

Risk Factors Comparison 2025-03-27 to 2024-03-29 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~~ **Adverse economic conditions in our market areas may could impact our growth rate,** ~~reduce our rate of growth, affect our customers' ability to repay loans,~~ and adversely impact our business, financial condition, **and results of operations. Broader economic factors such as inflation, unemployment, and money supply fluctuations also may adversely affect our profitability. Trade wars, tariffs, or shifts in trade policies between the United States and other nations could disrupt supply chains, increase costs for businesses, and reduce export opportunities for our customers. These developments may, in turn, negatively impact these businesses and, by extension, our financial condition** and results of operations. A deterioration in economic conditions in the market areas we serve ~~as a result of,~~ **be it due to** inflation, a recession, **war, geopolitical conflicts, adverse weather conditions**, or other factors could result in the following consequences, any of which could have a ~~material~~ **materially** adverse effect on our business, financial condition ~~and,~~ **or** results of operations: • **Reduced** demand for our products and services ~~may,~~ **potentially leading to a decline in our overall loans or assets**; • **Elevated instances of** loan delinquencies, ~~problem-~~ **problematic** assets, and foreclosures ~~may increase;~~ • **Reduced values in** collateral ~~for securing our~~ loans, especially real estate, ~~may decline in value, thereby~~ **diminishing** reducing customers' future borrowing **capacities** power, and reducing the value of assets- ~~asset values tied to~~ and collateral associated with existing loans; and • ~~the~~ **Reduced** net worth and liquidity of loan guarantors ~~may decline,~~ **possibly** impairing their ability to ~~honor~~ **meet** commitments to us. ~~A~~ **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~~ **may** 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 **greater** significant negative effect on our **earnings** borrowers, especially our ~~business borrowers, and~~ **capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. Many of the loans in our portfolio are secured by real estate. Real estate values are affected by various factors, including economic conditions, governmental rules or policies, natural disasters such as earthquakes, and trade- related pressures that may affect construction costs or materials availability. If we are required to liquidate a significant amount of underlying collateral securing loans during a period of reduced real estate values,** ~~which our financial condition and profitability~~ **could negatively be adversely affect affected** our financial performance.

Future changes in interest rates could reduce our profits and affect the value of our assets and liabilities. Our net income is primarily derived from the excess of net interest income and non- interest income over non- interest expenses, provisions for credit losses, and taxes. The core component of our net income is driven by net interest income, which centers on the variance between the interest income accrued from interest- earning assets, such as loans and securities, and the interest expense incurred on interest- bearing liabilities, including 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 mismatch exposes us to significant earnings volatility as market interest rates fluctuate. Shifts in interest rates can also impact the average lifespan of loans and mortgage- backed securities. In periods of rising interest rates, the growth rate of interest income from our assets might lag behind the accelerating interest expenses on liabilities. Conversely, declining interest rates can trigger increased loan prepayments and mortgage- backed security redemptions as borrowers seek lower borrowing costs through refinancing. This introduces reinvestment risk, where the challenge lies in reinvesting prepayments at rates comparable to those initially earned on the prepaid loans or securities. Moreover, an inverted interest rate yield curve, wherein short- term interest rates (which are usually the rates at which financial institutions borrow funds) surpass long- term rates (which are usually the rates at which financial institutions lend funds for fixed- rate loans), can compress a financial institution's net interest margin. This occurrence poses financial risks, particularly for institutions that originate longer- term, fixed- rate mortgage loans. As of December 31, ~~2023~~ **2024**, approximately ~~43~~ **38**. ~~9~~ **6** % of our loan and lease portfolio consisted of fixed- rate loans and leases, potentially exposing us to these risks. As of December 31, ~~2023~~ **2024**, our deposit composition included \$ ~~349~~ **366**. ~~6~~ **8** million in certificates of deposit maturing within one year and \$ ~~523~~ **546**. ~~0~~ **7** million in noninterest- bearing, NOW checking, savings, and money market accounts. In ~~a rising~~ **an increasing** interest rate environment, retaining these deposits **can become costlier** could lead to a higher cost of funds.

Should the interest **If deposit and borrowing** rates **rise** associated with our deposits and borrowings increase at a faster pace than the rates received from loans- **loan** and other investments- **investment yields**, our net interest income and overall earnings might be adversely affected- **could decline**. Additionally, **adjustable- rate residential mortgage loans and home equity lines of credit may face increased default risks in a rising rate environment**. A sustained and substantial change in market interest rates could significantly impact our financial condition, liquidity, and operational results. Furthermore, fluctuations in interest rates may adversely affect the valuation of our assets and liabilities, ultimately affecting our earnings. **Monetary policy, Inflationary--- inflation pressures, deflation, and rising prices may affect other external economic factors could adversely impact our results of financial performance and operations and**, **Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Board of Governors of the Federal Reserve System, or the Federal Reserve**. **Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to Inflation-inflation has surged markedly since, deflation, or the other economic phenomena that could adversely affect** close of 2021 and continued its ascent throughout 2022, marking the highest levels experienced in over four- **our decades financial performance**. **Higher U. S. tariffs on imported goods could exacerbate Inflationary-inflationary pressures by** persisted at elevated rates through 2023, creating **increasing challenges-the cost of goods and materials** for businesses - **and consumers. This may** particularly **affect** small to medium- sized enterprises that lack **businesses, as the they are less able to leverage economies of scale to mitigate** advantages enjoyed by larger corporations. This discrepancy in leveraging economies of scale may intensify cost pressures for smaller **compared to larger** businesses. **Consequently, The** heightened inflationary environment could potentially impact our business customers- **clients may experience increased financial strain, reducing their** ability to repay loans -, especially among those facing swift deteriorations in **and adversely impacting our results of operations and financial conditions- condition**. **Consequently- Furthermore, a prolonged period of inflation could cause wages and other costs to us to increase, which could adversely affect our results of operational operations and financial condition** standings may face adverse effects-. **Moreover Virtually all our assets and liabilities are monetary in nature and**, as a sustained period **result, market interest rates tend to have a more significant impact on our performance than general levels** of inflation holds the potential to drive up wages and other expenses for- **or the Company deflation. However**, further posing risks to **interest rates do not necessarily move in the same direction our- or magnitude as** operational performance and financial health. Considering the continued inflationary landscape **prices of goods and services** its associated impacts -, our business outlook could be significantly affected- **creating additional uncertainty in the economic environment**. **Risks Related to Our Business** We have a substantial amount **portfolio** of commercial and multi- family real estate **and, as well as** commercial and industrial loans, and intend to continue to **increase-increasing** originations of these **loan** types **of loans**-. These loans **involve carry** credit risks that could adversely affect our financial condition and results of operations. As of December 31, **2023-2024**, our portfolio included commercial real estate, multi- family real estate, and commercial and industrial loans totaling \$ **595-683.8-9** million, constituting approximately **53-58.8-2** % of our total loans and leases. **While these Commercial loans typically involve larger principal amounts than other types of loans, and some of our commercial borrowers have more than one** loan types typically offer higher potential profitability **outstanding with us. Consequently, an adverse development related to a single commercial loan or credit relationship poses a significantly greater risk of loss** compared to **one- to- four family** residential mortgage loans -, **Repayment of commercial loans often depends on they- the inherently carry heightened-cash flow generated by the business or property involved, making them more sensitivity-sensitive to regional adverse conditions in the real estate market, business climate, or economy. For loans secured by non- owner- occupied properties, repayments rely heavily on tenant rent payments, and local downturns in the real estate market or economic conditions heighten repayment** -, posing challenges in accurately forecasting potential losses. Further, these loans often involve substantial balances granted to individual borrowers or related groups, elevating their risk **risks** profile, particularly when considering the complexity of the underlying collateral. **In addition** Commercial and multi- family real estate -, as well as **many of our** commercial and industrial loans, entail higher risk levels compared to our one- to- four- family residential- real estate loans -. **The are not fully amortizing and require large balloon repayment-- payments upon maturity, which may necessitate the borrower to sell or refinance the property, increasing the risk of such default. Commercial business loans depends significantly-typically are made based on the cash flow** effective management and operation of borrowers' properties or related businesses. Factors outside the borrower - **and secondarily on the underlying collateral provided by the borrower. A borrower' s cash flow** control, including adverse market conditions, economic downturns, supply chain disruptions, or shifts in government regulations, among other factors, can significantly impact the repayment ability of **be unpredictable, and collateral securing** these loans **may fluctuate in value**. **For loans secured by accounts receivable, repayment is often dependent on the borrower' s ability to collect from clients, while other forms of collateral may be difficult to appraise, illiquid, or affected by business success. Increases in reserves and charge- offs related to our commercial and industrial loan portfolio could materially impact our business, financial condition, operations, and prospects. In Recent recent years, the** have witnessed substantial growth in commercial real estate markets- **market has experienced substantial growth with increased** compounded by intensified competitive **competition** contributing pressures that have led to historically low capitalization rates and **surging rising** property valuations **values**. **The However, the economic disruption spurred-caused by the COVID- 19 pandemic significantly impacted this market. The pandemic also accelerated the adoption of remote work, which** has particularly affected- **led many companies to re-evaluate their long- term real estate needs. While some businesses are returning to traditional office environments, others are downsizing or shifting to hybrid models, creating uncertainty in demand for office spaces and other commercial properties. This trend could result in prolonged vacancies, declining rental income, and reduced property values, adversely affecting the performance of our** commercial real estate markets. Additionally, the pandemic has accelerated the adoption of remote work options, potentially influencing the long- **loan** -term performance of certain office

properties within our commercial real estate portfolio. Moreover, the federal **Federal** banking regulatory **regulators** agencies **also** have raised concerns about **vulnerabilities within weaknesses in** the current commercial real estate market, **recognizing** the risks associated with these assets. Unlike residential mortgage loans, commercial and industrial loans may be backed by collateral beyond real estate, such as inventory and accounts receivable. The valuation and liquidation of such collateral may **pose challenges and are subject to fluctuations in value, especially during defaults**. Failures in our risk management policies, procedures, and controls could **lead** **impede our ability to** **higher** effectively manage this portfolio, **potentially leading to increased delinquencies and higher losses, adversely affecting** thereby materially impacting our business, financial condition, and **results of operational operations** 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, **2023-2024**, our construction and development loans totaled \$ **157-132.8-6** million, accounting for approximately **14-11.2-3** % of our total loan portfolio. This comprises \$ **148-126.5-2** million in commercial construction loans and \$ **9-6.3** million in residential real estate construction loans, reflecting a substantial increase from the \$ 58. 4 million, constituting 7. 8 % of total loans, reported at December 31, 2020. Engaging in construction lending inherently carries higher credit risk compared to long- term financing for improved, owner- occupied real estate. Loans granted for properties not yet approved for planned development or improvements pose the risk of potential denials or delays in necessary approvals. Additionally, the risk of loss on a construction loan heavily relies on the accuracy of initial property value estimates upon completion compared to the estimated construction costs (inclusive of interest) and other assumptions. Inaccurate cost estimates may necessitate additional fund disbursements beyond the committed amount to protect the property' s value. Moreover, misjudgment in estimating the completed project' s value may result in the borrower holding a property insufficient to fully repay the construction loan upon its sale. Delays or cost overruns in construction can compound risks, especially when repayments rely on property sales or rentals to third parties, which may not transpire as anticipated. The sale of properties under construction is often challenging and typically requires completion for successful transactions, complicating the handling of problematic construction loans. Speculative construction loans carry additional risks, including the borrower' s ability to secure a take- out commitment for a permanent loan. Loans associated with undeveloped land or future construction also present added risks due to the lack of income generation from the property and its potential illiquid nature as collateral. Furthermore, various risks, such as fraudulent diversion of construction funds, mechanics' liens filed by contractors, subcontractors, or suppliers, and potential contractor failures in completing projects, contribute to the complexity and uncertainties associated with construction and development loans. Our portfolio of loans with a higher risk of loss is increasing and the unseasoned nature of such loans could lead to misjudgments in collectability, triggering additional provisions or charge- offs, impacting 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 \$ **753-816.6-5** million, or **68-69.0-5** % of total loans and leases, at December 31, **2023-2024** from \$ 226. 9 million, or 48. 5 % of total loans and leases, at December 31, 2016. A **large significant** portion of **this our commercial loan** portfolio is **composed of unseasoned loans**, meaning **loans they** were **recently** originated **recently**. **Our Due to our** limited **experience history** with these borrowers, **we lack** does not provide us with a **significant comprehensive** payment history pattern with which to **judge** **effectively assess the likelihood of** future collectability. **Further Furthermore**, **many of** these loans **may have** not **have yet** been **subjected to unfavorable tested under adverse** economic conditions. As a result, **it is difficult to predict predicting** the future performance of this **part segment** of our loan portfolio **remains challenging**. These loans may **have experience higher** delinquency or charge- off levels **above rates compared to** our historical **experience averages**, which could **adversely affect** **negatively impact** 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 **13.5 % and 15.3 % and 15.4 %** of our total revenue for the years ended December 31, **2024 and 2023 and 2022**, 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 **2023-2024**, of our \$ **89-61.7-6** million in lease originations, the top five brokers / third party originators accounted for approximately **45-52.6-0** % of our total volume of lease originations, one of whom accounted for approximately **13-14.3-4** % of our total volume of lease originations. At December 31, **2023-2024**, our top 25 brokers / third party originators collectively accounted for **81-83.7-6** % of our total direct financing lease portfolio, with our largest broker / third party originator accounting for **10-12.9-2** % of the portfolio. Losing top brokers or third- party originators, or their customers, without finding comparable alternatives, could decrease leasing volume, leading to potential revenue decline, materially impacting 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, **2023-2024**, direct financing leases totaled \$ **156-148.1 million, or 12.6 million, or 14.1 %** 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 \$ ~~52~~ **51.1 million or 34.4 million or 33.3%** of our total lease portfolio is to customers located in California, New York, Florida, and Arkansas. ~~A return of recessionary conditions or adverse~~ **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 losses is not sufficient to cover actual losses, our earnings could decrease. We periodically review our allowance for credit 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 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 institutions fail to provide timely updates on~~ **Deterioration in economic conditions, new information regarding existing loans, identification of additional problem loans or relationships, and other factors, both within and outside of our control, may increase our loan changes- charge - offs and / or otherwise require an increase in our provision for** 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. ~~If the lead institutions~~ **In addition, bank regulatory agencies periodically review our allowance for credit losses. Based on their assessment, they may require additional provisions for credit losses our- or loan participation agreements do not keep us informed about the changes- charge - offs. Any increase in the provision for credit losses affects net income and quality on the underlying loans in a timely manner, this could materially impact our financial condition, result results of operations in misstatements in our ACL, and capital or possibly losses on these loans.** Additionally, ~~reliance~~ **Reliance** on lead institutions for credit information quality updates in loan participations may expose us to financial, regulatory, and reputational risks. ~~We participate in loan participation agreements in which we are not the lead lender and rely on lead institutions to provide timely and accurate updates on changes in the credit quality of the underlying loans. If these institutions fail to deliver such updates in a timely manner, we may misstate our allowance for credit losses, which could result in unanticipated credit losses. Additionally, our dependence on lead institutions~~ exposes us to counterparty risk, ~~where as financial difficulties distress or operational failures on their part could jeopardize~~ **may impair** our ability to accurately assess and manage ~~credit risks- risk effectively associated with loan participations.~~ Inadequate disclosure or reporting of credit quality changes ~~could also result in by lead institutions may lead to non-compliance with regulatory requirements, exposing us potentially leading to regulatory scrutiny, fines, or other penalties~~ **enforcement actions**. Furthermore, ~~Moreover,~~ **Moreover,** misstatements in ACL due to ~~delayed delays or inaccuracies in~~ credit updates could damage our reputation and credibility in the market, posing a significant reputational ~~eroding investor and stakeholder confidence in our risk management practices.~~ Moreover, ~~failure~~ **Failure** to accurately properly assess and disclose risks associated with loan participations may further expose us to legal liabilities, including ~~lawsuits litigation from investors or regulatory agencies alleging mismanagement or inadequate risk management practices and misleading disclosures.~~ At December 31, ~~2023~~ **2024**, we had ~~held~~ **\$ 93-104.4** million in loan participations in which we were not the lead lender. Changes in the valuation of our securities portfolio could hurt our profits and reduce our capital levels. Our securities portfolio is 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 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 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, ~~2023~~ **2024**, 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 ~~the operation of~~ our business. A tightening of the credit markets ~~and or~~ the inability to obtain adequate funding to replace deposits and ~~fund support~~ continued loan growth ~~may affect~~ **could negatively impact** asset growth, ~~our~~ earnings capability, and capital levels ~~negatively~~. ~~To~~ **We rely on a number of different sources in order to meet our potential liquidity demands, we rely on several sources**. Our primary sources of liquidity are ~~include~~ increases in deposit accounts, including

brokered deposits, as well as cash flows from loan payments and our securities portfolio. **Additionally, Borrowings-borrowings**, especially particularly from the Federal Home Loan Bank and **through** repurchase agreements, also provide us with **a-an** important source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans and, or other sources could have a substantial negative effect on our liquidity. Our access to **adequate** funding, **whether through deposits** sources in amounts adequate to finance our **or other means**, activities or on terms that are acceptable to us could be impaired by factors that affect specific to us specifically, or **by broader issues affecting** the financial services industry or **the** economy in general. **Potential Factors-factors** that could **detrimentally impact-adversely affect** our access to liquidity sources include adverse regulatory action **actions** against us, a decrease in the level of our business activity **due to** as a result of a downturn in the markets **where in which** our loans are concentrated, or a decrease in the **loss of depositor** confidence of our depositors in our ability to meet withdrawal demands. Our **Additionally, our** ability to borrow could also be **impaired affected** by factors **beyond our control** that are not specific to us, such as a **disruption-disruptions** 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, **2023-2024**, the book value of our MSRs was \$ **1-2.9-0** 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, **2023-2024**, we owned \$ **12-13.6-9** 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 an area of substantial concern. Our information systems may experience failure, interruption or breach in security. Our business heavily relies on electronic communication and information systems, serving as the backbone for our operations and storage of sensitive data. Any disruption, failure, or breach in the security of these systems could significantly disrupt our operations. Cybersecurity threats encompass a range of incidents, including unauthorized access attempts, data breaches, computer viruses, and denial- of- service attacks. These events may lead to data theft, misuse, loss, or destruction, compromising confidential customer information, account takeovers, or service unavailability. These threats can stem from multiple sources, ranging from human errors to deliberate acts of malice from internal or external parties, or even unforeseen technological failures. Despite our proactive measures, including encryption, authentication technologies, and extensive education initiatives for both employees and customers, the expanding use of cloud services and remote work technologies exposes us to heightened vulnerability to cyber- attacks. The risk 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, delayed identification or response to the breach could significantly worsen its impact on our business, financial standing, and operational integrity. While we maintain specialized cyber insurance coverage, it may not cover every potential breach scenario, leaving certain instances uncovered. The repercussions of a security breach or major disruption to our information systems, as well as those of our customers, merchants, or third- party vendors, can be extensive. This includes disrupting operations, unauthorized access to sensitive information, potential legal violations, increased regulatory scrutiny, civil litigation, resource- intensive efforts to rectify the situation, damage to our reputation, or loss of customers. Any of these scenarios could have a material and adverse effect on our business, financial position, and 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.

. Our current and future uses of Artificial Intelligence (AI) and other emerging technologies may create additional risks. The increasing adoption of AI in financial services presents significant opportunities but also introduces a range of risks that could impact our operations, regulatory compliance, and customer trust. AI introduces model risk, where flawed algorithms or biased data could result in inaccurate credit decisions, compliance violations, or discriminatory outcomes in lending or customer service. Cybersecurity threats, such as data breaches, adversarial attacks, and data poisoning, pose significant challenges, particularly as these systems handle large volumes of sensitive customer information. Additionally, the opaque nature of some AI models, often referred to as " black- box " systems, raises regulatory compliance concerns, as regulators increasingly require transparency and explainability in AI- driven decision- making. Operational risks also arise from potential system failures, over- reliance on AI, and integration challenges with existing infrastructure. Disruptions in AI systems could impact critical functions such as fraud detection, transaction monitoring, and customer support. Ethical and reputational risks, including unintended consequences or perceived unfairness in AI- driven decisions, may erode customer trust and expose us to regulatory scrutiny. Mitigating these risks requires a robust governance framework, regularly testing and auditing of AI models, and strong human oversight. Investments in cybersecurity, data privacy protections, and employee training are critical to managing these risks

We are subject to environmental liability risk associated with lending activities 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 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. These changes might necessitate retrospective application, potentially leading to restatements of prior period financial statements. One such significant change ~~from in 2022~~ **in 2023** 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 in other liabilities on the Condensed Consolidated Balance Sheets.~~ 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 **raise significant** create an alarming level of concern **concerns** for about the state of the global environment. **However** As a result, **under** the **new Trump administration** global business community has increased its political and social awareness surrounding the issue, and **federal policy may shift to reduce** the United States has entered into **emphasis on climate change initiatives and environmental regulations. This could include scaling back federal participation in** international agreements ~~in an attempt to reduce global temperature increases~~, such as reentering the

Paris Agreement. Further, the U. S. Congress, state legislatures and **reducing** federal and state regulatory **pressures on businesses** agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives have occurred under the current administration, including increasing supervisory expectations with respect to banks' risk management practices, **to address** 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 **risks. Legislative and regulatory proposals aimed at combating** encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change **may face greater scrutiny or diminished priority.** The lack of empirical data surrounding **regarding** the **financial and** credit and other financial risks posed by climate change **render makes** it difficult, or even impossible, to predict **how its** specifically **specific impact on our financial condition and results of operations. However, the physical effects of climate change, such as more frequent and severe weather disasters, could directly affect us. For instance, such events may damage real property securing loans in our portfolio or reduce the value of that collateral. If our borrowers' insurance is insufficient to cover these losses or if insurance becomes unavailable, the value of the collateral securing our loans could be negatively affected, potentially impacting our financial condition and results of operations. Moreover,** 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 **affect** of climate change may negatively impact regional and local economic activity, **harming** which could lead to an adverse effect on our customers and impact the communities in which we operate. **Overall Regardless of changes in federal policy, the effects of** climate change, its effects and **the their** resulting, unknown **long- term impact impacts** could **still** 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 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 Recent changes in the regulatory landscape under the new administration have moved toward a reduction in emphasis on certain ESG priorities, particularly around climate change and diversity, equity, and inclusion ("DEI"). This shift is leading to the rollback of regulations could also that mandate specific disclosures and operational practices in these areas. However, some stakeholder groups continue to demand greater transparency and action, resulting in a complex and potentially conflicting environment for companies. If regulatory enforcement of ESG- related policies becomes less stringent, companies may face reputational risks if their practices are seen as insufficient or inconsistent with broader societal expectations, especially related to DEI and environmental stewardship. As a result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, navigating this evolving regulatory and disclosure public opinion landscape may require us to balance compliance with regulatory requirements against maintaining investor, customer, and stakeholder trust.** 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 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 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 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.