Risk Factors Comparison 2023-12-21 to 2022-12-23 Form: 10-K

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

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Set forth below is a summary of those risks, and then a more detailed discussion of the primary risks and uncertainties that if realized could have a material and adverse effect on our business, financial condition, results of operations, cash flows, liquidity and the value of our securities. The risks and uncertainties described below are not the only risks we face. Summary of Risk Factors ~~● We are subject to risks associated with the COVID- 19 pandemic, which could have an adverse effect on our business, financial condition and results of operations.~~ ● Our one- to four- family residential mortgage lending and certain niche loan products could expose us to credit risks that may be different than would apply to a more diversified or traditional loan portfolio. ● Our business and operations are concentrated in the New York metropolitan area, and we are sensitive to adverse changes in the local economy. ● We are subject to the various risks associated with our banking business and operations, including, among others, credit, market, liquidity, interest rate and compliance risks, which may have an adverse effect on our business, financial condition and results of operations if we are unable to manage such risks. ● SBA and other government guaranteed lending ~~is~~ **are** an increasingly important part of our business, and changes to ~~the~~ SBA ~~programs, or the rules governing such programs~~ or other government guaranteed lending programs, **or the rules governing such programs or other government guaranteed lending programs,** may adversely affect our profitability. In addition, we may incur greater risk on our SBA and other government guaranteed lending as we seek to expand our guaranteed lending activities outside of ~~a~~ **our** primary market area **. ● We have begun offering banking services to businesses in the state licensed cannabis industry, and this could expose us to liabilities and regulatory compliance costs** . ● Our liquidity and capital needs, particularly given our growth strategy, may suffer if not managed effectively or if capital is not available on terms acceptable to us. ● Our ability to **sustain** ~~continue to grow~~ **growth** will diminish if we are unable to continue to make commercially attractive acquisitions, or if we are unable to realize the benefits of prior or future acquisitions in a reasonable timeframe. ● We operate in a highly competitive market and face increasing competition from traditional and new financial services providers. ● We are dependent on key personnel and the unexpected loss of their services, or if we are unable to attract new personnel as we execute our growth strategy, will adversely impact our financial condition. ● We operate in a highly regulated industry, and the current regulatory framework and any future legislative and regulatory changes, may have an adverse effect on our business, financial condition and results of operations. ● We are subject to risks associated with our dependency on our information technology and telecommunications systems and third- party servicers including exposures to systems failures, interruptions or breaches of security. ● Due to the limited public float and trading volume of our stock, our stock price may be volatile, which could result in substantial losses for investors. ● Anti- takeover provisions in our charter and under New York **and Federal** law could limit certain shareholder actions. ECONOMIC, MARKET AND INVESTMENT **RISKSInflationary pressures** ~~RISKSThe ongoing global COVID- 19 outbreak could harm our business~~ and **rising prices may affect our** results of operations ~~,~~ and ~~such effects will depend on future developments, which are highly uncertain and are difficult to predict. The COVID- 19 pandemic has had a specific impact on our business, including: (1) causing some of our borrowers to be unable to meet existing payment obligations; (2) legal and regulatory requirements that require us to provide payment deferrals to certain customers adversely affected by the pandemic and which limit our ability to foreclose on certain property securing certain of our loans, (3) requiring us to increase our allowance for loan losses; and (4) affecting consumer and business spending, borrowing and savings habits. The ultimate risk posed by the COVID- 19 pandemic remains highly uncertain; however, COVID- 19 poses a material risk to our business,~~ 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~~ **other costs** ~~factors likely~~ to **the Company to increase, which could adversely affect our results of operations and financial condition. 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 ~~an~~ **come under greater scrutiny in light of recent bank failures, we may experience a material** adverse effect on our **financial condition and** results of operations **. On March 9, 2023, Silvergate Bank, La Jolla, California, announced its decision to voluntarily liquidate its assets and wind down operations. On March 10, 2023, Silicon Valley Bank, Santa Clara, California, was closed by the California Department of Financial Protection and Innovation (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. 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 deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk / return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments, which may include ~~: ● risks~~ **Federal Home Loan Bank of New York advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead** to **difficulty or an inability to access** ~~the~~ **these** ~~capital markets due to the volatility~~ **additional funding sources. Any decline** in **available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or 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, certain 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. 20Our 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** ~~markets~~ - **market** ~~that may impact~~ **conditions, could result in us realizing a loss on** the ~~performance~~ **sale** of **such assets. As of September 30, 2023, we had a net unrealized loss of $ 2. 1 million on** our **available for- sale** investment securities portfolio **as a result of** ~~; ● effects on key employees, including operational management personnel and those~~ -- **the** ~~charged with preparing~~ **rising interest rate environment. Our investment securities totaled $ 15. 0 million** , ~~monitoring and evaluating our~~ - **or 0. 7 % of total assets, at September 30, 2023. The details of this portfolio are included in Note 2 to the consolidated** financial **statements** ~~reporting and internal controls; ● declines in demand for loans and other banking services and products, as well as increases in our non- performing loans, owing to the effects of COVID- 19 in the markets served by the Bank and on the business of borrowers of the Bank; ● reduced fees as we waive certain fees for our customers impacted by the COVID- 19 pandemic; and ● higher operating costs, increased cybersecurity risks and potential loss of productivity due to employees working remotely, at least part of the time. Lastly, our commercial real estate and multi- family loans are dependent on the profitable operation and management of the properties securing such loans. The longer the pandemic persists, the stronger the likelihood that COVID- 19 could have a significant adverse impact by reducing the revenue and cash flows of our borrowers, impacting the borrowers' ability to repay their loans, increasing the risk of delinquencies and defaults, and reducing the collateral value underlying the loans. The extent to which the COVID- 19 pandemic will ultimately affect our financial condition and results of operations is unknown and will depend, among other things, on the duration of the pandemic, the actions undertaken by national, state and local governments and health officials to contain the virus or mitigate its effects, the safety and effectiveness of the vaccines that have been developed and the ability of pharmaceutical companies and governments to continue to manufacture and distribute those vaccines, and changes to interest rates. Any one or a combination of these factors could negatively impact our business, financial condition and results of operations and prospects. Delays in our ability to collect on non- performing assets due to COVID- 19 could harm our results of operations, and there is a risk that collateral securing a non- performing asset may deteriorate if we choose not to, or are unable to, foreclose on collateral in a timely manner. Federal and state banking agencies and government entities, including New York State, have adopted regulations or put in place executive orders that restricted or limited our ability to take certain actions with respect to delinquent 19borrowers that we would otherwise have taken in the ordinary course of business, such as customary collection and foreclosure activities. For example, New York State placed a " moratorium " on evictions and foreclosures. Although the moratorium expired on January 15, 2022, courts have been backlogged with foreclosure cases which has delayed our ability to realize on collateral, which causes an increased risk that the collateral value may deteriorate if we choose not to, or are unable to, foreclose on the collateral on a timely basis~~ . A substantial portion of our business is in the New York metro area, therefore, our business is particularly vulnerable to an economic downturn in our primary market area. We primarily serve businesses, municipalities and individuals located in the New York metro area. As a result, we are exposed to risks associated with lack of geographic diversification. The occurrence of an economic downturn in the New York metro area ~~, or adverse changes in laws or regulations in New York due to the adverse effects of the COVID- 19 pandemic or otherwise~~ , could impact the credit quality of our assets, the businesses of our customers and the ability to expand our business. Our success significantly depends upon the growth in population, income levels, deposits and housing in our market area. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may be negatively affected. In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of September 30, ~~2022~~ **2023** , ~~78~~ **77** % of our real estate loan portfolio was secured by real estate located in the five boroughs of New York City and Nassau County, New York. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio and have an adverse impact on our revenues and financial condition. In particular, we may experience increased loan delinquencies, which could result in a higher provision for loan losses and increased charge- offs. Any sustained period of increased non- payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, financial condition and results of operations. We also obtain a significant volume of deposits from municipal customers, primarily in Nassau and Suffolk Counties in New York. Approximately ~~27~~ **18** . ~~3~~ **1** % of our deposits are from municipal customers, although no single municipal customer represents a concentration risk. A prolonged economic downturn which adversely effects tax revenues or other governmental funding sources could have an adverse impact on our ability to gather cost efficient deposits, and fund our loans and other investments, thereby adversely affecting our results of operations. We have a significant number of loans secured by real estate, and a downturn in the local real estate market could negatively impact our profitability. At September 30, ~~2022~~ **2023** , approximately $ 1. ~~6~~ **8** billion, or ~~96~~ **95** %, of our total loan portfolio was secured by real estate, almost all of which is located in our primary lending market. Future declines in the real estate values in the New York metro area and Nassau County and surrounding markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower' s obligations to us. This could require increasing our allowance for loan losses to address the decrease in the value of the real estate securing our loans, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. ~~Appraisals~~ **21Appraisals** and other valuation techniques we use in evaluating and monitoring loans secured by real property, other real estate owned and repossessed personal property may not accurately describe the net value of the asset. In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made and, as real estate values may change significantly ~~in value~~ in relatively short periods of time (especially in periods of heightened economic uncertainty), this estimate may not accurately describe the net value of the real property collateral after the loan is made. As a result, we may not be able to realize the full amount of any remaining indebtedness when we foreclose on and sell the relevant property. In addition, we rely on appraisals and other valuation techniques to establish the value of our other real estate owned (" OREO ") and personal property that we acquire through foreclosure proceedings and to determine ~~20certain~~ -- **certain** loan impairments. If any of these valuations are inaccurate, our consolidated financial statements may not reflect the correct value of our OREO, and our allowance for loan losses may not reflect accurate loan impairments. This could have an adverse effect on our business, financial condition or results of operations. We engage in lending secured by real estate and may be forced to foreclose on the collateral and own the underlying real estate, subjecting us to the costs and potential risks associated with the ownership of the real property, or consumer protection initiatives or changes in state or federal law may substantially raise the cost of foreclosure or prevent us from foreclosing at all. Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we would be exposed to the risks inherent in the ownership of real estate. Although we held no OREO properties at September 30, ~~2022~~ **2023** , it is possible that in future periods we may take title to OREO properties in the event of defaults on outstanding loans. The amount that we, as a mortgagee, may realize after a default depends on factors outside of our control, including, but not limited to, general or local economic conditions, environmental cleanup liabilities, assessments, interest rates, real estate tax rates, operating expenses of the mortgaged properties, our ability to obtain and maintain adequate occupancy of the properties, zoning laws, governmental and regulatory rules, and natural disasters. Our inability to manage the amount of costs or size of the risks associated with the ownership of real estate, or writedowns in the value of OREO, could have an adverse effect on our business, financial condition and results of operations. Additionally, consumer protection initiatives or changes in state or federal law may substantially increase the time and expense associated with the foreclosure process or prevent us from foreclosing at all. A number of states in recent years have either considered or adopted foreclosure reform laws that make it substantially more difficult and expensive for lenders to foreclose on properties in default. Additionally, federal regulators have prosecuted a number of mortgage servicing companies for alleged consumer law violations. If new state or federal laws or regulations are ultimately enacted that significantly raise the cost of foreclosure or raise outright barriers, such could have an adverse effect on our business, financial condition and results of operations. Other aspects of our business may be adversely affected by unfavorable economic, market, and political conditions. An economic recession or a downturn in various markets could have one or more of the following adverse effects on our business: ● a decrease in the demand for 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 ~~credit~~ **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 ● an increase in our operating expenses associated with attending to the effects of certain circumstances listed above. ~~Various~~ **22Various** market conditions also affect our operating results. Real estate market conditions directly affect performance of our loans secured by real estate. Debt markets affect the availability of credit, which impacts the rates and terms at which we offer loans. Stock market downturns often reflect broader economic deterioration and / or a downward trend in business earnings which may adversely affect businesses' ability to raise capital and / or service their debts. Political and electoral changes, developments, conflicts and conditions (such as fiscal policy changes proposed) have in the past introduced, and may in the future introduce, additional uncertainty that could also affect our operating results negatively. ~~21LENDING~~ -- **LENDING** ACTIVITIES RISKSSmall Business Administration lending is an increasingly 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. 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. 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 or funding for the SBA program 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 materially and adversely affect our business, results of operations and financial condition. The SBA' s 7 (a) Loan Program is the SBA' s primary program for helping start- up and existing small businesses, with financing guaranteed for a variety of general business purposes. Typically, we sell the guaranteed portion of our SBA 7 (a) loans in the secondary market. These sales result in premium income for us at the time of sale and create a stream of future servicing income, as we retain the servicing rights to these loans. For the reasons described above, we may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue to originate and sell SBA 7 (a) loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans or the premiums may decline due to economic and competitive factors. When we originate SBA loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on a loan, we share any loss and recovery related to the loan pro- rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us. Generally, we do not maintain reserves or loss allowances for such potential claims and any such claims could materially and adversely affect our business, financial condition or results of operations. The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. 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 ability to operate profitably. The non- guaranteed portion of SBA loans that we retain on our balance sheet as well as the guaranteed portion of SBA loans that we sell could expose us to various credit and default risks. We have historically originated **an increasingly** ~~, primarily through Savoy, a~~ significant number of SBA loans, and sold a significant portion of the guaranteed portions of these loans on the secondary market. We generally retain the non- guaranteed portions of the SBA loans that we originate. Consequently, as of September 30, ~~2022~~ **2023** , we held $ ~~106~~ **115** . ~~4~~ **5** million of SBA loans on our balance sheet, $ ~~77~~ **90** . ~~3~~ **6** million of which consisted of the non- guaranteed portion of SBA loans and $ ~~29~~ **24** . ~~1~~ **9** million consisted of the guaranteed portion of SBA loans. The non- guaranteed portion of SBA loans have a higher degree of credit risk and risk of loss as compared to the guaranteed portion of such loans. We generally retain the non- guaranteed portions of the SBA loans that we originate and sell, and to the extent the borrowers of such loans experience financial difficulties, our financial condition and results of operations would be adversely impacted. ~~When~~ **23When** we sell the guaranteed portion of SBA loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the SBA loans and the manner in which they were originated. Under these agreements, we may be required to repurchase the guaranteed portion of the SBA loan if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our liquidity, results of operations and financial condition could be adversely affected. ~~22We~~ **We** are expanding the geographic scope of our SBA, and other government guaranteed lending, and this may expose us to greater and additional risks than lending in our primary trade area. Historically, our SBA and other government guaranteed lending has been to customers, and secured by collateral, located primarily on our metropolitan New York trade area. However, we have ~~recently begun an initiative~~ **hired lending personnel in other parts of the country** to expand **our market share of SBA and** ~~the~~ **other** ~~geographic scope of our~~ government guaranteed lending ~~, and have hired a lending team based in the Southeast. We intend to acquire additional lending teams in other parts of the country~~ . This geographic expansion of our government guaranteed lending may expose us to greater and different risks than lending in our trade area. For example, upon a default we will need to comply with local legal requirements and court rules, which may be more or less advantageous to borrowers than those in New York and New Jersey, which may make collecting upon collateral more difficult and expensive. We may also need to hold and operate property or business assets in remote locales, making it more difficult and expensive for management to oversee the assets. We may also have less knowledge of the markets in areas in which we may now lend, making underwriting decisions riskier. The recognition of gains on the sale of loans and servicing asset valuations reflect certain assumptions. We expect that gains on the sale of U. S. government guaranteed loans will comprise a meaningful component of our revenue. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained and deferred fees and costs, and net premiums paid by purchasers of the guaranteed portions of U. S. government guaranteed loans. The value of the retained unguaranteed portion of the loans and servicing rights are determined based on market derived factors such as prepayment rates, current market conditions and recent loan sales. Deferred fees and costs are determined using internal analysis of the cost to originate loans. Significant errors in assumptions used to compute gains on sale of loans or servicing asset valuations could result in material revenue misstatements, which may have a material adverse effect on our business, results of operations and profitability. In addition, while we believe these valuations reflect fair value and such valuations are subject to validation by an independent third party, if such valuations are not reflective of fair market value then our business, results of operations and financial condition may be materially and adversely affected. Imposition of limits by bank regulators on commercial real estate lending activities could curtail our growth and adversely affect our earnings. In 2006, the OCC, the FDIC, and the FRB, or collectively, the Agencies, issued joint guidance entitled " Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, " or the " CRE Guidance. " Although the CRE Guidance did not establish specific lending limits, it provides that a bank' s commercial real estate lending exposure could receive increased supervisory scrutiny where total non- owner- occupied commercial real estate loans, including loans secured by apartment buildings, investor commercial real estate, and construction and land loans, represent 300 % or more of an institution' s total risk- based capital, and the outstanding balance of the commercial real estate loan portfolio has increased by 50 % or more during the preceding 36 months. Our commercial real estate loan balance has increased ~~70~~ **7** % during fiscal year ~~2022~~ **2023** and commercial real estate loans represent ~~453~~ **448** % of our risk- based capital at September 30, ~~2022~~ **2023** , ~~an~~ **a** ~~increase~~ **decrease** from ~~355~~ **453** % at September 30, ~~2021~~ **2022** ~~reflecting the additional capital raised through our initial public offering~~ . In December 2015, the Agencies released a new statement on prudent risk management for commercial real estate lending, or the " 2015 Statement. " In the 2015 Statement, the Agencies, among other things, indicated the intent to continue " to pay special attention " to commercial real estate lending activities and concentrations going forward. If the FDIC, our primary federal regulator, were to impose restrictions on the amount of such loans we can hold in our portfolio or require us to implement additional compliance measures, for reasons noted above or otherwise, our earnings could be adversely affected as would our earnings per share. ~~The~~ **24The** residential mortgage loans that we originate consist primarily of non- conforming residential mortgage loans which may be considered less liquid and more risky. The residential mortgage loans that we originate consist primarily of non- conforming residential mortgage loans, which are typically considered to have a higher degree of risk and are less liquid than conforming residential mortgage ~~23loans~~ -- **loans** . We attempt to address this enhanced risk through our underwriting process, and by **generally** requiring three months principal, interest, taxes and insurance reserves. These loans also present pricing risk as rates change, and our sale premiums cannot be guaranteed. Further, the criteria for our loans to be purchased by other financial institutions may change from time to time, which could result in a lower volume of corresponding loan originations. In addition, when we sell the non- conforming residential mortgage loans, we are required to make certain representations and warranties to the purchaser regarding such loans. Under those agreements, we may be required to repurchase the non- conforming residential mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. Additionally, if repurchase and indemnity demands increase on loans that we sell from our portfolio, our liquidity, results of operations and financial condition could be adversely affected. 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 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. CREDIT RISKSWe 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 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~~ **25Our** emphasis on one- to four- family residential mortgage loans involves risks that could adversely affect our financial condition and results of operations. Our loan portfolio includes a significant concentration of one- to four- family residential mortgage loans. As of September 30, ~~2022~~ **2023** , we had $ ~~515~~ **657** . 3 million in one- to four- family residential mortgage loans, representing ~~32~~ **35** % of our total loan portfolio. Approximately 91 % of these loans are secured by properties in the five boroughs of New York City ~~24and~~ -- **and** Nassau County, New York and 69 % of these loans are rental properties and are not owner- occupied. These loans expose us to credit risks that may be different from those related to loans secured by owner- occupied properties or commercial loans. Adverse developments affecting commerce or real estate values in the local economies in our primary market areas could increase the credit risk associated with our loan portfolio and have an adverse impact on our revenues and financial condition. In addition, economic downturns in New York City could affect levels of employment in the New York metro area, which may affect the demand for rental housing. Any increase in rental vacancies, or reductions in rental rates, could adversely impact our borrowers and their ability to repay their loans. Any sustained period of increased non- payment, delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, financial condition and results of operations. Our niche lending products may expose us to greater risk than traditional lending products. A significant portion of our lending activity is related to certain niche lending products, such as loans secured by investor owned, non- owner occupied one- to four- family properties and loans without third- party income verifications, which are considered non- qualified mortgage loans and which may expose us to greater risk of credit loss than that associated with more traditional lending products. Non- qualified mortgage loans are considered to have a higher degree of risk and are less liquid than qualified mortgage loans. For the years ended September 30, **2023 and** 2022 ~~and 2021~~, we originated $ **196. 0 million and $** 182. 7 ~~million and $ 106. 4~~ million in non- qualified mortgage loans, respectively. During the years ended September 30, **2023 and** 2022 ~~and 2021~~, we sold into the secondary market $ **0 and $** 19. 4 ~~million and $ 32. 1~~ million, respectively of our non- qualified mortgages. We also have a concentration in the secondary market for our non- qualified mortgage loans, as a substantial portion of our non- qualified mortgage loans have **historically** been sold to one purchaser. If ~~we lose~~ this purchaser **is unwilling to** ~~, or any other purchaser~~ - **purchase** ~~of our~~ loans **from us in the future** , our resale market may decline and we may **have difficulty selling** ~~not be able to sell~~ our non- conforming residential mortgage loans ~~at our current volume~~, which **could** ~~will significantly~~ decrease our non- interest income as well as limit the number of non- conforming residential mortgage loans we can originate without excess interest rate risk. Although we have developed underwriting standards and procedures designed to reduce the risk of loss, we can provide no assurance that these standards and procedures will be effective in reducing losses. Should we incur credit losses, it could adversely affect our results of operations. The small- to medium- sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair our borrowers' ability to repay loans. We target our business development and marketing strategy primarily to serve the banking and financial services needs of small- to medium- sized businesses and real estate owners. These small- to medium- sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower' s ability to repay a loan. In addition, the success of a small- to medium- sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our financial condition and results of operations. ~~25Our~~ **26Our** allowance for loan losses may not be adequate to cover actual losses. We maintain an allowance for loan losses that represents management' s judgment of probable losses and risks inherent in our loan portfolio. As of September 30, ~~2022~~ **2023** , our allowance for loan losses totaled $ ~~12~~ **14** . ~~8~~ **7** million, which represented approximately 0. ~~80~~ **78** % of our total loans held for investment ~~, excluding PPP loans~~. The level of the allowance reflects management' s continuing evaluation of general economic conditions, diversification and seasoning of the loan portfolio, historic loss experience, identified credit problems, delinquency levels, adequacy of collateral and historical peer charge- off data. The determination of the appropriate level of our allowance for loan losses is inherently highly subjective and requires management to make significant estimates of and assumptions regarding current credit risks and future trends, all of which may undergo material changes. Our federal and state regulators, as an integral part of their examination process, review our methodology for calculating, and the adequacy of, our allowance for loan losses and may direct us to make additions to the allowance based on their judgments about information available to them at the time of their examination. Further, if actual charge- offs in future periods exceed the amounts allocated to our allowance for loan losses, we may need additional provisions for loan losses to restore the adequacy of our allowance for loan losses. While we believe our allowance for loan losses is appropriate for the risk identified in our loan portfolio, we cannot provide assurance that we will not further increase the allowance for loan losses, that it will be sufficient to address losses, or that regulators will not require us to increase this allowance. We also cannot be certain that actual results will be consistent with forecasts and assumptions used in our modeling. Any of these occurrences could materially and adversely affect our financial condition and results of operations. The implementation of the Current Expected Credit Loss accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations. Effective October 1, 2023, we will be required to adopt the Financial Accounting Standards Board (the " FASB ") Accounting Standards Update 2016- 13, Financial Instruments- Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments, commonly referred to as " CECL. " CECL changes the allowance for loan losses methodology from an incurred loss concept to an expected loss concept, which is more dependent on future economic forecasts, assumptions and models than previous accounting standards and could result in increases in, and add volatility to, our allowance for ~~loan~~ **credit** losses and future provisions for ~~loan~~ **credit** losses. These forecasts, assumptions, and models are inherently uncertain and are based upon management' s reasonable judgment in light of information currently available. Our allowance for ~~loan~~ **credit** losses may not be adequate to absorb actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. If our non- performing assets increase, our earnings will be adversely affected. At September 30, ~~2022~~ **2023** , our non- performing assets, which consist of non- performing loans and OREO (of which we had none at September 30, ~~2022~~ **2023**), were $ ~~13~~ **15** . ~~5~~ **1** million, or 0. ~~73~~ **70** % of total assets. Our non- performing assets adversely affect our net income in various ways: ● we record interest income only on the cash basis or cost- recovery method for non- accrual loans and we do not record interest income for OREO; ● we must provide for probable loan losses through a current period charge to the provision for loan losses; ● non- interest expense increases when we write down the value of properties in our OREO portfolio to reflect changing market values; ● there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees; and ● the resolution of non- performing assets requires the active involvement of management, which can distract them from more profitable activity. If additional borrowers become delinquent and do not pay their loans **,** and we are unable to successfully manage our non- performing assets, our losses and troubled assets could increase, which could have a material adverse effect on our financial condition and results of operations. ~~26We~~ **27We** are dependent on the use of data and modeling in our management' s decision- making, and faulty data or modeling approaches could negatively impact our decision- making ability or possibly subject us to regulatory scrutiny in the future. The use of statistical and quantitative models, and other quantitative and qualitative analyses, is necessary for bank decision- making, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, the identification of possible violations of anti- money laundering regulations and the estimation of credit losses are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not currently subject to annual Dodd- Frank Wall Street Reform and Consumer Protection Act, or Dodd- Frank Act, stress testing and the Comprehensive Capital Analysis and Review submissions, we anticipate that model- derived testing may become more extensively implemented by regulators in the future. We anticipate data- based modeling will penetrate further into bank decision- making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision-making, they also create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision-making ability or, if we become subject to regulatory stress- testing in the future, adverse regulatory scrutiny. Secondarily, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision- making. LIQUIDITY RISKSIf we do not manage our liquidity effectively, our business could suffer. Liquidity is essential for the operation of our business. Market conditions, unforeseen outflows of funds or other events could have a negative effect on our level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business transactions at a reasonable cost and in a timely manner. If our access to stable and low- cost sources of funding, such as client deposits, is reduced, we may need to use alternative funding, which could be more expensive or of limited availability. Further evolution in the regulatory requirements relating to liquidity and risk management also may impact us negatively. For more information on these regulations and other regulatory changes, see the section entitled " Supervision and Regulation. " Any substantial, unexpected or prolonged changes in the level or cost of liquidity could affect our business adversely. Our growth strategy may require us to raise additional capital in the future to fund such growth, and the unavailability of additional capital on terms acceptable to us could adversely affect us or our growth. Although we believe we have sufficient capital to meet our capital needs for our immediate growth plans, we will continue to need capital to support our longer- term growth plans. Our ability to access the capital markets, if needed, will depend on a number of factors, including the state of the financial markets. If capital is not available on favorable terms when we need it, we will have to either issue common stock or other securities on less than desirable terms or curtail our growth until market conditions become more favorable. Any diminished ability to raise additional capital, if needed, could subject us to liability, restrict our ability to grow, require us to take actions that would affect our earnings negatively or otherwise affect our business and our ability to implement our business plan, capital plan and strategic goals adversely. Such events could have a material adverse effect on our business, financial condition and results of operations. ~~27STRATEGIC~~ **28STRATEGIC** RISKSIf we do not effectively execute our strategic plans, we will not achieve our growth objectives and our business and results of operations may be negatively affected. Our growth depends upon successful, consistent execution of our business strategies. A failure to execute these strategies may impact growth negatively. A failure to grow, whether organically or through strategic acquisitions, may have an adverse effect on our business. The challenges arising from generating organic or strategic growth may include preserving valuable relationships with employees, clients and other business partners and delivering enhanced products and services. Execution of our business strategies also may require certain regulatory approvals or consents, which may include approvals of the FRB, the FDIC, the DFS and other domestic regulatory authorities. These regulatory authorities may impose conditions on the activities or transactions contemplated by our business strategies, which may negatively impact our ability to realize fully the expected benefits of certain opportunities. Any failure by us to manage acquisitions and other significant transactions successfully may have a material adverse effect on our results of operations, financial condition, and cash flows. Our ability to grow revenues, earnings and cash flows at or above our historical rates depends in part upon our ability to identify, appropriately price, successfully acquire, and integrate businesses to realize anticipated synergies by integrating cultures, accounting, data processing and internal control systems. Promising acquisitions are difficult to identify and complete for a number of reasons, including high valuations, competition among prospective buyers, and the need to satisfy applicable closing conditions, including any conditions to receiving the required regulatory approvals. To the extent we enter into transactions to acquire complementary businesses and / or technologies, we may not achieve the expected benefits of such transactions, which could result in increased costs, lowered revenues, ineffective deployment of capital, regulatory concerns, exit costs or diminished competitive position or reputation. These risks may be increased if the acquired company operates in a geographic location where we do not already have significant business operations. Integration and other risks can be more pronounced for larger and more complicated transactions, transactions outside of our core business space, or if multiple transactions are pursued simultaneously. The failure to successfully integrate acquired entities and businesses or failure to produce results consistent with the financial model used in the analysis of our acquisitions, investments, joint ventures or strategic alliances may cause us to incur asset write- offs, restructuring costs or other unanticipated expenses which may have a material adverse effect on our results of operations, financial position, and cash flows. If we fail to identify and successfully complete transactions that further our strategic objectives, we may be required to expend additional resources to grow our business organically. We have grown and may continue to grow through acquisitions. Over the last several years, we have grown rapidly through both organic growth and acquisitions. On August 9, 2019, we consummated the acquisition of CFSB. On May 26, 2021, we consummated the acquisition of Savoy. These two acquisitions added $ 780. 8 million in total assets, $ 452. 6 million in deposits and $ 676. 3 million in loans, as well as four branch offices in New York City. As part of our growth strategy, we intend to pursue prudent and commercially attractive acquisitions that will position us to capitalize on market opportunities. To be successful as a larger institution, we must successfully integrate the operations and retain the customers of acquired institutions, attract and retain the management required to successfully manage larger operations, and control costs. Future results of operations will depend in large part on our ability to successfully integrate the operations of the acquired institutions and retain the customers of those institutions. If we are unable to successfully manage the integration of the separate cultures, customer bases and operating systems of the acquired institutions, and any other institutions that may be acquired in the future, our results of operations may be adversely affected. In addition, to successfully manage substantial growth, we may need to increase non- interest expenses through additional personnel, leasehold and data processing costs, among others. In order to successfully manage growth, we may need to adopt and effectively implement policies, procedures and controls to maintain credit quality, control costs and oversee our operations. No assurance can be given that we will be successful in this strategy. ~~28We~~ **29We** may be challenged to successfully manage our business as a result of the strain on management and operations that may result from growth. The ability to manage growth will depend on our ability to continue to attract, hire and retain skilled employees. Success will also depend on the ability of our officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage employees. Finally, substantial growth may stress regulatory capital levels, and may require us to raise additional capital in the future. No assurance can be given that we will be able to raise any required capital, or that we will be able to raise capital on terms that are beneficial to stockholders. Attractive acquisition opportunities may not be available to us in the future. We expect that other banking and financial service companies, many of which have significantly greater resources than we do and have a deep and liquid trading market, will compete with us in acquiring other financial institutions, if we pursue such acquisitions in the future. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators will consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and stockholders' earnings per share. COMPETITION RISKSCompetition 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. ~~29We~~ **30We** need to invest in innovation, and the inability or failure to do so may affect our business and earnings negatively. Our success in the competitive environment in which we operate requires consistent investment of capital and human resources in innovation, particularly in light of the current " FinTech " environment, in which financial institutions are investing significantly in new technologies, such as artificial intelligence, machine learning, blockchain and other distributed ledger technologies, and developing potentially industry- changing new products, services and industry standards in order to attract clients. Our investment is directed at meeting the needs of our clients, adapting existing products and services to the evolving standards and demands of the marketplace, and maintaining the security of our systems and building a platform for future innovation and competitive advantage that is scalable. Among other things, investing in innovation helps keep us relevant and client- focused while maintaining acceptable margins. Our investment also focuses on enhancing the delivery of our products and services, such as our recent implementation of digital payment channels, such as mobile wallets, contactless debit cards and Zelle. Falling significantly behind our competition in this area could adversely affect our business opportunities, growth and earnings. There are substantial risks and uncertainties associated with innovation efforts, including an increased risk that new and emerging technologies may expose us to increased cybersecurity and other information technology vulnerability and threats. Expected timetables for the introduction and development of new products or services may not be achieved, and price and profitability targets may not be met. Further, our revenues and costs may fluctuate because new products and services generally require start- up costs while corresponding revenues take time to develop or may not develop at all. KEY PERSONNEL RISKSWe rely heavily on our executive management team and other key personnel for our successful operation, and we could be adversely affected by the unexpected loss of their services. Our success depends in large part on the performance of our key personnel at the Bank that have substantial experience and tenure with the Bank and in the markets that we serve. Our continued success and growth depend in large part on the efforts of these key personnel, the support of our Directors, and ability to attract, motivate and retain highly qualified senior and middle management and other skilled employees to complement and succeed to our core senior management team. If we are not able to attract, retain and motivate other key personnel, our business could be negatively affected. Our future success depends in large part on our ability to retain and motivate our existing employees and attract new employees. Competition for the best employees can be intense, and there can be no assurance that we will be successful in our efforts to recruit and retain key personnel. Factors that affect our ability to attract and retain talented and diverse employees include compensation and benefits programs, profitability, opportunities for advancement, flexible working conditions, availability of qualified persons and our reputation. Our ability to attract and retain key executives and other employees may be hindered as a result of existing and potential regulations applicable to incentive compensation and other aspects of our compensation programs. These regulations may not apply to some of our competitors and to other institutions with which we compete for talent. The unexpected loss of services of key personnel, both in business line and corporate functions, could have a material adverse impact on our net income and financial condition because of the loss of their knowledge of our markets, operations and clients, their years of industry experience, and their technical skills. Similarly, the loss of key employees, either individually or as a group, could adversely affect our clients' perception of our abilities and, accordingly, our reputation. ~~30REGULATORY~~ **31REGULATORY** AND COMPLIANCE RISKSWe operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, could adversely affect us and our future growth. Banks are highly regulated under federal and state law. As such, we are subject to extensive regulation, supervision and legal requirements from government agencies such as the FRB, the FDIC and the DFS, which govern almost all aspects of our operations. These laws and regulations are not intended to protect our shareholders. Rather, these laws and regulations are intended to protect our clients, depositors, the DIF, and the overall financial stability of the United States. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that the Bank can pay to the Company and the Company can pay to its shareholders, restrict the ability of institutions to guarantee our debt and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than required under generally accepted accounting principles (" GAAP "). Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional operating costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, enforcement actions and fines and other penalties, any of which could adversely affect our results of operations, regulatory capital levels and the price of our common stock. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations. Federal and State banking agencies periodically conduct examinations of our business, including compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations could adversely affect us. As part of the bank regulatory process, the FDIC, the New York State DFS, and the FRB periodically conduct examinations of our ~~businesses~~ -- **business** , including compliance with laws and regulations. If, as a result of an examination, one of these banking agencies were to determine that the financial condition, capital adequacy, asset quality, earnings prospects, management capability, liquidity, asset sensitivity to market risks, asset management, risk management or other aspects of any of our operations have become unsatisfactory, or that the Company, the Bank or their respective management were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin " unsafe or unsound " practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital levels, to restrict our growth, to assess civil monetary penalties against the Company, the Bank or their respective officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the Bank' s deposit insurance and terminate the Bank' s charter to operate. If we become subject to such regulatory actions, our business, financial condition, results of operations and reputation could be adversely affected. Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations. Economic conditions that contributed to the financial crisis in 2008, particularly in the financial markets, resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. There can be no guarantee that regulators or other third parties will not seek to impose such additional requirements on financial institutions, such as extending additional regulations to small banks with less than $ 10 billion in assets. Compliance with these regulations has and may continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, results of operations and growth prospects. ~~Federal~~ **32Federal** and state regulatory agencies frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory ~~31interest~~ -- **interest** spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations. Increases in FDIC insurance premiums could adversely affect our earnings and results of operations. The deposits of our bank are insured by the FDIC up to legal limits and, accordingly, subject it to the payment of FDIC deposit insurance assessments as determined according to the calculation described in " Supervision and Regulation- Deposit Insurance. " Increases in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations. Changes in tax laws and regulations, or changes in the interpretation of existing tax laws and regulations, may have a material adverse effect on our business, financial condition, results of operations and growth prospects. We operate in an environment that imposes income taxes on our operations at both the federal and state levels to varying degrees and we try to minimize the impact of these taxes. Any change in tax laws or regulations, or new interpretation of an existing law or regulation, could significantly alter the tax impact on our financial results. The net deferred tax asset reported on our balance sheet generally represents the tax benefit of future deductions from taxable income for items that have already been recognized for financial reporting purposes. The bulk of these deferred tax assets consists of deferred loan loss deductions and deferred compensation deductions. The net deferred tax asset is measured by applying currently enacted income tax rates to the accounting period during which the tax benefit is expected to be realized. As of September 30, ~~2022~~ **2023** , our net deferred tax asset was $ ~~2~~ **1** . 5 million ~~. Tax rates may go up, which could negatively impact our net income and cash flow. Certain provisions in the JOBS Act changing tax laws also included a number of provisions that have an impact on borrowers and the market for single- family residential real estate. Changes include (i) a lower limit on the deductibility of mortgage interest on single- family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. The changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future and could make it harder for borrowers to make their loan payments. In addition, these changes may also have a disproportionate effect on taxpayers in states with high residential home prices and high state and local taxes, such as New York. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in the loan portfolio may be adversely impacted as a result of the changing economies of home ownership, which could require an increase in the provision for loan losses, which would reduce profitability and could have a material adverse effect on our business, financial condition and results of operations~~ . Failure to comply with stringent capital requirements could result in regulatory criticism, requirements and restrictions. The Bank is subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which it must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines ~~. The FRB, the FDIC, and the OCC adopted final rules for the Basel III capital framework which became effective on January 1, 2015. These rules substantially amended the regulatory risk- based capital rules formerly applicable to the Bank. The rules have been phased in over time beginning in 2015 and became fully phased- in in 2019. The rules provide for minimum capital ratios of (i) common equity Tier 1 risk- weighted capital ratio of 4. 5 %, (ii) Tier 1 risk- based capital ratio of 6 %, and (iii) total risk- based capital ratio of 8 %. As fully phased in, the rules also require a capital conservation buffer of 2. 5 % on top of the foregoing minimum capital ratios, resulting in an effective requirement for minimum capital ratios of (a) common equity Tier 1 risk- weighted capital ratio of 7 %, (b) Tier 1 risk- 32based capital ratio of 8. 5 %, and (c) total risk- based capital ratio of 10. 5 %~~ . The failure to meet applicable regulatory capital requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect client and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial condition. These limitations establish a maximum percentage of eligible retained income that could be utilized for these actions. Financial institutions, such as the Bank, face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. The BSA, the USA PATRIOT Act 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 Financial Crimes Enforcement Network, established by the U. S. Department of the Treasury (the " Treasury Department "), to administer the Bank Secrecy Act, 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 the Internal Revenue Service. There is also increased scrutiny of compliance with the sanctions programs and rules administered and enforced by the Treasury Department' s Office of Foreign Assets Control (" OFAC "). ~~In~~ **33In** order to comply with regulations, guidelines and examination procedures in this area, we have dedicated significant resources to our anti- money laundering program. If our policies, procedures and systems are deemed deficient, we could be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the inability to obtain regulatory approvals to proceed with certain aspects of our business plans, including acquisitions and de novo branching. We are subject to numerous laws and regulations of certain regulatory agencies, such as the Consumer Financial Protection Bureau, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA directs all insured depository institutions to help meet the credit needs of the local communities in which they are located, including low- and moderate- income neighborhoods. Each institution is examined periodically by its primary federal regulator, which assesses the institution' s performance. The Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The CFPB, the U. S. Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. The CFPB was created under the Dodd- Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. Adverse supervisory findings regarding an institution' s performance under the CRA, fair lending or consumer lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. Such actions could have an adverse effect on our business, financial condition and results of operations. The FRB may require us to commit capital resources to support the Bank, and we may not have sufficient access to such capital resources. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the " source of strength " doctrine and FRB regulations implementing it, the FRB may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to attempt to borrow the funds or raise capital. Any loans by a holding company ~~33to~~ **to** its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a holding company' s bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution' s general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations. Moreover, it is possible that we will be unable to borrow funds when we need to do so. ~~The discontinuance of LIBOR~~ **34Our deposit services for businesses in the state licensed cannabis industry** could ~~cause~~ **expose us to liabilities and regulatory compliance costs. Commencing in fourth calendar quarter of 2023, we implemented specialized deposit and lending services intended** ~~or~~ **for a limited number** ~~contribute to market volatility and could affect the market value and / or liquidity~~ of **state licensed medical** ~~our loans. The phase out of the London Inter- bank Offering Rate (" LIBOR ")~~ **use cannabis business customers. Medical use cannabis** , ~~the ability of our third- party service providers~~ **as well as recreational use businesses, are legal in numerous states** and ~~/~~ **the District of Columbia, including** ~~or~~ **our** ~~counterparties to support~~ **primary markets of New York** and ~~process~~ **New Jersey. However, such businesses are not legal at** the ~~Bank~~ **federal level, and marijuana remains a Schedule I drug under the Controlled Substances Act of 1970. In 2014, the U. S. Department of the Treasury** ' s ~~assets based~~ **Financial Crimes Enforcement Network (FinCEN) published guidelines for financial institutions servicing state legal cannabis businesses. We have implemented a comprehensive control framework that includes written policies and procedures related to the** on **- boarding of such businesses** ~~an~~ **and the monitoring** ~~alternative reference rate,~~ and ~~any~~ **maintenance of such business accounts that comports with the FinCEN guidance. Additionally, our policies call for due diligence review of the cannabis business before the business is on-boarded, including confirmation that the business is properly licensed and maintains the license in good standing in the applicable state. Throughout the relationship, our policies call for continued monitoring of the business, including periodic site visits, confirmation that licenses are in good standing and reviews of business and compliance data, as applicable, to determine that the business continues to satisfy our requirements. The Bank may offer additional banking products and services to cannabis related customers in the future. While we believe our policies and procedures allow us to operate in compliance with the FinCEN guidelines, there can be no assurance that compliance with the FinCEN guidelines will protect us from federal prosecution or** other **regulatory** ~~actions~~ **sanctions . Federal prosecutors have significant discretion and** ~~taken by various market participants with respect to the~~ **there** ~~phase out of LIBOR~~ **can be no assurance that the federal prosecutors will not choose to strictly enforce the federal laws governing cannabis. Any change in the federal government' s enforcement position** could ~~cause~~ **potentially subject us to criminal prosecution and other regulatory sanctions. As a general matter, the medical and recreational cannabis business is considered high- risk, thus increasing the risk of a regulatory action against** ~~or~~ **our BSA** ~~contribute to market volatility and could negatively affect the market value, availability and~~ / **AML program that would likely have** ~~or liquidity of the securities held in client portfolios. The unavailability or replacement of LIBOR may affect the valuation of certain of our loans, which may adversely~~ -- **adverse consequences** ~~affect our performance. Management has determined to initially replace LIBOR as an index for its adjustable-rate loans with the Secured Overnight Finance Rate (" SOFR "). However~~ , ~~it is~~ **including but** not **limited** ~~possible at this time~~ to **, preventing us from undertaking mergers, acquisitions and** ~~predict or ascertain what precise impact these changes will have on the~~ **other** ~~Bank~~ **expansion activities** . TECHNOLOGY RISKSCyber- attacks or other security breaches could adversely affect our operations, net income or reputation. We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf. Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and the increased sophistication and activities of perpetrators of cyber- attacks and mobile phishing. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e- mail, text or voice mail, is an emerging threat targeting the customers of financial entities. A failure in or breach of our operational or information security systems, or those of our third- party service providers, as a result of cyber- attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and / or cause losses. If this confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss. ~~In~~ **35In** recent years, several financial services firms suffered successful cyber-attacks launched both domestically and from abroad, resulting in the disruption of services to clients, loss or misappropriation of sensitive or private information, and reputational harm. Further, information security risks for financial institutions like us are significant in part because of the evolving proliferation of new technologies, the use of the internet, mobile devices, and cloud technologies to conduct financial transactions and the increased sophistication and activities of hackers, terrorists, organized crime and other external parties, including foreign state actors. In addition, our clients often use their own devices, such as computers, smart phones and tablets, to manage their accounts, which may heighten the risk of system failures, interruptions or security breaches. If we fail to continue to upgrade our technology infrastructure and monitor our vendors to ensure effective information security relative to the type, size and complexity of our operations, we could become more vulnerable to cyber-attack and, consequently, subject to significant regulatory penalties. ~~34Although~~ -- **Although** we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party' s compliance with the terms of the agreement. However, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and / or to investigate and remediate any information security vulnerabilities. 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 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 unable to 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. ~~35OPERATIONAL~~ **36OPERATIONAL** RISKSMany types of operational risks can affect our earnings negatively. We regularly assess and monitor operational risk in our businesses. Despite our efforts to assess and monitor operational risk, our risk management framework may not be effective in all cases. Factors that can impact operations and expose us to risks varying in size, scale and scope include: ● failures of technological systems or breaches of security measures, including, but not limited to, those resulting from computer viruses or cyber- attacks; ● unsuccessful or difficult implementation of computer systems upgrades; ● human errors or omissions, including failures to comply with applicable laws or corporate policies and procedures; ● theft, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties; ● breakdowns in processes, breakdowns in internal controls or failures of the systems and facilities that support our operations; ● deficiencies in services or service delivery; ● negative developments in relationships with key counterparties, third- party vendors, or employees in our day- to- day operations; and ● external events that are wholly or partially beyond our control, such as pandemics, geopolitical events, political unrest, natural disasters or acts of terrorism. While we have in place many controls and business continuity plans designed to address these factors and others, these plans may not operate successfully to mitigate these risks effectively. If our controls and business continuity plans do not mitigate the associated risks successfully, such factors may have a negative impact on our business, financial condition or results of operations. In addition, an important aspect of managing our operational risk is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our risk management program to support our risk culture. Nonetheless, if we fail to provide the appropriate environment that sensitizes all of our employees to managing risk, our business could be impacted adversely. Our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance. Our reputation is one of the most valuable assets of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. ~~We~~ **37We** have experienced rapid growth in recent periods, and our recent growth rates may not be indicative of our future growth. We have experienced rapid organic and acquisition- driven growth in recent periods. As a strategy, we have focused on growth by aggressively pursuing business development opportunities. Our assets have grown from $ 68. 5 million at December 31, 2012 to $ ~~1~~ **2** . ~~84~~ **15** billion at September 30, ~~2022~~ **2023** , representing a compound annual growth rate of approximately ~~40~~ **38** %. We cannot guarantee that we will sustain our recent asset and revenue growth rate in future periods. Our asset and revenue growth may slow or our revenue may decline for a number of other reasons, including reduced ~~36demand~~ -- **demand** for our services, increased competition, a decrease in the growth or reduction in size of our overall market ~~, the impacts to our business from the COVID- 19 pandemic~~ , or if we cannot capitalize on growth opportunities. Although we believe that our growth strategy will support our long- term profitability and franchise value, the expenses associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our increasing number of office locations, has and may continue to affect our results. We expect our operating expenses to increase in future periods, and if our revenue growth does not increase to offset these anticipated increases in our operating expenses, it will have a material adverse effect on our business, financial condition and results of operations and we may not be able to achieve or maintain profitability. Further, our rapid growth may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, it could have a material adverse effect on our business, financial condition and results of operations. Our rapid growth has placed, and will continue to place, a significant strain on our management capabilities, administrative and operational infrastructure, facilities and other resources. To effectively manage growth, we must continue to: improve our key business applications, processes, and computing infrastructure; enhance information and communication systems; and ensure that our policies and procedures evolve to reflect our current operations. These enhancements and improvements will require additional investments and allocation of valuable management and employee time and resources. Failure to effectively manage growth could result in difficulty or delays in deploying our solutions, declines in quality or client satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties, and any of these difficulties could materially adversely affect our business performance and results of operations. We are subject to certain operational risks, including, but not limited to, customer, employee or third- party fraud and data processing system failures and errors. We rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non- compliance with applicable regulatory standards, adverse business decisions or their implementation, or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and / or suffer damage to our reputation. ~~We~~ **38We** may be subject to environmental liabilities in connection with the real properties we own and the foreclosure on real estate assets securing our loan portfolio. In the course of our business, we may foreclose on and take title to real estate or otherwise be deemed to be in control of property that serves as collateral on loans we make. As a result, we could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. The cost of removal or abatement may substantially exceed the value of the affected properties or the loans secured by those properties, we may not have adequate remedies against the prior owners or other responsible parties and we may not be able to resell the affected properties either before or after completion of any such removal or abatement procedures. If material environmental problems are discovered before foreclosure, we generally will not foreclose on the related collateral or will transfer ownership of the loan to a subsidiary. It should be noted, however, that the transfer of the ~~37property~~ -- **property** or loans to a subsidiary may not protect us from environmental liability. Furthermore, despite these actions on our part, the value of the property as collateral will generally be substantially reduced or we may elect not to foreclose on the property and, as a result, we may suffer a loss upon collection of the loan. Any significant environmental liabilities could have an adverse effect on our business, financial condition and results of operations. Our operations could be interrupted if our third- party service providers experience difficulty, terminate their services or fail to comply with banking regulations. We outsource some of our operational activities and accordingly depend on a number of relationships with third- party service providers. Specifically, we rely on third parties for certain services, including, but not limited to, our core banking, web hosting and other processing services. Our business depends on the successful and uninterrupted functioning of our third- party servicers. The failure of these systems, a cybersecurity breach involving any of our third- party service providers or the termination or change in terms of a third- party software license or service agreement on which any of these systems is based could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity or such third- party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third- party service providers could entail significant delay, expense and disruption of service. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected. Even if we are able to replace third- party service providers, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations. In addition, the Bank' s primary federal regulator, the FDIC, has issued guidance outlining the expectations for third- party service provider oversight and monitoring by financial institutions. The federal banking agencies, including the FDIC, have also issued enforcement actions against financial institutions for failure in oversight of third- party providers and violations of federal banking law by such providers when performing services for financial institutions. Accordingly, our operations could be interrupted if any of our third- party service providers experience difficulty, are subject to cybersecurity breaches, terminate their services or fail to comply with banking regulations, which could adversely affect our business, financial condition and results of operations. In addition, our failure to adequately oversee the actions of our third- party service providers could result in regulatory actions against the Bank, which could adversely affect our business, financial condition and results of operations. ~~Pandemics~~ **39Pandemics** , natural disasters, global climate change, acts of terrorism and global conflicts may have a negative impact on our business and operations. Pandemics ~~, including the continuing COVID- 19 pandemic~~ , 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, lower asset price levels, or disruptions in general economic activity in the United States or abroad, or in financial market settlement functions. In addition, these or similar events may impact economic growth negatively, which could have an adverse effect on our business and operations and may have other adverse effects on us in ways that we are unable to predict. Our business operations could be disrupted if significant portions of our workforce were unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. Further, work- from- home and other modified business practices may introduce additional operational risks, including cybersecurity and execution risks, which may result in inefficiencies or delays, and may affect our ability to, or the manner in which we, conduct our business activities. Disruptions to our clients could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans. ~~The escalation of the pandemic may also negatively impact regional economic conditions for a period of time, resulting in declines in local loan demand, liquidity of loan guarantors, loan collateral (particularly in real estate), loan originations and deposit availability. 38Legal~~ -- **Legal** and regulatory proceedings and related matters could adversely affect us. We have been and may in the future become involved in legal and regulatory proceedings. We consider most of our historical proceedings to be in the normal course of our business or typical for the industry; however, it is difficult to assess the outcome of these matters, and we may not prevail in any current or future proceedings or litigation. There could be substantial costs and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or reputation, or our financial condition and results of our operations. Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers. Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions and operating process changes. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate- friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior. ~~COMMON~~ **40COMMON** STOCK AND TRADING RISKSThe price of our common stock could be volatile. The market price of our common stock may be volatile and could be subject to wide fluctuations in price in response to various factors, some of which are beyond our control. These factors include, among other things: ● general economic conditions and overall market fluctuations; ● actual or anticipated fluctuations in our quarterly or annual operating results; ● changes in accounting standards, policies, guidance, interpretations or principles; ● the public reaction to our press releases, our other public announcements and our filings with the SEC; ● changes in financial estimates and recommendations by securities analysts following our stock; ● changes in earnings estimates by securities analysts or our ability to meet those estimates; ● the operating and stock price performance of other comparable companies; ● the trading volume of our common stock; ● new technology used, or services offered, by competitors; and ● changes in business, legal or regulatory conditions, or other developments affecting the financial services industry, participants in our industry, and publicity regarding our business or any of our significant customers or ~~competitorsThe~~ --- **competitors. The** realization of any of the risks described in **this** Item 1A " Risk Factors " section could have a material adverse effect on the market price of our common stock. In addition, the stock market experiences extreme volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect investor confidence and could affect the trading price of our common stock over the short, medium or long term, regardless of our actual performance. We cannot predict the extent to which a more active trading market in our common stock may develop or how liquid that market might become. A public trading market having the desired characteristics of depth, liquidity and orderliness depends upon the presence in the marketplace of willing buyers and sellers of our common stock at any given time, which presence is dependent upon the individual decisions of investors, over which we have no control. ~~39~~ **The holders of our existing and future 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. Shares of our common stock are equity interests and do not constitute indebtedness. In the event of any liquidation, dissolution or winding up of our business or of the Bank, our common stock would rank below all claims of debt holders against us. As of September 30, 2023, we had outstanding approximately $ 25. 0 million in aggregate principal amount of subordinated notes. Our debt obligations are senior to our shares of common stock. As a result, we must make payments on our debt obligations before any dividends can be paid on our common stock. In the event of our bankruptcy, dissolution or liquidation, the holders of our debt obligations must be satisfied before any distributions can be made to the holders of our common stock. To the extent that we issue additional debt obligations, the additional debt obligations will be of equal rank with, or senior to, our existing debt obligations and senior to our shares of common stock. 41**