Risk Factors Comparison 2024-02-27 to 2023-02-24 Form: 10-K

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An investment in Bancorp' s common stock is subject to risks inherent in its business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this filing. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to Bancorp or that Bancorp currently deems to be immaterial **may** also ~~may~~ materially and adversely affect its business, financial condition and results of operations in the future. The value or market price of Bancorp' s common stock could decline due to any of these identified or other risks, and an investor could lose all or part of their investment. There are factors, many beyond Bancorp' s control, which may significantly change the results or expectations of Bancorp. Some of these factors are described below, however, many are described in the other sections of this Annual Report on Form 10- K. Economic, Market and Credit Risks Fluctuations in interest rates could reduce profitability. Our primary source of income is from net interest spread, **which is** the difference between interest earned on loans and investments and interest paid on deposits and borrowings. We expect to periodically experience gaps in interest rate sensitivities of assets and liabilities, meaning that either interest- bearing liabilities may be more sensitive to changes in market interest rates than interest- earning assets, or vice versa. In either event, if market interest rates should move ~~contrary to our position~~ **in a way that constricts net interest spread and NIM**, earnings could be negatively affected. Many factors affect fluctuation of market interest rates, including, but not limited to the following: ● the FRB' s actions to ~~control~~ **change** interest rates ● inflation or deflation ● recession ● changes in unemployment ● changes in the ~~money~~ **Money** ~~supply~~ **Supply** ● local, regional, national or international disorder and instability in financial markets The FRB has taken aggressive interest rate ~~actions~~ - **action** over the past **several** ~~year~~ **years . In March of 2020** , **the FRB** ~~implementing~~ **implemented** ~~multiple~~ **severe, pandemic- driven interest** rate ~~hikes in~~ **decreases that lowered the FFTR to a range of 0 %- 0. 25 % and Prime to 3. 25 %, sustaining these levels for approximately two years. In** an effort to ~~tame~~ **fight resulting** inflation that ~~has reached~~ **had risen to** its highest levels in decades ~~. Beginning 2022 at a range of 0. 00 %- 0. 25 %~~ , **the FRB increased** the FFTR ~~was subsequently increased~~ a ~~cumulative~~ **total of** 425 bps **in 2022 and an additional 100 bps in 2023,** ~~during~~ - **driving** the **FFTR to** ~~year, bringing it~~ a range of ~~4~~ **5** . 25 %- ~~4~~ **5** . 50 % ~~,~~ and Prime to ~~7~~ **8** . 50 % ~~,~~ as of December 31, **2023. The dramatic rise in interest rates experienced in** 2022 **provided significant benefit to NIM, as interest earning assets experienced higher yields and elevated levels of liquidity allowed deposit costs to remain near pandemic- era lows. However, as liquidity dissipated in 2023, intense competition for deposits created significant pricing pressure and drove deposit costs up. The resulting shift in Bancorp' s deposit mix, with a large portion of non- interest bearing and lower- rate deposits migrating to higher- yielding alternatives, created significant NIM compression during the year** . The current economic outlook ~~suggests continued interest rate action from~~ **remains volatile, regularly changing as new economic data becomes available and** the FRB ~~through~~ **' s efforts to control inflation continue. Recent projections indicate that the FFTR will remain** at ~~least~~ **the current level in** the first ~~quarter~~ **part** of ~~2023~~ **2024** ~~and prospects~~ **, with probabilities suggesting FFTR decreases as we enter the second half** of **the year** ~~a continuing rising rate environment~~ . ~~While~~ **As a potential economic slowdown looms,** Bancorp expects **ongoing** ~~continued rising rates to have a positive effect on NIM,~~ pricing pressure / competition for both loans and deposits, changing levels of liquidity within the banking system and ~~the possibility of~~ a ~~more~~ severely inverted yield curve ~~could~~ **will** continue to place pressure on NIM **in the first part of 2024** . ~~Deposit~~ **13Deposit** rates tend to be tied to the short end of the rate curve, while fixed- rate loans are largely priced based upon longer term rates, typically five- year offerings. A flattened, or inverted, yield curve may increase our funding costs while limiting rates that can be earned on loans and investments, thereby decreasing our net interest income and earnings. Further, migration of deposits out of Bancorp, as customers pursue higher rates, could impact liquidity and earnings, as we compete for deposits. Changes in the mix of deposits could result in increased average rates paid on deposits, and lower earnings. Our asset- liability management strategy, which is designed to mitigate risk from changes in market interest rates, may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. ~~12Financial~~ -- **Financial** condition and profitability depend significantly on local and national economic conditions. Our success depends on general economic conditions ~~both~~ locally, regionally and nationally. A portion of our customers' ability to repay their obligations is directly tied to local, regional, national or global economic activity. Deterioration in the quality of the credit portfolio could have a material adverse effect on our financial condition, results of operations, and ultimately capital. The economic outlook for ~~2023~~ **2024** suggests ~~sluggish~~ **the potential for slowing** growth **and even for recession. Higher interest rates** , **cooling but persistent** ~~continued monetary tightening to subdue~~ inflation, and ~~the potential of~~ **compounding geopolitical risks create** a **number** ~~recession. While consumer and business balance sheets remain strong by historical standards, excess liquidity built up during the pandemic, largely through government stimulus, has gradually dissipated over the course~~ of **uncertainties heading into** ~~2022~~ **2024** ~~, leaving borrowers with less cushion to withstand economic downturns than may have been available in recent years~~ . As such, the severity of any potential recession or economic downturn could have a significant impact on borrowers' ability to perform. Our allowance for credit losses may not be adequate to cover actual losses, which could negatively impact earnings. The **ACL** ~~allowance for credit losses~~ on loans and the liability for unfunded lending commitments reflect management' s estimate of credit losses expected in the loan portfolio, including unfunded lending commitments, as of the balance sheet date. These estimates are the result of our continuing evaluation of specific credit risks and loss experience, current loan portfolio quality, present economic, political and regulatory conditions, industry concentrations, reasonable and supportable forecasts of future economic conditions, and other factors that may provide an indication of **potential** credit losses.

The determination of our allowance for credit losses inherently involves a high degree of subjectivity and requires assumptions to be made by management. If our assumptions prove to be incorrect or economic problems are worse than projected, adjustments may be necessary to allow for changing economic conditions or adverse developments in the loan portfolio. Any material increase to the required level of ACL, or insufficiency of the ACL to cover actual loan losses, could adversely affect our business, financial condition, and results of operations. Federal and state regulators annually review our allowance and may require an adjustment in the ACL on loans. If regulatory agencies require any increase in the allowance for which we had not allocated, it would have a negative effect on our financial results. Our credit metrics are currently at ~~historically~~ strong levels and this trend could normalize over time. Over the past several years, our asset quality metrics have trended within a narrow range, exceeding benchmarks and reaching historically strong levels. We realize that present asset quality metrics are positive and, recognizing the cyclical nature of the lending business, we anticipate this trend will likely normalize over time. Financial condition and profitability ~~depend on real estate~~ **could be negatively impacted by collateral** values ~~in our market areas~~ . We offer a variety of secured loans, including C & I lines of credit, C & I term loans, real estate, C & D, HELOCs, consumer and other loans ~~. Many of our loans are often secured by real estate primarily in our market areas~~ . In instances where borrowers are unable to repay their loans and there has been deterioration in the value of loan collateral, we could experience higher loan losses **,** which could have a material adverse effect on financial condition, and results of operations. Significant stock market volatility could negatively affect our financial results. Income from WM & T constitutes approximately ~~41~~ **43** % of non- interest income. Trust AUM are expressed in terms of market value, and a significant portion of fee income is based upon those values, which generally fluctuate consistent with overall capital markets. ~~Capital~~ **14Capital** and credit markets experience volatility and disruption from time to time. These conditions may place downward pressure on credit availability, credit worthiness and customers' inclinations to borrow. Prolonged volatility or a significant disruption could negatively impact customers' ability to seek new loans or to repay existing loans. Personal wealth of many borrowers and guarantors has historically added a source of financial strength to certain loans and would be negatively impacted by severe market declines. Sustained reliance on personal assets to make loan payments would result in deterioration of their liquidity, and could result in loan defaults. ~~13The~~ -- **The** value of our investment securities may be negatively affected by factors outside of our control and impairment of these securities could have an adverse impact on our financial condition and results of operations. Factors beyond our control can significantly influence the fair value of our investment securities. These factors include, but are not limited to, changes in market interest rates, rating agency actions, defaults by issuers or with respect to underlying securities, volatility and liquidity within capital markets and changes in local, regional, national or ~~international~~ **global** economic conditions. Impairment to the fair value of these securities can result in realized and / or unrealized losses in future periods and declines in other comprehensive income, which could have an adverse effect on our business, financial condition and results of operations. Impairment of goodwill, other intangible assets or deferred tax assets could have an adverse impact on our financial condition and results of operations. In accordance with GAAP, goodwill is not amortized but, instead, is subject to impairment 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. In the event that we conclude that all or a portion of our goodwill may be impaired, a non- cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, ~~2022~~ **2023** , Bancorp had goodwill of $ 194 million. Bancorp' s intangible assets primarily relate to core deposits and customer relationships. Intangible assets with definite lives are amortized on an accelerated basis over their estimated life. Intangible assets, premises and equipment and other long- lived assets are tested for impairment whenever events or changes in circumstances ~~indicated~~ - **indicate** the carrying amount of the assets may not be recoverable from future undiscounted cash flows. In the event that we conclude that all or a portion of our intangible assets may be impaired, a non- cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital. At December 31, ~~2022~~ **2023** , Bancorp had intangible assets of $ ~~25~~ **20** million. In assessing the potential for realization of DTAs, management considers whether it is more likely than not that some portion or all of the DTAs 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 whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under tax law, including the use of tax planning strategies. We have concluded that, based on the level of positive evidence, it is more likely than not that at December 31, ~~2022~~ **2023** all DTAs will be realized. At December 31, ~~2022~~ **2023** , Bancorp had DTAs totaling $ ~~54~~ **47** million. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations and financial condition. The soundness of other financial institutions could adversely affect us. Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to different industries and counterparties and through transactions with counterparties in the bank and non- bank financial services industries, including broker- dealers, commercial banks, investment banks and other institutional customers. As a result, defaults by, or even rumors or questions about, one or more bank or non- bank financial services companies, or bank or non- bank financial services industries in general, could lead to market- wide liquidity problems and could result in losses or defaults by us or other institutions. These losses or defaults could have an adverse effect on our business, financial condition and results of operations **. 15The bank failures of early 2023, which included three of the four largest bank failures in U. S. history, created a liquidity crisis within the banking industry and temporarily raised questions amongst depositors regarding the soundness of the banking system generally. While Bancorp was not negatively impacted by these failures, remaining well- capitalized and successfully managing the fluctuations in liquidity created by these events, further bank failures or the failure of financial institutions with whom we have relationships could adversely affect us** . Our mortgage banking line of business is highly dependent upon programs administered by the FNMA and FHLMC. Changes in existing U. S. government- sponsored mortgage programs or servicing eligibility standards could materially and adversely affect our business, financial position, results of operations and cash flows. Our ability to generate revenue through mortgage loan sales to institutional investors depends to a significant degree on programs administered by the FNMA and FHLMC. These entities play powerful roles in the residential mortgage industry and as a result, we have significant business relationships with them. Our status as an approved seller and servicer with both entities is subject to compliance with their selling and servicing guidelines. ~~14Any~~ -- **Any** discontinuation of, or significant reduction or material change in, the operation of the FNMA and FHLMC, or any significant adverse change in the level of activity in the secondary mortgage market or the underwriting criteria of the FNMA or FHLMC would likely prevent us from originating and selling most, if not all, of our mortgage loan originations. Derivatives associated with our mortgage banking line of business subject us to interest rate and counter- party risks, which could adversely affect our business, financial condition and results of operations. Mortgage banking derivatives used in the ordinary course of business consist primarily of mandatory forward sales contracts and interest rate lock loan commitments. Mandatory forward contracts represent future loan commitments to deliver loans at a specified price and date and are used to manage interest rate risk on loan commitments and mortgage loans held for sale. Interest rate lock loan commitments represent commitments to fund loans at a specific rate. We are exposed to interest rate risk on loans held for sale and rate lock loan commitments. As market interest rates fluctuate, the fair value of mortgage loans held for sale and rate lock commitments will decline or increase. To offset this interest rate risk, we enter into derivatives, such as mandatory forward contracts to sell loans. The fair value of these mandatory forward contracts will fluctuate as market interest rates fluctuate, and the change in the value of these instruments is expected to largely, though not entirely, offset the change in fair value of loans held for sale and rate lock commitments. While the objective of this activity is to minimize the exposure to losses on rate lock loan commitments and loans held for sale due to market interest rate fluctuations, the net effect of derivatives on earnings depends on risk management activities and a variety of other factors, including: market interest rate volatility; the amount of rate lock commitments that close; the ability to fill the forward contracts before expiration; and the time period required to close and sell loans. The extent to which these derivatives do not offset each other could adversely affect our financial condition and results of operations. Mandatory forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the counterparties fail to deliver commitments or are unable to fulfill their obligations, we could potentially incur significant additional costs by replacing the positions at then- current market rates, adversely impacting our financial condition and results of operations. Changing industry trends **or regulations** related to consumer deposit relationships could have an adverse impact on our financial condition and results of operations. Competitive **and regulatory** factors surrounding the developing trend of financial institutions reducing or eliminating certain deposit account fees, particularly overdraft- related fees, presents a significant challenge to maintaining deposit- related non- interest income in the future and potentially threatens a revenue stream that has been in an industry- wide, regulation- driven decline for several years. Strategic decisions surrounding this trend may impact not only deposit- related income, but also deposit relationships in general, particularly for retail customers. Any elimination of, or reduction or material change to, the fees we charge for certain deposit- related services could result in a significant decline of non- interest income. Failure to closely monitor, and appropriately adapt to, changes in industry practices and consumer behavior could have an adverse impact on our performance. ~~Strategic~~ **16Strategic** Risks Acquisitions could adversely affect our business, financial condition and results of operations. An institution that we acquire may have asset quality issues or contingent liabilities that we did not discover or fully recognize in the due diligence process, thereby resulting in unanticipated losses. Acquisitions of other institutions also typically require integration of different corporate cultures, loan and deposit products, pricing strategies, data processing systems and other technologies, accounting, compliance, internal audit and financial reporting systems, operating systems and internal controls, marketing programs and personnel of the acquired institution. The integration process is complicated and time consuming and could divert our attention from other business concerns and may be disruptive to our customers and customers of the acquired institution. Our failure to successfully integrate an acquired institution could result in loss of key customers and employees, and prevent us from achieving expected synergies and cost savings. We may finance acquisitions with borrowed funds, thereby increasing our leverage and reducing liquidity, or with potentially dilutive issuances of equity securities. ~~15Competition~~ -- **Competition** with other financial institutions could adversely affect profitability. We operate in a highly competitive industry that could become even more so as a result of earnings pressure from peer organizations, legislative, regulatory and technological changes and continued consolidation. We face vigorous competition in price and structure of financial products from banks and other financial institutions. In recent years, credit unions have expanded their lending mix and now compete heavily with banks in the CRE lending market. Non- traditional providers' high risk tolerance for fixed rate, long- term loans has adversely affected our net loan growth and results of operations. We also compete with other non- traditional providers of financial services, such as brokerage firms and insurance companies. As internet- based financial services continue to grow in acceptance, we must remain relevant as an institution where consumers and businesses value personal service while other institutions offer these services without human interaction. The variety of sources of competition may reduce or limit our margins on banking services, increase operational costs through expanded product offerings, reduce market share and adversely affect our financial condition and results of operations. We may not be able to attract and retain skilled people. Our performance is dependent on our ability to attract and retain qualified employees. Competition for qualified employees in the industry and markets in which we engage can be intense, and we may not be able to retain or hire the individuals wanted or needed for certain positions. Changes in the labor market and general employment trends, including elevated employee attrition, labor availability and wage inflation, also present challenges to our ability to attract and retain qualified employees. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain the Company' s competitive position, our performance, including the Company' s competitive position, could suffer, and, in turn, adversely affect our business, financial condition or results of operations. We are subject to liquidity risks. Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure we have adequate liquidity to fund our operations. An inability to raise funds through deposits, **FHLB advances and other** borrowings, sales of investment securities ~~, FHLB advances~~ , sales of loans and other sources could have a significant negative effect on our liquidity. We are dependent on large commercial deposit relationships as a primary funding source. ~~Approximately 47 % of our total deposits are centralized in accounts with balances $ 500, 000 or greater.~~ We ~~categorize~~ **consider the majority of** these deposits ~~as~~ **to be** core funds, as they represent long- standing, full- service relationships and are a testament to our commitment to partner with business customers by providing exemplary service and competitive products. A sudden shift in customer behavior within these deposits resulting in balances being reduced or exiting Bancorp altogether could impact our ability to capitalize on growth opportunities and meet current obligations. We have secondary funding sources to draw upon as needed, but the cost of those funds would be higher than typical deposit accounts, which ~~would~~ **could** negatively impact our financial condition and results of operations **. 17We have experienced wide fluctuations in liquidity levels over the past several years** . After experiencing record levels of **liquidity in 2021 stemming largely from government stimulus, liquidity moderated in 2022, and dissipated in 2023 on the heels of strong loan demand, rising interest rates and a lack of liquidity within the banking system generally. As a result of these fluctuations, we have had to shift from attempting to maximize return by investing** excess liquidity ~~in 2021,~~ **to prudently managing deposit and borrowing costs to maintain the** liquidity **necessary to profitably meet** ~~began normalizing in the latter half of 2022, and we expect continued normalization as we enter 2023. Should~~ loan demand **and operational needs. Any failure to manage the challenges associated with changing levels of liquidity could adversely impact our financial condition and results of operations. Our investment in tax credit partnerships may** not ~~meet desired levels~~ **generate expected or anticipated returns** , ~~excess liquidity~~ **which could have an adverse impact on our results of operations and financial condition. We periodically invest in tax credit partnerships that generate federal income tax credits. The tax benefit of these investments is expected to exceed the amortization expense associated with them, resulting in a positive impact on net income. Such credits are subject to recapture by taxing authorities based on compliance requirements that** must be ~~invested~~ **met at the project level. Further, changes** in **applicable tax code or the inability of the projects to be completed or properly managed depend on factors that are out of our control. Should we not be able to realize the tax credits** ~~an~~ **and other benefits** ~~effort to maximize return. The risks~~ associated with such ~~investment~~ **investments , our results of** ~~include the inability to find alternative options~~ - **operation and** ~~suitable to our risk profile, investing in alternatives that adversely impact our~~ financial condition **could be negatively** ~~and results of operations, and liquidity risk associated with any specific investment. Further, holding elevated levels of liquidity can have a significant impact~~ **impacted** ~~on our NIM and result in additional margin compression~~ . Operational Risks **Our risk management framework could prove ineffective, which could have an adverse effect on our business, results of operations and financial condition. We have established a risk management framework to identify, assess and manage our risk exposure. Our enterprise-wide framework is designed to analyze the specific risks we are subject to by evaluating type, likelihood of occurrence and potential severity in an effort to determine levels of inherent risk. We then identify and evaluate the related controls, or lack thereof, around each identified risk to determine the levels of residual risk, subsequently deciding if our controls are sufficient or if any action is warranted. Any failure or inability of our risk management framework to identify, assess or manage the risks we may be exposed to could have a material adverse effect on our business, results of operations or financial condition.** Our accounting policies and methods are critical to how we report our financial condition and results of operations. They require management to make estimates about matters that are uncertain. Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Management must exercise judgment in selecting and applying these accounting policies and methods so they comply with GAAP. ~~16We~~ **We** have identified certain accounting policies as being critical because they require management' s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or reducing a liability. We have established detailed policies and control procedures intended to ensure these critical accounting estimates and judgments are well- controlled and applied consistently. Policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding judgments and estimates pertaining to these matters, there can be no assurances that actual our results will not differ from those estimates. See the section titled " Critical Accounting Policies and Estimates " in " Management' s Discussion and Analysis of Financial Condition and Results of Operations " for more information. ~~An~~ **18An** extended disruption of vital infrastructure could negatively impact our business, results of operations, and financial condition. Our operations depend upon, among other things, infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, information systems breaches, corporate account take- over, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services industry, the economy as a whole or on our financial condition and results of operations. Our business continuity plan may not work as intended or may not prevent significant interruption of operations. Occurrence of any failures or interruptions of information systems could damage our reputation, result in loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our financial condition and results of operations. Security breaches ~~or incidences of fraud~~ could negatively impact our business, results of operations, and financial condition. Our assets, which are at risk for cyber- attacks, include financial assets and non- public information belonging to customers. Cyber security risks include cyber espionage, blackmail, ransom, theft, and corporate account takeovers. We employ many preventive and detective controls to protect our assets, and provide mandatory recurring information security training for all employees. We have invested in multiple preventative tools in an attempt to protect customers from cyber threats and corporate account takeover and regularly provide educational information regarding cyber threats to customers. We utilize multiple third- party vendors who have access to ours assets via electronic media. While we require third parties, many of whom are small companies, to have similar or superior controls in place, **a breach of information could still occur. See** ~~there~~ -- **the section titled " Cybersecurity " for more information related to our cybersecurity risk management practices. Incidences of fraud could negatively impact our business, results of operations, and financial condition. Fraud** is ~~no guarantee that~~ a ~~breach of information could not occur~~ **major, and increasing, operational risk for us and the banking industry generally. The sophistication and methods used to perpetuate fraud continue to evolve as technology changes**. Activities of the Bank that subject Bancorp to risk of fraud by customers, employees, vendors, or members of the general public include ACH transactions, wire transactions, ATM / ITM transactions, checking transactions, ~~credit~~ card transactions and loan originations **. While we continually evaluate and update our anti- fraud measures, some level of fraud loss is unavoidable and the risk of loss cannot be eliminated**. Repeated incidences of fraud or a single large occurrence could adversely impact our reputation, financial condition and results of operations. We are dependent upon outside third parties for processing and handling of the Company' s records and data. We rely on software developed by third- party vendors to process various transactions. In some cases, we have contracted with third parties to run their proprietary software on our behalf. While we perform a review of controls instituted by applicable vendors over these programs in accordance with industry standards and ~~performs~~ - **perform** testing of user controls, we rely on continued maintenance of controls by these third- party vendors, including safeguards over security of client data. We may incur a temporary disruption in our ability to conduct business or process transactions, or incur reputational damage, if a third- party vendor fails to adequately maintain internal controls or institute necessary changes to systems. Such a disruption or breach of security could have a material adverse effect on our business. Further, if these third- party service providers experience difficulties, or should terminate their services, and we are unable to replace them on a timely basis, our business operations could be interrupted. If an interruption were to continue for a significant period of time, or if we incurred excessive costs involved with replacing third- party service provider, our business, financial condition and results of operations could be adversely affected. ~~17Our~~ **19Our** ability to stay current on technological changes in order to compete and meet customer demands is constantly being challenged. The financial services industry is constantly undergoing rapid technological changes, with frequent introductions of new technology- driven products and services. Future success of Bancorp will depend, in part, upon our ability to address the needs of our customers by utilizing technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional operational efficiencies and greater privacy and security protection for customers and their personal information. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology- driven products and services as quickly as competitors or be successful in marketing these products and services to our customers. We rely on third party providers for many of our technology- driven banking products and services. Some of these companies may be slow to respond with upgrades or enhancements to their products to keep pace with improvements in technology or the introduction of competing products. Failure to successfully keep pace with technological change affecting the financial services industry could impair our ability to effectively compete to retain or acquire new business and could have an adverse impact on our business, financial position and results of operations. Changes in customer use of banks could adversely affect our financial condition and results of operations. The rapid evolution of non- bank alternatives for initiation and completion of financial transactions puts us at risk of losing sources of revenue and funding. The ability of customers to pay bills, deposit and transfer funds, and purchase assets without utilizing the banking system could result in loss of fee income, deposits, and loans. If we are unable to continue timely development of competitive new products and services, our financial condition and results of operations could be adversely affected. Regulatory and Legal Risks We operate in a highly regulated environment and may be adversely affected by changes to or lack of compliance with federal, state and local laws and regulations. We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change to, or addition of, applicable regulations or federal or state legislation could have a substantial impact on our financial condition and results of operations. 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 the ability to pay dividends and the requirement to obtain regulatory approvals to proceed with certain aspects of our business plan, including branching and acquisitions. Changes in tax laws and regulations may have an adverse impact on our financial condition and results of operations. Any change or potential enactment of tax legislation, or changes in the interpretation of existing tax law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expense, credits and exemptions may have a material adverse effect on our business, financial condition and results of operations. Transactions between Bancorp and its **former** insurance subsidiary, the Captive, may be subject to certain IRS responsibilities and penalties. The Captive, **formerly** a wholly owned subsidiary of **Bancorp** ~~the Company~~ , ~~is~~ **was** a Nevada- based captive insurance company that ~~provides insurance against certain risks unique~~ **was taxed under Section 831 (b) of the Internal Revenue Code. On April 10, 2023, the IRS issued a proposed regulation that would potentially classify section 831 (b) captive activity as a, " listed transaction, " and possibly disallow the related tax benefits, both prospectively and retroactively, for a period** to **be determined. While the regulation has not been finalized, it is expected to be finalized in 2024. Bancorp elected not to renew the Captive in August of 2023 and ultimately dissolved the Captive in December of 2023. The finalization of this proposed regulation and potential disallowance of related tax benefits could negatively impact our financial condition and results of** operations ~~of the Company and its subsidiaries for which insurance may not be currently available or economically feasible in today' s insurance marketplace~~ . **20We** ~~The Treasury Department of the United States and the IRS by way of Notice 2016- 66 have stated that transactions believed to be similar in nature to transactions between Bancorp and the Captive may be deemed " transactions of interest " because such transactions may have potential for tax avoidance or evasion. If the IRS ultimately concludes such transactions do create violations of the tax code, the Company could be subject to the payment of penalties and interest. 18We~~ are subject to litigation risk and reputational risk pertaining to fiduciary responsibility. From time to time, customers may make claims and take legal action pertaining to our fiduciary responsibilities. Whether customer claims and legal action related to our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us they may result in significant financial liability and / or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any financial liability or reputational damage could have a material adverse effect on our financial condition and results of operations. Increasing scrutiny and evolving expectations from regulators, investors and other stakeholders with respect to our **ESG** ~~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 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. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence and disclosure. Additionally, concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts to mitigate those impacts. Failure to adapt or comply with related legislation, regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, financial condition and results of operations. Risks Related to **Owning** Our Common Stock Our common stock price may fluctuate significantly, which could make it difficult for you to resell our common stock at times and / or prices acceptable to an investor. The price of our common stock can fluctuate widely in response to various factors, some of which are beyond our control, and we expect our stock price will continue to fluctuate in the future. Factors impacting the price of our common stock include, but are not limited to: ● actual or anticipated variations in our quarterly results of operations; ● recommendations or research reports about Bancorp, or the financial services industry in general, published by securities analysts; ● the failure of securities analysts to cover, or continue covering, our business; ● news reports relating to trends, concerns and other issues in the financial services industry or markets in general; ● perceptions in the marketplace regarding the Bancorp, or our reputation, competitors or other financial institutions; ● actual or anticipated sales or issuance of our equity or equity- related securities; ● our past and future dividend practices; ● departure of our management team or other key personnel; ● new technology used, or services offered, by competitors; ● significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors; ● failure to integrate acquisitions or realize the anticipated benefits of acquisitions; ● existing or increased regulatory compliance requirements, changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of laws and regulations; and ● litigation and governmental investigations. General market fluctuations, industry factors, economic and political conditions and events, inflation and economic slowdowns or recessions, interest rate changes and credit loss trends or fluctuations could also cause our stock price to decrease, regardless of operating results. **21** ~~19Item 1B. Unresolved Staff Comments.~~