

Risk Factors Comparison 2024-12-11 to 2023-12-11 Form: 10-K

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

We assume and manage a certain degree of risk in order to conduct our business. In addition to the risk factors described below, other risks and uncertainties not specifically mentioned, or that are currently known to, or deemed to be immaterial by management, also may materially and adversely affect our financial position, results of operations and / or cash flows. Before making an investment decision, you should carefully consider the risks described below together with all the other information included in this Form 10-K and our other filings with the SEC. If any of the circumstances described in the following risk factors actually occur to a significant degree, the value of our common stock could decline, and you could lose all or part of your investment. This report is qualified in its entirety by these risk factors.

Risks Related to Economic Conditions Our business may be adversely affected by downturns in the national economy and in the economies in our market areas. Substantially all our loans are to businesses and individuals in the state of Washington. ~~A return of recessionary~~ **Recessionary** conditions or adverse economic conditions in our local market areas of Grays Harbor, Pierce, Thurston, King, Kitsap and Lewis counties Washington, which we consider to be our primary market area, may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our business, financial condition, and results of operations. General economic conditions, including inflation, unemployment and money supply fluctuations, also may adversely affect our profitability. Weakness in the global economy and global supply chain issues have adversely affected many businesses operating in our markets that are dependent upon international trade. Changes in agreements or relationships between the United States and other countries may ~~also affect~~ **further impact** these businesses **and, by extension, our operations**. A deterioration in economic conditions in the market areas we serve as a result of inflation, a recession, ~~the effects of COVID-19 variants~~ **war, geopolitical conflicts, adverse weather** or other factors could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- loan delinquencies, problem assets and foreclosures may increase;
- we may increase our **ACL allowance for loan losses**;
- the sale of foreclosed assets may slow;
- demand for our products and services may decline possibly resulting in a decrease in our total loans, total deposits, or assets;
- collateral for loans made may decline in value, exposing us to increased risk loans, reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- **reduction in the amount of our low- cost or non- noninterest - interest-bearing deposits may decrease and the composition of our deposits may be adversely affected.**

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 real estate loans are geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, government rules or policies and natural disasters such as fires and earthquakes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected. External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, ~~financial conditions~~ **condition** and results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Inflation has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years. Inflationary pressures ~~, while dissipating~~ **dissipated**, ~~remained elevated throughout~~ **fiscal the first half of 2023-2024**. ~~The~~ **, with the** annual inflation rate in the United States ~~decreased~~ **decreasing** to **3.2 - 7.4 % in during** September ~~2023~~ **2024** from its high of 7.0 % in December 2021, as reported by the U. S. Bureau of Labor Statistics. Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, ~~and in some cases this deterioration may occur quickly~~, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition. Virtually all our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services. ~~The economic impact of the COVID-19 pandemic could continue to affect our financial condition and results of operations. The COVID-19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID-19 pandemic on the business of the Company, its clients, employees and third-party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long-term effects on the Company and its clients which are difficult to quantify in the near-term or long-term. Given the ongoing dynamic nature of variants of COVID-19, it is difficult to predict the full impact of the COVID-19 pandemic outbreak on our business. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any number of risks, which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy, and ability to pay dividends. These risks include, but are~~

not limited to, changes in demand for our products and services; increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an impairment charge; and increased costs as the Company and our regulators, customers and vendors adapt to evolving pandemic conditions.

Risks Related to our Lending Activities

Our real estate construction and land loans expose us to significant risks. We specialize in real estate construction loans for individuals and builders, mainly focusing on residential property development. Our loans are initiated regardless of whether the property used as collateral is under a sales contract. As of September 30, 2023-2024, our construction loans totaled \$ 273-219, 84-20 million, comprising 19-14, 2-5 % of our overall loan portfolio. These were allocated as follows: \$ 203-172, 94-00 million for residential real estate projects, \$ 51-29, 06-46 million for commercial projects, and \$ 18-17, 84-74 million for land development. Comparatively, this marked a 7.1 % increase from the previous year, where construction loans accounted for \$ 255.62 million or 20.4 % of our total loan portfolio as of September 30, 2022. Notably, approximately \$ 129-132, 70-10 million of our residential construction loans are structured to convert into permanent loans upon construction completion. Construction lending involves inherent risks due to estimating costs in relation to project values. Uncertainties in construction costs, market value, and regulatory impacts make accurately evaluating total project funds and loan- to- value ratios challenging. Factors like shifts in housing demand and unexpected building costs can significantly deviate actual results from estimates. Additionally, this type of lending often involves higher principal amounts and might be concentrated among a few builders. A downturn in housing or real estate markets could escalate delinquencies, defaults, foreclosures, and compromise collateral value. Some builders have multiple outstanding loans, meaning problems with one loan pose a substantial risk to us. Moreover, certain construction loans do not require borrower payments during the term, accumulating interest into the principal. Thus, repayment depends heavily on project success and the borrower' s ability to sell, lease, or secure permanent financing, rather than their ability to repay principal and interest directly. Misjudging a project' s value could leave us with inadequate security and potential losses upon completion. Actively monitoring construction loans, involving cost comparisons and on- site inspections, adds complexity and cost. Market interest rate hikes also might significantly impact construction loans, affecting end- purchaser borrowing costs, potentially reducing demand or the homeowner' s ability to finance the completed home. Further, properties under construction are hard to sell and often need completion for successful sales, complicating problem loan resolution. This might require additional funds or engaging another builder, incurring additional costs and market risks. Moreover, speculative construction loans pose additional risks, especially regarding finding end- purchasers for finished projects. As of September 30, 2023-2024, \$ 17-11, 10-50 million of our construction portfolio consisted of speculative one- to four- family construction loans. We also offer land loans for land acquisition, which can be used for building or recreational purposes. As of September 30, 2023-2024, land loans accounted for \$ 26-29, 73-37 million, or 1.9 % of our total loan portfolio. However, loans **Loans** for land development or future construction carry additional risks due to longer development periods, vulnerability to real estate value declines, economic fluctuations delaying projects, political changes affecting land use, and the collateral' s illiquid nature. During this extended financing- to- completion period, the collateral often generates no cash flow. **As** **Although** as of September 30, 2023-2024, all **our** construction and land loans were performing according to their terms, **a**. **A** significant rise in non- performing construction or land loans could materially impact our financial **status-condition** and **results of** operations. Our emphasis on commercial real estate lending may expose us to increased lending risks. Our current business strategy includes an emphasis on commercial real estate lending. This type of lending activity, while potentially more profitable than single- family residential lending, is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. In **addition** our primary market of western Washington, a downturn in the real estate market could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. **Many-many** of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss. At September 30, 2023-2024, we had \$ 568-599, 27-22 million of commercial real estate mortgage loans, representing 39.8-6 % of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower' s project is reduced as a result of leases not being obtained or renewed, the borrower' s ability to repay the loan may be impaired. Commercial real estate loans also expose a lender to greater credit risk than loans secured by residential real estate, because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property **in order** to make the payment, which may increase the risk of default or non- payment. A secondary market for most types of commercial real estate loans is not readily liquid, so we have less opportunity to mitigate credit risk by selling part or all our interest in these loans. As a result of these characteristics, if we foreclose on a commercial real estate loan, our holding period for the collateral typically is longer than for one- to four- family residential mortgage loans because there are fewer potential purchasers of the collateral. Accordingly, charge- offs on commercial real estate loans may be larger as a percentage of the total principal outstanding than those incurred with our residential or consumer loan portfolios. **The level of our commercial real estate..... result in additional costs to us.** Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the

collateral securing these loans may fluctuate in value. At September 30, 2023-2024, we had \$ 136-139. 3-00 million, or 9. 6-2 %, of total loans in commercial business loans. **Our Commercial business lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Commercial business loans are primarily made based on the borrowers' cash flow, with of the borrower and secondarily on the underlying collateral provided by the borrower as a secondary factor. The However, the unpredictability of borrowers' cash flow may be unpredictable, and the fluctuating value of collateral, securing these loans may fluctuate in value. Although commercial business loans are often in the form of collateralized by equipment, inventory, accounts receivable, inventory or other business assets, or equipment, present significant risks. Loans secured by the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable are contingent on the borrower's ability to collect from their customers, while other collateral may depreciate, be challenging to assess uncollectible and inventories may be obsolete or of limited use, among lack liquidity, and vary in value based on other-- the things success of the business. Additionally, economic fluctuations can significantly impact borrowers' repayment abilities, more so than loans secured by real estate.** Our business may be adversely affected by credit risk associated with residential property. At September 30, 2023-2024, \$ 291-347. 5-04 million, or 20-22. 4-9 % of our total loan portfolio was secured by one- to four- family mortgage loans and home equity loans. This type of lending is generally highly sensitive to regional and local economic conditions that significantly impact the, which can affect borrowers' ability of borrowers to meet their loan payment obligations, making and make loss levels difficult to predict. Factors such as Higher higher market interest rates, recessionary conditions, lower or declines in the volume of single- family real estate and / or the sales volumes and prices, and as well as elevated unemployment rates may result in lead to higher than expected loan delinquencies or, problem assets, and reduced a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect impacting our capital and, liquidity, and damage our financial condition and business operations. A Further, a decline in residential real estate values, particularly resulting from a downturn in the Washington housing market, may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Many Some of our residential mortgage loans are secured by properties with in which the borrowers have little or no borrower equity because, either due to we originated the loan with a relatively high combined loan- to- value ratio ratios at origination or because of the decline declining in home values, in our market areas subsequent to when the loans Loans were originated. Residential loans with combined higher loan- to- value ratios are will be more sensitive to declining property values, resulting in than those with lower combined loan- to- value ratios and therefore may experience a higher incidence risk of default and severity of losses-- loss. Additionally In addition, for if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale proceeds. Further, a significant amount of our home equity lines of credit consists of second mortgage loans. For those home equity lines secured by a second mortgage mortgages, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default may be difficult unless we are prepared to repay the first mortgage loan, which may not be and such repayment and the costs associated with a foreclosure are justified by the property's value of the property. Consequently For these reasons, we may experience higher rates of delinquencies delinquency, default, and losses on our residential loans. Our allowance for loan credit losses on loans may not be sufficient to absorb losses in our loan portfolio. Lending money is a substantial part of our business. Every, and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: • the cash flow of the borrower and / or the project being financed; • the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan; • the duration of the loan; • the credit history of a particular borrower; and • changes in economic and industry conditions. We To address these risks, we maintain an allowance for loan credit losses on loans, which is a reserve established through a provision for loan credit losses on loans charged against operating income, that we believe is appropriate to provide for probable expected losses in our loan portfolio. The appropriate level of the ALL allowance of credit losses is determined by management through periodic comprehensive reviews and consideration of several factors, including, but not limited to our collective loss reserve: -- an ongoing review of the quality, size and diversity for loans evaluated on a pool basis with similar risk characteristics based on our life of the loan portfolio; -- evaluation of non-performing loans; -- historical default and loss experience, certain; -- existing economic macroeconomic conditions factors, reasonable and supportable forecasts, regulatory requirements, management's expectations of future events; -- and certain qualitative factors. The ACL is an estimate of the expected credit losses on financial assets measured at amortized cost. The ACL is evaluated and calculated on a collective basis for those loans which share similar risk characteristics. For of the various classifications of loans; -- the amount that do not share similar risk characteristics and quality cannot be evaluated on a collective basis, the Company will evaluate the loan individually using the present value of the expected future cash flows or the fair value of the underlying collateral, including guarantees, securing the loans; and -- regulatory requirements and expectations. The determination of the appropriate level of the ALL allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate estimates and other assets serving as collateral for the repayment of current credit risks and future trends, all of which many may of our loans undergo material changes. If our estimates are incorrect, the ALL allowance for credit losses for loans may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for increases in the ALL our allowance for credit losses through the provision for credit losses on loans which is charged against income. In Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical

or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may also require an increase in the allowance for credit loan losses. Management recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that the ALL may be sufficient to absorb losses. Bank regulatory agencies also periodically review our ALL allowance for credit losses and may require an increase in the provision for possible loan credit losses or the recognition of further loan charge-offs, based on their judgments—judgment different from about information available to them at those—the time of management—their examination. If charge-offs in future periods exceed the allowance for loan credit losses, we will may need additional provisions to replenish—increase—the ALL allowance for credit losses. Any additional provisions—increase in the allowance for credit losses—will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and, results of operations. Finally, liquidity beginning on October 1, 2023, the Company adopted the CECL standard to determine estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses at inception of the loan. The adoption of CECL will change the allowance calculation methodology from a historical incurred loss model to an and capital expected future loss model. The adjustment recorded upon our adoption of the CECL standard was not significant to the overall allowance for credit losses ("ACL") as compared to the ALL at September 30, 2023. If our non-performing assets increase, our earnings will be adversely affected. At September 30, 2023-2024, our non-performing assets (which consisted solely of non-accruing loans, non-accrual investment securities, and OREO) were \$ 1-3, 60-94 million, or 0. 09-2 % of total assets. Our non-performing assets adversely affect our net income in various ways: • We do not record interest income on non-accrual loans or non-performing investment securities, except on a cash basis when the collectibility—collectability—of the principal is not in doubt. • We must recognize expected credit provide for probable loan losses through a current period charge to the provision for loan credit losses. • Non-interest expense increases when if we must write down the value of OREO properties, if any, to reflect changing market values—declines. • Non-interest income decreases when we must recognize other-than-temporary impairment on non-performing investment securities. • There are legal fees and associated with the resolution of problem assets, as well as carrying costs, (such as taxes, insurance, and maintenance costs related to) associated with OREO. • Managing The resolution of non-performing assets requires significant the active involvement of management attention, diverting resources which can distract them from more profitable activities. If additional borrowers become delinquent—delinquencies increase—and we are unable to successfully—effectively—manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material—materially impacting—adverse effect on our financial condition and results of operations. Risk Related to our Business Strategy We may be adversely affected by risks associated with completed and potential acquisitions. As part of our general growth strategy, on October 1, 2018, we completed the acquisition of South Sound Bank, a Washington-state chartered bank, headquartered in Olympia, Washington. Although our business strategy emphasizes organic expansion, from time to time in the ordinary course of business, we engage in preliminary discussions with also look for and evaluate potential acquisition targets—opportunities. There can be no assurance that we will successfully identify suitable acquisition candidates, complete acquisitions or successfully integrate acquired operations into our existing operations or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by our existing operations, or otherwise perform as expected. Further, transaction-related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of our common stock. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including: • We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected; • We could experience higher than expected deposit attrition; • The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal adverse effect on the acquired business and its customers, we may not be able to realize the anticipated economic benefits of the acquisition within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful; • To the extent that our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. As discussed below, we are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operation and financial condition; and • We expect that our net income will increase following an acquisition; however, we also expect our general and administrative expenses to increase, which could result to an increase in our efficiency ratio. Ultimately, we would expect our efficiency ratio to improve; however, if we are not successful in our integration process, this may not occur, and our acquisition or branching activities may not be accretive to earnings in the short or long-term. Risk Related to Market Interest Rates Changes in interest rates may reduce our net interest income and may result in higher defaults in a rising rate environment. Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve. Since March 2022, in response to inflation, the Federal Open Market Committee ("FOMC") of the Federal Reserve has increased the target range for the federal funds rate by 525-475 basis points, including 225-50 basis points—reduction—during the 2023-2024 fiscal year, to a range

of ~~4.75% to 5.00%~~ ~~25% to 5.50%~~ as of September 30, ~~2023~~ **2024**. The FOMC has ~~reduced~~ ~~paused~~ ~~increases to~~ the target federal funds rate ~~but by an additional 25 basis points in November of 2024 to the target federal funds rate and~~ has not ruled out future ~~increases~~ ~~decreases~~ ~~and~~ ~~but~~ hinted that rates will remain higher for longer. If the FOMC further ~~increases~~ ~~decreases~~ the targeted federal funds rate, overall interest rates will likely ~~rise~~ ~~decrease~~, which ~~will~~ ~~may~~ negatively impact our net interest income ~~and may negatively~~, ~~but could positively~~ impact both the housing market by ~~reducing~~ ~~increasing~~ refinancing activity and new home purchases and the U. S. economy. ~~In addition, inflationary pressures will increase our operational costs and could have a significant negative effect on our borrowers, especially our business borrowers, and the values of collateral securing loans which could negatively affect our financial performance.~~ We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect: (1) our ability to originate and / or sell loans and obtain deposits; (2) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; (4) the ability of our borrowers to repay adjustable or variable rate loans; and (5) the average duration of our investment securities portfolio and other interest-earning assets. If the interest rates paid on deposits and borrowings increase at a faster rate than the interest received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments decline more rapidly than the interest rates paid on deposits and other borrowings. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected. Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. ~~Net~~ ~~Our~~ net-interest margin is the difference between the yield we earn on ~~our~~ ~~interest-earning~~ assets and the ~~interest~~ rate we pay for deposits and ~~our~~ other sources of funding. Changes in interest rates (up or down) could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our ~~interest-earning~~ assets and our funding costs tends to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Changes in the slope of the "yield curve," or the spread between short-term and long-term interest rates, could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely negatively impact our income. A sustained increase or decrease in market interest rates could adversely affect our earnings. As is the case with many financial institutions, our emphasis on increasing core deposits, those deposits bearing no or a relatively low rate of interest with no stated maturity, has resulted in our having a significant amount of these deposits which have a shorter duration than our assets. At September 30, ~~2023~~ **2024**, we had \$ ~~251.313~~ ~~74.82~~ billion in certificates of deposit that mature within one year and \$ ~~1.26~~ ~~28~~ billion in non-interest bearing, NOW checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. In addition, a substantial amount of our residential mortgage loans and home equity lines of credit have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Changes in interest rates also affect the value of our investment securities available for sale. Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on investment securities available for sale are reported as a separate component of equity, net of tax. ~~Decreases~~ ~~Increases~~ in the fair value of investment securities available for sale resulting from ~~increases~~ ~~decreases~~ in interest rates could have ~~an adverse~~ ~~a~~ ~~positive~~ effect on stockholders' equity. Stockholders' equity, specifically accumulated other comprehensive income (loss) ("AOCI"), is increased or decreased by the amount of change in the estimated fair value of our securities available for sale, net of deferred income taxes. Increases in interest rates generally decrease the fair value of securities available for sale, which adversely impacts stockholders' equity. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information about our interest rate risk management. Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by, or other adverse events affecting, the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. ~~Any of~~ **The Company analyzes investment securities to determine whether these there have been any events or economic circumstances to indicate that a security has incurred a credit-related loss. The Company considers many factors including recent events specific to the issuer or industry, among others and for securities, could cause external credit ratings and recent downgrades. Credit component losses are reported in allowance for credit losses in the income statement when the present value of expected future cash flows is less than the amortized cost. Noncredit component**

losses are recorded in other comprehensive income (loss) when the Company (1) does not intend to sell the security or (2) is not more likely than not to have to sell the temporary impairments ("OTTI") and realized and/or unrealized losses in future periods and declines in AOCI. The process for determining whether impairment of a security prior to is other than temporary impaired usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security's anticipated recovery to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in ACL on investments other than temporary impairments of these assets, and lead to accounting charges that could have a material adverse effect on our business, financial condition and results of operations. An increase in interest rates, change in the programs offered by Freddie Mac or our ability to qualify for their programs may reduce our mortgage revenues, which would negatively impact our non-interest income. The sale of residential mortgage loans to Freddie Mac has historically provided a significant portion of our non-interest noninterest income. Any Future future changes in its Freddie Mac's program, including our eligibility to participate in such program, the criteria for loans to be accepted or laws that significantly affect the activity of Freddie Mac could, in turn, materially adversely affect our results of operations if we could not find other purchasers. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, the demand for mortgage loans, particularly refinancing of existing mortgage loans, tends to fall and our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with our loan sale activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans to Freddie Mac or into the secondary market without recourse, we are required to give customary representations and warranties about the loans we sell. If we breach those representations and warranties, we may be required to repurchase the loans and we may incur a loss on the repurchase. Risks Related to Laws and Regulations The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny. The FDIC, the Federal Reserve and the Office of the Comptroller of the Currency have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under this guidance, a financial institution that, like us, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may have a concentration in commercial real estate lending if, among other factors (i) total reported loans for construction, land development and other land represent 100 % or more of total capital, or (ii) total reported loans secured by multi-family and non-farm non-residential properties, loans for construction, land development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 % or more of total capital. The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution). The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. We have concluded that we do not have a concentration in commercial real estate lending because our balance in commercial real estate loans (including owner-occupied loans) at September 30, 2024 represented 290.74 % of total capital. While we believe that we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us. We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that could increase our costs of operations. The banking financial services industry is extensively regulated. Federal banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a company's shareholders. These regulations may sometimes impose significant limitations on our operations. Certain significant federal and state banking regulations that affect us are described in this report under the heading "Item 1. Business - How We Are Regulated." These regulations, along with existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation, change in existing 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 material impact on our operations, increase our costs of regulatory compliance and of doing business and adversely affect our profitability. In this regard, the U. S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"), published guidelines in 2014 for financial institutions servicing marijuana businesses that are legal under state law. These guidelines allow us to work with marijuana-related businesses that are operating in accordance with state laws and regulations as long as we comply with required regulatory oversight of their accounts with us. In addition, legislation is currently pending in Congress that would allow banks and financial institutions to serve marijuana businesses in states where it is legal without any risk of federal prosecution. At September 30, 2023-2024, approximately 1.3-1% of our total deposits and a portion of our service charges from deposits are from legal marijuana-related businesses. 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 non-interest 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. Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Climate change and related legislative and regulatory initiatives may materially affect our business and results of operations. **The effects of climate change continue to be a pressing global environmental scale. Efforts include international agreements such as Paris Agreement, and with the United States rejoining has entered into international agreements to reduce global temperatures, such as reentering the Paris Agreement. Further, the U. S. Congress, state legislatures and ongoing federal and state regulatory agencies continue to propose numerous initiatives at various governmental levels to address supplement the global effort to combat climate change - related issues. Similar and even more expansive initiatives are expected under the current administration, including additional measures are anticipated, potentially impacting increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations, based on climate-related factors and encouraging investment by banks in climate-related initiatives and lending strategies. The lack of empirical data makes it challenging to communities disproportionately predict the precise financial impact by the effects of climate change, though. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and such as more frequent weather disasters may adversely impact the, could directly affect our real property, estate collateral and / or the value of the real property, securing the loans in our portfolios. Inadequate. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage for is otherwise unavailable to our borrowers, may compound the these collateral securing risks, impacting our financial condition. Furthermore, loans may be negatively impacted by climate change, natural disasters' s broader economic effects could adversely affect our customers and the communities we serve, potentially impacting our financial performance. On March 6, 2024, the SEC implemented new climate-related disclosure rules for U.S. public companies and foreign private issuers. These rules introduce extensive disclosure requirements, increasing reporting costs, risks, and complexity. Challenges include short compliance timelines, interpretive issues, legal liabilities, and global regulatory overlaps. Lawsuits contesting these rules add further uncertainty. However, on March 15, 2024, the effects Fifth Circuit granted an administrative stay, temporarily halting the implementation of the SEC's climate rules change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations. Risks Related to Cybersecurity, Third- Parties and Technology As of September 30, 2024 there has not been any cybersecurity or related breach of the risk factors discussed below that would require disclosure.** The financial services market is undergoing rapid technological changes and, if we are unable to stay current with those changes, we may not be able to effectively compete. The financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected. We are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a cyber-attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber-attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other

exposures, and we may be subject to litigation and financial losses that are either not insured or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage. Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, vulnerabilities in third- party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and **cyberattacks** ~~cyber-attacks~~ and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and / or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operation. Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. While the Company selects third- party vendors carefully, it does not control their actions. If our third- party providers encounter difficulties, including those resulting from breakdowns, or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber- attacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third- party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot assure **you** that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third- parties on which we rely. We may not be insured against all types of losses as a result of third- party failures and insurance coverage may be inadequate to cover all losses, resulting from breaches, systems failures or other disruptions. If any of our third- party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our business financial condition and results of operations. Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. We are susceptible to fraudulent activity that may be committed against us or our customers which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customers' information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur. We rely on other companies to provide key components of our business infrastructure. We rely on **numerous** ~~certain~~ external vendors to provide ~~us with~~ products and services necessary to maintain our day- to- day operations. ~~Accordingly, our operations are exposed to risk that these~~ **These** ~~vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent that such an agreement is not renewed by a third- party vendor vendors or is renewed on terms less favorable~~ **are sources of operational and informational security risks** to us - ~~Additionally, including risks associated with operational errors, information system failures, interruptions or breaches and unauthorized disclosures of sensitive or confidential client or customer information. If these vendors encounter any of these issues, or if we have difficulty communicating with the them , we could~~ **bank regulatory agencies expect financial institutions to be exposed** responsible for all aspects of our vendors' performance, including aspects which they delegate to third- parties. Disruptions- **disruption of** or failures in the physical infrastructure or operating **operations** systems that support, **loss of service** our- ~~or~~ **business and connectivity to** customers , or cyber- attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and **litigation risk that** /or additional compliance costs, any of which could **have a materially** -- **material** adversely -- **adverse affect effect on** our results of operations or ~~our business and, in turn, our~~ financial condition **and results of operations** . Risks Related to Accounting Matters **The Company' s reported financial results depend on management' s selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future. The Company' s accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company' s management must exercise judgment in selecting and applying many of these**

accounting policies and methods so they comply with GAAP and reflect management's judgment regarding the most appropriate manner to report the Company's financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in the Company's reporting materially different results than would have been reported under a different alternative. Certain accounting policies, most notably the accounting for credit losses, are critical to presenting the Company's financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. For more information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations- Critical Accounting Estimates" contained in this 2024 Form 10-K.

We may experience future goodwill impairment, which could reduce our earnings. In accordance with GAAP, we record assets acquired and liabilities assumed in a business combination at their fair value with the excess of the purchase consideration over the net assets acquired resulting in the recognition of goodwill. As a result, acquisitions typically result in recording goodwill. We performed -- perform our a goodwill evaluation at least annually to test for goodwill impairment for fiscal year 2023 with the assistance of an independent third-party firm specializing in goodwill impairment valuations for financial institutions. Based on the assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carry amount, and, therefore, goodwill was not impaired. Our test of goodwill for potential impairment is based on a qualitative assessment by management that takes into consideration macroeconomic conditions, industry and market conditions, cost or margin factors, financial performance and share price. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill was deemed to exist, we would be required to record write down our goodwill resulting in a non-cash charge against earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations. We are subject to an extensive body of accounting rules and best practices. Periodic changes to such rules may change the treatment and recognition of critical financial line items and affect our profitability. Our business operations are significantly influenced by the extensive body of accounting regulations in the United States. Regulatory bodies periodically issue new guidance, altering accounting rules and reporting requirements, which would adversely can substantially affect the our results of operations -- preparation and reporting of our financial statements. These changes might necessitate retrospective application, perhaps materially, however potentially leading to restatements of prior period financial statements. One such significant change in fiscal 2024 was the implementation of the CECL model, which we adopted it would have no impact on our liquidity October 1, operations 2023. Under the CECL model, financial assets carried at amortized cost, such as loans and held-to-maturity debt securities, are presented at the net amount expected to be collected. This forward-looking approach in estimating expected credit losses contrasts starkly with the prior, "incurred loss" model, which delays recognition until a loss is probable. CECL mandates considering historical experience, current conditions, and reasonable forecasts affecting collectability, leading to periodic adjustments of financial asset values. However, this forward-looking methodology, reliant on macroeconomic variables, introduces the potential or for regulatory capital increased earnings volatility due to unexpected changes in these indicators between periods. An additional consequence of CECL is an accounting asymmetry between loan-related income, recognized periodically based on the effective interest method, and credit losses, recognized upfront at origination. This asymmetry might create the perception of reduced profitability during loan expansion periods due to the immediate recognition of expected credit losses. Conversely, periods with stable or declining loan levels might seem relatively more profitable as income accrues gradually for loans where losses had been previously recognized. As a result of the change in methodology from the incurred loss model to the CECL model, on October 1, 2023, the Company recorded a one-time, net of tax charge of \$ 488, 000 to retained earnings, a \$ 461, 000 increase to the allowance for credit losses on loans, a \$ 92, 000 increase to the allowance for credit losses on investment securities and a \$ 65, 000 increase to the allowance for credit losses on unfunded commitments. We may experience decreases in the fair value of our loan servicing rights, which could reduce our earnings. Loan servicing rights are capitalized at estimated fair value when acquired through the origination of loans that are subsequently sold with servicing rights retained. At September 30, 2023-2024, our loan servicing rights totaled \$ 2-1. 42-37 million. Loan servicing rights are amortized to servicing income on loans sold over the period of estimated net servicing income. The estimated fair value of loan servicing rights at the date of the sale of loans is determined based on the discounted present value of expected future cash flows using key assumptions for servicing income and costs and prepayment rates on the underlying loans. On a quarterly basis, we evaluate the fair value of loan servicing rights for impairment by comparing actual cash flows and estimated cash flows from the loan servicing assets to those estimated at the time loan servicing assets were originated. Our methodology for estimating the fair value of loan servicing rights is highly sensitive to changes in assumptions, such as prepayment speeds. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the loan servicing rights portfolio. For example, a decrease in interest rates typically increases the prepayment speeds of loan servicing rights and therefore decreases the fair value of the loan servicing rights. Future decreases in interest rates could decrease the fair value of our loan servicing rights below their recorded amount, which would decrease our earnings. If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation allowances, our earnings could be reduced. We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed and the property is taken in as OREO, and at certain other times during the asset's holding period. Our net book value ("NBV") in the loan at the time of foreclosure and thereafter is compared to the updated estimated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our

valuation process is incorrect or if the property declines in value after foreclosure, the fair value of our OREO may not be sufficient to recover our NBV in such assets, resulting in the need for a valuation allowance. In addition, bank regulators periodically review any OREO we may have and may require us to recognize further valuation allowances. Significant charge-offs to our OREO may have an adverse effect on our financial condition and results of operations. Other Risks Related to Our Business

~~Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.~~

Ineffective liquidity management could adversely affect our financial results and condition. Liquidity is essential to our business. We rely on several sources ~~in order~~ to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Although we have historically been able to replace maturing deposits and borrowings if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or FRB, or market conditions change. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a downturn in the Washington markets in which our loans and deposits are concentrated, negative operating results, or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity” of this Form 10-K.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be **very exceedingly** high. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. If we are able to raise capital, it may not be on terms that are acceptable to us. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may **dilute** result in the dilution of the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action. Our framework for managing risks may not be effective in mitigating risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, report, analyze and control the types of risk to which we are subject. These risks include liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. We also maintain a compliance program to identify, measure, assess and report on our adherence to applicable laws, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. As with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses which could have a material adverse effect on our financial condition and results of operations. We are dependent on key personnel, and the loss of one or more of those key personnel may materially and adversely affect our prospects. Competition for qualified employees and personnel in the banking industry is intense, and there are a limited number of qualified persons with knowledge of, and experience in, the community banking industry where the Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our Chief Executive Officer and certain other employees. In addition, our success has been and continues to be highly dependent upon the services of our directors, and we may not be able to identify and attract suitable candidates to replace such directors.