Risk Factors Comparison 2024-03-29 to 2023-03-30 Form: 10-K

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

Risks Related to our Lending Activities We have a substantial amount of commercial real estate and commercial loans, and intend to continue to increase originations of these types of loans both directly and through participations. These loans involve credit risks that could adversely affect our financial condition and results of operations. At December 31, ~~2022~~ **2023**, commercial real estate and land development loans (which includes non- owner occupied commercial real estate, multi- family, owner occupied commercial real estate and one- to four- family non- owner- occupied real estate loans) totaled $ ~~210~~ **231**. 9 million, or 58. 3 % of our loan portfolio. Of this aggregate amount, we had $ ~~67~~ **73**. 9 million in non- owner occupied non- residential real estate, $ ~~75~~ **79**. ~~5~~ **7** million in multi- family residential real estate, $ ~~36~~ **40**. ~~2~~ **9** million in owner occupied non- residential real estate, $ 6. 2 million in non- owner occupied residential real estate and $ ~~25~~ **31**. ~~1~~ **2** million in commercial real estate construction ~~and land development~~ loans. At December 31, ~~2022~~ **2023**, our commercial loans (which includes commercial and industrial loans) totaled $ ~~43~~ **47**. ~~7~~ **9** million, or 12. ~~1~~ **0** % of our loan portfolio. We intend to increase originations of these types of loans. Given their larger balances and the complexity of the underlying collateral, commercial real estate and commercial loans generally have more risk than the one- to four- family residential real estate loans we originate. Because the repayment of commercial real estate and commercial loans depends on the successful management and operation of the borrower' s properties or related businesses, repayment of such loans can be affected by adverse conditions in the local, regional and national real estate market or economy. A downturn in the real estate market or the local, regional and national economy could adversely impact the value of properties securing the loan or the revenues from the borrower' s business, thereby increasing the risk of non- performing loans. Further, unlike residential mortgage loans, commercial real estate loans and commercial loans may be secured by collateral other than real estate, such as inventory and accounts receivable, the value of which may depreciate over time, may be more difficult to appraise or liquidate and may be more susceptible to fluctuation in value at default. In addition, the physical condition of non- owner- occupied properties may be below that of owner- occupied properties due to lax property maintenance standards, which have a negative impact on the value of the collateral properties. As our commercial real estate and commercial loan portfolios increase, and to the extent that we choose to take advantage of our greater lending limit and increase the average size of our commercial real estate loans and commercial loans, the corresponding risks and potential for losses from these loans may also increase. Our portfolio of loans with a higher risk of loss has and is expected to increase, which may lead to additional provisions for ~~loan~~ **credit** losses or charge- offs, which would reduce our profits or cause losses. Our commercial real estate loan portfolio increased to $ ~~210~~ **231**. 9 million, or 58. 3 % of total loans, at December 31, ~~2022~~ **2023** from $ ~~185~~ **210**. ~~2~~ **9** million, or ~~56~~ **58**. ~~8~~ **3** % of total loans, at December 31, ~~2021~~ **2022**. Our commercial loan portfolio increased to $ ~~43~~ **47**. ~~7~~ **9** million, or 12. ~~1~~ **0** % of total loans, at December 31, ~~2022~~ **2023** from $ ~~38~~ **43**. ~~2~~ **7** million, or ~~11~~ **12**. ~~7~~ **1** % of total loans, at December 31, ~~2021~~ **2022**. We intend to continue our emphasis on originating commercial real estate and commercial loans. Many of these loans that we have recently put on our books have not been subjected to a prolonged period of unfavorable economic conditions. As a result, it is difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge- off levels above our historical experience, which could adversely affect our future performance. If our allowance for ~~loan~~ **credit** losses is not sufficient to cover actual ~~loan~~ **credit** losses, our earnings could decrease. The Company adopted a new accounting standard, referred to as Current Expected Credit Loss (CECL), effective January 1, 2023. CECL requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for ~~loan~~ **credit** losses. This represents a change from our previous method of recording allowances for ~~loan~~ **credit** losses that are probable. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for ~~loan~~ **credit** losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions or the results of our analyses are incorrect, our allowance for ~~loan~~ **credit** losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. In addition, our emphasis on loan growth and on increasing our portfolios of commercial real estate and commercial business loans, as well as any future credit deterioration, including as a result of COVID- 19, could require us to increase our allowance for ~~loan~~ **credit** losses in the future. At December 31, ~~2022~~ **2023**, our allowance for ~~loan~~ **credit** losses was 0. ~~89~~ **94** % of total loans and ~~416~~ **336**. ~~7~~ **4** % of non- performing loans. In addition, bank regulators periodically review our allowance for ~~loan~~ **credit** losses and, as a result of such reviews, we may be required to increase our provision for ~~loan~~ **credit** losses or recognize further loan charge- offs. Any increase in our allowance for ~~loan~~ **credit** losses or loan charge- offs as a result of such review or otherwise may have a material adverse effect on our financial condition and results of operations. Loan participations comprise a portion of our loan portfolio and a decrease in loan participations purchased could decrease profits and growth levels. During ~~2022~~ **2023**, we increased our purchases of commercial real estate and commercial loan participations originated by other financial institutions, both within and outside of our primary market area, to help meet loan portfolio growth goals. **The outstanding balance of** ~~Loan~~ **loan** participations **purchased** totaled $ **34. 8 million, or 8. 8 % of total loans, and $** 31. 6 million, or 8. 7 ~~% of total loans, and $ 2. 1 million, or 0. 6~~ % of total loans, at December 31, **2023 and** 2022 ~~and 2021~~, respectively **. In addition, the amount available for future draws totaled $ 30. 7 million at December 31, 2023**. Although we underwrite any loan participation as if we were originating the loan, a primary difference is that financial information is received from the lead financial institution and not directly from the borrower, and we rely on the lead lender to monitor the performance of the loan and provide information to us that we use to classify the loan and make any associated ~~loan~~ **credit** loss provisions. If our underwriting or monitoring of these loans or the information provided to us by the lead lender is not sufficient, our non- performing loans may increase and our earnings may decrease. Additionally, in circumstances where we hold a minority participation interest, we may be bound by decisions of the lead lender or majority interest to which we would otherwise object, and may need the consent of these other parties to exercise our rights with respect to a loan. Further, because participations factor into our growth strategy, our profits and loan growth could be significantly and adversely affected if the volume of loan participations materially decreases, whether because of loan demand declines, loan payoffs, lead lenders perceiving us as a potential competitor in their respective market areas, or otherwise. We are subject to environmental liability risk associated with lending activities or properties we own. A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties, or with respect to properties that we own in operating our business. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Our policies, which require us to perform an environmental review before initiating any foreclosure action on non- residential real property, may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us. Risks Related to Laws and Regulations Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and / or increase our costs of operations. PyraMax Bank is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency, and the Company is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily for the protection of the federal deposit insurance fund and the depositors of PyraMax Bank, rather than for our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the adequacy of the level of our allowance for ~~loan~~ **credit** losses. These regulations, along with existing tax, accounting, securities, insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firm. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of operations. Non- compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions. 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. If such activities are suspected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on pursuing acquisitions or establishing new branches. The policies and procedures we have adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations. Furthermore, these rules and regulations continue to evolve and expand. We have not been subject to fines or other penalties, nor have we suffered business or reputational harm, as a result of money laundering activities in the past. We are subject to stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or limit our ability to pay dividends or repurchase shares. Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk- based capital and leverage ratios, and define " capital " for calculating these ratios. The minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4. 5 %; (ii) a Tier 1 to risk- based assets capital ratio of 6 %; (iii) a total capital ratio of 8 %; and (iv) a Tier 1 leverage ratio of 4 %. The regulations also establish a " capital conservation buffer " of 2. 5 %, and the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7. 0 %; (ii) a Tier 1 to risk- based assets capital ratio of 8. 5 %; and (iii) a total capital ratio of 10. 5 %. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The application of these capital requirements could, among other things, result in lower returns on equity, and result in regulatory actions if we are unable to comply with such requirements. Specifically, PyraMax Bank' s ability to pay dividends to the Company will be limited if it does not maintain the capital conservation buffer required by the capital rules, which may further limit the Company' s ability to pay dividends to its stockholders. See " Supervision and Regulation — Federal Banking Regulation — Capital Requirements. " The Federal Reserve Board may require us to commit capital resources to support PyraMax Bank. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the " source of strength " doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore the holding company may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company' s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations. Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board, which regulates the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U. S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. See" Fluctuations in interest rates could reduce our profits and asset values" below. The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted. We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors. The Company is an emerging growth company. For as long as the Company continues to be an emerging growth company, it may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non- binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, the Company also is not subject to Section 404 (b) of the Sarbanes- Oxley Act of 2002, which would require that our independent auditors review and attest as to the effectiveness of our internal control over financial reporting. We have also elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. Investors may find our common stock less attractive since we have chosen to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile. Risks Related to Market Interest Rates Fluctuations in interest rates could reduce our profits and asset values. Net interest income makes up a majority of our income and is based on the difference between (i) the interest income we earn on interest- earning assets, such as loans and securities, and (ii) the interest expense we pay on interest- bearing liabilities, such as deposits and borrowings. The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many savings institutions, our interest- bearing liabilities generally have shorter contractual maturities than our interest- earning assets. This imbalance can create significant earnings volatility because market interest rates change over time. We are unable to predict fluctuations of market interest rates, which are influenced by many factors. During 2022 **and 2023** , in response to accelerated inflation, the Federal Reserve implemented monetary tightening policies, resulting in significantly increased interest rates. The Federal Reserve has indicated that further rate increases may be necessary to curb inflation. In a period of rising interest rates, the interest income we earn on our assets may not increase as rapidly as the interest we pay on our liabilities. Changes in market interest rates may also affect the demand for the Company' s products and services, the Company' s ability to originate real estate loans, competition for deposits, the secondary mortgage market, our ability to realize gains from the sale of assets, and loan delinquencies and defaults, all of which ultimately affect earnings. Changes in interest rates may also affect the market value of the Company' s investment securities portfolio. Conversely, in a period of declining interest rates, the interest income we earn on our assets may decrease more rapidly than the interest we pay on our liabilities, as borrowers prepay mortgage loans, and mortgage- backed securities and callable investment securities are called, requiring us to reinvest those cash flows at lower, current interest rates. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Furthermore, an inverted interest rate yield curve, where short- term interest rates (which are usually the rates at which financial institutions borrow funds) are higher than long- term interest rates (which are usually the rates at which financial institutions lend funds for fixed- rate loans) can reduce a financial institution' s net interest margin and create financial risk for financial institutions that originate longer- term, fixed rate mortgage loans. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Changes in the level of interest rates also may negatively affect the value of our assets and ultimately affect our earnings. We monitor interest rate risk through the use of simulation models, including estimates of the amounts by which the fair value of our assets and liabilities (our economic value of equity or " EVE ") and our net interest income would change in the event of a range of assumed changes in market interest rates. As of December 31, ~~2022~~ **2023** , in the event of an instantaneous 200 basis point increase in interest rates, we estimate that we would experience a ~~2~~ **6** . ~~0~~ **4** % decrease in EVE and a ~~12~~ **5** . ~~0~~ **9** % increase in net interest income. As of December 31, ~~2022~~ **2023** , in the event of an instantaneous 200 basis point decrease in interest rates, we estimate that we would experience a ~~9~~ **6** . ~~1~~ **2** % increase in EVE and a ~~3~~ **4** . ~~1~~ **0** % decrease in net interest income. For further discussion of how changes in interest rates could impact us, see " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk. " Risks Related to our Business Strategy Our business strategy includes managed growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Growing our operations could also cause our expenses to increase faster than our revenues. Our business strategy includes growth in loans and deposits. Achieving such growth will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to successfully grow will depend on a variety of factors, including the ability of our executive officers to execute our business strategy to increase commercial real estate and commercial loans and to increase our new and existing customers' deposit relationships, our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, competition from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in expanding lending capacity, and generally a period of time is required to generate the necessary revenues to offset these costs, especially in areas in which we do not have an established presence. Accordingly, any such business expansion can be expected to negatively impact our earnings unless and until the expected benefits of such growth are achieved. We depend on our management team to implement our business strategy and execute successful operations and we could be harmed by the loss of their services. We depend on the services of the members of our senior management team who direct our strategy and operations. Our executive officers and lending personnel possess substantial expertise, extensive knowledge of our markets and key business relationships, and have been integral in the restructuring of our operations, including the implementation of a more aggressive sales culture within our institution. Any one of them could be difficult to replace. Our loss of these persons, or our inability to hire additional qualified personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets. ~~Our funding sources may prove insufficient to replace deposits at maturity~~ **A lack of liquidity could adversely affect the Company' s financial condition** and **results of operations** ~~support our future growth~~ . Liquidity is essential to ~~our~~ **the Company' s** business. **The Company relies** ~~We must maintain sufficient funds to respond to the needs of depositors and borrowers. We rely primarily~~ on **its ability to generate** deposits ~~, investments~~ and **effectively manage** the repayment of ~~loans~~ **its liabilities** to ensure that there is adequate liquidity to fund ~~our~~ operations ~~and pay our obligations~~ . **An inability** ~~As we continue~~ to ~~grow~~ **raise funds through deposits** , ~~we are likely to become more dependent on~~ **borrowings, the sale and maturities of loans and securities and** other sources ~~of funding, which may include FHLB advances and other borrowings, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected. Additionally, our business and reputation may suffer and we may be subject to regulatory investigation and action if there are doubts about our ability to fund our operations and pay our obligations. Our reliance on deposits, including brokered certificates of deposit, as a source of funds for loans and our other liquidity needs~~ could have ~~an adverse~~ **a substantial negative** effect on **liquidity** ~~our financial condition and operating results~~ . ~~We rely primarily on~~ **The Company' s most important source of funds is its** deposits ~~for funds to make loans and provide for our other liquidity needs, including time deposits and, from time to time, brokered certificates of deposit (although as of December 31, 2022, we had no brokered deposits)~~ . Deposit balances can decrease when customers perceive alternative investments as providing a better risk **adjusted return, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as negative trends in the banking sector, the level of and / or composition of our uninsured deposits, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the Federal Reserve or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Company would lose a relatively low- cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and / or loans, brokered deposits, borrowings from the FHLB and / or FRB discount window, and unsecured borrowings. The Company also may borrow funds from third- party lenders, such as other financial institutions. The Company' s access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Company directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Company' s business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company or the financial sector in general. Any decline in available funding could adversely impact the Company' s ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations. Our reliance on deposits, including brokered certificates of deposit, as a source of funds for loans and our other liquidity needs could have an adverse effect on our financial condition and operating results. We rely primarily on deposits for funds to make loans and provide for our other liquidity needs, including time deposits and, from time to time, brokered certificates of deposit (although as of December 31, 2023, we had no brokered deposits). Deposit balances can decrease when customers perceive alternative investments as providing a better risk** / return tradeoff, which are strongly influenced by external factors such as changes in interest rates, local and national economic conditions, the availability and attractiveness of alternative investments, and perceptions of the stability of the financial services industry generally and of our institution specifically.

Further, the demand for deposits may be reduced due to a variety of factors such as demographic patterns, changes in customer preferences, reductions in consumers’ disposable income, the monetary policy of the Federal Reserve, or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low- cost source of funds, which would increase our funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Certificates of deposit in particular may not be as stable as other types of deposits and, in the future, depositors may not renew those time deposits when they mature, or we may have to pay a higher rate of interest to attract or keep them or to replace them with other deposits or with funds from other sources. Not being able to attract those deposits or to keep or replace them as they mature may adversely affect our liquidity. Additionally, we are regulated by the Office of the Comptroller of the Currency, which requires us to maintain certain capital levels to be considered “ well capitalized. ” If we fail to maintain these capital levels, we could lose our ability to obtain funding through brokered deposits. In addition, we may also be restricted from paying higher deposit rates to attract, keep or replace those deposits, which could have a negative effect on our operating results and the value of our common stock. **While our Board of Directors takes an active role in cybersecurity risk tolerance, we rely to a large degree on management and outside consultants in overseeing cybersecurity risk management. Our Board of Directors takes an active role in the cybersecurity risk tolerance of the Company and all members receive cybersecurity training annually. The Board reviews the annual risk assessments and approves information technology policies, which include cybersecurity. Furthermore, our Audit Committee is responsible for reviewing all audit findings related to information technology general controls, internal and external vulnerability, and penetration testing. We also engage outside consultants to support our cybersecurity efforts. However, our directors do not have significant experience in cybersecurity risk management outside of the Company and therefore, its ability to fulfill its oversight function remains dependent on the input it receives from management and outside consultants.** Our cost of operations is high relative to our revenues. The cost of generating our income is measured by our efficiency ratio (the ratio of non- interest expense to the sum of net interest income and non- interest income). Our efficiency ratio was **155. 8 % (110. 2 %, excluding the loss on sale of securities) and** 100 ~~. 7 % and 99~~ . 7 % for the years ended December 31, **2023 and** 2022 ~~and 2021~~ , respectively. Our efficiency ratio lags our peer group as our competitors for loans and deposits are often larger banks who can offer very competitive terms to originate and retain commercial real estate and commercial loans, as well as very competitive rates on deposit products. Additionally, our interest expense is higher than our peer group as our sources of funding tend to rely on FHLB advances more than our competitors. We have also had a series of significant one- time expenses over the last several years, including core data processing conversion, branch sale costs and expenses related to our healthcare coverage. We face additional risks due to our mortgage banking activities that could negatively impact net income and liquidity. We sell the majority of the fixed- rate conforming and eligible jumbo one- to four- family residential real estate loans that we originate. The sale of these loans generates noninterest income and are a source of liquidity for us. Disruption in the secondary market for residential mortgage loans could result in our inability to sell mortgage loans, which could negatively impact our liquidity position and earnings. In addition, declines in real estate values or increases in interest rates could reduce the potential for robust mortgage originations, which could negatively impact our earnings. As we do sell mortgage loans, we also face the risk that such loans may have been made in breach of our representations and warranties to the buyers and we could be forced to repurchase such loans or pay other damages. Gain on sales of loans comprises a significant portion of our revenue. ~~Our~~ **The increase in mortgage interest rates has resulted in our** net gain on sales of loans ~~constitutes~~ **becoming** a **less** meaningful component of our revenue. The gain on such sales for the years ended December 31, **2023 and** 2022 ~~and 2021~~ was $ **190, 000 and $** 310, 000 ~~and $ 1. 5 million~~ , respectively. Any increase in market interest rates may reduce our mortgage loan originations, resulting in fewer loans available for sale. This would result in a decrease in our non- interest income. Further, when we sell loans, we are required to make customary representations and warranties about such loans to the purchaser. Our loan sale agreements may require us to repurchase or substitute mortgage loans or indemnify investors if we breach certain representations and warranties made to purchasers. In addition, we may be required to repurchase loans as a result of borrower fraud or in the event of a payment default on a mortgage loan shortly after its sale. Any of the foregoing could harm our business, cash flow, results of operations and financial condition. Our ability to recognize the benefits of deferred tax assets is dependent on taxable income. The Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. We recognize the expected future tax benefit from deferred tax assets when it is more likely than not that the tax benefit will be realized. Otherwise, a valuation allowance is applied against deferred tax assets, reducing the value of such assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. Each quarter, the Company assesses its deferred tax asset position, including the recoverability of this asset or the need for a valuation allowance. This assessment takes into consideration positive and negative evidence to determine whether it is more likely than not that a portion of the asset will not be realized. If the Company is not able to recognize deferred tax assets in future periods, it could have a material adverse effect on the Company’ s business, financial condition, and results of operations. New lines of business or new products and services may subject us to additional risks. From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In addition, we will continue to make investments in research, development, and marketing for new products and services. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or new products and services we may invest significant time and resources. Initial timetables for the development and introduction of new lines of business and / or new products or services may not be achieved and price and profitability targets may not prove feasible. Furthermore, if customers do not perceive our new offerings as providing significant value, they may fail to accept our new products and services. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, the burden on management and our information technology of introducing any new line of business and / or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations. Acquisitions may disrupt our business and dilute stockholder value. We evaluate merger and acquisition opportunities with other financial institutions and financial services companies. As a result, negotiations may take place and future mergers or acquisitions with consideration consisting of cash, debt, and / or equity securities may occur at any time. We would seek acquisition partners that offer us either significant market presence or the potential to expand our market footprint and improve profitability through economies of scale or expanded services. Acquiring other banks, businesses, or branches may have an adverse effect on our financial results and may involve various other risks commonly associated with acquisitions, including, among other things: • difficulty in estimating the value of the target company; • payment of a premium over book and market values that may dilute our tangible book value and earnings per share in the short and long term; • potential exposure to unknown or contingent liabilities of the target company; • exposure to potential asset quality problems of the target company; • potential volatility in reported income associated with goodwill impairment losses; • difficulty and expense of integrating the operations and personnel of the target company; • inability to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits of the acquisition; • potential disruption to our business; • potential diversion of our management' s time and attention; • the possible loss of key employees and customers of the target company; and • potential changes in banking or tax laws or regulations that may affect the target company. Risks Related to Economic Conditions A worsening of economic conditions in our market area could reduce demand for our products and services and / or result in increases in our level of non- performing loans, which could adversely affect our operations, financial condition and earnings. The success of our business depends on general economic conditions in the markets in which we operate, particularly southeastern Wisconsin. Difficult economic conditions or adverse changes in such local markets, whether caused by inflation, recession, unemployment, changes in housing or securities markets, or other factors, could reduce demand for our loans and deposits; increase problem loans, charge- offs and foreclosures; cause a decline in the value of collateral securing loans; and otherwise negatively affect our performance and financial condition. Moreover, a significant decline in general economic conditions caused by inflation, recession, acts of terrorism, civil unrest, an outbreak of hostilities or other international or domestic calamities, an epidemic or pandemic, unemployment, the anticipation of any of these events, or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. Risks Related to Competitive Matters Strong competition within our market area may limit our growth and profitability. Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking firms and unregulated or less regulated non- banking entities. Many of these competitors are substantially larger than us and have substantially greater resources and higher lending limits than we have and offer certain services that we do not or cannot provide. In addition, some of our competitors offer loans with lower interest rates and / or more attractive terms than loans we offer. Competition also makes it increasingly difficult and costly to attract and retain qualified employees. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to successfully compete for business and qualified employees in our market areas. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest- earning assets. For additional information see " Business of PyraMax Bank, FSB — Competition. " Our small size may make it more difficult for us to compete. Our small asset size may make it more difficult to compete with other financial institutions that are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. Lower earnings may also make it more difficult to offer competitive salaries and benefits. In addition, our smaller customer base may make it difficult to generate meaningful non- interest income from such activities as securities and insurance brokerage. Finally, as a smaller institution, we are disproportionately affected by the continually increasing costs of compliance with new banking and other regulations. Technology has made it possible for non- banks to offer products and services that traditionally were banking products and made it possible for technology companies to compete with financial institutions in providing electronic, internet- based, and mobile phone- based financial solutions. Technology has lowered barriers to entry and made it possible for non- banks to offer products and services, such as loans and payment services, that traditionally were banking products, and made it possible for technology companies to compete with financial institutions in providing electronic, internet- based, and mobile phone- based financial solutions. Competition with non- banks, including financial technology (" fintech ") companies, to provide financial products and services is intensifying. In particular, the activity of fintechs has grown significantly over recent years and is expected to continue to grow. In addition to fintechs, the large technology companies have begun to make efforts toward providing financial services directly to their customers and are expected to continue to explore new ways to do so. Many of these companies have fewer regulatory constraints, and some have lower cost structures, in part due to lack of physical locations. Some of these companies also have greater resources to invest in technological improvements than we currently have. Competition from non- banks and technology companies may cause us to increase the amount we spend on developing new products and services, including our mobile banking applications. Such competition may also prevent us from achieving our growth objectives. Risks Related to Operational Matters We face significant operational risks because of our reliance on technology. Our information technology systems may be subject to failure, interruption or security breaches. Information technology systems are critical to our business. Our business requires us to collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and our own business, operations, plans and business strategies. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits, and loans. Our computer systems, data management and internal processes, as well as those of third parties, are integral to our performance. Our operational risks include the risk of malfeasance by employees or persons outside our company, errors relating to transaction processing and technology, systems failures or interruptions, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. There have been increasing efforts by third parties to breach data security at financial institutions. Such attacks include computer viruses, malicious or destructive code, phishing attacks, denial of service or information or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information, damages to systems, or other material disruptions to network access or business operations. Although we take protective measures and believe that we have not experienced any of the data breaches described above, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber- attacks that could have an impact on information security. Because the techniques used to cause security breaches change frequently, we may be unable to proactively address these techniques or to implement adequate preventative measures. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, or a breach of our security systems, including if confidential or proprietary information were to be mishandled, misused or lost, we could suffer financial loss, loss of customers and damage to our reputation, and face regulatory action or civil litigation. Any of these events could have a material adverse effect on our financial condition and results of operations. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. In addition, we outsource a majority of our data processing requirements to third- party providers. Accordingly, our operations are exposed to the risk that these vendors will not perform in accordance with our contractual agreements with them, or we also could be adversely affected if such an agreement is not renewed by the third- party vendor or is renewed on terms less favorable to us. If our third- party providers encounter difficulties, or if we have difficulty communicating with those service providers, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected, which could have a material adverse effect on our financial condition and results of operations. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. To our knowledge, the services and programs provided to us by third parties have not experienced any material security breaches. However, the existence of cyber- attacks or security breaches at third parties with access to our data, such as vendors, may not be disclosed to us in a timely manner. We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability. We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and / or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations. Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time. Risks Related to Accounting Matters Changes in management' s estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results. In preparing our periodic reports, as well as periodic reports we will be required to file under the Securities Exchange Act of 1934, including our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management' s best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for ~~loan~~ **credit** losses, fair value measurement (including the value of our mortgage servicing rights), valuation allowances associated with the realization of deferred tax assets and our determinations with respect to amounts owed for income taxes. Changes in accounting standards could affect reported earnings. The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively. Our internal controls, procedures and policies may fail or be circumvented. Management regularly reviews and updates our internal controls and corporate governance policies and procedures. Any system of controls, however well- designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Our recent shift to a remote working model due to COVID- 19 has required us to modify some of these controls, which are approved in advance by management and reviewed by the financial reporting internal controls manager and through internal audits. Similar to our other systems of controls, these new modifications can provide only reasonable assurances that the objectives of the system are being met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition. Other Risks Related to Our Business We are a community bank and our ability to maintain our reputation is critical to the success of our business. The failure to do so may materially adversely affect our performance. We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. 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, cybersecurity incidents and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, customers, or environmental, social and governance matters, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation, any or all of which could adversely affect our business and operating results. ~~We will be required to transition from the use of the LIBOR interest rate index in the future. We have certain loans and investments indexed to the London Interbank Offered Rate (" LIBOR ") to calculate the loan interest rate. As of December 31, 2022, we had extended credit to three customers for loans totaling $ 17. 0 million and have $ 4. 5 million in asset- backed securities that are indexed to the LIBOR. The use of LIBOR in new contracts was discontinued after December 31, 2021 and LIBOR will cease to be published after June 30, 2023. The March 2022 enactment of the Adjustable Interest Rate (LIBOR) Act and the Federal Reserve' s proposed implementing regulations established the Secured Overnight Financing Rate (" SOFR") as the benchmark rate that will automatically apply to agreements that rely on LIBOR and do not have an alternative contractual fallback benchmark rate. At this time, no consensus exists as to what rate or rates may become broadly acceptable alternatives to LIBOR. We adopted SOFR- derived benchmark rates as our preferred alternative to LIBOR for use in new contracts beginning on January 1, 2022. We are converting our LIBOR based loans to SOFR, working with customers, counsel and our core loan servicing provider. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may result in our incurring expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. Additionally, since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR, and the transition will change our market risk profile.~~ Legal and regulatory proceedings and related matters could adversely affect us. We have been and may in the future become involved in legal and regulatory proceedings. We consider most of the proceedings to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. There could be substantial costs and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, reputation, or our financial condition and results of our operations. Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers. Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate- friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior. Our existing stock- based benefit plans will increase our expenses and reduce our income, and may dilute your ownership interests. Our stockholders previously approved the 1895 Bancorp of Wisconsin, Inc. 2020 Equity Incentive Plan and the 1895 Bancorp of Wisconsin, Inc. 2022 Equity Incentive Plan. During the year ended December 31, ~~2022~~ **2023** , we recognized $ ~~363~~ **678** , 000 in non- interest expense relating to these stock benefit plans, and we will recognize additional expenses in the future as additional grants are made and awards vest. No further grants will be made under the 2020 Equity Incentive Plan, which remains in existence solely for the purpose of administering outstanding grants thereunder. We may fund the 2022 Equity Incentive Plan either through open market purchases or from the issuance of authorized but unissued shares of common stock. Our ability to repurchase shares of common stock to fund this plan will be subject to many factors, including, but not limited to, applicable regulatory restrictions on stock repurchases, the availability of stock in the market, the trading price of the stock, our capital levels, alternative uses for our capital and our financial performance. Stockholders would experience a reduction in ownership interest in the event newly issued shares of our common stock are used to fund stock issuances under the plan. The impact of public health emergencies, like the COVID- 19 outbreak, could adversely affect our financial condition and results of operations. As the result of a public health emergency, including the COVID- 19 pandemic, we could be subject to the following risks, among others, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: a worsening of business and economic conditions; declines in demand for products and services; supply chain interruptions; government restrictions on consumer and business activities; increased loan delinquencies, problem assets, and foreclosures; increased to our allowance for ~~loan~~ **credit** losses; declines in the value of collateral for loans, especially real estate: loss or unavailability of key employees; unavailability of third- party service providers; increased FDIC insurance premiums; and increased operating expenses.