Risk Factors Comparison 2024-03-15 to 2023-03-30 Form: 10-K

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

An investment in our common stock involves significant risks. You should consider carefully the risk factors included below together with all of the information included in or incorporated by reference into this ~~annual~~ **Annual** ~~report~~ **Report on Form 10- K**, as the same may be updated from time **-** to **-** time by our future filings with the SEC under the Exchange Act, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have a material adverse effect on our business, financial condition and results of operations. If any of the matters included in the following information about risk factors were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially and adversely affected. In such case, you may lose all or a substantial part of your investment. To the extent that any of the information contained in this document constitutes forward- looking statements, the risk factors below should be reviewed as cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward- looking statements made by us or on our behalf. See " Cautionary note regarding forward- looking statements. " Risks Relating to Our Business Our business is adversely affected by unfavorable economic, market, and political conditions. In the event of an economic recession, our operating results could be adversely affected because we could experience higher loan and lease charge- offs and higher operating costs. Global economic conditions also affect our operating results because global economic conditions directly influence the U. S. economic conditions. Sources of global economic and market instability include, but are not limited to, the potential economic slowdown in United Kingdom, Europe and the United States, the impact of trade negotiations, economic conditions in China, including the global economic impacts of the Chinese economy, China' s regulation of commerce, **the war between** ~~escalating military tensions in Europe as a result of~~ Russia **and** ~~' s invasion of~~ Ukraine, **the war in the Middle East** and the effects of the recent pandemic or other health crises. Various market conditions also affect our operating results. Certain changes in interest rates, inflation, or the financial markets could affect demand for our products. Real estate market conditions directly affect performance of our loans secured by real estate. Debt markets affect the availability of credit which impacts the rates and terms at which we offer loans and leases. Stock market downturns often signal broader economic deterioration and / or a downward trend in business earnings which may adversely affect businesses' ability to raise capital and / or service their debts. Political and electoral changes, developments, conflicts, and conditions have in the past introduced, and may in the future introduce, additional uncertainty which may also affect our operating results. Our performance could be negatively affected to the extent there is deterioration in business and economic conditions, including persistent inflation, supply chain issues or labor shortages, which have direct or indirect material adverse impacts on us, our customers, and our counterparties. These conditions could result in one or more of the following: • a decrease in the demand for our loans and ~~leases and~~ other products and services offered by us; • a decrease in our deposit balances due to overall reductions in the accounts of customers; • a decrease in the value of collateral securing our loans and leases; • an increase in the level of nonperforming and classified loans and leases; • an increase in provisions for credit losses and loan and lease charge- offs; • a decrease in net interest income derived from our lending and deposit gathering activities; • a decrease in the Company ~~'~~ **'** s stock price; • a decrease in our ability to access the capital markets; or • an increase in our operating expenses associated with attending to the effects of certain circumstances listed above. Continued inflation poses risk to the economy overall, and could indirectly pose challenges to our clients and to our business. Elevated inflation can impact our business customers through the loss of purchasing power for their customers, leading to lower sales. Rising inflation can also increase input and inventory costs for our customers, forcing them to raise their prices or lower their profitability. Supply chain disruption, also leading to inflation, can delay our customers' shipping ability, or timing on receiving inputs for their production or inventory. Inflation can lead to higher wages for our business customers, increasing costs. All of these inflationary risks for our business customer base can be financially detrimental, leading to increased likelihood that the customer may default on a loan. In addition, sustained inflationary pressures have resulted in the FRB increasing interest rates by ~~475~~ **525** basis points since January 1, 2022 with current federal funds rate range of between ~~4~~ **5** . ~~75~~ **25** % to 5. ~~00~~ **50** %. To the extent such conditions exist or worsen, we could experience adverse effects on our business, financial condition, and results of operations. **.** Interest rates and other economic conditions will impact our results of operations.Our results of operations may be materially and adversely affected by changes in prevailing economic conditions,including declines in real estate values,rapid changes in interest rates and the monetary and fiscal policies of the federal government.Our results of operations are significantly impacted by the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest- bearing liabilities **(i.e.,net interest income)** ,including advances from the **Federal Home Loan Bank (the "** FHLB **")** of Atlanta.Interest rate risk arises from mismatches (i.e.,the interest sensitivity gap) between the dollar amount of repricing or maturing ~~of~~ assets and liabilities.If more assets reprice or mature than liabilities during a falling interest rate environment,then our earnings could be negatively impacted.Conversely,if more liabilities reprice or mature than assets during a rising interest rate environment,then our earnings could be negatively impacted. ~~Changes~~ **21Changes** in market interest rates are affected by many factors beyond our control,including inflation,unemployment,money supply,international events **,** and events in world financial markets.In response to inflationary pressures,the FRB has increased interest rates by ~~525~~ **475** basis points since January 1,2022 with a current federal funds rate range of between **4.75 % to** 5. ~~25~~ **00** % ~~to 5.50 %.Although the FRB left its benchmark rates steady in September and November of 2023 and January of 2024,the FRB suggested that additional rate increases in the future may be necessary to mitigate inflationary pressures~~ .Increases in interest rates could adversely affect borrowers' ability to pay the principal or interest on existing loans or reduce their desire to borrow more money.This may lead to an increase in our nonperforming assets,a decrease in loan originations,or a reduction in the value of and income from our **loans,any of which could have a material and negative effect on our results of operations** Adverse developments affecting financial institutions or the financial services industry generally, such as actual events or concerns involving liquidity, defaults or non- performance, could adversely affect our operations and ~~lidquidity~~ **liquidity** . Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions for the financial services industry generally, or concerns or rumors about any events of these kinds, **including the resulting media coverage,** have in the past and may in the future lead to market- wide liquidity problems **and erode customer confidence in the banking system** . For example, on March 10, 2023, Silicon Valley Bank ~~(" SVB ")~~ was closed by the California Department of Financial Protection and Innovation, ~~which appointed the FDIC as receiver. Similarly,~~ on March 12, 2023, Signature Bank was ~~placed into~~ **closed by the New York State Department of Financial Services and on May 1, 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation, and in each case the FDIC was appointed as** ~~receivership~~ ---- **receiver for the failed institution** . ~~Despite subsequent~~ **These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions. These events have led to a greater focus by institutions, investors and regulators on the on- balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. In connection with high- profile bank failures, uncertainty and concern has been, and may in the future be further, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns. While the Department of the Treasury, the FRB, and the FDIC have made statements ensuring that depositors of recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such** actions ~~taken by~~ **will be successful in restoring customer confidence in regional banks and** the ~~U~~ **bank system more broadly** . **In addition** ~~S. Department of the Treasury~~ , the ~~U~~ **banking operating environment and public trading prices of banking institutions can be highly correlated, in particular during times of stress, which could materially and adversely impact the trading prices of our common stock and potentially our results of operations** . ~~S. Federal Reserve~~ **Additionally, negative news about us or the banking industry in general could negatively impact market and / or customer perceptions of our company, which could lead to a loss of depositor confidence and** ~~and~~ - **an increase in deposit withdrawals, particularly among** ~~the~~ **those with uninsured deposits. Furthermore, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of** FDIC **insurance, move** ~~to ensure that all depositors of SVB had access to all of their cash~~ deposits **to banks deemed "** ~~following the closure of SVB, uncertainty remains with respect to~~ **too big to fail " or remove deposits from** the ~~health of the U. S.~~ banking system **entirely. As of December 31** , ~~particularly around~~ **2023, approximately $ 1. 0 billion of our deposits were uninsured and we rely on these deposits for** liquidity **. A failure to maintain adequate liquidity could have a material adverse effect on our business** , ~~uninsured deposits~~ **financial condition** and ~~deposit concentration~~ **results of operations** . Inflation and rapid increases in interest rates have led to a decline in the fair value of securities portfolios with yields below current market interest rates. The **FRB** ~~U. S. Federal Reserve Board~~ announced a program to provide up to $ 25 billion of loans to financial institutions secured by such government securities held by financial institutions to mitigate the risk of potential losses on the sale of such instruments. However, widespread demands for customer withdrawals or other needs of financial institutions for immediate liquidity may exceed the capacity of such program. There is no guarantee that the U. S. Department of Treasury, the **FRB** ~~U. S. Federal Reserve~~ and the FDIC will provide access to uninsured funds in the future in the event of the closure of other banks or financial institutions in a timely fashion or at all. ~~20If~~ **If** such levels of market disruption and volatility continue, there can be no assurance that we will not experience adverse effects, which may materially affect the market price of our common stock and / or our liquidity, financial condition and profitability. A majority of our business is concentrated in Maryland ~~and~~ **,** Delaware **and Virginia** , a significant amount of which is concentrated in real estate lending, so a decline in the local economy and real estate markets could adversely impact our financial condition and results of operations. Because most of our loans are made to customers who reside in Maryland ~~and~~ **,** Delaware **and Virginia** , a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose loan portfolios are geographically diverse. Further, a significant portion of our loan portfolio is secured by real estate, including construction and land development loans, all of which are in greater demand when interest rates are low and economic conditions are good. Accordingly, a decline in local economic conditions would likely have an adverse impact on our financial condition and results of operations, and the impact on us would likely be greater than the impact felt by larger financial institutions whose loan portfolios are geographically diverse. We cannot guarantee that any risk management practices that we implement to address our geographic and loan concentrations will be effective in preventing losses relating to our loan portfolio. Our concentrations of **CRE** ~~commercial real estate~~ loans could subject us to increased regulatory scrutiny and directives, which could force us to preserve or raise capital and / or limit our future commercial lending activities. The FRB and the FDIC, along with the other federal banking regulators, issued guidance in December 2006 entitled " Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices " directed at institutions that have particularly high concentrations of **CRE** ~~commercial real estate~~ loans within their lending portfolios. This guidance suggests that these institutions face a heightened risk of financial difficulties in the event of adverse changes in the economy and **CRE** ~~commercial real estate~~ markets. Accordingly, the guidance suggests that institutions whose concentrations exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk. Federal bank regulatory guidelines identify institutions potentially exposed to **CRE** ~~commercial real estate~~ concentration risk as those that have (i) experienced rapid growth in **CRE** ~~commercial real estate~~ lending, (ii) notable exposure to a specific type of **CRE** ~~commercial real estate~~, (iii) total reported loans for construction, land development and other land loans representing 100 % or more of the institution’ s capital ~~,~~ or (iv) total **CRE** ~~commercial real estate~~ loans representing 300 % or more of the institution’ s capital if the outstanding balance of the institution’ s **CRE** ~~commercial real estate~~ loan portfolio has increased 50 % or more during the prior 36 months. The guidance provides that banking regulators may require such institutions to reduce their concentrations and / or maintain higher capital ratios than institutions with lower concentrations in **CRE** ~~commercial real estate~~. Due to our emphasis on **CRE** ~~commercial real estate~~ and construction lending, as of December 31, ~~2022~~ **2023** , non- owner- occupied **CRE** ~~commercial real estate~~ loans (including construction, land and land development loans) represented ~~290~~ **382** . ~~4~~ **57** % of ~~total risk- based~~ **the Bank’ s Tier 1** ~~capital~~ **Capital the allowance for credit losses (“ ACL ”)** . Construction, land and land development loans represent ~~69~~ **56** . ~~8~~ **68** % of ~~total risk- based~~ **the Bank’ s Tier 1** ~~capital~~ **Capital ACL** . ~~The commercial real estate~~ **Due primarily from the Company’ s merger with TCFC on July 1, 2023, the CRE** portfolio has increased ~~117~~ **362** . ~~7~~ **14** % during the prior 36 months. We may be subject to heightened supervisory scrutiny during future examinations and / or be required to maintain higher levels of capital as a result of our **CRE** ~~commercial real estate~~ concentrations, which could require us to obtain additional capital, and may adversely affect shareholder returns. Management cannot predict the extent to which this guidance will impact our operations or capital requirements. Further, we cannot guarantee that any risk management practices we implement will be effective in preventing losses resulting from concentrations in our **CRE** ~~commercial real estate~~ portfolio . Interest rates and other economic conditions...... negative effect on our results of operations . The Bank may experience credit losses in excess of its allowances, which would adversely impact our financial condition and results of operations. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management at the Bank bases the allowance for credit losses upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. If management’ s assumptions and judgments prove to be incorrect and the allowance for credit losses is inadequate to absorb future losses, or if the bank regulatory authorities, as a part of their examination process, require the Bank to increase its allowance for credit losses, our earnings and capital could be significantly and adversely affected. We estimate losses inherent in our loan portfolio, the adequacy of our allowance for credit losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how those economic conditions might affect the ability of our borrowers to repay their loans or the value of assets. Material additions to the allowance for credit losses at the Bank would result in a decrease in the Bank’ s net income and capital and could have a material adverse effect on our financial condition. Our investment securities portfolio is subject to credit risk, market risk and liquidity risk. As of December 31, ~~2022~~ **2023** , we had classified ~~12~~ **17** . ~~9~~ **7** % of our debt securities as available- for- sale pursuant to the Accounting Standards Codification ~~(“ ASC ”)~~ Topic 320 (“ ASC 320 ”) of the ~~Financial Accounting Standards Board (“~~ FASB ~~”)~~ relating to accounting for investments. ASC 320 requires that unrealized gains and losses in the estimated value of the available- for- sale portfolio be “ marked to market ” and reflected as a separate item in stockholders’ equity (net of tax) as **AOCI** ~~accumulated other comprehensive income~~ (loss). The remaining debt securities are classified as held- to- maturity in accordance with ASC 320 and are stated at amortized cost. Equity securities with readily determinable fair values are recorded at fair value with changes in fair value recorded in earnings. Stockholders’ equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. At December 31, ~~2022~~ **2023** , the Company’ s accumulated other comprehensive loss amounted to $ ~~9~~ **7** . ~~0~~ **5** million. There can be no assurance that the market value of our investment portfolio will not continue to decline, causing a corresponding decline in stockholders’ equity. The Bank is a member of the FHLB of Atlanta and our investments include stock issued by the FHLB of Atlanta. These investments could be subject to future impairment charges and there can be no guaranty of future dividends. Management believes that several factors will affect the market values of our investment portfolio. These risk factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and instability in the credit markets. **At times, a** ~~Lack~~ **lack** of market activity with respect to some securities has, in certain circumstances, required us to base our fair market valuation on unobservable inputs **(“ Level 3 ” in fair value hierarchy). At December 31, 2023, the Bank had no Level 3 securities** . Any changes in these risk factors, in current accounting principles or interpretations of these principles could impact our assessment of fair value and thus the determination of **credit losses** ~~other- than- temporary impairment~~ of the securities in the investment securities portfolio. Write- downs of investment securities would negatively affect our earnings and regulatory capital ratios. Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations. We are required to ~~record~~ **establish** a ~~non- cash charge to earnings~~ **reserve in the allowance for credit loss (ACL)** when management determines that an investment security is **impaired due to a credit loss. The amount of the impairment related to credit losses, limited by the amount by which the specific security’ s amortized cost basis exceeds its fair value, is recorded in the ACL. Changes in the ACL are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities AFS not resulting from credit losses are recorded in** other ~~- than- temporarily impaired~~ **comprehensive income (loss)** . In assessing whether the impairment of an investment security is **a credit loss or** other **market factors** ~~- than- temporary~~ , ~~22management~~ -- **management** considers the length of time and extent to which the fair value has been less than cost, the financial condition and near- term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. Intangible assets other than goodwill are also subject to impairment tests at least annually. A decline in the price of the Company' s common stock or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform goodwill and other intangible assets impairment tests and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our goodwill or other intangible assets may be impaired, a non- cash charge for the amount of such impairment would be recorded to earnings. At December 31, ~~2022~~ **2023** , we had recorded goodwill of $ 63. 3 million and other intangible assets of $ ~~5~~ **48** . ~~5~~ **1** million, representing approximately ~~17~~ **12** . 4 % and ~~1~~ **9** . ~~5~~ **4** % of stockholders' equity, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive, including the recent trend of quarterly earnings. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under the tax law, including the use of tax planning strategies. When negative evidence (e. g., cumulative losses in recent years, history of operating loss or tax credit carry forwards expiring unused) exists, more positive evidence than negative evidence will be necessary. At December 31, ~~2022~~ **2023** , our gross deferred tax assets were approximately $ ~~15~~ **67** . ~~1~~ **8** million. There was a valuation allowance of deferred taxes of $ ~~791 thousand~~ **1. 0 million** recorded at December 31, ~~2022~~ **2023** as management believes it is more likely than not that net operating losses for the ~~parent~~ **holding** company only will not be realized for state income tax purposes. The holding company files a separate return with the state of Maryland and does not expect that the holding company will generate sufficient taxable income to utilize its deferred tax assets. No valuation allowance is currently recorded for state deferred income taxes of the Company' s subsidiaries or at the Federal level where the Company files consolidated tax return. ~~Changes in accounting standards or interpretation of new or existing standards may affect how we report our financial condition and results of operations. From time to time the FASB and the SEC change accounting regulations and reporting standards that govern the preparation of the Company' s financial statements. In addition, the FASB, SEC, bank regulators and the outside independent auditors may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These changes can be hard to predict and can materially impact how to record and report our financial condition and results of operations. In some cases, there could be a requirement to apply a new or revised accounting standard retroactively, resulting in the restatement of prior period financial statements.~~ Our future success will depend on our ability to compete effectively in the highly competitive financial services industry. We face substantial competition in all phases of our operations from a variety of different competitors. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, money market funds and other mutual funds, as well as other local and community, super- regional, national and international financial institutions that operate offices in our primary market areas and elsewhere. Our future growth and success will depend on our ability to compete effectively in this highly competitive financial services environment. Failure to compete effectively to attract new or to retain existing, clients may reduce or limit our net income and our market share and may adversely affect our results of operations, financial condition and growth. ~~23Our~~ -- **Our** funding sources may prove insufficient to replace deposits and support our future growth. We rely on customer deposits, advances from the FHLB, and lines of credit at other financial institutions to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained and / or our cost of funds will increase if we are unable to maintain our access to funding or if financing necessary to accommodate future growth is not available at favorable interest rates. Finally, if we are required to place greater reliance on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected. The cost savings that we estimate for mergers and acquisitions may not be realized. The success of our mergers and acquisitions may depend, in part, on the ability to realize the estimated cost savings from combining the acquired businesses with our existing operations. It is possible that the potential cost savings could turn out to be more difficult to achieve than anticipated. The cost savings estimates also depend on the ability to combine the businesses in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or there is an inability to combine successfully, the anticipated cost savings may not be realized fully or at all or may take longer to realize than expected. Combining acquired businesses may be more difficult, costly, or time- consuming than expected, or could result in the loss of customers. It is possible that the process of merger integration of acquired companies could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger or acquisition. There also may be disruptions that cause the Bank to lose customers or cause customers to withdraw their deposits. Customers may not readily accept changes to their banking arrangements or other customer relationships after the merger or acquisition. The loss of key personnel could disrupt our operations and result in reduced earnings. Our growth and profitability will depend upon our ability to attract and retain skilled managerial, marketing and technical personnel. Competition for qualified personnel in the financial services industry is intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. Our lending activities subject us to the risk of environmental liabilities. A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations of enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews 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 our financial condition and results of operations. ~~24Income~~ -- **Income** from mortgage- banking operations is volatile and we may incur losses with respect to our mortgage- banking operations that could negatively affect our earnings. One component of our strategy is to sell on the secondary market the longer term, conforming fixed- rate residential mortgage loans that we originate, earning noninterest income in the form of gains on the sale of the loans. When interest rates rise, as they have since the first quarter of 2022, the demand for mortgage loans tends to fall and may reduce the number of loans we can originate for sale. Weak or deteriorating economic conditions also tend to reduce loan demand. Although we sell, and intend to continue selling, most loans in the secondary market with limited or no recourse, we are required, and will continue to be required, to give customary representations and warranties to the buyers relating to compliance with applicable law. If we breach those representations and warranties, the buyers will be able to require us to repurchase the loans and we may incur a loss on the repurchase. We have not been required to repurchase any loans as of December 31, ~~2022~~ **2023** . We provide banking services to customers who do business in the cannabis industry and the strict enforcement of federal laws regarding cannabis would likely result in our inability to continue to provide banking services to these customers and we could have legal action taken against us by the federal government. We have deposit and loan customers that are licensed ~~by the~~ **in several** ~~state~~ **states** ~~of Maryland~~ **within the United States** to do business in the cannabis industry as growers, processors, and dispensaries. While cannabis is legal in ~~the~~ **these** ~~state~~ **states** of ~~Maryland~~ **operation** , it remains classified as a Schedule I controlled substance under the ~~Federal~~ Controlled Substances Act ~~(" CSA ")~~ . As such, the cultivation, use, distribution, and possession of cannabis is a violation of federal law that is punishable by imprisonment and fines. Moreover, the U. S. Supreme Court ruled in USA v. Oakland Cannabis Buyers' Coop. that the federal government has the authority to regulate and criminalize cannabis, including medical marijuana. In January 2018, the U. S. Department of Justice (" DOJ ") rescinded the " Cole Memo " and related memoranda which characterized the enforcement of the ~~CSA~~ **Controlled Substances Act** against persons and entities complying with state regulatory systems permitting the use, manufacture and sale of medical marijuana as an inefficient use of their prosecutorial resources and discretion. The impact of the DOJ' s rescission of the Cole Memo and related memoranda is unclear, but may result in the DOJ increasing its enforcement actions against the regulated cannabis industry generally **. However, as of the date of this filing we are not aware of any insured depository institution that has been prosecuted by the DOJ based on providing otherwise lawful banking products and services to the cannabis industry** . As in past years, the U. S. Congress has enacted an omnibus spending bill that includes a provision prohibiting the DOJ and the U. S. Drug Enforcement Administration from using funds appropriated by that bill to prevent states from implementing their medical- use cannabis laws. This provision was recently renewed as part of the **annual federal** Consolidated Appropriations Act ~~of 2022~~ . While this provision has been re- enacted every year since 2014, and is expected to continue to be re- enacted in future federal spending bills, if Congress and the President fail to further renew the provision, then the ability of ~~medical~~ cannabis businesses to act in this area, and the Bank' s ability to provide banking products and services to such businesses, may be impeded. Further, the U. S. Court of Appeals for the Ninth Circuit held in USA v. McIntosh that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical- use cannabis laws and who strictly comply with such laws. There is no guarantee that the U. S. Congress will extend this provision or that U. S. Federal courts located outside the Ninth Circuit will follow the ruling in USA v. McIntosh. As of the date of filing this Annual Report on Form 10- K, we are aware of no federal or state court in or for ~~Maryland~~ **the states in which our customers operate** that has addressed the merits of the McIntosh ruling. Federal prosecutors have significant discretion and there can be no assurance that the federal prosecutor for ~~the District of Maryland~~ **any state in which our customers operate** will not choose to strictly enforce the federal laws governing cannabis, including **adult- use and** medical- use cannabis, or that the federal courts in ~~Maryland~~ **these states** will follow the Ninth Circuit' s ruling in USA v. McIntosh. Any change in the federal government' s enforcement position ~~,~~ could cause us to immediately cease providing banking services to the medical **and adult** - use cannabis industry in ~~Maryland~~ **states within the United States** . Additionally, as the possession and use of cannabis remains illegal under the ~~CSA~~ **Controlled Substances Act** , we may be deemed to be aiding and abetting illegal activities through the services that we provide to these customers and could have legal action taken against us by the Federal government, including imprisonment and fines. Any change in **the federal government' s** position **on adult-** ~~or potential action taken against us~~ **use cannabis enforcement, or a change in federal appropriations law,** could result in significant financial damage to us and our stockholders. ~~25The~~ FinCEN published guidelines in 2014 for financial institutions servicing state legal cannabis business. These guidelines were issued for the explicit purpose so " that financial institutions can provide services to marijuana- related businesses in a manner consistent with their obligations to know their customers and to report possible criminal activity. " The Bank has and will continue to follow this and other FinCEN guidance in the areas of cannabis banking. Any adverse change in this FinCEN guidance, any new regulations or legislation, any change in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator' s interpretation of a law or regulation, could have a negative impact on our interest income and noninterest income, as well as the cost of our operations, increasing our cost of regulatory compliance and of doing business, and / or otherwise affect us, which may materially affect our profitability ~~. We may be subject to other adverse claims. We may from time to time be subject to claims from customers for losses due to alleged breaches of fiduciary duties, errors and omissions of employees, officers and agents, incomplete documentation, the failure to comply with applicable laws and regulations, or many other reasons. Also, our employees may knowingly or unknowingly violate laws and regulations. Management may not be aware of any violations until after their occurrence. This lack of knowledge may not insulate us or our subsidiary from liability. Claims and legal actions may result in legal expenses and liabilities that may reduce our profitability~~

~~and hurt our financial condition~~. We depend on the accuracy and completeness of information about customers and counterparties and our financial condition could be adversely affected if we rely on misleading information. In deciding whether to extend credit or to enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to customers, we may assume that a customer' s audited financial statements conform with ~~U. S.~~ GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading. Our exposure to operational, technological and organizational risk may adversely affect us. We are exposed to many types of operational risks, including reputation, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, clerical or record-keeping errors, and errors resulting from faulty or disabled computer or telecommunications systems. Certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as are we) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate. Our information systems may experience an interruption or breach in security. We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state- sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company or customer data. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, ~~26result~~ -- **result** in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability. Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer. In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, revenues and competitive position. Our reliance on third party vendors could expose us to additional cyber risk and liability. The operation of our business involves outsourcing of certain business functions and reliance on third- party providers, which may result in transmission and maintenance of personal, confidential ~~,~~ and proprietary information to and by such vendors. Although we require third- party providers to maintain certain levels of information security, such providers remain vulnerable to breaches, unauthorized access, misuse, computer viruses ~~,~~ or other malicious attacks that could ultimately compromise sensitive information possessed by our company. Although we contract to limit our liability in connection with attacks against third- party providers, we remain exposed to risk of loss associated with such vendors. We outsource certain aspects of our data processing to certain third- party providers which may expose us to additional risk. We outsource certain key aspects of our data processing to certain third- party providers. While we have selected these third- party providers carefully, we cannot control their actions. If our third- party providers encounter difficulties, including those which result from their failure to provide services for any reason or their poor performance of services, or if we have difficulty in communicating with them, our ability to adequately process and account for customer transactions could be affected, and our business operations could be adversely impacted. Replacing these third- party providers could also entail significant delay and expense. Our third- party providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. Threats to information security also exist in the processing of customer information through various other third- party providers and their personnel. We may be required to expend significant additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of our third- party providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. We are dependent on our information technology and telecommunications systems and third- party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations. Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party servicers. We outsource many of our major systems, such as data **-** processing and deposit **-** processing systems. The failure of these systems, or the termination of a third- party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity **,** or such third- party systems fail or experience interruptions. If sustained or ~~27repeated~~ -- **repeated** , a system failure or service denial could result in a deterioration of our ability to provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and / or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations. In addition, we provide our customers the ability to bank remotely, including online over the Internet. The secure transmission of confidential information is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Further, we outsource some of the data processing functions used for remote banking, and accordingly we are dependent on the expertise and performance of our third- party providers. To the extent that our activities, the activities of our customers, or the activities of our third- party service providers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage. Technological changes affect our business, and we may have fewer resources than many competitors to invest in technological improvements. Our future success will depend, in part, upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology- driven products and services ~~. The replacement of the LIBOR benchmark interest rate may have an impact on our business, financial condition, or results of operations. Certain loans made by us were made at variable rates that use LIBOR as a benchmark for establishing the interest rate. In addition, we also have investments, debt instruments and interest rate derivatives that reference LIBOR. On July 27, 2017, the United Kingdom' s Financial Conduct Authority (" FCA ") announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. On November 30, 2020 to facilitate an orderly LIBOR transition, the OCC, the FDIC, and the Federal Reserve jointly announced that entering into new contacts using LIBOR as a reference rate after December 31, 2021 would create a safety and soundness risk. On March 5, 2021, the FCA announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of 1- week and 2- month U. S. dollar LIBOR, and immediately after June 30, 2023, in the case of the remaining U. S. dollar LIBOR settings. In the United States, efforts to identify a set of alternative U. S. dollar reference interest rates are ongoing, and the Alternative Reference Rate Committee (" ARRC ") has recommended the use of SOFR. SOFR is different from LIBOR in that it is a backward- looking secured rate rather than a forward- looking unsecured rate. These differences could lead to a greater disconnect between the Bank' s costs to raise funds for SOFR as compared to LIBOR. For cash products and loans, the ARRC has also recommended Term SOFR, which is a forward- looking SOFR based on SOFR futures and may in part reduce differences between SOFR and LIBOR. To further reduce differences between replacement indices and substitute indices, market practitioners have also gravitated towards credit sensitive rates, the leading among them being the Bloomberg Short- Term Bank Yield Index (" BSBY "). The ARRC announced on October 21, 2020 that they are not well positioned to adjudicate the development of a credit sensitive rate and will not criticize firms solely for using reference rates other than SOFR, such as BSBY. After an extended analysis by a multidisciplinary project team to identify operational and contractual best practices, assess our risks, and identify the detailed list of all financial instruments impacted, we adopted the SOFR family of interest rates for our financial instruments going forward. Under the oversight of our Enterprise Risk Committee, we are managing the transition, facilitating communication with our customers and counterparties, and monitoring the impacts of this transition. 28There are also operational issues which may create a delay in the transition to SOFR or other substitute indices, leading to uncertainty across the industry. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may incur significant expenses in effecting 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. The transition from LIBOR could create considerable costs and additional risk. The discontinuance of LIBOR and related uncertainty may adversely affect the market value of, the return on, or the expenses associated with our financial assets and liabilities that are based on or are linked to LIBOR. In addition, the market transition away from LIBOR could prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate. Although we are currently unable to assess the ultimate impact of the transition from LIBOR, the failure to adequately manage the transition could have a material adverse effect on our business, financial condition, and results of operations~~ . Climate change manifesting as physical or transition risks could adversely affect our operations, businesses and customers. There is an increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change include discrete events, such as flooding and wildfires, and longer- term shifts in climate patterns, such as extreme heat, sea level rise, and more frequent and prolonged drought. Under medium or longer- term scenarios, such events, if uninterrupted or unaddressed, could disrupt our operations or those of our customers or third parties on which we rely, including through direct damage to assets and indirect impacts from supply chain disruption and market volatility. Additionally, transitioning to a low- carbon economy may entail extensive policy, legal, technology and market initiatives. Transition risks, including changes in consumer preferences and additional regulatory requirements or supervisory expectations or taxes, could increase our expenses and undermine our strategies. In addition, our reputation and client relationships may be damaged as a result of our practices related to climate change, including our involvement, or our customers' involvement, in certain industries or projects, in the absence of mitigation and / or transition measures, associated with causing or exacerbating climate change, as well as any decisions we make to continue to conduct or change our activities in response to considerations relating to climate change. As climate risk is interconnected with all key risk types, we have developed and continue to enhance processes to embed climate risk considerations into our risk management strategies established for risks such as market, credit and operational risks; however, because the timing and severity of climate change may not be predictable, our risk management strategies may not be effective in mitigating climate risk exposure. **Failure to maintain effective systems of internal and disclosure control could have a material adverse effect on the Company' s results of operation, financial condition and stock price. As part of our ongoing monitoring of internal and disclosure controls, we may discover material weaknesses or significant deficiencies in our internal and disclosure controls that require remediation; as we did in our current assessment of internal controls. See " Item 9A. Controls and Procedures. " A " material weakness " is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company' s annual or interim financial statements will not be prevented or detected on a timely basis. Any failure to maintain effective internal and disclosure controls or to timely implement any necessary improvement of our internal and disclosure controls, or to effect remediation of any material weakness or significant deficiency, could, among other things, result in losses from fraud or error, harm our reputation, or cause investors to lose confidence in our reported financial information, all of which could have a material adverse effect on our results of operation, financial condition or stock price.** Risks Relating to the Regulation of our ~~IndustryWe~~ -- **Industry We** operate in a highly regulated environment, which could restrain our growth and profitability. Banking is highly regulated under federal and state law. As such, we are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations **, including potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election,** often impose additional operating costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, enforcement actions and fines and other penalties, any of which could adversely affect our results of operations, regulatory capital levels and the price of our securities. Further, any new laws, rules and regulations, such as the Dodd- Frank Act, could make compliance more difficult or expensive or otherwise adversely affect **our business, financial condition and results of operations. In addition, we anticipate increased regulatory scrutiny, in the course of routine examinations and otherwise, and new regulations in response to recent negative developments in the banking industry, which may increase our cost of doing business and reduce our profitability. Among other things, there may be increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, brokered deposits, unrealized losses in securities portfolios, liquidity, CRE loan composition and concentrations, and capital as well as general oversight and control of the foregoing. We could face increased scrutiny or be viewed as higher risk by regulators and / or the investor community, which could have a material adverse effect on** our business, financial condition and results of operations. Federal regulators periodically examine our business, and we may be required to remediate adverse examination findings. The FRB and the OCC periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, the FRB or the OCC were to determine that our financial condition, capital resource, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. Any ~~29regulatory~~ -- **regulatory** action against us could have a material adverse effect on our business, financial condition and results of operations. Our FDIC deposit insurance premiums and assessments may increase. The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject to the payment of FDIC deposit insurance assessments. The Bank' s regular assessments are determined by its risk classifications, which are based on its regulatory capital levels and the level of supervisory concern that it poses. Further increase in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations. We are subject to numerous laws designed to protect consumers, including the **CRA** ~~Community Reinvestment Act~~ and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The **DOJ** ~~Department of Justice~~ and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution' s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisition activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations. We are subject to evolving and extensive regulations and requirements. Our failure to adhere to these requirements or the failure or circumvention of our controls and procedures could seriously harm our business. We are subject to extensive regulation as a financial institution and are also required to follow the corporate governance and financial reporting practices and policies required of a company whose stock is registered under the Exchange Act and listed on the NASDAQ Global Select Market. Compliance with these requirements means we incur significant legal, accounting and other expenses. Compliance also requires a significant diversion of management time and attention, particularly with regard to disclosure controls and procedures and internal control over financial reporting. Although we have reviewed, and will continue to review, our disclosure controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent errors or frauds in the future. Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it difficult for us to ensure that the objectives of the control system will be met. A failure of our controls and procedures to detect other than inconsequential errors or fraud could seriously harm our business and results of operations. We face a risk of noncompliance and enforcement action with the BSA and other anti- money laundering statues and regulations. The BSA, the ~~USA PATRIOT~~ **Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism** Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti- money laundering program and file suspicious activity and currency transaction reports as appropriate. **FinCEN** ~~The federal Financial Crimes Enforcement Network~~ is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the **DOJ** ~~U. S. Department of Justice~~ , Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the **OFAC** ~~Office of Foreign Assets Control~~ . If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could ~~30also~~ -- **also** have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations. Risks Relating to the Company' s ~~SecuritiesOur~~ --- **Securities Our** common stock is not insured by any governmental entity. Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity. Investment in our common stock is subject to risk, including possible loss. Our ability to pay dividends is limited by law and contract. The continued ability to pay dividends to shareholders depends in part on dividends from the Bank. The amount of dividends that the Bank may pay to the Company is limited by federal laws and regulations. The ability of the Bank to pay dividends is also subject to its profitability, financial condition and cash flow requirements. There is no assurance that the Bank will be able to pay dividends to the Company in the future. The decision may be made to limit the payment of dividends even when the legal ability to pay them exists, in order to retain earnings for other uses. Our ~~2035~~ **subordinated** ~~Debentures~~ **debentures** contain restrictions on our ability to declare and pay dividends on or repurchase our common stock. Under the terms of our ~~Junior Subordinated~~ **subordinated** ~~Debt Securities due 2035 (the " 2035 Debentures~~ **debentures** ~~")~~ , if (i) there has occurred and is continuing an event of default; (ii) we are in default with respect to payment of any obligations under the related guarantee; or (iii) we have given notice of our election to defer payments of interest on the ~~2035~~ **subordinated** ~~Debentures~~ **debentures** by extending the interest distribution period as provided in the ~~indenture~~ **indentures** governing the ~~2035~~ **subordinated** ~~Debentures~~ **debentures** and such period, or any extension thereof, has commenced and is continuing, then we may not, among other things, declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of **our** ~~ourcapital~~ --- **capital** stock, including our common stock. As of December 31, ~~2022~~ **2023** , we were current on all interest due on ~~the 2035~~ **our outstanding subordinated** ~~Debentures~~ **debentures** ~~. The shares of our common stock are not heavily traded. Shares of our common stock are listed on the NASDAQ Global Select Market, but are not heavily traded. Securities that are not heavily traded can be more volatile than stock trading in an active public market. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly and may decline in response to a variety of factors. Management cannot predict the extent to which an active public market for the shares of the common stock will develop or be sustained in the future. Accordingly, holders of shares of our common stock may not be able to sell them at the volumes, prices, or times that they desire. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results. We urge you to obtain current market quotations for our common stock when you consider investing in our common stock~~ . Future sales of our common stock or other securities may dilute the value and adversely affect the market price of our common stock. In many situations, the board of directors has the authority, without any vote of our shareholders, to issue shares of authorized but unissued stock, including shares authorized and unissued under our equity incentive plans. In the future, additional securities may be issued, through public or private offerings, in order to raise additional capital. Any such issuance would dilute the percentage of ownership interest of existing shareholders and may dilute the per share book value of our common stock. In addition, option holders may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms. ~~31Provisions~~ -- **Provisions** in our governing documents and Maryland law may have an anti- takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies. Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti- takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management. In addition, certain provisions of Maryland law may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect " control " of an FDIC- insured depository institution or its holding company. These laws include the BHC Act and the Change in Bank Control Act. These laws could delay or prevent an acquisition. We may issue debt and equity securities that are senior to the common stock as to distributions and in liquidation, which could negatively affect the value of the common stock. In the future, we may increase our capital resources by entering into debt or debt- like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of our debt or preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of its future offerings and debt financings. Future offerings could reduce the value of shares of our common stock and dilute a stockholder' s interest in us. ~~Risks related to the Proposed MergerWe expect to continue to incur substantial costs related to the Merger and integration. We have incurred and will continue to incur substantial costs in connection with the proposed Merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit- related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, closing, integration and other related costs. While we have attempted to accurately forecast these costs, factors that are beyond our control or that we have failed to accurately estimate could result in us incurring future charges in excess of our current estimates. These charges could be material and could materially adversely affect our future earnings. If the merger is not completed, we would have incurred these expenses without realizing the expected benefits of the Merger. Failure to complete the proposed Merger could negatively impact Shore. If the Merger with TCFC is not completed for any reason there may be various adverse consequences and we may experience negative reactions from the financial markets and from our customers and employees. For example, our business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, the benefits from which may not be realized. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that current market prices reflect a market assumption that the Merger will be beneficial and will be completed. We also could be subject to litigation related to any failure to complete the Merger or to proceedings commenced against us to perform obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of $ 10. 5 million to TCFC. The proposed integration of Shore and TCFC may be more difficult, costly or time consuming than expected and Shore may fail to realize the anticipated benefits of the proposed Merger. The success of the proposed Merger will depend, in part, on the ability to realize the anticipated growth opportunities and cost savings from combining the businesses of Shore and TCFC. To realize the anticipated benefits and cost savings from 32~~