods of high inflation as they are not able to leverage economies of scale to mitigate~~ cost pressures **for smaller** ~~compared to larger~~ businesses. ~~Consequently, the ability of~~ **The heightened inflationary environment could potentially impact** our business customers **' ability** to repay ~~their~~ loans **, especially among those facing swift deteriorations in financial conditions. Consequently, our operational and financial standings** may **face** ~~deteriorate, and in some cases this deterioration may occur quickly, which would adversely~~ -- **adverse** ~~impact our results~~ **effects. Moreover, a sustained period** of **inflation holds the potential to drive up wages and other expenses for the Company, further posing risks to our** ~~operations~~ **operational performance** and financial ~~condition~~ **health** . **Considering** ~~Furthermore, a prolonged period of inflation could cause wages and other~~ -- **the** ~~costs to the Company to increase, which could adversely affect our results of operations and financial condition. The economic impact of the COVID- 19 pandemic could continue~~ **continued inflationary landscape** ~~to affect our financial condition~~ and **its associated impacts,** ~~results of operations. The COVID- 19 pandemic could continue to pose risks and could harm~~ our business **outlook** ~~, our results of operations and the prospects of the Company. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the business of the Company, its clients, employees and third- party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify. We~~ could be **significantly affected** ~~subject to a number of risks as the result of the continuing COVID- 19 pandemic and COVID 19 variants, any of which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy and ability to pay dividends. These risks include, but are not limited to, changes in demand for our products and services; increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets and increased costs as the Company and our regulators, customers and vendors adapt to evolving pandemic conditions~~ . Risks Related to Our Business We have a substantial amount of commercial and multi- family real estate and commercial and industrial loans, and intend to continue to increase originations of these types of loans. These loans involve credit risks that could adversely affect our financial condition and results of operations. ~~At~~ **As of** December 31, ~~2022~~ **2023** , our **portfolio included** commercial real estate, multi- family real estate **,** and commercial and industrial loans ~~totaled~~ **totaling** $ ~~523~~ **595** . ~~4~~ **8** million, ~~or~~ **constituting approximately** 53. ~~7~~ **8** % of our total loans and leases. While these **loan** types ~~of loans are~~ **typically offer higher** ~~potentially~~ -- **potential** ~~more profitable~~ **profitability** ~~than~~ **compared to** residential mortgage loans, they ~~are generally more~~ **inherently carry heightened** ~~sensitive~~ **sensitivity** to regional and local economic conditions, ~~making~~ **posing challenges in accurately forecasting potential** ~~loss~~ **losses** ~~levels more difficult to predict~~ . **Further,** ~~These~~ **these** loans **often involve substantial** ~~also generally have relatively large~~ balances **granted** to ~~single~~ **individual** borrowers or related groups **, elevating** ~~of borrowers. Given~~ their ~~larger balances and~~ **risk profile, particularly when considering** the complexity of the underlying collateral ~~,~~ **.** ~~commercial~~ **Commercial** and multi- family real estate ~~and~~ **, as well as** commercial and industrial loans ~~generally have more~~ **, entail higher** risk ~~than the~~ **levels compared to our** one- to four- family residential real estate loans ~~we originate~~ . **The** ~~Because the~~ repayment of **such** ~~these types of~~ loans depends **significantly** on the ~~successful~~ **effective** management and operation of **borrowers' properties or related businesses. Factors outside** the borrower' s ~~properties or related businesses, repayment can be affected by factors outside the borrower' s~~ control, **including** ~~such as~~ adverse **market** conditions **,** ~~in the real estate market or the economy~~ **economic downturns** , **supply chain** disruptions ~~in supply chains~~ , or ~~change~~ **shifts** in government regulations **, among other factors, can significantly impact the repayment ability of these loans** . ~~In recent~~ **Recent** years ~~,~~ **have witnessed substantial growth in** commercial real estate markets ~~have been experiencing substantial growth~~ , ~~and increased~~ **compounded by intensified** competitive pressures **that** have **led** ~~contributed significantly~~ to historically low capitalization rates and ~~rising~~ **surging** property ~~values~~ **valuations** . **The** ~~Furthermore, commercial real estate markets have been particularly impacted by the~~ economic disruption ~~resulting from~~ **spurred by** the ~~COVID- 19 pandemic. The~~ COVID- 19 pandemic has ~~also been a catalyst for~~ **particularly affected commercial real estate markets. Additionally,** the ~~evolution~~ **pandemic has accelerated the adoption** of ~~various~~ remote work options ~~which could impact~~ **, potentially influencing** the long- term performance of **certain** ~~some types of~~ office properties within our commercial real estate portfolio. ~~Accordingly~~ **Moreover** , the federal banking regulatory agencies have ~~expressed~~ **raised** concerns about ~~weaknesses in~~ **vulnerabilities within** the current commercial real estate market ~~. Further~~ , **recognizing the risks associated with these assets.** ~~unlike~~ **Unlike** residential mortgage loans, commercial and industrial loans may be ~~secured~~ **backed** by collateral **beyond** ~~other than~~ real estate, such as inventory and accounts receivable ~~, the~~ **. The valuation and liquidation of such collateral may pose challenges and are subject to fluctuations in** value ~~of which may depreciate over time~~ , **especially during** ~~may be more difficult to appraise or liquidate and may be more susceptible to fluctuation in value at default~~ **defaults** . Failures in our risk management policies, procedures **,** and controls could **impede** ~~adversely affect~~ our ability to **effectively** manage this portfolio **, potentially leading to** ~~going forward and could result in an~~ increased ~~rate of~~ delinquencies

~~in,~~ and ~~increased~~ **higher** losses ~~from~~ , **thereby** ~~this portfolio, which, accordingly, could have a material~~ **materially impacting** ~~adverse effect on~~ our business, financial condition **,** and ~~results of operations~~ **operational performance** . We have focused on growing our construction and development loan portfolio in recent years which adds additional risks to our loan portfolio. **As of December 31, 2023, our** ~~Construction~~ **construction** and development loans totaled $ ~~139~~ **157** . ~~9~~ **8** million, **accounting** ~~or~~ **for approximately** 14. ~~4~~ **2** % of **our** total ~~loans~~ - **loan portfolio. This comprises** ~~, as of December 31, 2022, of which~~ $ ~~127~~ **148** . ~~0~~ **5** million ~~were~~ **in** commercial construction loans and $ ~~12.~~ 9 **. 3** million ~~were~~ **in** residential real estate construction loans, **reflecting a substantial increase from the** ~~compared to total construction and development loans of~~ $ 58. 4 million, ~~or~~ **constituting** 7. 8 % of total loans, **reported** at December 31, 2020. **Engaging in** ~~Construction~~ **construction** lending ~~generally involves greater~~ **inherently carries higher** credit risk ~~than~~ **compared to** long- term financing ~~on~~ **for** improved, owner- occupied real estate. **Loans granted for** ~~In the event a loan is made on property~~ **properties** ~~that is~~ not yet approved for ~~the~~ planned development or improvements ~~,~~ **pose** ~~there~~ -- **the** ~~is a~~ risk ~~that~~ **of potential denials or delays in** necessary approvals ~~will not be granted or will be delayed~~ . **Additionally, the** ~~Risk~~ **risk** of loss on a construction loan ~~also depends~~ **heavily relies on the accuracy of initial property value estimates** upon ~~the accuracy of the initial estimate of the value of the property at~~ completion ~~of~~ **compared to the estimated** construction ~~compared to the estimated cost~~ **costs** (~~including~~ **inclusive of** interest) ~~of construction~~ and other assumptions. **Inaccurate** ~~If the estimate of construction~~ cost **estimates** ~~is inaccurate, we~~ may **necessitate** ~~be required to advance~~ additional ~~funds~~ - **fund disbursements** beyond the **committed** amount ~~originally committed in order~~ to protect the **property' s** value ~~of the property~~ . Moreover, **misjudgment in estimating** ~~if the estimated value of~~ the completed project ~~is inaccurate,~~ **' s value may result in** the borrower **holding** ~~may hold~~ a property ~~with a value that is~~ insufficient to ~~assure full~~ **fully repay** ~~repayment of~~ the construction loan upon ~~the~~ **its** sale ~~of the~~ **. Delays or cost overruns in construction can compound risks, especially when repayments rely on** property ~~. Construction loans also carry the risk that construction will not be completed on time in accordance with specifications and projected costs. In addition, repayment of these loans can be dependent on the sale~~ **sales** or ~~rental~~ **rentals** ~~of the property~~ to third parties, **which** ~~and the ultimate sale or rental of the property~~ may not ~~occur~~ **transpire** as anticipated. **The sale of** ~~Properties~~ **properties** under construction ~~are~~ **is** often **challenging** ~~difficult to sell~~ and typically **requires completion for** ~~must be completed in order to be successfully~~ -- **successful** ~~sold~~ **transactions** , ~~which complicates~~ **complicating** the ~~process~~ **handling** of ~~working with our problem~~ **problematic** construction loans. ~~Further, in the case of speculative~~ **Speculative** construction loans **carry additional** ~~, there is the added risk~~ **risks** ~~associated with~~ **, including** the borrower ~~obtaining~~ **' s ability to secure** a take- out commitment for a permanent loan. Loans ~~on~~ **associated with undeveloped** land ~~under development or held for~~ - **or** future construction also ~~pose additional~~ **present added** ~~risk~~ **risks** ~~because of~~ **due to** the lack of income ~~production by~~ **generation from** the property and ~~the~~ **its** potential illiquid nature **as** ~~of the~~ collateral. ~~Other~~ **Furthermore, various** risks ~~may include the~~ **, such as** fraudulent diversion of construction funds, ~~the filing of~~ mechanics **'** liens **filed** by contractors, subcontractors **,** or suppliers, ~~or the~~ **and potential** contractor ~~' s failure~~ **failures** ~~to~~ **in** ~~complete~~ **completing projects, contribute to** the **complexity and uncertainties associated with** construction ~~of the project~~ **and development loans** . Our portfolio of loans with a higher risk of loss is increasing and the unseasoned nature of **such** ~~our commercial loan~~ **loans** ~~portfolio may result~~ **could lead to misjudgments** in ~~errors in judging its~~ collectability, **triggering** ~~which may lead to~~ additional provisions ~~for loan losses~~ or charge- offs, **impacting** ~~which would hurt~~ our profits. Our commercial loan portfolio, which includes commercial and multi- family real estate loans, commercial and industrial loans and construction loans, has increased to $ ~~663~~ **753** . ~~3~~ **6** million, or 68. 0 % of total loans and leases, at December 31, ~~2022~~ **2023** from $ 226. 9 million, or 48. 5 % of total loans and leases, at December 31, 2016. A large portion of our commercial loan portfolio is unseasoned, meaning ~~they~~ **loans** were originated recently. Our limited experience with these borrowers does not provide us with a significant payment history pattern with which to judge future collectability. Further, these loans **may not** have ~~not~~ been subjected to unfavorable economic conditions. As a result, it is difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge- off levels above our historical experience, which could adversely affect our future performance. If we are unable to maintain and grow revenue from our leasing business our future revenue and earnings may be adversely impacted. Our lease financing operation consists of direct financing leases which are used by commercial customers to finance purchases such as medical, computer and manufacturing equipment, audio / visual equipment, industrial assets, construction and transportation equipment, and a wide variety of other commercial equipment. Revenue generated from our leasing business accounted for 15. **3 % and 15.** 4 ~~% and 16. 3~~ % of our total revenue for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. We rely solely on brokers and other third- party originators to generate our lease transactions. To generate deal flow, we work with over 100 brokers and third- party originators across the country, some of which are one- person shops and others more established companies, with most of the volume coming from fewer than 25 referral sources. None of our relationships are exclusive and any may be terminated at any time. During ~~2022~~ **2023** , of our ~~total~~ $ ~~70~~ **89** . ~~3~~ **7** million in lease originations, the top five brokers / third party originators accounted for approximately ~~50~~ **45** . ~~3~~ **6** % of our total volume of lease originations, one of whom accounted for approximately ~~15~~ **13** . ~~6~~ **3** % of our total volume of lease originations. At December 31, ~~2022~~ **2023** , our top 25 brokers / third party originators collectively accounted for ~~80~~ **81. 7** % of our total direct financing lease portfolio, with our largest broker / third party originator accounting for ~~12~~ **10** . ~~4~~ **9** % of the portfolio. **Losing top** ~~If our highest producing~~ brokers ~~/~~ **or** third **-** party originators ~~cease to do business with us~~ , or ~~if~~ their customers ~~cease to do business with them~~ , **without finding** ~~and we or they are unable to find alternative customers with~~ comparable **alternatives** ~~financing needs~~ , **could** ~~we may experience decreased~~ - **decrease** leasing volume ~~and our~~ **, leading to potential** ~~revenues~~ - **revenue** ~~may~~ decline ~~as a result~~ , ~~which may~~ materially **impacting** ~~and adversely affect~~ our business, financial condition **,** and results of operations. Our leasing business exposes us to different credit risks than our real estate secured lending. At December 31, ~~2022~~ **2023** , direct financing leases totaled $ ~~133~~ **156** . ~~5~~ **6** million, or ~~13~~ **14** . ~~7~~ **1** % of our total loan and lease portfolio. Our direct financing leases, while short term in nature, are inherently risky as they are secured by assets that depreciate rapidly. In some cases, repossessed collateral may not provide an adequate source of repayment for the outstanding lease balance and the remaining deficiency may not warrant further substantial collection efforts against the borrower. Also, if a lessee under a defaulted lease files for protection under the bankruptcy laws, then: (i) we may experience difficulties and delays in recovering the equipment from the defaulting party; (ii) the equipment may be returned in poor condition; and (iii) we may be unable to enforce important contract provisions against the insolvent party. We do not expect to be able to recover software that we lease or finance for a customer that is not on a computer' s hard drive and, even if we could do so, we generally would not be able to lease or sell the same software again under the terms of use required by the software vendors. Finance leasing collections depend on the customer' s continuing financial stability, and therefore are more likely to be adversely affected by the cash flows of the business within certain industries. Factors that may adversely affect the ability of our customers to meet their repayment plans include, among other things, their inability to implement their business plans or to meet their sales targets, any downturn in the markets or industries in which they operate, or any declines in general economic conditions. There is no guarantee that the financial condition of our customers will remain healthy in the future, that our customers will continue to fulfill their repayment obligations on time, or that any of our customers will not ultimately default on their leases. As a result, we cannot assure you that our profitability or the demand for our leasing services from our customers will be maintained at historical levels. Moreover, approximately $ ~~41~~ **52** . ~~7~~ **4** million or ~~31~~ **33** . ~~2~~ **3** % of our total lease portfolio is to customers located in California, New York, Florida, and Arkansas. A return of recessionary conditions or adverse economic conditions within these market areas may reduce our leasing volume and affect our customers' ability to make lease payments, resulting in higher defaults, which may result in our inability to fully recover our investment in the related equipment and adversely impact our business, financial condition, and results of operations. If our allowance for **credit** ~~loan and lease~~ losses is not sufficient to cover actual losses, our earnings could decrease. We periodically review our allowance for **credit** ~~loan and lease~~ losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge- off experience and levels of past due loans and nonperforming assets. We cannot be certain that our allowance for **credit** ~~loan and lease~~ losses will be adequate over time to cover credit losses in our portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets, and changes in borrower behaviors. Differences between our actual experience and assumptions and the effectiveness of our models may adversely affect our business, financial condition, including liquidity and capital, and results of operations. **If lead** ~~In addition, the FASB has adopted an accounting standard referred to as Current Expected Credit Loss, or CECL, which will require financial~~ institutions **fail** to ~~determine periodic estimates of lifetime expected~~ **provide timely updates on changes in** credit **quality for the underlying loans in our loan participation agreements, it could lead to misstatements in our ACL and potential** losses on **these** loans ~~and recognize~~ **. If** the ~~expected~~ **lead institutions on our loan participation agreements do not keep us informed about the changes in** credit **quality on the underlying loans in a timely manner, this could result in misstatements in our ACL, or possibly** losses ~~as allowances~~ **on these loans. Additionally, reliance on lead institutions** for credit **information exposes us to counterparty risk, where financial difficulties** ~~losses. This will change the current method of providing allowances for~~ - **or failures on their part could jeopardize our ability to accurately assess and manage risks associated with loan participations. Inadequate disclosure or reporting of** credit **quality changes by lead institutions may lead** ~~losses only when they have been incurred and are probable, which is expected~~ to ~~require~~ **non- compliance with regulatory requirements, exposing** us to ~~increase~~ **regulatory scrutiny, fines,** ~~our~~ - **or** ~~allowance for~~ **other penalties. Furthermore, misstatements in ACL due to delayed credit updates could damage our reputation and credibility in the market, posing a significant reputational risk. Moreover, failure to accurately assess and disclose risks associated with** loan **participations may expose** ~~losses and greatly increase the types of data we need to collect and review to determine the appropriate level of the allowance for credit losses. This accounting pronouncement is applicable to~~ us ~~effective January 1, 2023. As of the adoption and day one measurement date of January 1, 2023, the Company expects~~ to **legal liabilities** ~~record a one- time cumulative- effect adjustment to retained earnings~~ , **including lawsuits** ~~net of income taxes, on the consolidated balance sheet. The allowance will increase between $ 2. 3 million and $ 3. 0 million~~ from **investors or regulatory agencies alleging inadequate risk management practices and misleading disclosures. At** December 31, ~~2022~~ **2023** ~~. CECL also requires the establishment of a reserve for potential losses from unfunded commitments that is recorded in other liabilities~~ , ~~separate from the allowance for credit losses,~~ **we had $ 93. 4 million in loan participations in** which **we** ~~will be approximately $ 1. 8 million to $ 2. 5 million. Also, as required by CECL, the Company reviewed the held- to- maturity debt securities portfolio and determined the expected losses~~ were **not** ~~immaterial. The magnitude of the change in the Company' s allowance for credit losses at the adoption date will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that time, other management judgements, and continued refinement and validation of the model and methodologies. See also, " Note 2 — Accounting Pronouncements " in the Notes to the Consolidated Financial Statements contained in " Item 8. Financial Statements and Supplementary Data " of this Form 10 - K. The federal banking regulators, including the Federal Reserve and the FDIC, have adopted a rule that gives a banking organization the option to phase in over a three- year period the day- one adverse effects of CECL on its regulatory capital. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge- offs based on their judgment about information available to them~~ - **the lead lender** ~~at the time of their examination. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations, and capital~~ . Changes in the valuation of our securities portfolio could hurt our profits and reduce our capital levels. Our securities portfolio **is** ~~may be~~ impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and / or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for ~~other- than- temporary~~ impairment on a quarterly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer' s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and, to a lesser extent given the relatively insignificant levels of depreciation in our debt portfolio, spread differentials between the effective rates on instruments in the portfolio compared to risk- free rates. In analyzing an equity issuer' s financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one- year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available- for- sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available- for- sale securities, net of taxes. Declines in market value could result in ~~other- than- temporary~~ impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels. As of December 31, ~~2022~~ **2023** , we had no securities that were deemed impaired. A tightening of credit markets and liquidity risk could impair our ability to fund operations and jeopardize our financial condition. Liquidity is essential to our business. A tightening of the credit markets and the inability to obtain adequate funding to replace deposits and fund continued loan growth may affect asset growth, our earnings capability and capital levels negatively. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, including brokered deposits, as well as cash flows from loan payments and our securities portfolio. Borrowings, especially from the Federal Home Loan Bank and repurchase agreements, also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include adverse regulatory action against us ~~or~~ **,** a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated **, or a decrease in the confidence of our depositors in our ability to meet withdrawal demands** . Our ability to borrow **could** also ~~could~~ be impaired by factors that are not specific to us, such as a disruption in the financial markets, negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. We use estimates in determining the fair value of certain assets, such as mortgage servicing rights (" MSRs "). If our estimates prove to be incorrect, we may be required to write down the value of these assets **,** which could adversely affect our earnings. We sell a portion of our one- to four- family loans in the secondary market. We generally retain the right to service these loans through First Bank Richmond. At December 31, ~~2022~~ **2023** , the book value of our MSRs was $ ~~2~~ **1** . ~~0~~ **9** million. We use a financial model that uses, wherever possible, quoted market prices to value our MSRs. This model is complex and also uses assumptions related to interest and discount rates, prepayment speeds, delinquency and foreclosure rates and ancillary fee income. Valuations are highly dependent upon the reasonableness of our assumptions and the predictability of the relationships that drive the results of the model. The primary risk associated with MSRs is that they will lose a substantial portion of their value as a result of higher than anticipated prepayments occasioned by declining interest rates. Conversely, these assets generally increase in value in a rising interest rate environment to the extent that prepayments are slower than anticipated. If prepayment speeds increase more than estimated, or delinquency and default levels are higher than anticipated, we may be required to write down the value of our MSRs which could have a material adverse effect on our net income and capital levels. We obtain independent valuations quarterly to determine if impairment in the asset exists. If our investment in the Federal Home Loan Bank of Indianapolis becomes impaired, our earnings and stockholders' equity could decrease. At December 31, ~~2022~~ **2023** , we owned $ ~~9~~ **12** . ~~9~~ **6** million in Federal Home Loan Bank (" FHLB ") of Indianapolis stock. We are required to own this stock to be a member of and to obtain advances from the FHLB of Indianapolis. This stock is not marketable and can only be redeemed by the FHLB of Indianapolis. The most recent stock buyback initiated by the FHLB of Indianapolis was in 2015. The FHLB of Indianapolis' financial condition is linked, in part, to the eleven other members of the FHLB System and to accounting rules and asset quality risks that could materially lower their capital, which would cause our FHLB of Indianapolis stock to be deemed impaired, resulting in a decrease in our earnings and assets. Our size makes it more difficult for us to compete. Our asset size makes it more difficult to compete with other financial institutions that are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. Our lower earnings may also make it more difficult to offer competitive salaries and benefits. In addition, our smaller customer base may make it difficult to generate meaningful non- interest income from such activities as securities brokerage or the sale of insurance products. Finally, as a smaller institution, we are disproportionately affected by the continually increasing costs of compliance with new banking and other regulations. As a community bank, maintaining our reputation in our market area is critical to the success of our business, and the failure to do so may materially adversely affect our performance. We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. 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. We operate in many different financial service businesses and rely on the ability of our employees and systems to process a significant number of transactions. Operational risk is the risk of loss from operations, including fraud by employees or outside persons, employees' execution of incorrect or unauthorized transactions, data processing and technology errors or hacking and breaches of internal control systems. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected. We face significant operational risks because the financial services business involves a high volume of transactions and because of our reliance on technology. Our business requires us to collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and our own business, operations, plans and business strategies. Our operational and security systems infrastructure, including our computer systems, data management and internal processes, as well as those of third parties, are integral to our performance. Our operational risks include the risk of malfeasance by employees or persons outside our company, errors relating to transaction processing and technology, systems failures or interruptions, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non- compliance with applicable regulatory standards or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, or a breach of our security systems, including if confidential or proprietary information were to be mishandled, misused or lost, we could suffer financial loss, face regulatory action, civil litigation and / or suffer damage to our reputation. Although we have not experienced any material technology failures, cyber- attacks or other information or security breaches, or material losses related to any such events to date, there can be no assurance that we will not suffer such events, losses or other consequences in the future. Our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of these threats and our role as a provider of financial services, our continuous transmission of sensitive information to, and storage of such information by, third parties, including our vendors and regulators, the outsourcing of some of our business operations, threats of cyber- terrorism, and system and customer account updates and conversions. As a result, cyber- security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain ~~a priority~~ **an area of substantial concern** . Our information systems may experience failure, interruption or breach in security. **Our** ~~In the ordinary course of~~ business **heavily relies** ~~, we rely~~ on electronic ~~communications~~ - **communication** and information systems ~~to conduct~~ **, serving as the backbone for** our operations and ~~to store~~ **storage of** sensitive data. Any **disruption,** failure, ~~interruption~~ or breach in **the** security of these systems could ~~result in significant~~ **significantly** ~~disruption~~ --- **disrupt** ~~to~~ our operations. ~~Information security~~ **Cybersecurity threats encompass a range of incidents, including unauthorized access attempts, data** breaches ~~and cybersecurity- related incidents include, but are not limited to, attempts to access information, including customer and company information, malicious code~~ , computer viruses **,** and denial **-** of **-** service attacks ~~that could result in unauthorized access,~~ **. These events may lead to data** theft, misuse, loss, ~~release~~ or destruction **, compromising** ~~of data (including~~ confidential customer information ~~)~~ , account takeovers, **or service** unavailability ~~of service or other events~~ . These ~~types of~~ threats ~~may derive~~ **can stem from multiple sources, ranging** from human ~~error~~ **errors** ~~, fraud or~~ **to deliberate acts of** malice **from internal or** ~~on the part of~~ external ~~or internal~~ parties, or **even unforeseen** ~~may result from accidental~~ technological ~~failure~~ **failures** . ~~Our~~ **Despite our proactive measures, including encryption, authentication** technologies, ~~systems, networks~~ and ~~software have been~~ **extensive education initiatives for both employees** and **customers, the expanding** ~~continue to be subject to cybersecurity threats and attacks. Any failures related to upgrades and maintenance of our technology and information systems could further increase our information and system security risk. Our increased~~ use of cloud **services** and ~~other technologies, such as~~ remote work technologies ~~, also increase our~~ **exposes us to heightened vulnerability to cyber- attacks. The** risk ~~of being subject~~ **associated with security breaches or disruptions, especially those stemming from cyber- attacks, has become more pronounced due** to **the increasing sophistication and frequency of global intrusion attempts. Despite our continuous efforts to maintain the security and integrity of our information systems and implement robust risk management strategies, there' s an inherent challenge. Cyber- attacks often evolve at a pace that makes it difficult to proactively anticipate and mitigate them effectively. The dynamic nature of these threats means it' s nearly impossible to entirely eliminate the risk. In the unfortunate event of** a cyber- attack ~~. The risk of a security~~ **, delayed identification or response to the** breach **could significantly worsen its impact on** ~~or~~ **our** ~~disruption, particularly through cyber- attack or cyber intrusion, has increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our customers, employees and third parties that we do~~ business ~~with have been~~ , **financial standing** ~~and will continue to be~~ , ~~targeted by parties using fraudulent e- mails~~ and **operational** ~~other communications in attempts to misappropriate passwords, bank account information or other personal information or to introduce viruses or other malware programs to our information systems, the information systems of our merchants or third- party service providers and / or our customers' personal devices, which are beyond our security control systems. Though we endeavor to mitigate these threats through product improvements, use of encryption and authentication technology and customer and employee education, such cyber- attacks against us, our merchants, our third- party service providers and our customers remain a serious issue and have been successful in the past. Although we make significant efforts to maintain the security and~~ integrity ~~of our information systems and have implemented various measures to manage the risks 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 well protected information, networks, systems and facilities remain potentially vulnerable to attempted security breaches or disruptions 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. Furthermore, in the event of a cyber- attack, we may be delayed in identifying or responding to the attack, which could increase the negative impact of the~~

~~cyber- attack on our own business, financial condition and results of operations~~ . While we maintain **specialized** ~~specific" cyber" insurance coverage, which would apply in the event of various breach scenarios, the amount of coverage may not be adequate in any particular case. Furthermore, because cyber threat scenarios are inherently difficult to predict and can take many forms, some breaches may not be covered under our~~ cyber insurance coverage **, it may not cover every potential breach scenario, leaving certain instances uncovered** . ~~A~~ **The repercussions of a** security breach or **major** ~~other significant~~ disruption ~~of~~ **to** our information systems ~~or~~ **, as well as** those **of** ~~related to~~ our customers, merchants ~~or~~ **,** ~~our~~ - **or** third- party vendors, **can be extensive. This includes** ~~including as a result of cyber- attacks, could (i) disrupt~~ **disrupting** ~~the proper functioning of our networks and systems and therefore our~~ operations **,** ~~and / or those of our customers; (ii) result in the~~ unauthorized access to ~~, and destruction, loss, theft, misappropriation or release of confidential,~~ sensitive ~~or otherwise valuable~~ information **, potential legal** ~~of ours or our customers; (iii) result in a violation~~ **violations** ~~of applicable privacy~~ , **increased** ~~data breach and other laws, subjecting us to additional~~ regulatory scrutiny **,** ~~and exposing us to~~ civil litigation, ~~enforcement actions, governmental fines and possible financial liability; (iv) require significant management attention and resources~~ - **resource-intensive efforts** to ~~remedy~~ **rectify** the **situation,** ~~damages~~ - **damage to** ~~that result; or (v) harm~~ our reputation **,** or **loss** ~~cause a decrease in the number~~ of customers ~~that choose to do business with us~~ . **Any** ~~The occurrence~~ of ~~any of the~~ **these** ~~foregoing~~ **scenarios** could have a material **and** adverse effect on our business, financial ~~condition~~ **position,** and ~~results of operations~~ **operational outcomes** . Our operations rely on certain external vendors. We rely on certain external vendors to provide products and services necessary to maintain our day- to- day operations. These third- party vendors are sources of operational and informational security risks to us, including risks associated with operational errors, information system failures, interruptions or breaches and unauthorized disclosures of sensitive or confidential client or customer information. If these vendors encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our business and, in turn, our financial condition and results of operations. In addition, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. Although we have selected these external vendors carefully, we do not control their actions. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements, because of changes in the vendor' s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business, and in turn, our financial condition and results of operations. Replacing these external vendors could also entail significant delay and expense. We ~~will be required to transition from the use of the London Interbank Offered Rate (" LIBOR") in the future. We have certain loans indexed to LIBOR to calculate the interest rate. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one- week and two- month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on the Secured Overnight Financing Rate (" SOFR"). Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our loans and our investment securities, and may impact the availability and cost of borrowings. The language in our LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may result in our incurring significant expenses in implementing the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. We~~ are subject to environmental liability risk associated with lending activities ~~or~~ **on** properties we own. A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties, or with respect to properties that we own in operating our business. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Our policies, which require us to perform an environmental review before initiating any foreclosure action on non- residential real property, may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us. Regulatory and Accounting Related Risks We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that could increase our costs of operations. The banking industry is extensively regulated. Federal banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a company' s shareholders. These regulations may sometimes impose significant limitations on our operations. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation, change in existing regulation or oversight, whether a change in regulatory policy or a change in a regulator' s interpretation of a law or regulation, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and adversely affect our profitability. Further, our failure to comply with laws, regulations or policies could result in civil or criminal sanctions and money penalties by state and federal agencies, and / or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. See" Part I, Item 1. Business- How We Are Regulated." for more information about the regulations to which we are subject. Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and / or increase our costs of operations. First Bank Richmond is subject to extensive regulation, supervision and examination by the FDIC and the IDFI, and Richmond Mutual Bancorporation is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily for the protection of the federal deposit insurance fund and the depositors of First Bank Richmond, rather than for our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for **credit** ~~loan and lease~~ losses. These regulations, along with existing tax, accounting, securities, insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firm. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of operations. **We are subject to an extensive body of accounting rules and best practices. Periodic changes to such rules may change the treatment of critical financial line items and affect our profitability. Our business operations are significantly influenced by the extensive body of accounting regulations in the United States. Regulatory bodies periodically issue new guidance, altering accounting rules and reporting requirements, which can substantially affect the preparation and reporting of our financial statements.** ~~The~~ **These changes might necessitate retrospective application, potentially leading to restatements of prior period financial statements. One such significant change from 2022 was the implementation of the Current Expected Credit Losses (" CECL ") model, which we adopted on January 1, 2023. Under the CECL model, financial assets carried at amortized cost, such as loans and held- to- maturity debt securities, will be presented at the net amount expected to be collected. This forward- looking approach in estimating expected credit losses contrasts starkly with the former GAAP' s" incurred loss" model, delaying recognition until a loss is probable. CECL mandates considering historical experience, current conditions, and reasonable forecasts affecting collectability, leading to periodic adjustments of financial asset values. However, this forward- looking methodology, reliant on macroeconomic variables, introduces the potential for increased earnings volatility due to unexpected changes in these indicators between periods. An additional consequence of CECL is an accounting asymmetry between loan-related income, recognized periodically based on the effective interest method, and credit losses, recognized upfront at origination. This asymmetry might create the perception of reduced profitability during loan expansion periods due to the immediate recognition of expected credit losses. Conversely, periods with stable or declining loan levels might seem relatively more profitable as income accrues gradually for loans where losses had been previously recognized. On January 1, 2023, we adopted the accounting standard referred to as CECL. As a result of the change in methodology from the incurred loss method to the CECL model, on January 1, 2023 the** Company **recorded a one- time adjustment from equity into the allowance for credit losses on loans and leases in the amount of $ 2. 0 million, net of tax. Additionally, as a part of the CECL adoption, we established an allowance for credit losses on unfunded commitments by recording a one- time adjustment from stockholder** ' s **equity of $ 1. 8 million, which is** reported ~~financial results depend~~ **in other liabilities** on ~~management' s selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future. The Company' s accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company' s management must exercise judgment in selecting and applying many of these accounting policies and methods so they~~ **the Condensed Consolidated** ~~comply with generally accepted accounting principles and reflect management' s judgment regarding the most appropriate manner to report the Company' s financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in the Company' s reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Company' s financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the allowance for loan losses, estimations of fair value and income taxes. Because of the uncertainty of estimates involved in these matters, the Company may be required to do one or more of the following: significantly increase the allowance for loan losses and / or sustain credit losses that are significantly higher than the reserve provided, recognize significant losses on the remeasurement of certain asset and liability balances~~ **Balance Sheets** ~~, or significantly increase its accrued taxes liability. For more information, refer to " Critical Accounting Estimates " included in Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10- K~~ . Climate change and related legislative and regulatory initiatives may materially affect the Company' s business and results of operations. The effects of climate change continue to create an alarming level of concern for the state of the global environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global ~~temperatures~~ **temperature increases** , such as reentering the Paris Agreement. Further, the U. S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives ~~are expected~~ **have occurred** under the current administration, including ~~potentially~~ increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and more frequent weather disasters may adversely impact the real property, and / or the value of the real property, securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, natural disasters and related events, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations. Other Risks We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed or on terms acceptable to us. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We believe the net proceeds of our ~~recent~~ initial public offering will be sufficient to permit us to maintain regulatory compliance for the foreseeable future. Nevertheless, we may elect to raise more capital to support our business or to finance acquisitions, if any, or we may otherwise elect or be required to raise additional capital in the future. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. We cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, or if the terms of such a capital raise are not advantageous, it may have a material adverse effect on our financial condition, results of operations and prospects. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance (" ESG ") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the market price of our common stock. We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur. Our board of directors is authorized to allow us to issue additional common stock, as well as classes or series of preferred stock, generally without any action on the part of the stockholders. In addition, the board has the power, generally without stockholder 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 the liquidation, dissolution or winding- up of our business and other terms. If we issue ~~additional~~ preferred stock in the future that has a preference over the common stock with respect to the payment of dividends or upon liquidation, dissolution or winding- up, or if we issue ~~additional~~ preferred stock with voting rights that dilute the voting power of the common stock, the rights of holders of the common stock or the market value of the common stock could be adversely affected. You may not receive dividends on our common stock. Holders of our common stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. The declaration and payment of future cash dividends will be subject to, among other things, regulatory restrictions, our then current and projected consolidated operating results, financial condition, tax considerations, future growth plans, general economic conditions, and other factors our board of directors deems relevant. Richmond Mutual Bancorporation will depend primarily upon the proceeds it retained from the **initial public** offering as well as earnings of First Bank Richmond to provide funds to pay dividends on our common stock. The payment of dividends by First Bank Richmond **is** also ~~is~~ subject to certain regulatory restrictions. Federal law generally prohibits a depository institution from making any capital distributions (including payment of a dividend) to its parent holding company if the depository institution would thereafter be or continue to be undercapitalized, and dividends by a depository institution are subject to additional limitations. As a result, any payment of dividends in the future by Richmond Mutual Bancorporation may depend on First Bank Richmond' s ability to satisfy these regulatory restrictions and its earnings, capital requirements, financial condition and other factors.