Risk Factors Comparison 2024-03-22 to 2023-03-09 Form: 10-K

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You should carefully consider the following risk factors and all other information contained in this Annual Report before making investment decisions concerning the Company' s common stock. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company, or that the Company currently believes are immaterial, may also adversely impact the Company' s business. If any of the events described in the following risk factors occur, the Company' s business, results of operations and financial condition could be materially adversely affected. In addition, the market price of the Company' s common stock could decline due to any of the events described in these risks. Section 1. 01 Risks Relating to the Bank and our Business Our business has been and may in the future be adversely affected by volatile conditions in the financial markets and unfavorable economic conditions generally. National and global economies are constantly in flux, as evidenced by market volatility both recently and in years past. Future economic conditions cannot be predicted, and recurrent deterioration in the economies of the nation as a whole or in the Company' s markets could have an adverse effect, which could be material, on our business, financial condition, results of operations and future prospects, and could cause the market price of the Company' s stock to decline. Economic conditions are currently stressed given higher **interest** rates and persistent inflation, although **conditions** appear relatively stable in most of our local markets. Adverse developments, such as ~~, among other things~~ , continued inflation, health epidemics or pandemics (or expectations about them) ~~like~~ interest rate volatility, international trade disputes, oil price volatility, the level of U. S. debt, including the debt ceiling **(and the potential inability to raise the debt ceiling)** , and global economic conditions, could depress business and / or consumer confidence levels, negatively impact real estate values, and otherwise lead to economic weakness which could have one or more of the following undesirable effects on our business: ● a **rapid** decrease in low- cost or noninterest bearing deposits; ● a lack of demand for loans ~~,~~ or other products and services offered by us; ● an inability to retain and recruit employees due to competition for labor; ● increased competition for loans or other earning assets; ● a decline in the value of our loans or other assets secured by real estate; ● a **decline in the value of fixed- rate investment securities which could lead to a reduction in capital due to declines in other comprehensive income / (loss); ● an increase in the reliance on wholesale funding; ● a** credit impairment of our investment securities; or ● an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us, which in turn could result in higher levels of nonperforming assets, net charge- offs and provisions for credit losses. Changes in interest rates could adversely affect our profitability, business and prospects. Net interest income, and therefore earnings, can be adversely affected by differences or changes in the interest rates on, or the repricing frequency of, our financial instruments. Fluctuations in interest rates can affect the demand of customers for products and services, and an increase in the general level of interest rates may adversely affect the ability of certain borrowers to make variable- rate loan payments. The speed and absolute level of increase or decrease in interest rates can have a material impact on the net interest income and economic value of equity of the Bank depending on the asset liability profile at any point in time. In addition, different parts of the yield curve could change by different amounts causing the yield curve to steepen, flatten, or invert. The **continued** ~~flattening or~~ inversion of the yield curve ~~, similar to what occurred in 2022,~~ could **further** ~~have a particularly~~ negative impact ~~on~~ the Company' s earnings over time. Changes in market interest rates could have a material adverse effect on the Company' s asset quality **based on borrowers' ability to repay at higher rates** , loan origination volume, financial condition, results of operations, and cash flows. This interest rate risk can arise from Federal Reserve Board monetary policies, as well as other economic, regulatory and competitive factors that are beyond our control. **Rising interest rates have decreased the value of the Company' s held- to- maturity and available for sale securities portfolio, and certain fixed- rate loans and the Company would realize losses if it were required to sell such securities or loans to meet liquidity needs. As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly, as well as the value of certain fixed- rate loans. These securities make up a majority of the securities portfolio of most banks in the U. S., including the Company' s, resulting in unrealized losses. Unaccreted unrealized losses that existed at the time securities were transferred to held- to maturity and unrealized losses on available- for- sale securities are reflected in the Company' s accumulated other comprehensive income / (loss). Changes to unrealized losses after securities were transferred to held- to- maturity and unrealized losses on loans are not reflected in accumulated other comprehensive income / (loss).** Challenges in the agricultural industry could have an adverse effect on our customers and their ability to make payments to us, particularly in view of ~~drought conditions~~ **severe weather events** in California and disruptions involving international trade. Difficulties experienced by the agricultural industry have led to relatively high levels of nonperforming assets in previous economic cycles. This is due to the fact that a considerable portion of our borrowers are involved in, or are impacted to some extent by, the agricultural industry. While a great number of our borrowers are not directly involved in agriculture, they would likely be impacted by difficulties in the agricultural industry since many jobs in our market areas are ancillary to the regular production, processing, marketing and sale of agricultural commodities. The markets for agricultural products can be adversely impacted by increased supply from overseas competition, a drop in consumer demand, tariffs and numerous other factors. In recent periods in particular, retaliatory tariffs levied by certain countries in response to tariffs imposed by the US Government on imports from those countries have created a high degree of uncertainty and disruption in the agricultural community in California, due to the level of goods that are exported. The ripple effect of any resulting drop in commodity prices could lower borrower income and depress collateral values. Weather patterns

are also of critical importance to row crop, tree fruit, and citrus production. A degenerative cycle of weather has the potential to adversely affect agricultural industries as well as consumer purchasing power ~~,~~ and could lead to higher unemployment throughout the San Joaquin Valley. In recent years, the state of California experienced the worst drought in its recorded history, and it is difficult to predict if the drought will resume and how long it might last. Another ~~15looming~~ -- **looming** issue that could have a major impact on the agricultural industry involves water availability and distribution rights. If the amount of water available to agriculture becomes increasingly scarce as a result of diversion to other uses **or limitations on agricultural use** , farmers may not be able to continue to produce agricultural products at a reasonable profit, which has the potential to force many out of business. Such conditions have affected and may continue to adversely affect our borrowers and, by extension, our business, and if general agricultural conditions decline our level of nonperforming assets could increase. Another significant drop in oil prices could have an adverse impact on our customers and their ability to make payments to us, particularly in areas such as Kern County where oil production is a key economic driver. As we have experienced in the past, a drop in oil prices could lead to declines in property values and property taxes, particularly in Kern County, which is home to about three quarters of California' s oil production. The Company does not have direct exposure to oil producers, and our exposure via loans outstanding to borrowers involved in servicing oil companies totaled only $ 5. 3 million at December 31, ~~2022~~ **2023** . However, if cash flows are disrupted for our energy- related borrowers, or if other borrowers are indirectly impacted and / or non- oil property values decline, our level of nonperforming assets and loan charge- offs could increase. Furthermore, economic multipliers to a contracting oil industry include the prospects of a depressed residential housing market and a drop in commercial real estate values **. Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer and investor confidence in the banking system. The recent high- profile bank failures involving Silicon Valley Bank, Signature Bank, and sale of First Republic Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, regional and community banks like the Company. These market developments have 16negatively impacted customer confidence in the safety and soundness of regional and community banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short- term fixed income securities, all of which could materially adversely impact the Company' s liquidity, loan funding capacity, net interest margin, capital and results of operations. Additionally, these recent events have, and could continue to, adversely impact the market price and volatility of the Company' s common stock independent from the Company' s actual underlying financial performance** . We may not be able to continue to attract and retain banking customers, and our efforts to compete may reduce our profitability. The banking business in our market areas is highly competitive with respect to virtually all products and services, which may limit our ability to attract and retain banking customers. In California generally, and in our service areas specifically, major banks dominate the commercial banking industry. Such banks have substantially greater lending limits than we have, offer certain services we cannot offer directly, and often operate with economies of scale that result in relatively low operating costs. We also compete with numerous financial and quasi- financial institutions for deposits and loans, including providers of financial services via the internet **. Due to deposit declines from a higher rate environment, competition for deposits has become more fierce and new deposits generally have a higher cost** . Recent advances in technology and other changes have allowed parties to effectuate financial transactions that previously required the involvement of banks. For example, consumers can maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Additionally, the use of blockchain and related technology may cause further disintermediation away from banks. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of customer deposits and the fee income generated by those deposits. The loss of these revenue streams and access to lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. Moreover, some customers continue to be concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. **The bank offers accounts to customers that provide multi- million- dollar FDIC insurance using the IntraFi network of banks to offer reciprocal fully FDIC insured accounts through the Insured Cash Sweep (" ICS ") or Certificate of Deposit Account Registry System (" CDARS ").** At December 31, ~~2022~~ **2023** , the Bank estimates it had uninsured deposits of $ ~~919~~ **816** million. Decreases in deposits may adversely affect our funding costs and net income. Ultimately, competition can and does increase our cost of funds, reduce loan yields and drive down our net interest margin, thereby reducing profitability. ~~It~~ **Competition** can also make it more difficult for us to continue ~~to increase~~ **increasing** the size of our loan portfolio and deposit base ~~,~~ and could cause us to rely more heavily on wholesale borrowings which are generally more expensive than retail deposits. We may not be able to continue to attract and retain employees, and our efforts to compete for talent may reduce our profitability. The Company recognizes that community banking is based on relationships and a core part of the Company' s service strategy is to recruit and develop employees that build these relationships with customers, vendors, and other employees. In addition to offering a competitive base salary or wage, the company offers comprehensive benefits, including training. Due to continued turnover, the Company increased its minimum wage to $ 20 per hour effective January 1, 2022, in an effort to attract and retain employees at all levels. The Company' s employees are critical to the Company' s ability to develop and grow relationships with its clients. Recruiting talent within the Company' s footprint has always been a fundamental strategy whenever possible but has been recently complemented with offering existing and new employee' s opportunities for remote and / or hybrid work arrangements if possible. However, **we** ~~it is recognized~~ - **recognize** that competition for talent by both banks and non- banks is fierce and that **our** overall expenses may be negatively affected by higher per employee costs or **by higher- cost temporary staff or consultants. The competitive market for talent** could **also** result in **gaps of experience in certain areas or** lower staffing levels which ~~would~~ **could** result in a reduced ability to serve our customers ~~, could result in gaps of experience in certain areas, or cause the Company to engage higher cost temporary staff or~~

~~consultants~~ . ~~16The~~ -- **The** value of the securities in our investment portfolio may be negatively affected by market disruptions, adverse credit events or fluctuations in interest rates, which could have a material adverse impact on capital levels. Our available- for- sale investment securities are reported at their estimated fair values, and fluctuations in fair values can result from changes in market interest rates, rating agency actions, issuer defaults, illiquid markets and limited investor demand, among other things. Under current accounting rules we directly increase or decrease accumulated other comprehensive income in shareholders' equity by the amount of the change in fair value, net of the tax effect. Because of the size of our ~~fixed~~ **17fixed** income bond portfolio relative to total assets, a relatively large increase in market interest rates, in particular, could result in a material drop in fair values and, by extension, our capital. ~~At~~ **For the year ended** December 31, ~~2022~~ **2023** , we had total other comprehensive ~~losses~~ **gains** of $ ~~67~~ **20** . ~~7~~ **6** million **, net of tax,** primarily as a result of **a decline in** unrealized losses in our securities portfolio. The Company has a significant amount of Collateralized Loan Obligations; a change in credit events, demand or other factors could decrease the spread to the index which could have a negative impact in the value of those bonds. Non- government and non- US agency investment securities that have an amortized cost in excess of their current fair value at the end of a reporting period are also evaluated for potential credit impairment. If such credit impairment is indicated, the difference between the amortized cost and the fair value of those securities will be recorded as a charge in our income statement, which could also have a material adverse effect on our results of operations and capital levels. We are exposed to the risk of environmental liabilities with respect to properties to which we obtain title. Approximately ~~91~~ **86** . ~~4~~ **7** % of our loan portfolio at December 31, ~~2022~~ **2023** , consisted of real estate loans. In the normal course of business we may foreclose and take title to real estate collateral ~~,~~ and could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination ~~,~~ or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business and prospects. Section 1. 02 Risks Related to our LoansConcentrations of real estate loans have negatively impacted our performance in the past ~~,~~ and could subject us to further risks in the event of another real estate recession or natural disaster. Our loan portfolio is heavily concentrated in real estate loans, particularly commercial real estate. At December 31, ~~2022~~ **2023** , ~~91~~ **86** . ~~4~~ **7** % of our loan portfolio consisted of real estate loans, and a sizeable portion of the remaining loan portfolio had real estate collateral as a secondary source of repayment or as an abundance of caution. Loans on commercial buildings represented approximately ~~64~~ **63** . ~~7~~ **4** % of all real estate loans, while construction / development and land loans were ~~1.~~ 0 **. 3** %, loans secured by residential properties accounted for ~~27~~ **19** . ~~1~~ **8** %, and loans secured by farmland were ~~6~~ **3** . ~~1~~ **2** % of real estate loans. The Company' s $ ~~19~~ **8** . ~~6~~ **0** million balance of nonperforming assets at December 31, ~~2022~~ **2023** , is mostly comprised of nonperforming **secured** real estate loans. In past recessionary periods, the residential real estate market experienced significant deflation in property values and foreclosures occurred at relatively high rates ~~during and after the recession~~ . While residential real estate values in our market areas appear to have stabilized, if they were to slide again, or if commercial real estate values were to decline materially, the Company could experience additional migration into nonperforming assets. An increase in nonperforming assets could have a material adverse effect on our financial condition and results of operations by reducing our income and increasing our expenses. Deterioration in real estate values might also further reduce the amount of loans the Company makes to businesses in the construction and real estate industry, which could negatively impact our organic growth prospects. Similarly, the occurrence of more natural disasters like those California has experienced recently, including fires, flooding, and earthquakes, could impair the value of the collateral we hold for real estate secured loans and negatively impact our results of operations. Our concentration of commercial real estate, construction and land development, and commercial and industrial loans exposes us to increased lending risks. Commercial and agricultural real estate, commercial construction and land development, and commercial and industrial loans ~~and leases~~ (including agricultural production loans but excluding mortgage warehouse loans), which comprised approximately ~~70~~ **66** . ~~8~~ **9** % of our total loan portfolio as of December 31, ~~2022~~ **2023** , ~~17expose~~ -- **expose** the Company to a greater risk of loss than residential real estate and consumer loans, which were a smaller percentage of the total loan portfolio **. Further office properties within commercial real estate have been stressed by the surge in interest rates and exacerbated by the increase in vacancies. In the next three years, $ 63. 5 million or 25. 1 % of our office real estate loans have the ability to reprice. The potential inability of our borrowers to service debt at higher rates expose us to greater risk of loss than we have seen in the past several years** . Commercial real estate and land development loans typically involve relatively large balances to a borrower or a group of related borrowers, and an adverse development with respect to a larger ~~commercial~~ **18commercial** loan relationship would expose us to greater risk of loss than would issues involving a smaller residential mortgage loan or consumer loan. Moreover, banking regulators ~~give~~ **closely scrutinize** commercial real estate **(" CRE ")** loans ~~extremely close scrutiny~~ due to risks relating to the cyclical nature of the real estate market and risks for lenders with high concentrations of such loans. The regulators require banks with relatively high levels of CRE loans to implement enhanced underwriting standards, internal controls, risk management policies and portfolio stress testing. If the CRE concentration risk is not properly managed, it could result in higher allowances for possible loan ~~and lease~~ losses. Expectations for higher capital levels have also emerged. Any required increase in our allowance for credit losses on loans ~~and leases~~ could adversely affect our net income, and any requirement that we maintain higher capital levels could adversely impact financial performance measures including earnings per share and return on equity. If the Company grows commercial real estate loans, it could be limited based on levels of regulatory capital. Therefore, the ability to grow loans significantly is dependent upon the Company' s ability to diversify its loan portfolio through recruitment of lending teams, hiring of specialized support personnel including underwriters and portfolio managers, and the ability to monitor new risks in the loan portfolio. Repayment of our commercial loans is often dependent on

the cash flows of the borrowers, which may be unpredictable, and the collateral securing these loans may fluctuate in value. At December 31, ~~2022~~ **2023** , we had $ ~~105~~ **157** . ~~9~~ **8** million, or **7.** 5 ~~. 2~~ % of total loans, in commercial loans ~~and leases~~ (including SBA ~~PPP~~ loans ~~,~~ **and** agricultural production loans but excluding mortgage warehouse loans). Commercial lending involves risks that are different from those associated with 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. Our commercial loans are primarily extended based on the cash flows of the borrowers, and secondarily on any underlying collateral provided by the borrowers. A borrower' s cash flows may be unpredictable, and collateral securing those loans may fluctuate in value. Although commercial loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of such collateral in the event of default is often an insufficient source of repayment for **multiple** ~~a number of~~ reasons, including uncollectible accounts receivable and obsolete or special- purpose inventories, among others. Nonperforming assets adversely affect our results of operations and financial condition ~~,~~ and can take significant time to resolve. Our nonperforming loans may return to elevated levels, which would negatively impact earnings, possibly in a material way depending on the severity. We do not record interest income on non- accrual loans, thereby adversely affecting income levels. Furthermore, when we receive collateral through foreclosures and similar proceedings, we are required to record the collateral at its fair market value less estimated selling costs, which may result in charges against our allowance for credit losses on loans ~~and leases~~ if that value is less than the book value of the related loan. Additionally, our noninterest expense has risen materially in adverse economic cycles due to the costs of reappraising adversely classified assets, write- downs on foreclosed assets resulting from declining property values, operating costs related to foreclosed assets, legal and other costs associated with loan collections, and various other expenses that would not typically be incurred in a normal operating environment. A relatively high level of nonperforming assets also increases our risk profile and may impact the capital levels our regulators believe is appropriate in light of such risks. We have utilized various techniques such as loan sales, workouts and restructurings to manage our problem assets. Deterioration in the value of these problem assets, the underlying collateral, or in the borrowers' performance or financial condition, could adversely affect our business, results of operations and financial condition. In addition, the resolution of nonperforming assets requires a significant commitment of time from **Bank** ~~Management and Staff~~ **staff** , which can be detrimental to their performance of other responsibilities. There can be no assurance that we will avoid increases in nonperforming loans in the future. ~~18We~~ **We** may experience credit losses in excess of our allowance for such losses. We endeavor to limit the risk that borrowers might fail to repay; nevertheless, losses can and do occur. At December 31, ~~2022~~ **2023** , we established an allowance for estimated credit losses on loans ~~and leases~~ in our accounting records based on: ● historical experience with our loans **and those of peer banks** ; ● our evaluation of **reasonable and supportable** economic ~~conditions~~ **forecasts** ; **19** ● **consideration** ~~regular reviews~~ of the **composition, including** quality, mix and size of the overall loan portfolio; ● **review of** ~~a detailed cash flow analysis for~~ nonperforming loans **and related reserve requirements ● expected timeline for repayment of existing loans, considering expected contractual cash flows in addition to expectations around prepayments** ; **and** ● **evaluation** ~~regular reviews~~ of ~~delinquencies; and ●~~ **qualitative factors not given adequate consideration in** the ~~quality~~ **computation** of **quantitative reservesAs** ~~the collateral underlying our loans. As~~ of January 1, 2022, we adopted the provisions of ASU 2016- 13 (commonly referred to as " CECL ") with an adjustment to equity, net of taxes for the difference between the allowance for loan ~~and lease~~ losses and the allowance for credit losses. Therefore, on January 1, 2022, the Company recorded a $ 10. 4 million increase in the allowance for credit losses, which includes a $ 0. 9 million reserve for unfunded commitments as an adjustment to equity, net of deferred taxes. See Note 2 to the consolidated financial statements under " Recent Accounting Pronouncements " for additional details on ASU 2016- 13 and its ~~expected~~ impact on the Company. The allowance for credit losses can be affected by changes in economic forecasts, especially national employment rates; changes in actual loan prepayment speeds, actual levels of charge- offs, changes to the level of nonaccrual loans, and changes to management' s estimate of items not otherwise considered as part of the quantitative calculation of the allowance. At any given date, we maintain an allowance for credit losses on loans ~~and leases~~ that we believe is adequate to absorb specifically identified ~~probable~~ **expected** losses as well as any other losses ~~inherent in our~~ **of principal which is not expected to be collected over the contractual life of the** ~~loan~~ **loans** ~~portfolio as of that date~~ **, adjusted for expected prepayments** . While we strive to carefully monitor credit quality and to identify loans that may become nonperforming, at any given time there may be loans in our portfolio that could result in losses but have not been identified as nonperforming or potential problem loans. We cannot be sure that we will identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on loans that have been so identified. In addition, the FDIC and the DFPI, as part of their supervisory functions, periodically review our allowance for credit losses on loans ~~and leases~~ . Such agencies may identify additional considerations for us to address with respect to our allowance for credit losses which may cause us to increase our allowance for credit losses. Our use of appraisals in deciding whether to make a loan on or secured by real property does not ensure the value of the collateral. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and an error in fact or judgment could adversely affect the reliability of the appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors the value of the collateral backing a loan may be less than supposed, and if a default occurs **,** we may not recover the entire outstanding balance of the loan via the liquidation of such collateral. Section 1. 03 Risks Related to our ManagementWe depend on our executive officers and key personnel to implement our business strategy ~~,~~ and could be harmed by the loss of their services. We believe that our continued growth and success depends in large part upon the skills of our executive management team and other key personnel. The competition for qualified personnel in the financial services industry is intense, and the loss of key personnel or an inability to attract, retain or motivate key personnel could adversely affect our business. If we are not able to retain our existing key personnel or attract additional qualified personnel, our business operations

could be impaired. ~~19We~~ **We** may incur significant losses as a result of ineffective risk management processes and strategies. We seek to monitor and control our risk exposure through a comprehensive enterprise risk framework. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgements that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. ~~Section~~ **20Section** 1. 04 Risks Related to our Other Accounting EstimatesWe may experience future goodwill impairment. In accordance with GAAP, we record assets acquired and liabilities assumed at their fair value with the excess of the purchase consideration over the net assets acquired resulting in the recognition of goodwill. We perform a goodwill evaluation at least annually to test for potential impairment. As part of our testing, we assess quantitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that the fair value of a reporting unit is less than its carrying amount using these quantitative factors, we must record a goodwill impairment charge based on that difference. Adverse conditions in our business climate, including a significant decline in future operating cash flows, a significant change in our stock price or market capitalization, or a deviation from our expected growth rate and performance may significantly affect the fair value of the Company and may trigger goodwill impairment losses, which could be materially adverse to our operating results and financial position. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have an adverse effect on our shareholders' equity and financial results and could cause a decline in our stock price. Changes in accounting standards may affect our performance. Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time the FASB and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in a retrospective adjustment to prior financial statements. There are risks resulting from the extensive use of models. We rely on quantitative models to measure risks and estimate certain financial values. Models may be used to measure interest rate and other market risks, predicting or estimating losses, assessing capital adequacy, assisting with identifying compliance risk, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models could result in business decisions made based on the use of models being adversely affected due to the inaccuracy of that information. Models are often based on historical experience to predict future outcomes and new experiences or events which are not part of historical experience could significantly increase model imprecision and reliability. Model inputs can also include information provided by third parties, such as economic forecasts or macroeconomic variables upon which we rely. Our reliance on models continues to increase as rules, guidance and expectations change including the additional model used in the determination of our allowance for credit losses, which we **implemented when we** adopted **ASU 2016- 13** on January 1, 2022. Section 1. 05 Risks Related to our Growth StrategyGrowing by acquisition entails integration and certain other risks, and our financial condition and results of operations could be negatively affected if our expansion efforts are unsuccessful **,** or we fail to manage our growth effectively. In addition to organic growth and the establishment of de novo branches, over the past several years we have engaged in expansion through acquisitions of branches and whole institutions. We may reestablish this growth strategy, within our current footprint and / or via geographic expansion, but there are risks associated with any such expansion. Those risks include, among others, incorrectly assessing the asset quality of a bank acquired in a particular transaction, encountering greater than anticipated costs in integrating acquired businesses, facing resistance from customers or employees, being unable to profitably deploy assets acquired in the transaction, and regulatory compliance risks. To the extent we issue capital stock in connection with additional transactions, if any, these transactions and related stock issuances may have a dilutive effect on earnings per share and share ownership. If the subsidiary' s CRA rating is downgraded to less than satisfactory in the future, it could negatively affect the Company' s acquisition strategy as the CRA requires the banking agencies to consider a financial institution' s efforts in meeting its community credit needs when ~~20evaluating~~ -- **evaluating** applications for, among other things, domestic branches, mergers or acquisitions, or the formation of holding companies. Our earnings, financial condition, and prospects after a merger or acquisition depend in part on our ability to successfully integrate the operations of the acquired company. We may be unable to integrate operations successfully or to achieve expected cost savings. Any cost savings which are realized may be offset by losses in revenues or other charges to earnings. There also may be business disruptions that cause us to lose customers or cause customers to remove their accounts from ~~us~~ **21us** and move their business to competing financial institutions. In addition, our ability to grow may be limited if we cannot make acquisitions. We compete with other financial institutions with respect to potential acquisitions. We cannot predict if or when we will be able to identify and attract acquisition candidates or make acquisitions on favorable terms. Section 1. 06 Legislative and Regulatory RisksWe are subject to extensive government regulation that could limit or restrict our activities which may include crypto currency and legalized marijuana business activities, which in turn may adversely impact our ability to increase our assets and earnings. We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the DFPI and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. ~~The laws and regulations applicable to the banking industry, or the regulatory enforcement of new and existing laws could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability.~~ Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties, as well as imposing limitations on a bank' s ability to implement components of its business plan, such as expansion

through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve, significantly affect credit conditions. **Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company' s expenses and affect the Company' s operations. The Company also anticipates increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Bank, designed to address the recent** ~~Negative~~ **negative** developments in the ~~financial~~ **banking** industry **, all** ~~and the impact~~ of **which may increase** ~~new legislation and regulation in response to those~~ -- **the** ~~developments~~ **Company' s costs of doing business and reduce its profitability. As a result, the Bank** could ~~negatively impact~~ **face increased scrutiny** ~~our~~ - **or** ~~business operations~~ **be viewed as higher risk by regulators** and **the investor community** ~~adversely impact our financial performance~~ . Our expenses could increase as a result of increases in FDIC insurance premiums or other regulatory assessments. The FDIC charges insured financial institutions a premium to maintain the DIF at a certain level. In the event that deteriorating economic conditions increase bank failures, the FDIC ensures payments of deposits up to insured limits from the DIF. In 2022, the FDIC announced an increase in rates in 2023, ~~Therefore,~~ **resulting in an increase in** the Bank' s FDIC insurance assessments ~~are expected to increase as a result of this recent change~~ . There can be no assurance that the FDIC will not further increase assessment rates in the future or that the Bank will not be subject to higher assessment rates **due to** ~~as a result of~~ a change in its risk category, either of which could have an adverse effect on the Bank' s earnings. Previously enacted and potential future regulations could have a significant impact on our business, financial condition and results of operations. Dodd- Frank, which was enacted in 2010, is having a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in Dodd- Frank will be implemented over time, and most will be facilitated by the enactment of regulations over the course of several years. Given the uncertainty associated with the **implementation** ~~manner in which the provisions~~ of Dodd- Frank **provisions** ~~will be implemented~~ , the full extent to which they will impact our operations is unclear. The changes resulting from Dodd- Frank may impact the profitability of business activities, require changes to certain business practices, impose more stringent ~~21capital~~ -- **capital** , liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential impact of Dodd- Frank on our operations and activities, both currently and prospectively, include, among others: ● an increase in our cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums; ● the limitation of our ability to expand consumer product and service offerings due to more stringent consumer protection laws and regulations; ● a negative impact on our cost of funds in a rising interest rate environment, since financial institutions can now pay interest on business checking accounts; **22** ● a potential reduction in fee income, due to limits on interchange fees applicable to larger institutions which could ultimately lead to a competitive- driven reduction in the fees we receive; and ● a potential increase in competition due to the elimination of the remaining barriers to de novo interstate branching. Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd- Frank Act, which could negatively impact our results of operations and financial condition. We cannot predict whether there will be additional laws or reforms that would affect the U. S. financial system or financial institutions, when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material adverse effect on our financial condition and results of operations. Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings. The Federal Reserve, the FDIC and the DFPI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin " unsafe or unsound " practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations. We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U. S. Department of Justice, federal banking agencies and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution' s compliance with fair lending laws and regulations, receiving a less than satisfactory CRA rating, or challenges related to other consumer protection laws could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also challenge an institution' s performance under consumer compliance laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered " predatory. " These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable ~~22expectation~~ -- **expectation** that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending

and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make. We derive fee income from charging customers for fees that could be subject to increased scrutiny by the regulators. There has been increased scrutiny of certain fees ~~charged to consumers~~ , including overdrafts **, charged to consumers** in recent years. Changes to the Company' s overdraft practices **due to** ~~as a result of~~ changes in regulations or rules impact the collection of overdraft or insufficient fund fees could negatively impact the Company' s earnings. In ~~2022~~ **2023** , the Company recognized $ ~~4~~ **5** . ~~6~~ **3** million of income from overdraft fees which could be impacted due to changes in the way overdraft fees are charged. In addition, the Company has a significant level of income from money service businesses. In ~~2022~~ **2023** , the Company recognized approximately $ ~~2~~ **1** . ~~0~~ **9** million in service charges and fees related to money service businesses, ~~excluding $ 1. 9 million~~ in **addition to** analysis fees **23earned** . Changes in regulatory oversight of money service businesses could negatively impact the ~~Company' s~~ number of money service businesses ~~it~~ **we** ~~serves~~ - **serve** and the related income from such customers. Section 1. 07 Risks Related to our Common StockYou may not be able to sell your shares at the times and in the amounts you want if the price of our stock fluctuates significantly or the trading market for our stock is not active. The market price of our common stock could be impacted by a number of factors, many of which are outside our control. Although our stock has been listed on Nasdaq for many years and our trading volume has increased in recent periods, trading in our stock does not consistently occur in high volumes and the market for our stock cannot always be characterized as active. Thin trading in our stock may exaggerate fluctuations in the stock' s value, leading to price volatility in excess of that which would occur in a more active trading market. In addition, the stock market in general is subject to fluctuations that affect the share prices and trading volumes of many companies, and these broad market fluctuations could adversely affect the market price of our common stock. Factors that could affect our common stock price in the future include but are not necessarily limited to the following: ● actual or anticipated fluctuations in our operating results and financial condition; ● changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts; ● failure to meet analysts' revenue or earnings estimates; ● speculation in the press **and social media,** or investment community; ● strategic actions by us or our competitors, such as acquisitions or restructurings; ● actions by shareholders; ● sales of our equity or equity- related securities, or the perception that such sales may occur; ● fluctuations in the trading volume of our common stock; ● fluctuations in the stock prices, trading volumes, and operating results of our competitors; ● market conditions in general and, in particular, for the financial services industry; ● proposed or adopted regulatory changes or developments; ● regulatory action against us; ● actual, anticipated or pending investigations, proceedings, or litigation that involve or affect us; ~~and23~~ -- **and** ● domestic and international economic factors unrelated to our performance. The stock market and, more specifically, the market for financial institution stocks, has experienced significant volatility ~~in~~ **over** the past **several years** ~~including 2021 and 2022~~ . As a result, the market price of our common stock has at times been unpredictable and could be in the future, as well. The capital and credit markets have also experienced volatility and disruption over the past several years, at times reaching unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and adversely impacted credit availability for certain issuers without regard to the issuers' underlying financial strength. ~~We could pursue additional capital in the future, which may or may not be available on acceptable terms, could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at the time, which are outside of our control, and our financial performance. Furthermore, any capital raising activity could dilute the holders of our outstanding common stock, and may adversely affect the market price of our common stock and performance measures such as return on equity and earnings per share.~~ Future acquisitions may dilute shareholder ownership and value, especially tangible book value per share. We periodically evaluate opportunities to acquire other financial institutions and / or bank branches ~~,~~ and could incorporate such ~~acquisitions~~ **24acquisitions** as part of our future growth strategy. Such acquisitions may involve cash, debt, and / or equity securities. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value per common share may occur in connection with any future acquisitions. To the extent we issue capital stock in connection with such transactions, the share ownership of our existing shareholders may be diluted. The Company relies heavily on the payment of dividends from the Bank. At December 31, ~~2022~~ **2023** , the holding company had $ ~~26~~ **10** . ~~1~~ **4** million in cash available. While this cash is sufficient to cover cash flow needs over the course of the next several quarters the Company' s long- term ability to meet debt service requirements and pay dividends depends on the Bank' s ability to pay dividends to the Company, as the Company has no other source of significant income. However, the Bank is subject to regulations limiting the amount of dividends it may pay. For example, the payment of dividends by the Bank is affected by the requirement to maintain adequate capital pursuant to the capital adequacy guidelines issued by the Federal Deposit Insurance Corporation. If (i) any capital requirements are increased; and / or (ii) the total risk-weighted assets of the Bank increase significantly; and / or (iii) the Bank' s income declines significantly, the Bank' s Board of Directors may decide or be required to retain a greater portion of the Bank' s earnings to achieve and maintain the required capital or asset ratios. This would reduce the amount of funds available for the payment of dividends by the Bank to the Company. Further, one or more of the Bank' s regulators could prohibit the Bank from paying dividends if, in their view, such payments would constitute unsafe or unsound banking practices. The Bank' s ability to pay dividends to the Company is also limited by the California Financial Code. Whether dividends are paid, and the frequency and amount of such dividends will also depend on the financial condition and performance of the Bank and the decision of the Bank' s Board of Directors. Information concerning the Company' s dividend policy and historical dividend practices is set forth in Item 5 below under " Dividends. " However, no assurance can be given that our future performance will justify the payment of dividends in any particular year. Your investment may be diluted because of our ability to offer stock to others, and from the exercise of stock options or issuance of restricted stock. The shares of our common stock do not have preemptive rights, which means that you may not be entitled to buy additional shares if shares are offered to others in the future. We are authorized to issue up to 24, 000, 000 shares of

common stock, and as of December 31, ~~2022~~ **2023** , we had ~~15~~ **14** , ~~170~~ **793** , ~~372~~ **832** shares of common stock outstanding. Except for certain limitations imposed by Nasdaq, nothing restricts our ability to offer additional shares of stock for fair value to others in the future. Any issuances of common stock would dilute our shareholders' ownership interests and may dilute the per share book value of our common stock. Furthermore, when our directors and officers exercise in- the- money stock options or receive restricted stock units, your ownership in the Company is diluted. As of December 31, ~~2022~~ **2023** , there were outstanding options to purchase an aggregate of ~~352~~ **343** , ~~249~~ **449** shares of our common stock with an average exercise price of $ 25. ~~06~~ **02** per share. There were also ~~175~~ **238** , ~~619~~ **179** shares of restricted stock units outstanding which vest over periods ranging from ~~1~~ **one** year to ~~5~~ **five** years from initial issuance. At the same date there were an additional ~~382~~ **292** , ~~006~~ **581** shares available to grant under our **2023 Stock Incentive Plan, which replaced the Company' s** 2017 Stock Incentive Plan. ~~24The~~ -- **The** holders of our debentures have rights that are senior to those of our shareholders. In 2004 we issued $ 15, 464, 000 of junior subordinated debt securities due March 17, 2034, and in 2006 we issued an additional $ 15, 464, 000 of junior subordinated debt securities due September 23, 2036, in order to supplement regulatory capital. Moreover, the Coast Bancorp acquisition included $ 7, 217, 000 of junior subordinated debt securities due December 15, 2037. All of these junior subordinated debt securities are senior to the shares of our common stock. As a result, we must make interest payments on the debentures before any dividends can be paid on our common stock, and in the event of our bankruptcy, dissolution or liquidation, the holders of debt securities must be paid in full before any distributions may be made to the holders of our common stock. In addition, we have the right to defer interest payments on the junior subordinated debt securities for up to five years, during which time no dividends may be paid to holders of our common stock. In the event ~~that~~ the Bank is unable to pay dividends to us, we may be unable to pay the amounts due to the holders of the junior subordinated debt securities and thus would be unable to declare and pay any dividends on our common stock. Provisions in our articles of incorporation could delay or prevent changes in control of our corporation or our management. Our articles of incorporation contain provisions for staggered terms of office for members of the board of directors; no cumulative voting in the election of directors; and the requirement that our board of directors consider the potential social and economic effects on our employees, depositors, customers and the communities we serve as well as certain other factors, when evaluating a possible tender offer, merger or other acquisition of the Company. These ~~provisions~~ **25provisions** make it more difficult for another company to acquire us, which could cause our shareholders to lose an opportunity to be paid a premium for their shares in an acquisition transaction and reduce the current and future market price of our common stock. Shares of any preferred stock issued in the future could have dilutive and other effects on our common stock. Our Articles of Incorporation authorize us to issue 10, 000, 000 shares of preferred stock, none of which is presently outstanding. Although our Board of Directors has no present intention to authorize the issuance of shares of preferred stock, such shares could be authorized in the future. If such shares of preferred stock are made convertible into shares of common stock, there could be a dilutive effect on the shares of common stock then outstanding. In addition, shares of preferred stock may be provided a preference over holders of common stock upon our liquidation or with respect to the payment of dividends, in respect of voting rights, or in the redemption of our common stock. The rights, preferences, privileges and restrictions applicable to any series or preferred stock would be determined by resolution of our Board of Directors. Section 1. 08 Risks Related to the Business of Banking in GeneralIf we are not able to successfully keep pace with technological changes in the industry, our business could be hurt. The financial services industry is constantly undergoing technological change, with the frequent introduction of new technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and reduce costs. Our future success depends, in part, upon our ability to respond to the needs of our clients by using technology to provide desired products and services and create additional operating efficiencies. Some of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our clients. Failure to keep pace with technological change in the financial services industry could have a material adverse impact on our business and, in turn, on our financial condition and results of operations. Unauthorized disclosure of sensitive or confidential customer information, whether through a cyber- attack, other breach of our computer systems or any other means, could severely harm our business. In the normal course of business we collect, process and retain sensitive and confidential customer information. Despite the security measures we have in place, our facilities and systems may be vulnerable to cyber- attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and / or human errors, or other similar events. In recent periods there has been a rise in fraudulent electronic activity, security breaches, and cyber- attacks, including in the banking sector. Some financial institutions have reported breaches of their websites and systems which have involved sophisticated and targeted attacks intended to misappropriate sensitive or confidential information, destroy or corrupt data, disable or degrade service, disrupt operations and / or sabotage systems. These breaches can remain undetected for an extended period ~~of time~~ . Furthermore, our customers and employees have been, and will continue to be, targeted by parties ~~25using~~ -- **using** fraudulent e- mails and other communications that may appear to be legitimate messages sent by the Bank, in attempts to misappropriate passwords, card numbers, bank account information or other personal information or to introduce viruses or malware to personal computers. Information security risks for financial institutions have increased in part because of new technologies, mobile services and other web- based products used to conduct financial and other business transactions, as well as the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. The secure maintenance and transmission of confidential information, as well as the secure and reliable execution of transactions over our systems, are essential to protect us and our customers and to maintain our customers' confidence. Despite our efforts to identify, contain and mitigate these threats through detection and response mechanisms, product improvement, the use of encryption and authentication technology, and customer and employee education, such attempted fraudulent activities directed against us, our customers, and third party service providers remain a serious issue. The pervasiveness of cyber security incidents in general and the risks of cyber- crime are complex and continue to evolve. We also face risks related to cyber- attacks and

other security breaches in connection with debit card transactions, which typically involve the transmission of sensitive information regarding our customers through various third parties. Some of these parties have in the past been the target of security breaches and cyber- attacks, and because the transactions involve third parties and environments ~~that~~ we do not control or secure, future security breaches or cyber- attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on third party service providers to conduct certain other aspects of our ~~business~~ **26business** operations, and face similar risks relating to them. While we require regular security assessments from those third parties, we cannot be sure that their information security protocols are sufficient to withstand a cyber- attack or security breach. Any cyber- attack or other security breach involving the misappropriation or loss of Company assets or those of its customers, or unauthorized disclosure of confidential customer information, could severely damage our reputation, erode confidence in the security of our systems, products and services, expose us to the risk of litigation and liability, disrupt our operations, and have a material adverse effect on our business. **We rely on certain external vendors to provide products and services necessary to maintain our day- to- day operations. These third- party vendors are sources of operational and informational security risk to us, including risks associated with cyber- attacks. If these vendors encounter a cyber- attack, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our business and, in turn, our financial condition and results of operations.** If our information systems were to experience a system failure, our business and reputation could suffer. We rely heavily on communications and information systems to conduct our business. The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to minimize service disruptions by protecting our computer equipment, systems, **third- party relationships,** and network infrastructure from physical damage due to fire, power loss, telecommunications failure or a similar catastrophic event. We have protective measures in place to prevent or limit the effect of the failure or interruption of our information systems ~~,~~ and will continue to upgrade our security technology and update procedures to help prevent such events. However, if such failures or interruptions were to occur, they could result in damage to our reputation, a loss of customers, increased regulatory scrutiny, or possible exposure to financial liability, any of which could have a material adverse effect on our financial condition and results of operations. We are subject to a variety of operational risks, including reputational risk, legal risk, compliance risk, the risk of fraud or theft by employees or outsiders, and the risk of clerical or record- keeping errors, which may adversely affect our business and results of operations. If personal, non- public, confidential or proprietary customer information in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. This could occur, for example, if information was erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties. Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully remediated. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems could result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages, or natural disasters, disease pandemics or other damage to property or physical assets) which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations ~~26~~ **(or will be subject to the same risk of fraud or operational errors by their employees) and to the risk that our (or our vendors') business continuity and data security efforts might prove to be inadequate. In addition, the Company is named as a defendant in lawsuits from time- to- time. Even if the case has no basis, there are costs to defend, and the Company may determine that it should settle certain suits even if there is no liability. The costs of lawsuits, whether merited or not, have a negative impact on the Company' s expenses. The occurrence of any of these risks could result in a diminished ability to operate our business (for example, by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage and regulatory intervention, which could adversely affect our business, financial condition and results of operations, perhaps materially. 27**