Risk Factors Comparison 2024-03-15 to 2023-03-09 Form: 10-K

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

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes may affect our business are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Annual Report. The risks and uncertainties described below are not the only ones facing our business. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This Annual Report is qualified in its entirety by these risk factors. General ~~Business and Industry~~ **Economic, Market, Investment** Risks **General** ~~Economic~~ **economic** conditions could adversely affect our business, financial condition and results of operations. Our financial performance ~~generally, and in particular the ability of our borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that we offer,~~ is highly dependent upon the business environment in the markets in which we operate and in the United States as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; terrorist attacks; disruptions in global or national supply chains; or a combination of these or other factors. The Bank conducts banking operation principally in California' s Central Valley. The Central Valley is largely dependent on agriculture. The agricultural economy in the Central Valley is therefore important to our financial performance, results of operations and cash flows. We are also dependent in a large part upon the business activity, population growth, income levels and real estate activity in this market area. A downturn in agriculture and the agricultural related businesses could have a material adverse effect on our business, results of operations and financial condition. The agricultural industry has been affected by declines in prices and changes in yields of various crops and other agricultural commodities. Weaker prices could reduce the cash flows generated by farms and the value of agricultural land in our local markets and thereby increase the risk of default by our borrowers or reduce the foreclosure value of agricultural land and equipment that serve as collateral of our loans. Moreover, weaker prices might threaten farming operations in the Central Valley, reducing market demand for agricultural lending. In particular, farm income has seen recent declines, and in line with the downturn in farm income, farmland prices are coming under pressure. ~~The ongoing global COVID- 19 outbreak~~ **An economic recession or a downturn in various markets** could **have** ~~harm our business and results of operations, and such effects will depend on~~ **one** ~~future developments, which are highly uncertain and are difficult to predict. Our business is dependent on the willingness and ability of our~~ - **or more of** ~~customers to conduct banking and other~~ -- **the following adverse** ~~financial transactions. The ongoing COVID- 19 global and national health emergency caused significant disruption in the United States and international economies and financial markets. While the level of disruption caused by, and the economic impact of, COVID- 19 has lessened in 2022, there is no assurance that the pandemic will not worsen again, included as a result of the emergence of new strains of the virus. Any worsening of the pandemic and its~~ effects on ~~the economy could further impact~~ our business ~~, our provision and allowance~~ **: • a decrease in the demand** for ~~credit~~ **our loans and other products we offer; • a decrease in our deposit balances due to overall reductions in the number or value of client accounts; • a decrease in the value of collateral securing our loans; • an increase in the level of nonperforming and classified loans; • an increase in provisions for loan** losses ~~,~~ **and loan charge- offs; • a decrease in net interest income derived from our lending and deposit gathering activities; • a decrease in our ability to access the capital markets; and •** ~~and~~ - **an increase in our operating expenses associated with attending to** the ~~value~~ **effects** of certain **circumstances listed above** ~~assets that we carry on our balance sheet such as goodwill~~ . **Inflationary pressures** ~~Our customers, business partners,~~ and **rising prices** ~~third- party providers, including those who perform critical services for our business,~~ may ~~also be adversely affected~~ -- **affect** ~~. The ultimate risk posed by the COVID- 19 pandemic remains highly uncertain; however, COVID- 19 poses a material risk to~~ our ~~business,~~ **results of operations and** financial condition **. Inflation began to rise sharply at the end of 2021 and has remained at** ~~and~~ - **an elevated level through 2023. Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our** results of operations **and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition** . Monetary policies and regulations of the Federal Reserve 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. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U. S. government securities, adjustments of the discount rate and changes in 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. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks 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 subject~~ **Our stock price may be negatively impacted by unrelated bank failures and negative depositor confidence in depository**

institutions. Further, if we were unable to **adequately manage our liquidity, deposits, capital levels and** interest rate risk **,** which **have** ~~, among other things, could affect our earnings and the value of certain of our assets. Our earnings and cash flows are largely dependent on net interest income~~ -- **come under greater scrutiny** ~~. Interest rates are sensitive to many factors that are beyond our control, such as economic conditions, competition and policies of various governmental and regulatory agencies, and,~~ in **light** ~~particular, the fiscal and monetary policies~~ of **recent bank failures** ~~the Federal Reserve Board. Changes in monetary policy~~ , ~~including changes in interest rates, could influence not only the interest~~ we ~~receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect our ability to originate loans and obtain deposits; the fair value of our financial assets and liabilities, including our securities portfolio; and the average duration of our interest- earning assets. This also includes the risk that interest- earning assets~~ may **experience** ~~be more responsive to changes in interest rates than interest- bearing liabilities, or vice versa, the risk that the individual interest rates or rate indices underlying various interest- earning assets and interest- bearing liabilities may not change in the same degree over a given time period, and the risk of changing interest rate relationships across the spectrum of interest- earning asset and interest- bearing liability maturities, including a prolonged flat or inverted yield curve environment. Any substantial, unexpected, prolonged change in market interest rates could have~~ a material adverse effect on our ~~business,~~ financial condition and results of operations. ~~Liquidity risks could affect~~ **On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down** operations ~~and jeopardize our business~~ **. On March 10** , **2023, Silicon Valley Bank, Santa Clara, California, was closed by the DFPI on March 12, 2023, Signature Bank, New York, New York, was closed by the New York State Department of Financial Services and on May 1, 2023, First Republic Bank, San Francisco, California, was closed by the DFPI, and in each case the FDIC was appointed receiver for the failed institution. These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions. These events have led to a greater focus by institutions, investors and regulators on the on- balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management. If we are unable to adequately manage our liquidity, deposits, capital levels and interest rate risk, we may experience a material adverse effect on our** financial condition ~~,~~ and results of operations. ~~Liquidity~~ **We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest- earning assets. While we emphasize the generation of low- cost core deposits as a source of funding, there** is **strong competition for such** ~~essential to our business. An inability to raise funds through~~ deposits **in** ~~, borrowings, the sale of loans and / or~~ **our market area** ~~investment securities and from other sources could have a substantial negative effect on our liquidity~~ . **Additionally,** ~~Our most important source of funds consists of our customer deposits. Such~~ deposit balances can decrease ~~when~~ **if** customers perceive alternative investments ~~, such as the stock market,~~ as providing a better risk / return tradeoff. ~~If customers move money out~~ **Accordingly, as a part** of ~~bank~~ **our liquidity management, we must use a number of funding sources in addition to** deposits and ~~into other~~ **repayments and maturities of loans and** investments ~~, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income~~ . We also rely on alternative funding sources including unsecured borrowing lines with correspondent banks, secured borrowing lines with the Federal Home Loan Bank of San Francisco and the Federal Reserve Bank of San Francisco, and public time certificates of deposits. Our ability to access these sources could be impaired by deterioration in our financial condition as well as factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations for the financial services industry or serious dislocation in the general credit markets. **Adverse operating results** ~~In the event such a disruption should occur, our~~ - **or changes in industry conditions could lead to difficulty or an** ~~ability~~ **inability** to access these **additional funding** sources ~~could be adversely affected, both as to price and availability, which would limit or potentially raise the cost of the funds available to us~~ . Any decline in available funding could adversely impact our ability to ~~continue to implement our strategic plan, including our ability to~~ originate loans, invest in securities, ~~meet~~ **pay** our expenses, or ~~to~~ fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our **liquidity,** business, financial condition and results of operations. **A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive,** ~~Uncertainty~~ ---- **certain** ~~relating~~ **additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Our financial flexibility would be severely constrained if we were unable** to **maintain our access to funding or if adequate financing were not available at acceptable interest rates. Further, if we were required to rely more heavily on more expensive funding sources to support liquidity, our revenues may not increase proportionately to cover our increased costs. In this case, our operating margins and profitability would be adversely affected. If alternative funding sources were no longer available to us, we may need to sell a portion of our investment and / or loan portfolio to raise funds, which, depending upon market conditions, could result in us realizing a loss on the sale of such assets. As of December 31, 2023, we had a net unrealized loss of $ 72, 450, 000 on our available for- sale investment securities portfolio as a result of the rising interest rate environment. Our investment securities totaled $ 906, 287, 000, or 37. 2 % of total assets, at December 31, 2023. The details of this portfolio are included in Note 2 to the consolidated financial statements. Interest rate shifts may reduce net interest income and otherwise negatively**

impact our financial condition and results of operations. The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most banks, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and ~~the~~ other interest- earning assets, and the interest we pay on interest- bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes. When interest- bearing liabilities mature or reprice more quickly, or to a greater degree than interest- earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest- earning assets mature or reprice more quickly, or to a greater degree than interest- bearing liabilities, falling interest rates could reduce net interest income. An increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. Conversely, a decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest- earning assets, loan origination volume and our overall results of operations. Although our asset- liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. We may be impacted by the retirement of London Interbank Offered Rate (~~"~~ “ LIBOR ~~"~~ ”) as a reference rate ~~calculation process and potential phasing out of LIBOR may adversely affect our results of operations~~ . ~~The~~ In July 2017, the United Kingdom Financial Conduct Authority announced that ~~in the United Kingdom, which regulates~~ LIBOR may ~~, will not~~ - no longer be published ~~guarantee the continuation of LIBOR on the current basis~~ after 2021. ~~The Federal Reserve selected a new index calculated by short- term repurchase agreements, backed by Treasury securities (" SOFR") to replace~~ LIBOR ~~. SOFR differs in its methodology from LIBOR in that it~~ is used extensively in ~~backward looking and is likely to be lower than LIBOR and less likely to correlate with~~ the U ~~funding costs of financial institutions~~ . S and globally ~~Whether or not SOFR attains market acceptance~~ as a “ benchmark ” or “ reference rate ” for various commercial and financial contracts. In March 2022, the Adjustable Interest Rate (LIBOR) Act (~~replacement tool remains in question. In 2020~~ the “ ~~Company began transitioning our instruments indexed to~~ LIBOR Act ”) ~~to either a US Treasury index or a Wall Street Journal Prime Rate index. Uncertainty as~~ was enacted providing that ~~to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of~~ LIBOR- based contracts that lack fallback language specifying practicable replacement “ benchmarks ” will automatically transition to the applicable reference rates recommended by the Federal Reserve. Subsequently in December 2022, the Federal Reserve issued a Final Rule establishing “ benchmark ” replacements based on the Secured Overnight Financing Rate (“ SOFR ”). The ICE Benchmark Administration (“ IBA ”), the authorized and regulated administrator of LIBOR, is being compelled by the Financial Conduct Authority (the “ FCA ”) to continue publishing some LIBOR tenors under a synthetic methodology. The FCA intends to no longer require the publication of these synthetic tenors by September 2024, but may extend the timeline if needed. Despite the progress made through the LIBOR Act and the Federal Reserve’ s Final Rule, it is impossible to predict the effect of any alternatives rates on the value of LIBOR- based securities and variable rate loans, subordinated debentures or other ~~and to a lesser extent,~~ securities ~~in our~~ - or ~~portfolio, and~~ financial arrangements. The replacement of LIBOR with one or more alternative rates may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our subordinated debentures and ~~trust preferred securities~~ derivative financial instruments . When ~~In addition, there is a risk that we may not complete our full transition to alternative indices or reference rates by the time LIBOR is no longer available. Once~~ LIBOR rates are no longer available, and we are required to implement substitute indices for the calculation of interest rates under contracts or financial instruments to which we are a party, we may incur significant expenses in effecting the transition. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. Risks Relating to our Pending Merger with Community West Bancshares Failure to complete the proposed merger with Community West could negatively impact the Company. If the merger is not completed for any reason, there may be various adverse consequences and the Company may experience negative reactions from the financial markets and from its customers and employees. For example, the Company’ s business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of the Company’ s common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. The Company also could be subject to ~~disputes or~~ litigation related to any failure to complete the merger or to proceedings commenced against the Company to perform its obligations under the merger agreement if the merger agreement is terminated under certain circumstances. Combining the Company and Community West may be more difficult, costly or time- consuming than expected, and the Company may fail to realize the anticipated benefits of the merger. The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of the Company and Community West. To realize the anticipated benefits and cost savings from the merger, the Company and Community West must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized without adversely affecting current revenues and future growth. If the Company and Community West are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses. An

inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the merger, which may adversely affect the value of the common stock of the combined company following the completion of the merger. The Company and Community West have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company' s ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with **clients,** customers ~~and creditors over the appropriateness or comparability to LIBOR of the substitute indices~~ , ~~which~~ **depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the companies may also divert management attention and resources. These integration matters** could have an adverse effect on **the Company during this transition period and for an undetermined period after completion of the merger on the combined company. Furthermore, the board of directors and executive leadership of the combined company will consist of former directors and executive officers from each of the Company and Community West. Combining the boards of directors and management teams of each company into a single board and a single management team could require the reconciliation of differing priorities and philosophies. The future results of the combined company following the completion of the merger may suffer if the combined company does not effectively manage its expanded operations. Following the merger, the size of the business of the combined company will increase beyond the current size of businesses of either the Company** ~~our~~ - **or Community West. The combined company' s future success will depend, in part, upon its ability to manage this expanded business, which may pose challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. The combined company may also face increased scrutiny from governmental entities as a result of the increased size of its business. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, revenue enhancement or other benefits currently anticipated from the merger. The combined company may be unable to retain the Company and / or Community West personnel successfully after the merger is completed. The success of the merger will depend in part on the combined company' s ability to retain the talent and dedication of key employees currently employed by the Company and Community West. It is possible that these employees may decide not to remain with the Company and Community West, as applicable, while the merger is pending or with the combined company after the merger is consummated. If the Company and Community West are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, the Company and Community West could face disruptions in their operations, loss of existing customers, loss of key information, expertise or know- how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the combined company' s business activities may be adversely affected, and management' s attention may be diverted from successfully hiring suitable replacements, all of which may cause the combined company' s business to suffer. The Company and Community West also may not be able to locate or retain suitable replacements for any key employees who leave either company. The Company has incurred and is expected to incur substantial costs related to the merger and integration, and these costs may be greater than anticipated due to unexpected events. The Company has incurred and expect to incur a number of significant non- recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, severance / employee benefit- related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, and other related costs. Some of these costs are payable by either the Company or Community West regardless of whether or not the merger is completed. In addition, the combined company will incur integration costs following the completion of the merger as the Company and Community West integrate their businesses, including facilities and systems consolidation costs and employment- related costs. the Company may also incur additional costs to maintain employee morale and to retain key employees. There is a large number of processes, policies, procedures, operations, technologies and systems that may need to be integrated, including purchasing, accounting and finance, payroll, compliance, treasury management, branch operations, vendor management, risk management, lines of business, pricing and benefits. While the Company has assumed that a certain level of costs will be incurred, there are many factors beyond its control that could affect the total amount or the timing of the integration costs. Moreover, many of the costs that will be incurred are, by their nature, difficult to estimate accurately. These integration costs may result in the combined company taking charges against earnings following the completion of the merger, and the amount and timing of such charges are uncertain at present. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time. Our assumptions regarding the fair value of assets acquired could be inaccurate, which could materially and adversely affect our business,** financial condition, results of operations **,** and ~~capital position~~ **future prospects** . ~~Competition~~ **Management makes various assumptions and judgments about the collectability of acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. If our assumptions are incorrect, significant earnings volatility can occur and credit loss provisions may be needed to respond to different economic conditions or adverse developments in the acquired loan portfolio. Any increase in future loan losses could have a material adverse impact on our business, financial condition, results of operations and prospects. The merger agreement may be terminated in accordance** with **its terms and the merger may not be completed. The merger agreement is subject to a number of conditions which must be fulfilled in order to close. These conditions include the continued accuracy of representations and warranties by both parties and the performance by both parties of covenants and agreements, and**

the absence of a material adverse effect on the Company or Community West since the date of the merger agreement. There can be no assurance that the conditions to closing the merger will be fulfilled or that the merger will be completed. Impairment of goodwill resulting from the merger may adversely affect our results of operations. Goodwill and other ~~financial institutions~~ **intangible assets are expected to increase as a result of the merger. Based on the Company' s preliminary purchase price allocation as of December 31, 2023, goodwill of approximately $ 64. 7 million and core deposits intangibles of $ 12. 7 million are currently expected to be recorded by the Company as a result of the merger. The actual amount of goodwill and core deposits intangibles recorded may be materially different and will depend on a number of factors, including changes in the net assets acquired and changes in the fair values of the net assets acquired. Potential impairment of goodwill and amortization of other intangible assets** could adversely affect our ~~profitability. We face vigorous competition from banks and other financial institutions, including finance companies and credit unions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies, and fintech companies. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and~~ financial condition **and results of operations** . ~~Additionally~~ **The Company assesses its goodwill** , ~~we face competition primarily from~~ other ~~banks in attracting, developing~~ **intangible assets and long- lived assets for impairment annually and more frequently when required by generally accepted accounting principles. The Company is required to record** ~~and~~ - **an impairment charge if circumstances indicate that** ~~retaining qualified banking professionals. Whenever new banks open in our service areas, we see price competition from these new banks, as they~~ - **the** ~~work to establish~~ **asset carrying values exceed** their ~~markets~~ **fair values** . The ~~existence~~ **Company' s assessment** of ~~competitors~~ **goodwill** , ~~large~~ **other intangible assets, or long- lived assets could indicate that** ~~and~~ - **an** ~~small, is~~ **impairment of the carrying value of such assets may have occurred or may occur in** a **future accounting period** ~~normal and expected part of our operations, but in responding to the particular short- term impact on business of new entrants to the marketplace, we could see a negative impact on revenue and income. Moreover, these near term impacts could be accentuated by the seasonal impact on revenue and income generated by the borrowing and deposit habits of the agricultural community~~ that ~~comprises a significant component of our customer base. New technology and other changes are allowing 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. Consumers can also complete transactions such as paying bills and transferring funds directly without the assistance of banks. Transactions utilizing digital assets, including cryptocurrencies, stablecoins and other similar assets, have increased substantially over the course of the last several years. Accordingly, digital asset service providers, which are not currently subject to the extensive regulation as financial institutions, have become active competitors for our customers' banking business. The process of eliminating banks as intermediaries~~ could result in ~~the loss of fee income, customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as~~ a ~~source~~ **material, non- cash write- down** of ~~funds~~ **such assets, which** could have a material adverse effect on our ~~business, financial condition and~~ results of operations ~~. The current expected credit loss standard established by the Financial Accounting Standards Board will require significant data requirements and changes to methodologies. In the aftermath of the 2007- 2008 financial crisis, the Financial Accounting Standards Board, or FASB, decided to review how banks estimate losses in the allowance for credit loss calculation, and it issued the final Current Expected Credit Loss, or CECL, standard on June 16, 2016. Currently, the impairment model used by financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an~~ **and** ~~assumption that~~ future ~~cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model in which financial institutions will be required to use historical information, current conditions, and reasonable forecasts to estimate the expected loss over the life of the loan. The CECL model will become effective for the Bank for the fiscal year beginning after December 15, 2022. Management established a task force to begin the implementation process. The transition to the CECL model will require significantly greater data requirements and changes to methodologies to accurately account for expected losses. The Bank will likely be required to increase its allowance for credit losses as a result of the implementation of CECL. An increase in the allowance as a result of this standard would decrease retained~~ earnings ~~. We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters. The occurrence of unforeseen or catastrophic events, including the emergence of additional pandemics, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses~~ . Risks Related to our Lending Activities Agribusiness lending presents unique credit risks. As of December 31, ~~2022~~ **2023** , approximately ~~3~~ **$ 33** . ~~1~~ **6 million, or 2. 6** % of our total gross loan portfolio was comprised of agribusiness loans. Repayment of agribusiness loans depends primarily on the successful planting and harvest of crops and marketing the harvested commodity or raising and feeding of livestock (including milk production). Collateral securing these loans may be illiquid. In addition, the limited purpose of some agricultural- related collateral affects credit risk because such collateral may have limited or no other uses to support values when loan repayment problems emerge. Many external factors can impact our agricultural borrowers' ability to repay their loans, including adverse weather conditions, water issues, commodity price volatility, diseases, land values, production costs, changing government regulations and subsidy programs, changing tax treatment, technological changes, labor market shortages / increased wages, and changes in consumers' preferences, over which our borrowers may have no control. These factors, as well as recent volatility in certain commodity prices, could adversely impact the ability of those to whom we have made agribusiness loans to perform under the terms of their borrowing arrangements with us, which in turn could result in credit losses and materially and adversely affect our business, financial condition and results of operations. Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses. At December 31, ~~2022~~ **2023** , $ 1 ~~, 034~~ **. 09** ~~million~~ **billion** , or ~~82~~ **84** . ~~5~~ **8** % of our total loan and lease portfolio, consisted of real estate related loans. The real estate securing our loan portfolio is concentrated in California. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and natural disasters. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Such declines and losses would have a material adverse impact on our business, financial condition and results of operations. Increased scrutiny by regulators of commercial real estate concentrations could restrict our activities and impose financial requirements or limits on the conduct of our business. Banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Therefore, we could be required to raise additional capital or restrict our future growth as a result of our higher level of commercial real estate loans **. Many of our loans are to commercial borrowers, which may have a higher degree of risk than other types of borrowers. At December 31, 2023, commercial loans totaled $ 105. 5 million or 8. 2 % of our loan portfolio (including SBA loans, PPP loans, asset-based lending, and factored receivables). Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to commercial loans, particularly commercial real estate loans. Unlike home mortgage loans, which generally are made on the basis of the borrowers' ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, commercial loans typically are made on the basis of the borrowers' ability to make repayment from the cash flow of the commercial venture. Our commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most often, collateral consists of accounts receivable, inventory and equipment. Inventory and equipment may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Accounts receivable may be uncollectable. If the cash flow from business operations is reduced, the borrower' s ability to repay the loan may be impaired. Vacancy rates can also negatively impact cash flows from business operations. Due to the larger average size of each commercial loan as compared with other loans such as residential loans, as well as collateral that is generally less readily- marketable, losses incurred on a small number of commercial loans could have a material adverse effect on our business, financial condition and results of operations** . Small Business Administration lending is an important part of our business. Our SBA lending program is dependent upon the U. S. federal government, and we face specific risks associated with originating SBA loans. Our SBA lending program is dependent upon the U. S. federal government. As an approved participant in the SBA Preferred Lender' s Program (an " SBA Preferred Lender "), we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender' s SBA Preferred Lender status. If we lose our status as an SBA Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders, and as a result we could experience a material adverse effect to our financial results. Any changes to the SBA program, including but not limited to changes to the level of guarantee provided by the federal government on SBA loans, changes to program specific rules impacting volume eligibility under the guaranty program, as well as changes to the program amounts authorized by Congress may also have a material adverse effect on our business. In addition, any default by the U. S. government on its obligations or any prolonged government shutdown could, among other things, impede our ability to originate SBA loans or sell such loans in the secondary market, which could adversely affect our business, results of operations and financial condition. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies and especially our organization, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our business, financial condition and results of operation. ~~If~~ **Credit Risks We may not be able to measure and limit our credit risk adequately, which could lead to unexpected losses. The primary component of our business involves making loans to our clients. The business of lending is inherently risky, including risks that the principal ~~our~~ or interest on any loan will not be repaid in a timely manner or at all or that the value of any collateral supporting the loan will be insufficient to cover losses in the event of a default. These risks may be affected by the strength of the borrower' s business and industry, and local, regional and national market and economic conditions. Many of our loans are made to small- to medium- sized businesses that may be less able to withstand competitive, economic and financial pressures than larger borrowers. Our risk management practices, such as managing the concentration of our loans within specific industries, loan types and geographic areas, and our credit approval practices may not adequately reduce credit risk. Further, our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other**

conditions affecting clients and the quality of the loan portfolio. A failure to effectively measure and manage the credit risk associated with our loan portfolio could lead to unexpected losses and have an adverse effect on our business, financial condition and results of operations. Our allowance for credit losses **on loans may prove to be insufficient to absorb potential losses in our loan portfolio. We maintain an allowance for credit losses on loans to provide for loan defaults and non- performance. This allowance, expressed as a percentage of loans, was 1. 14 %, at December 31, 2023. Allowance for credit losses on loans** is **funded from a provision for credit losses on loans, which is a charge to our income statement. The Company had a credit for credit losses on loans of $ 85, 000 for the year ended December 31, 2023. The allowance for credit losses on loans reflects our estimate of the current expected credit losses in our loan portfolio at the relevant balance sheet date. Our allowance for credit losses on loans is based on our prior experience, as well as an evaluation of the known risks in the current portfolio, composition and growth of the loan portfolio and economic forecasts for correlated economic factors. The determination of an appropriate level of allowance for credit losses on loans is an inherently difficult and subjective process, requiring complex judgments, and is based on numerous analytical assumptions. The amount of future losses is susceptible to changes in economic and other conditions, including changes in interest rates, changes in economic forecasts, changes in the financial condition of borrowers, and deteriorating values of collateral that may be beyond our control, and these losses may exceed current estimates. The allowance is only an estimate of the probable incurred losses in the loan portfolio and may** not ~~sufficient~~ **represent actual over time, either of losses in excess of the allowance or of losses less than the allowance. In addition, we evaluate all loans identified as impaired loans and allocate an allowance based upon our estimation of the potential loss associated with those problem loans. While we strive to carefully manage and monitor credit quality and to identify loans that may be deteriorating, at any time there are loans included in the portfolio that may result in losses, but that have not yet been identified as nonperforming or potential problem loans. Through established credit practices, we attempt to identify deteriorating loans and adjust the allowance for credit losses on loans accordingly. However, because future events are uncertain and because we may not successfully identify all deteriorating loans in a timely manner, there may be loans that deteriorate in an accelerated time frame. We cannot be sure that we will be able to identify deteriorating loans before they become nonperforming assets, or that we will be able to limit losses on those loans that have been so identified. Although management believes that the allowance for credit losses on loans is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for credit losses on loans in the future to further supplement the allowance for credit losses on loans, either due to management' s decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for credit losses on loans and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. If our allowance for credit losses on loans is inaccurate, for any of the reasons discussed above (or other reasons), and is inadequate** to cover ~~actual~~ **the** loan losses **that we actually** ~~, our earnings could decrease. Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to assure repayment. We may~~ experience ~~significant credit~~ **, the resulting** losses ~~that~~ could have a material adverse effect on our ~~operating results. 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. We maintain an allowance for loan losses for probable incurred losses in our loan portfolio. The allowance is established through a provision for loan losses based on management' s evaluation of the risks inherent in the loan portfolio and the general economy. The allowance is also appropriately increased for new loan growth. The allowance is based upon a number of factors, including the size of the loan portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, estimated collateral values, management' s assessment of the credit risk inherent in the portfolio, historical loan loss experience and loan underwriting policies. The allowance is only an estimate of the probable incurred losses in the loan portfolio and may not represent actual losses realized over time, either of losses in excess of the allowance or of losses less than the allowance. If our assumptions prove to be incorrect, our current allowance my not be sufficient to cover future loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Our bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our~~ business, financial condition and results of ~~operation~~ **operations** . Non- performing assets adversely affect our results of operations and financial condition and take significant management time to resolve. At December 31, ~~2022~~ **2023** , our non- performing loans and leases were 0. 00 % of total loans and leases compared to **0. 00 % at December 31, 2022, and** 0. 09 % at December 31, 2021 ~~, and 0. 30 % at December 31, 2020~~ , and our non- performing assets (which include foreclosed real estate) were 0. 00 % of total assets compared to 0. ~~04~~ **00** % at December 31, ~~2021~~ **2022** . The allowance for credit losses as a percentage of non- performing loans and leases was ~~10~~ **15** , ~~848~~ **534** . 00 % as of December 31, ~~2022~~ **2023** compared to ~~1~~ **10** , ~~014~~ **848** . ~~80~~ **00** % at December 31, ~~2021~~ **2022** . Non- performing assets adversely affect our net income in various ways. We generally do not record interest income on non- performing loans or other real estate owned, thereby adversely affecting our income and increasing our loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related asset to the then fair value of the collateral, which may ultimately result in a loss. An increase in the level of non- performing assets increases our risk profile and may impact the capital levels our regulators believe are appropriate in light of the ensuing risk profile, which could result in a request to reduce our level of non- performing assets. When we reduce problem assets through loan sales, workouts, restructurings and otherwise, decreases in the value of the underlying collateral, or in these borrowers' performance or financial condition, whether or not due to economic and market conditions beyond our control, could adversely affect our business, results of operations and financial condition. In addition, the resolution of non- performing assets requires significant commitments of time from management ~~and our directors~~ , which can be detrimental to the performance of their other responsibilities. There can be no assurance that we will not experience future increases in non- performing assets or that the disposition of such non- performing assets will not have a material adverse effect on our business, financial condition and results of operations. Our focus on lending to small to mid- sized community- based businesses may increase our credit risk. Commercial real estate and commercial business loans generally are considered riskier than single- family residential loans because they have larger balances to a single borrower or group of related borrowers. Commercial real estate and commercial business loans involve risks because the borrowers' ability to repay the loans typically depends primarily on the successful operation of the businesses or the properties securing the loans. Most of the Bank' s commercial real estate and commercial business loans are made to small and medium sized businesses who may have a heightened vulnerability to economic conditions. **The** ~~Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. Furthermore, the~~ deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our business, financial condition and results of operations. **Securities Portfolio Risks** We **could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate. As of December 31, 2023, the carrying value of our securities portfolio was approximately $ 906, 287, 000. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed- rate securities acquired by us** are ~~exposed~~ **generally subject** to **decreases in market value when interest rates** ~~risk~~ **rise . Additional factors include, but are not limited to, rating agency downgrades** of ~~environmental liabilities~~ **the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors** with respect to ~~properties~~ **the underlying securities, and continued instability in the credit markets. Any of the foregoing factors could cause credit- related impairment in future periods and result in realized losses. The process for determining whether impairment is credit related usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order** to **assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, we may recognize realized and / or unrealized losses in future periods,** which ~~we take title. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. While we will take steps to mitigate this risk, 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 we may be required to investigate or clean- up hazardous or toxic substances, or chemical releases at one or more properties. The costs associated with investigation or remediation activities could be substantial. In addition, while there are certain statutory protections afforded lenders who take title to property through foreclosure on a loan, 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. If we become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected. We may suffer losses in our loan portfolio despite our underwriting practices. We mitigate the risks inherent in our loan portfolio by adhering to sound and proven underwriting practices, managed by experienced and knowledgeable credit professionals. These practices include analysis of a borrower' s prior credit history, financial statements, tax returns, and cash flow projections, valuations of collateral based on reports of independent appraisers and verifications of liquid assets. Nonetheless, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan loss. Risks Related to Our Securities Portfolio We have and in the future we may be required to recognize impairment with respect to investment securities. Our securities portfolio contains whole loan private mortgage- backed securities and currently includes securities with unrecognized losses and securities that have been downgraded to below investment grade by national rating agencies. We may continue to observe declines in the fair market value of these securities. We evaluate the securities portfolio for any other- than- temporary impairment each reporting period, as required by generally accepted accounting principles. Numerous factors, including the lack of liquidity for re- sales of certain securities, the absence of reliable pricing information for securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment,~~ could have a ~~negative~~ **material adverse** effect on our ~~securities portfolio~~ **business, financial condition** and results of operations ~~in future periods~~ . **Key Personnel** ~~There can be no assurance, however, that future evaluations of the securities portfolio will not require us to recognize further impairment charges with respect to these and other holdings.~~ Risks ~~Related to our Management~~ We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, financial condition and results of operations. Our success depends, in large degree, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Our senior management team has significant industry experience, and their knowledge and relationships would be difficult to replace. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the financial services and banking industry is intense, which means the cost of hiring, paying incentives and retaining skilled personnel may continue to increase. We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of relationship- based commercial banking services, we must attract and retain qualified banking personnel to continue to grow our business, and competition for such personnel can be intense. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings or have a material adverse effect on our business, financial condition and results of operations. The loss of the services of any senior executive or other key personnel, the inability to recruit and retain qualified personnel in the future, or an increase in compensation benefits could have a material adverse effect on our business, financial condition and results of operations. **Capital** Risks ~~Related to Our Capital~~ We may be subject to more stringent capital requirements in the future. We are subject to current and changing regulatory requirements specifying minimum amounts and types of capital that we must maintain. Our failure to comply with capital requirements may restrict the types of activities we or our subsidiaries may conduct, and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities. While we expect to meet the requirements of the Capital Rules, we may fail to do so. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial condition and results of operations. In addition, these requirements could have a negative impact on our ability to lend, grow deposit balances, make acquisitions or make capital distributions in the form of dividends or share repurchases. Higher capital levels could also lower our return on equity. We may not be successful in raising additional capital needed in the future. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business strategies. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time which are outside of our control, and our financial performance. We cannot be assured that such capital will be available to us on acceptable terms or at all. Any occurrence that may limit our access to the capital markets may adversely affect our capital costs and our ability to raise capital. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations. **Strategic** Risks ~~Related to Our Growth~~ We may not be able to maintain our historical growth rate which may adversely impact our business, financial condition and results of operations and financial condition. We have initiated internal asset growth programs, completed various acquisitions and opened additional offices in prior years. We may not be able to sustain our historical rate of asset growth or may not even be able to grow at all. We may not be able to obtain the financing necessary to fund additional asset growth and may not be able to find suitable candidates for acquisition. Various factors, such as economic conditions and competition, may impede or prohibit the opening of new branch offices. Further, our inability to attract and retain experienced bankers may adversely affect our internal asset growth. A significant decrease in our historical rate of asset growth could have a material adverse impact on our business, financial condition and results of operations. **There are risks related to acquisitions.** We **plan to continue to grow our business organically. However, from time to time, we may consider opportunistic strategic acquisitions that we believe support our long- term business strategy. We face significant competition from numerous other financial services institutions,** ~~may~~ **many of which will have greater financial resources than we do, when considering acquisition opportunities. Accordingly, attractive acquisition opportunities may not** be ~~unable~~ **available** to **us. We may not be successful in identifying or** ~~complete~~ **completing any** future acquisitions **.** ~~, and once complete, may not be able to integrate our acquisitions~~ **Acquisitions of** ~~successfully. Our growth strategy includes our desire to acquire other~~ financial institutions ~~. We~~ **involve operational risks and uncertainties and acquired companies** may ~~not be able~~ **have unforeseen liabilities, exposure** to **asset quality problems, key employee and customer retention problems and other problems that could negatively affect our organization. If we** complete any future acquisitions ~~and, for completed acquisitions~~ , we may not be able to successfully integrate the operations, management, products and services of the entities **that** we acquire **and eliminate redundancies. The integration process could result in the loss of key employees or disruption of the combined entity' s ongoing business or inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers and employees or achieve the anticipated benefits of the transaction. The integration process may also require significant time and attention from our management that they would otherwise direct at servicing existing business and developing new business** . We may not **be able to** realize ~~expected~~ **any projected** cost savings **, synergies** or ~~make revenue enhancements. Following each~~ **other benefits associated with any such** acquisition ~~,~~ we **complete. We cannot determine all potential events, facts and circumstances that could result in loss and our investigation or mitigation efforts may be insufficient to protect against any such loss. Issuing additional shares of our common stock to acquire other banks and bank holding companies may result in dilution for existing shareholders and may adversely affect the market price of our stock. In connection with our growth strategy, we have issued, and may issue in the future, shares of our common stock to acquire additional banks or bank holding companies that may complement our organizational structure. Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We sometimes** must **pay** ~~expend substantial managerial, operating, financial and~~ - **an acquisition premium above** ~~other~~ -- **the** ~~resources to integrate~~ **fair market value of acquired assets for** ~~these~~ -- **the** ~~entities~~ **acquisition of banks or bank holding companies** . ~~In particular~~ **Paying this acquisition premium** , **in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock. If the goodwill that** we **recorded** ~~may be required to install and standardize adequate operational and control systems, deploy or modify equipment, implement marketing efforts~~ in **connection with a business acquisition becomes impaired, it** ~~new as well as existing locations and employ and maintain qualified personnel. Our failure to successfully integrate the entities we acquire into our existing operations~~ could **require charges to earnings, which would** have a **negative impact** ~~material and adverse effect~~ on our ~~business,~~ financial condition and results of operations. ~~If the goodwill~~ **Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets** we **acquired** ~~have recorded~~ in connection with **the purchase** ~~our acquisitions becomes impaired, it could have an adverse impact on our earnings and capital~~ . **We review** ~~At December 31, 2022, we had approximately $ 53, 777, 000 of~~ goodwill ~~on our balance sheet attributable to our acquisitions of the Bank of Madera County in~~

~~January 2005, Service 1st Bancorp in November 2008, Visalia Community Bank in July 2013, Sierra Vista Bank in October 2016, and Folsom Lake Bank in October 2017. In accordance with generally accepted accounting principles, our goodwill is not amortized but rather evaluated~~ for impairment ~~on an~~ **at least** ~~annual~~ **annually** ~~basis~~ **,** or more frequently if events or **changes in** circumstances indicate that ~~a potential~~ **the carrying value of the asset might be impaired. We determine** impairment ~~exists~~ **by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill** . ~~Such evaluation is~~ **Estimates of fair value are determined** based on a **complex model using** ~~variety of factors, including the quoted price of our common stock, market prices of the common stock of other banking organizations, common stock trading multiples, discounted~~ cash flows, **the fair value of our Company as determined by our stock price, and company comparisons. If management' s estimates of future cash flows are inaccurate, fair value determined could be inaccurate and impairment may not be recognized in a timely manner. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill,** ~~and~~ - **an** ~~data from comparable acquisitions~~ **impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known** . There can be no assurance that **our** future evaluations of goodwill will not result in findings of impairment and **related** write- downs, which ~~could be material. Risks Related to Our Reputation and Operations Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially and adversely affect our business and the value of our common stock. We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many~~ - **may** ~~sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. Negative publicity regarding our industry, the Bank, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation and~~ have a material adverse effect on our ~~business,~~ financial condition and results of ~~operation~~ **operations** . Our **decisions regarding the fair value of assets acquired could be different than initially estimated, which could materially and adversely affect our business, financial condition and results of operations. In business combinations, we acquire significant portfolios of loans that are marked to their estimated fair value. There is no assurance that the acquired loans will not suffer deterioration in value. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may increase the level of charge offs in the loan portfolio that we acquire and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse effect on our business, financial condition, and results of operations. We must effectively manage our branch growth strategy. We seek to expand our franchise safely and consistently. A successful growth strategy requires us to manage multiple aspects of our business simultaneously, such as following adequate loan underwriting standards, balancing loan and deposit growth without increasing interest rate** risk **or compressing** ~~management framework may not be effective in mitigating risks and / or~~ **our net interest margin** ~~losses to us. Our risk management framework is comprised of various processes~~ , **maintaining sufficient capital, maintaining proper** ~~systems~~ - **system** and **controls, and recruiting, training and retaining qualified professionals. We also may experience a lag in profitability associated with new branch openings. As part of our general growth** ~~strategies~~ **strategy** ~~, and is designed~~ **we may expand into additional communities or attempt** to ~~manage the types of risk~~ **strengthen our position in our current markets by opening new offices, subject** to ~~which~~ **any regulatory constraints on our ability to open new offices. To the extent that** we are **able** ~~subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss~~ to **open additional offices** ~~us. If our risk management framework is not effective~~ , we **are likely to experience the effects** ~~could suffer unexpected losses and our business, financial condition and results~~ of **higher operating expenses relative to operating income from the new** operations ~~could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences. Our business is exposed to the risk of changes in technology. The rapid pace of technology changes and the impact of such changes on financial services generally and on our business specifically could impact our cost structure and our competitive position with our customers. Such developments include the rapid movement by customers and some competitor financial institutions to web- based services, mobile banking and cloud computing. Our failure or inability to anticipate, plan~~ for ~~or implement technology change could adversely affect our business, financial condition and results of operations. If our information systems were to experience~~ a **period** ~~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, 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 **time** ~~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 business, financial condition and results of operations. ~~The occurrence~~ **New lines** of **business** ~~fraudulent activity, breaches or failures of our~~ - **or** ~~information security~~ **new products and services may subject us to additional risks. From time to time, we may implement or may acquire new lines of business or offer new products and services within existing lines of business. 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 new products and services we may invest significant time and resources. We may not achieve target timetables for the introduction and development of new lines of business and new** products or services and price and profitability targets may not prove feasible. External factors, such as regulatory compliance obligations, 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, 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 ~~cybersecurity- related incidents~~ new products or services could have a material adverse effect on our business, financial condition and results of operations. Competition Risks Competition in originating loans and attracting deposits may adversely affect our profitability. We operate in a highly competitive banking market and face substantial competition in originating loans. This competition currently comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans. In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations, which may increase our cost of funds or negatively impact our liquidity. We also compete with non- bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non- bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non- bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Our inability to compete successfully in the markets in which we operate could have an adverse effect on our business, financial condition or results of operations. We have a continuing need for technological change, and we may not have the resources to implement new technology effectively, or we may experience operational challenges when implementing new technology or technology needed to compete effectively with larger ~~institution~~ institutions may not be available to us on a cost- effective basis. The financial services industry undergoes rapid technological changes with frequent introductions of new technology- driven products and services, including developments in telecommunications, data processing, automation, internet- based banking, debit cards and so- called " smart cards " and remote deposit capture. In addition to serving clients better, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, at least in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations as we continue to grow and expand our products and service offerings. We offer electronic banking services for consumer and business customers via our website, www. hanoverbank. com, including Internet banking and electronic bill payment, as well as mobile banking. We also offer debit cards, ATM cards, and automatic and ACH transfers. We may experience operational challenges as we implement these new technology enhancements or products, which could impair our ability to realize the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner. Many of our larger competitors have substantially greater resources to invest in technological improvements. Third parties upon which we rely for our technology needs may not be able to develop on a cost- effective basis the systems that will enable us to keep pace with such developments. As a result, competitors may be able to offer additional or superior products compared to those that we will be able to provide, which would put us at a competitive disadvantage. We may lose clients seeking new technology- driven products and services to the extent we are ~~susceptible~~ unable to ~~fraudulent activity~~ provide such products and services. Accordingly , the ability to keep pace with technological change is important and the failure to do so could adversely affect our business, financial condition and results of operations. Technology Risks A failure in or breach of the Bank' s operational or security systems, or those of the Bank' s third- party service providers, including as a result of cyber attacks, could disrupt business, result in the disclosure or misuse of confidential or proprietary information , damage our reputation, increase costs and cause losses. In the normal course of its business, the Bank collects, processes and retains sensitive and confidential customer and consumer information. Despite the security measures we have ~~breaches and cybersecurity- related incidents that may result~~ in ~~financial losses~~ place, ~~or~~ our facilities ~~increased costs to us or our customers, disclosure or misuse of our information or our customers' information, misappropriation of assets, privacy breaches against our customers, litigation, or damage to our reputation. Such fraudulent activity may take many~~ - may be vulnerable ~~forms, including check fraud, electronic fraud, wire fraud, online banking fraud, phishing, social engineering and other dishonest acts. Information security breaches and cybersecurity- related incidents may include fraudulent or unauthorized access~~ to ~~systems used by us or our customers, denial or degradation of service attacks, and malware or other~~ cyber- attacks ~~. There continues to be a rise in electronic fraudulent activity~~ , security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, and other similar events. Information security risks for financial institutions such as the Bank have increased recently in part because of new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to

conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber attacks or other security breaches involving the theft of sensitive and confidential information, hackers have engaged in attacks against financial institutions designed to disrupt key business services such as customer- facing web sites. National and international economic and geopolitical conditions may also have a negative impact in the number of cyber security threats the Bank may face. We are not able to anticipate or implement effective preventative measures against all security breaches of these types. Although the Bank employs detection and response mechanisms designed to contain and mitigate security incidents, early detection may be thwarted by sophisticated attacks and malware designed to avoid detection, which continue to evolve. Additionally, the Bank faces the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate its business activities, including third- party service providers, exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of ~~and~~ - **an attack on, or breach of, the Bank' s operational systems. Any failures, interruptions or security breaches in our information systems could damage our reputation, result in a loss of customer business, result in a violation of privacy or other laws, or expose us to civil litigation, regulatory fines or losses not covered by insurance. See Item 1C- Cybersecurity for additional information regarding our efforts to detect, identify, assess, manage, and respond to material risks from cybersecurity threats. Reputation and Operations Risks Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially and adversely affect our business and the value of our common stock. We are a community bank, and our reputation is one of the most valuable components of our business. Threats to our reputation can come from many sources, including: adverse sentiment about financial institutions generally; unethical practices, failures of technological systems or breaches of security measures, including, but not limited to, those resulting from computer viruses or** cyber- attacks ~~within~~ **;** ~~the~~ **theft** ~~financial~~ **, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties; failure to deliver minimum standards of** ~~services~~ - **service or quality; compliance deficiencies; and questionable or fraudulent activities of our customers. Negative publicity regarding our** industry, ~~especially in~~ the ~~commercial banking sector due to cyber criminals targeting commercial bank~~ **Bank** ~~accounts. Consistent~~ **, employees, or customers,** with ~~industry trends, we have also experienced an increase in attempted electronic fraudulent activity as well as the attempts to breach our~~ - **or without merit** ~~information security in recent periods. Moreover~~ , **may result** in ~~recent periods, several large corporations, including financial institutions and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and other~~ -- **the loss** ~~personal information~~ of ~~their~~ customers **, investors** and employees ~~and subjecting them to potential fraudulent activity. Some of our customers may have been affected by these breaches~~ , which **costly litigation, a decline in revenues and** increased **governmental** ~~their risks of identity theft, credit card fraud, and other fraudulent activity that could involve their accounts with us. The secure maintenance and transmission of confidential information as well as execution of transactions over the networks and systems used for storing information and processing transactions are essential to protect us and our customers against fraud and security breaches and to maintain our customers' confidence. Breaches of information security also may occur, and in infrequent, incidental, cases have occurred, through intentional or unintentional acts by those having access to our systems or our customers' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third- party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions as well as the technology used by our customers to access our systems. We have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber- attacks and periodically test our information security. Our inability to fully anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our customers; our loss of business and / or customers; damage to our reputation~~ **regulation** ~~; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation~~ and ~~possible financial liability, any of which could~~ have a material adverse effect on our business, financial condition and results of ~~operations~~ - **operation** . Our **risk management framework may not be effective in mitigating risks and / or losses to us. Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our risk management framework is not effective, we could suffer unexpected losses and our business, financial condition and results of** operations could be **materially and adversely affected** ~~interrupted if our third- party service providers experience difficulty, terminate their services or fail to comply with banking regulations~~ . We ~~depend~~ **may also be subject** to **potentially adverse regulatory consequences. Pandemics, natural disasters, global climate change, acts of terrorism and global conflicts may have** a ~~significant~~ **negative impact on our business and operations. Pandemics, natural disasters, global climate change, acts of terrorism, global conflicts or other similar events have in the past, and may in the future have, a negative impact on our business and operations. These events impact us negatively to the** extent **that they result in reduced capital markets activity** ~~on relationships with third party service providers. Specifically~~ , **lower asset price levels** ~~we utilize third party core banking services and receive credit card and debit card services~~ , ~~branch capture services, Internet banking services and services complementary to our~~ - **or disruptions in general economic activity in the United States** ~~banking products from various third party service providers. These types of third party relationships are subject to increasingly demanding regulatory requirements where we must maintain and continue to enhance our~~ - **or abroad,** ~~due diligence and~~

~~ongoing monitoring and control over our~~ **or** ~~third party vendors~~ **in financial market settlement functions** . **In addition,** ~~We may be required to renegotiate our agreements to meet~~ these ~~enhanced requirements~~ **or similar events may impact economic growth negatively** , which could **have** ~~increase our costs. If our service providers experience difficulties or terminate their services and~~ **an adverse effect on our business and operations and may have other adverse effects on us in ways that** we are unable to ~~replace them, our~~ **predict. Our business** operations could be ~~interrupted. It may be difficult~~ **disrupted if significant portions of our workforce were unable to work effectively, including because of illness, quarantines, government actions,** ~~for~~ **or** ~~us to timely replace~~ **other restrictions in connection with the pandemic. Further, work- from-** ~~some~~ **home** ~~of our service providers~~ **and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks** , which may ~~be at a higher cost due~~ **result in inefficiencies or delays, and may affect our ability** to **, or** ~~the unique services they~~ **the manner in which** ~~provide. A third party provider may fail to provide the services~~ we ~~require~~ , **conduct** ~~or~~ **our business activities. Disruptions to** ~~meet contractual requirements, comply with applicable laws and regulations, or~~ **our clients** ~~suffer a cyber- attack or other security breach. We expect that our regulators will hold us responsible for deficiencies of our third party relationships which~~ could result in **increased risk** ~~enforcement actions, including civil money penalties or other administrative or judicial penalties or fines, or customer remediation, any~~ of ~~which could have a material adverse effect~~ **delinquencies, defaults, foreclosures and losses** on our **loans** ~~business, financial condition or results of operations~~ . Climate change could have a material negative impact on the Company and our customers. The Company' s business, as well as the operations and activities of our clients, could be negatively impacted by climate change. Climate change presents both immediate and long- term risks to the Company and its clients, and these risks are expected to increase over time. Climate change presents multi- faceted risks, including: operational risk from the physical effects of climate events on the Company and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon- dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, the Company' s carbon footprint, and the Company' s business relationships with clients who operate in carbon- intensive industries. Federal and state banking regulators and supervisory authorities, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their clients. This may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon-intensive environment, the Company may face regulatory risk of increasing focus on the Company' s resilience to climate-related risks, including in the context of stress testing for various climate stress scenarios. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit, and reputational risks and costs. **Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance (" ESG ") practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG- related compliance costs for us as well as among our suppliers, vendors and various other parties within our supply chain could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.** Finance and Accounting Risks ~~Our controls over financial reporting and related governance procedures may fail or be circumvented. Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. We maintain controls and procedures to mitigate risks such as processing system failures or errors and customer or employee fraud, and we maintain insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and provides only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by our internal controls, are not insured against, or are in excess of our insurance limits. Any failure or circumvention of our controls and procedures, or failure to comply with regulations related to controls and procedures, could have a material adverse effect on our business. Our accounting~~ **Accounting** estimates and risk management processes rely on analytical ~~and forecasting~~ models **that may prove inaccurate resulting in a material adverse effect on our business, financial condition and results of operations** . The processes we use to estimate ~~our inherent~~ **probable incurred** loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical ~~and forecasting~~ models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models **using those assumptions** may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset- liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our probable loan losses are inadequate, the allowance for ~~loan~~ **credit** losses **on loans** may not be sufficient to support future charge- offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical

~~or forecasting~~ models **could result in losses that** could have a material adverse effect on our business, financial condition ~~,~~ and results of operations **. Changes in accounting standards could materially impact our financial statements. From time to time, the FASB or the SEC, may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, 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 a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements. Restating or revising our financial statements may result in reputational harm or may have other adverse effects on us. Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price. We are required to comply with the SEC' s rules implementing Section 302, Section 404, and Section 906 of the Sarbanes- Oxley Act, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. In particular, we are required to certify our compliance with Section 404 of the Sarbanes- Oxley Act, which requires us to furnish annually a report by management on the effectiveness of our internal control over financial reporting and our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting. If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, the Federal Reserve, the FDIC, the DFPI or other regulatory authorities, which could require additional financial and management resources. These events could have a material adverse effect on our business and stock price** . We have ~~a~~ significant deferred tax ~~asset~~ **assets** and cannot assure that it will be fully realized. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and tax basis of assets and liabilities computed using enacted tax rates. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax ~~asset~~ **assets** will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. At December 31, ~~2022~~ **2023** , we had a net deferred tax asset of $ ~~43.~~ 38 **. 5** million. If we were to determine at some point in the future that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we would be required, under generally accepted accounting principles, to establish a full or partial valuation allowance which would require us to incur a charge to ~~operations~~ **income** for the period in which the determination was made. **Legislative and Regulatory** Risks ~~Related to Legislative and Regulatory Developments~~ We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings. Our business is highly regulated, and our operations are subject to extensive supervision and regulation by federal and state governmental regulatory authorities. We are subject to various laws, regulations, and judicial and administrative decisions imposing requirements and restrictions on our operations. Similarly, the lending, credit and deposit products we offer are subject to broad oversight and regulation. The laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially, various laws, rules and regulations are proposed at the federal, state and local levels of government, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products. Current and future legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd- Frank, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations. While the banking regulators continue to refine existing regulations implemented after the 2007- 2008 financial crisis, currently they are also focusing their attention on certain policy areas, such as climate risk, digital currencies, and technological innovation. This new focus may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees. Regulations relating to privacy, information security and data protection could increase our costs, affect or limit how we collect and use personal information. We are subject to an increasing number of federal and state privacy, information security and data protection laws, and we could be negatively impacted by these laws. Various state and federal banking regulators and states have also enacted data security breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification. Moreover, other state and federal legislators and regulators are increasingly adopting or revising privacy, information security and data protection laws that potentially could have a significant impact on our current and planned privacy, data protection and information security- related practices, as well as on our collection, use, sharing, retention and safeguarding of consumer or employee information. The effects of these privacy and data protection laws, including the cost of compliance and required changes in the manner in which we conduct our business, are not fully known and are potentially significant, and the failure to comply could adversely affect the Company. Compliance with current or future privacy, data protection and information security laws (including those regarding security breach notification) affecting customer or employee data to which we are subject could result in higher compliance and technology costs and could restrict our ability to provide certain products and services. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory or governmental investigations or actions, litigation, fines, sanctions and damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations. We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti- money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures, and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations. Risks Related to Our Common Stock We may raise additional capital, which could have a dilutive effect on the existing holders of our common stock and adversely affect the market price of our common stock. We are not restricted from issuing additional shares of common stock or securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. We frequently evaluate opportunities to access the capital markets taking into account our regulatory capital ratios, financial condition and other relevant considerations, and subject to market conditions, we may take further capital actions. Such actions could include, among other things, the issuance of additional shares of common stock in public or private transactions in order to further increase our capital levels above the requirements for a well- capitalized institution established by the federal bank regulatory agencies as well as other regulatory targets. The issuance of any additional shares of common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities including, without limitation, securities issued upon exercise of outstanding stock options under our stock option plans, could be substantially dilutive to shareholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders. The market price of our common stock could decline as a result of sales of shares of our common stock or the perception that such sales could occur. The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive. At times, the stock market and, in particular, the market for financial institution stocks, has experienced significant volatility, which has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices for certain issuers without regard to those issuers' underlying financial strength. As a result, the trading volume in our common stock may fluctuate more than usual and cause significant price variations to occur. This may make it difficult for shareholders to resell shares of common stock at times or at prices they find attractive. The low trading volume in our common shares on the NASDAQ Capital Market means that our shares may have less liquidity than other publicly traded companies. We cannot ensure that the volume of trading in our common shares will be maintained or will increase in the future. The trading price of the shares of our common stock will depend on many factors, which may change from time to time and which may be beyond our control. Broad market fluctuations have adversely affected and may continue to adversely affect the market price of our common stock. Among the factors that could affect our stock price are: • actual or anticipated quarterly fluctuations in our operating results and financial condition; • changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our common stock or those of other financial institutions; • failure to meet analysts' revenue or earnings estimates; • speculation in the press or investment community generally or relating to our reputation, our market area, our competitors or the financial services industry in general; • strategic actions by us or our competitors, such as acquisitions; • actions by our institutional shareholders; • fluctuations in the stock price and operating results of our competitors; • future sales of our equity, equity- related or debt securities; • changes in the frequency or amount of dividends or share repurchases; • trading activities in our common stock, including short- selling; • domestic and international economic factors unrelated to our performance; and • general market conditions and, in particular, developments related to market conditions for the financial services industry. ~~An investment in our common stock is not an insured deposit. Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this " Risk Factors " section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment. Anti- takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline. Various provisions of our articles of incorporation and by- laws and certain other actions we have taken could delay or prevent a third party from acquiring us, even if doing so might be beneficial to our shareholders. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, regulatory approval and / or appropriate regulatory filings may be required from either or all the Federal Reserve, the FDIC, and the DFPI prior to any person or entity acquiring " control " (as defined in the applicable regulations) of a state non- member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.~~ Our dividend policy ~~and / or share repurchase program~~ may change without notice, and our future ability to pay dividends or repurchase or redeem shares is subject to restrictions. Since 2000, our board of directors have declared quarterly cash dividends on our common stock. ~~In 2021 our board of directors approved stock repurchase programs that authorized the repurchase of up to 702, 576 shares of common stock. As of December 31, 2022, we repurchased and retired 300, 761 shares at an average price of $ 22. 63 per share, completing the November 17, 2021 approved stock repurchase program.~~ However, we have no obligation to continue doing so and may change our dividend policy ~~and / or share repurchase program~~ at any time without notice to holders of our common stock. Holders of our common stock are only entitled to receive such cash dividends, as our board of directors, in its discretion, may declare out of funds legally available for such payments. Furthermore, consistent with our strategic plans, growth initiatives, capital availability, projected liquidity needs, and other factors, we have made, and will continue to make, capital management decisions and policies that could adversely affect the amount of dividends paid to holders of our common stock and the maintenance of share repurchase program. **For more information on** ~~We are a separate and distinct legal entity from our subsidiary,~~ the **statutory and regulatory limitations relating to** ~~Bank. We receive substantially all of our revenue from~~ dividends ~~from the Bank, which we use as the principal source of funds to pay our expenses. Various federal and / or state laws and regulations limit the amount of dividends that the Bank may pay us. Such limits are also tied to the earnings of our subsidiary. If the Bank does not receive regulatory approval or if the Bank' s earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our ability to pay our expenses and our business, financial condition or results of operations could be materially and adversely impacted. As a bank holding company, we are subject to regulation by the Federal Reserve. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy in relation to the organization' s overall asset quality, current and prospective earnings and level, composition and quality of capital. The guidance provides that we inform and consult with the Federal Reserve prior to declaring and paying a dividend that exceeds earnings for the period for which the dividend is being paid or that could result in an~~ **and** ~~adverse change to our capital structure, including interest on our debt obligations. If required payments on our debt obligations are not made or are deferred, or dividends on any preferred~~ stock **repurchases see " Description** ~~we may issue are not paid, we will be prohibited from paying dividends on our common stock. The Capital Rules also introduced a new capital conservation buffer on top~~ of **Business** ~~the minimum risk~~ - **Supervision and Regulation-Payment of** ~~based capital ratios. Failure to maintain a capital conservation buffer above certain levels will result in restrictions on the Bank' s ability to make dividend~~ **Dividends** ~~payments,~~ **and Stock** ~~repurchases~~ **Repurchases** ~~, redemptions or other capital distributions~~ . **"** ~~These requirements, and any other new regulations or capital distribution constraints, could adversely affect the ability of the Bank to pay dividends to the Company and, in turn, affect our ability to pay dividends on our common stock.~~ The holders of our debt obligations will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends. The holders of our debt obligations if any, will have priority over our common stock with respect to payment in the event of liquidation, dissolution or winding up and with respect to the payment of interest and dividends. In any liquidation, dissolution or winding up of the Company, our common stock would rank below all claims of the holders of outstanding debt issued by the Company. As of December 31, ~~2022~~ **2023** , we had $ 65. 0 million principal amount of senior debt and subordinated notes outstanding through 2032. In addition, as of December 31, ~~2022~~ **2023** , we had $ 5. 15 million of trust preferred securities outstanding due 2036. In such event, holders of our common stock would not be entitled to receive any payment or other distribution of assets upon the liquidation, dissolution or winding up of the Company until after all of the Company' s obligations to the debt holders were satisfied and holders of the subordinated debt and trust preferred securities subordinate debentures had received any payment or distribution due to them. In addition, we are required to pay interest on the senior debt, subordinated notes, and trust preferred securities and if we are in default in the payment of interest we would not be able to pay any dividends on our common stock. **Provisions in our charter documents and California law may have an anti- takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies. Provisions of our charter documents and the California General Corporation Law, or the CGCL, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial by our shareholders. Furthermore, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be " acting in concert " from, directly or indirectly, acquiring more than 10 % (5 % if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve. Under the California Financial Code, no person may, directly or indirectly, acquire control of a California state bank or its holding company unless the DFPI has approved such acquisition of control. A person would be deemed to have acquired control of if such person, directly or indirectly, has the power (i) to vote 25 % or more of the voting power of the Bank or (ii) to direct or cause the direction of the management and policies of the Bank. For purposes of this law, a person who directly or indirectly owns or controls 10 % or more of our outstanding common stock would be presumed to control the Bank. Accordingly, prospective investors need to be aware of and comply with these requirements, if applicable, in connection with any purchase of shares of our common stock. Moreover, the combination of these provisions effectively inhibits certain mergers or other business combinations, which, in turn, could adversely affect the market price of our common stock.**