Risk Factors Comparison 2024-03-12 to 2023-03-09 Form: 10-K

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

Investing in our common stock involves a high degree of risk. Before you decide to invest, you should carefully consider the risks described below, together with all other information included in this Annual Report on Form 10- K. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and growth prospects. As a result, the trading price of our common stock could decline and you could experience a partial or complete loss of your investment. Further, to the extent that any of the information in this Annual Report on Form 10- K constitutes forward- looking statements, the risk factors below also are cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward- looking statements made by us or on our behalf. See " Forward- Looking Statements " immediately preceding Part I of this Annual Report on Form 10- K. Risks Related to our Business Our business depends on our ability to successfully manage credit risk. The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers ~~(" management " or " employees ")~~ follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our loan portfolio, may result in loan defaults, foreclosures and additional charge- offs and may necessitate that we significantly increase our **ACL** ~~allowance for loan losses~~, each of which could adversely affect our net income. As a result, our inability to successfully manage credit risk could have a material adverse effect on our business, financial condition and / or results of operations. An important feature of our credit risk management system is our use of an internal credit risk rating and control system through which we identify, measure, monitor and mitigate existing and emerging credit risk of our borrowers. As this process involves detailed analysis of the borrower or credit risk, taking into account both quantitative and qualitative factors, it is subject to human error. In exercising their judgment, our employees may not always be able to assign an accurate credit rating to a borrower or credit risk, which may result in our exposure to higher credit risks than indicated by our risk rating and control system. The credit risk rating and control system may not identify credit risk in our loan portfolio and we may fail to manage credit risk effectively. Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations. Shifts in short- term interest rates may reduce net interest income, which is the principal component of our earnings. Net interest income is the difference between the amounts received by us on our interest- earning assets and the interest paid by us on our interest- bearing liabilities. When interest rates rise, the rate of interest we earn on our assets, such as loans, typically rises more quickly than the rate of interest that we pay on our interest- bearing liabilities, such as deposits, which may cause our profits to increase. However, when deposit competition is strong, the rate of increase in our deposit costs may exceed the rate of increase in the yields on our loans, placing pressure on our net interest margins. When interest rates decrease, the rate of interest we earn on our assets, such as loans, typically declines more quickly than the rate of interest that we pay on our interest- bearing liabilities, such as deposits, which may cause our profits to decrease. The impact on earnings is more adverse when the slope of the yield curve flattens or inverts, that is, when short- term interest rates increase more than long- term interest rates or when long- term interest rates decrease more than short- term interest rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international disorder and instability in domestic and foreign financial markets. Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates. For the year ended December 31, ~~2022~~ **2023**, total loans were ~~85~~ **86**. ~~1~~ **3** % of our average interest- earning assets. Our net interest income exhibited a positive 3. 6 % sensitivity to rising interest rates and a negative 4. ~~6~~ **3** % sensitivity to declining interest rates in a twelve- month 100 basis point parallel shock at December 31, ~~2022~~ **2023**. Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets (" NPAs ") and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of NPAs would have an adverse impact on net interest income. Rising interest rates will result in a decline in value of the fixed- rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in accumulated other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

If short- term interest rates decline, and assuming longer term interest rates fall faster, we could experience net interest margin compression as our interest- earning assets would continue to reprice downward while our interest- bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations. Liquidity risks could affect operations and jeopardize our business, financial condition and results of operations. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and / or investment securities, and from other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of our customer deposits, a significant portion of which are time deposits. Such deposit balances can decrease when customers perceive they can earn higher interest on their interest- bearing deposits elsewhere, or alternative investments, such as the stock market, provide a better risk / return tradeoff. If customers move money to other financial institutions, or out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income. Other primary sources of funds consist of cash from operations, investment maturities and sales and proceeds from the issuance and sale of our equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Reserve Discount Window and the FHLB. We also may borrow from third- party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Any decline in available funding could adversely impact our ability to continue to implement our strategic plan, including originate loans, invest in securities, meet our expenses, pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. **As a result of increases in interest rates over the past two years, the market values of previously issued government, agency and other debt securities have declined significantly, resulting in unrealized losses in our securities portfolio. While we do not expect or intend to sell these securities, if we were required to sell these securities to meet liquidity needs, we may incur significant losses, which could impair our capital and financial condition and adversely affect our results of operations. Further, while we have taken actions to maximize our sources of liquidity, there is no guarantee that such sources will be available or sufficient in the event of sudden liquidity needs.** We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations. The BSA, the Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective AML program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other AML requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U. S. Department of Justice, Drug Enforcement Administration and IRS. We are also subject to increased scrutiny of compliance with the rules enforced by the OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liabilities, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed ~~with~~ **acquisition and** certain aspects of our business plan ~~, including our acquisition plans~~ . Failures to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could reduce the Company' s ability to receive any necessary regulatory approvals for acquisitions or new branch openings. This could have a material adverse effect on our business, financial condition, results of operations and growth prospects. **Adverse developments affecting the banking industry could have a material effect on our operations and / or stock price. During 2023, the high- profile failures of several depository institutions negatively impacted customer confidence in the safety and soundness of some regional and community banks. As a result, we face that risk that customers may prefer to maintain deposits with larger financial institutions or invest in fixed income securities instead of deposits with the Bank, either of which could materially adversely impact our liquidity, cost of funding, capital, and results of operations. In response to the failures of other depository institutions, we may face increased regulation and supervisory oversight, higher capital or liquidity requirements or a heightened risk of regulatory enforcement activities, any of which could have a material impact on our business. Further, our costs of deposit insurance may increase as a result of these bank failures and the resulting losses to the FDIC' s Deposit Insurance Fund. In addition, concerns about the banking industry' s operating environment and the public trading prices of bank holding companies are often correlated, particularly during times of financial stress, which could adversely impact the trading price of our common stock.** A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects. Our business and operations are sensitive to general business and economic conditions in the U. S., generally, and particularly the state of California and the Los Angeles / Orange County region, as well as the greater New York City / New Jersey metropolitan area **and Dallas, Texas** , where our branch offices are located. Unfavorable or uncertain economic and market conditions in these areas could lead to credit quality concerns related to repayment ability and collateral protection as well as reduced demand for the products and services we offer. The impact of the Biden administration' s policy changes regarding international trade, tariffs, renewable energy, immigration, domestic taxation, among other actions and policies of the current administration, may have on economic and market conditions is uncertain. In addition, concerns about the performance of international economies, especially in Europe and emerging markets, and economic conditions in Asia can impact the economy and financial markets here in the U. S. If the national, regional and local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and CRE price declines, lower home sales and commercial activity and fluctuations in the commercial Federal Housing Administration (" FHA ") financing sector. All of these factors are generally detrimental to our business. System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities. The computer systems and network infrastructure we use could be vulnerable to hardware and cyber- security issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third- party vendors. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break- ins, cyber- security breaches and other disruptive problems caused by the internet or other users. Such computer break- ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our internet banking services by current and potential customers. We rely heavily on communications, information systems (both internal and provided by third- parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. In recent periods, several governmental agencies and large corporations, including financial service organizations and retail companies, have suffered major data breaches, in some cases exposing not only their confidential and proprietary corporate information, but also sensitive financial and other personal information of their customers / clients or customers / clients and their employees or other third- parties, subjecting those agencies and corporations to potential fraudulent activity and exposing their customers / clients, customers / clients and their employees or other third- parties to identity theft and fraudulent activity in their credit card and banking accounts. Therefore, security breaches and cyber- attacks can cause significant increases in operating costs, including the costs of compensating clients and customers for any resulting losses they may incur and the costs and capital expenditures required to correct the deficiencies in and strengthen the security of data processing and storage systems. These risks may increase in the future as we continue to increase mobile payments and other internet- based product offerings and expand our internal usage of web- based products and applications. Other potential attacks have attempted to obtain unauthorized access to confidential information, steal money, or manipulate or destroy data, often through the introduction of computer viruses or malware, cyber- attacks and other means. Other threats of this type may include fraudulent or unauthorized access to data processing or data storage systems used by us or by our customers, electronic identity theft, " phishing, " account takeover, and malware or other cyber- attacks. To date, none of these types of attacks have had a material effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third- party could result in legal liabilities, remediation costs, regulatory actions and reputational harm. As cyber- threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. We maintain a system of internal controls and insurance coverage to mitigate against such operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations. Furthermore, the public perception that a cyber- attack on our systems has been successful, whether or not this perception is correct, may damage our reputation with customers and third- parties with whom we do business ~~. On August 30, 2021, the Bank identified unusual activity on its network. The Bank responded promptly to disable the activity, investigate its source and monitor the Bank' s network. The Bank subsequently became aware of claims that it had been the target of a ransomware attack. On September 7, 2021, the Bank determined that an external actor had illegally accessed and / or acquired certain data on its network. The Bank has been working with third- party forensic investigators to understand the nature and scope of the incident and determine what information may have been accessed and / or acquired and who may have been impacted. The investigation revealed that this incident impacted certain files containing certain Bank customer information. Some of these files contained documents related to loan applications, such as tax returns, Form W- 2 information of their employees, and payroll records. The Bank has notified all individuals identified as impacted, consistent with applicable laws. All impacted individuals were offered free Equifax Complete Premier credit monitoring and identify theft protection services. The Bank has notified law enforcement and appropriate authorities of the incident. On December 16, 2021, Plaintiff Min Woo Bae, individually and on behalf of all others similarly situated, filed in the Los Angeles County Superior Court a complaint based on the incident for damages, injunctive relief, and equitable relief, styled Min Woo Bae v. Pacific City Bank, Case Number 21STCV45922 (" the Matter "). In the Matter, Plaintiff seeks to form a class action and alleges causes of action for: (1) negligence; (2) unjust enrichment; (3) violations of California' s Consumer Privacy Act, Civil Code § 1798. 150 (a); and (4) violations of California' s unfair competition law (Cal. Bus. & Prof. Code § 17200, et seq.). The summons and complaint have been served on the Bank as of the date of this submission. The Bank expresses no opinion on the merits of the Matter. The Bank had timely answered, responded, and will continue to defend itself from the claims and causes of action asserted in the~~

~~complaint to the fullest extent permitted by applicable law. Those defenses will be based in part on the fact that the Bank has implemented security procedures, practices, and a robust information security program pursuant to guidance from the applicable financial regulators. The Company continues to monitor and evaluate the data incident for its magnitude and concomitant financial, legal or reputational consequences. During the year ended December 31, 2021, expenses associated with the data incident, all of which are included in Other Expense in Consolidated Statements of Income, totaled $ 100 thousand, which represents the retention amount on its insurance claims. During the year ended December 31, 2022, the Company incurred additional legal expenses of $ 220 thousand associated with the on- going legal matters related to the data incident, all of which are included in Professional Fees in Consolidated Statement of Income. The Company anticipates additional expenses will be incurred in future periods; however, the Company does have a cyber- liability insurance policy that should provide insurance coverage for this incident~~. We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology. The financial services industry is undergoing rapid technological changes with frequent introductions of new technology- driven products and services. In addition to allowing us to better serve customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing 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. As a result, they may be able to offer additional and / or superior products to those that we will not be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology- driven products and services or be successful in marketing such products and services to our customers. Our business depends on our ability to attract and retain Korean- American immigrants as clients. A significant portion of our business is based on successfully attracting and retaining Asian- American immigrants generally, and first and second generation Korean- American immigrants specifically, as clients for our commercial loans **and** ~~, residential property loans, other~~ consumer loans and deposits. We may be limited in our ability to attract Asian- American clients to the extent the U. S. adopts restrictive domestic immigration laws. Adverse conditions in Asia and elsewhere could adversely affect our business. Because our business focuses on Korean- American individuals and businesses as customers, we are likely to feel the effects of adverse economic and political conditions in Asia, including the effects of rising inflation or slowing growth and volatility in the real estate and stock markets in South Korea and other regions. The U. S. and global economic policies, military tensions and unfavorable global economic conditions may adversely impact the Asian economies. In addition, pandemics and other public health crises or concerns over the possibility of such crises could create economic and financial disruptions in the region, such as recent health pandemics in China, South Korea as well as other regions. A significant deterioration of economic conditions in Asia could expose us to, among other things, economic and transfer risk, and we could experience an outflow of deposits by those of our customers with connections to Asia. Transfer risk may result when an entity is unable to obtain the foreign exchange needed to meet its obligations or to provide liquidity. This may adversely impact the recoverability of investments with, or loans made to, such entities. Adverse economic conditions in Asia, and in South Korea in particular, may also negatively impact asset values and the profitability and liquidity of our customers who operate in this region. Severe Weather, Natural Disasters or Other Climate Change Related Matters Could Significantly Impact Our Business. Our primary market is located in an earthquake- prone zone in California, which is also subject to other weather or disasters, such as severe rainstorms, wildfire or flood, as well as health epidemics or pandemics (or expectations about them). These events could interrupt our business operations unexpectedly. Climate- related physical changes and hazards could also pose credit risks for us. For example, our borrowers may have collateral properties located in coastal areas at risk to rise in sea level. The properties pledged as collateral on our loan portfolio could also be damaged by tsunamis, floods, earthquakes or wildfires and thereby the recoverability of loans could be impaired. A number of factors can affect credit losses, including the extent of damage to the collateral, the extent of damage not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost of collection and foreclosure to us. Lastly, there could be increased insurance premiums and deductibles, or a decrease in the availability of coverage, due to severe weather- related losses. The ultimate impact on our business of a natural disaster, whether or not caused by climate change, is difficult to predict. As we expand our business outside of California markets, we will encounter risks that could adversely affect us. We primarily operate in California markets with a concentration of Korean- American individuals and businesses as customers. We also currently have branch operations in New York, New Jersey and Texas, and LPO operations in various states, and would evaluate additional branch expansion opportunities in other Korean- American populated markets. In the course of this expansion, we will encounter significant risks and uncertainties that could have a material adverse effect on our operations. These risks and uncertainties include increased expenses and operational difficulties arising from, among other things, our need to hire adequate staffing, attract sufficient business in new markets, to manage operations in non- contiguous market areas, to comply with all of the various local laws and regulations, and to anticipate events or differences in markets in which we have no current experience. We have a limited service area. This lack of geographic and ethnic diversification increases our risk profile. Our operations are conducted through 16 branches located principally in Los Angeles and Orange Counties of Southern California and to a lesser extent in Texas and the New York / New Jersey region. As a result of these geographic concentrations, our results depend largely upon economic and business conditions in these areas. Any significant deterioration in economic and business conditions in our service areas could have a material adverse impact on the quality of our loan portfolio and the demand for our products and services, which in turn could have a material adverse effect on our results of operations. We have attempted to diversify some of our loan business through LPOs in five other states; however, this diversification strategy may not be effective to reduce our geographic and ethnic concentrations. Risks Related to Our Loans Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses. At December 31, ~~2022~~ **2023** , approximately ~~86~~ **84** . ~~7~~ **4** % of our loans held- for- investment portfolio was comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and natural disasters. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. 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, primarily 7 (a) loans, will comprise a significant component of our revenue. The gains on such sales recognized for the year ended December 31, ~~2022~~ **2023** was $ ~~8~~ **3** . ~~0~~ **6** million. The determination of these gains is based on assumptions regarding the value of unguaranteed loans retained, servicing rights retained, and net premiums paid by purchasers of the guaranteed portions of U. S. government guaranteed loans. The value of retained unguaranteed loans and servicing rights are determined based on market derived factors such as prepayment rates and current market conditions. Significant errors in assumptions used to compute gains on sale of these 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. If we breach any of the representations or warranties we make to a purchaser of our mortgage loans, we may be liable to the purchaser for certain costs and damages. When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Under these agreements, we may be required to repurchase mortgage loans 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 portfolios, our liquidity, results of operations and financial condition could be adversely affected. 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 originated $ **83. 0 million and $** 141. 1 ~~million and $ 194. 4~~ million, respectively, of SBA loans (total commitment basis) during the years ended December 31, **2023 and** 2022 ~~and 2021~~ . During the same time periods, we sold $ **82. 3 million and $** 122. 9 million ~~and $ 126. 8 million~~ , respectively, of the guaranteed portion of our SBA loans. As of December 31, ~~2022~~ **2023** , we held $ ~~169~~ **150** . ~~9~~ **8** million of SBA loans on our balance sheet, $ 141. ~~6~~ **1** million of which consisted of the non- guaranteed portion of SBA loans and $ ~~28~~ **9** . ~~3~~ **6** million or ~~16.~~ 6 **. 4** % consisted of the guaranteed portion of SBA loans. The non- guaranteed portion of SBA loans have a higher degree of risk of loss as compared to the guaranteed portion of such loans, and these non- guaranteed loans make up a substantial majority of our remaining SBA loans. When 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 loan 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 portfolios, our liquidity, results of operations and financial condition could be adversely affected. Further, 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 could be adversely impacted. Many of our loans are to commercial borrowers, which have a higher degree of risk than other types of loans. At December 31, ~~2022~~ **2023** we had $ 1. ~~69~~ **91** billion of commercial loans, consisting of $ 1. ~~29~~ **57** billion of **CRE** ~~commercial property~~ loans ~~,~~ **and** $ ~~134~~ **342** . **0** ~~9 million of SBA property loans, $ 17. 1 million of construction loans, and $ 249. 3~~ million of C & I ~~loans, including $ 1. 2 million of SBA PPP~~ loans, for which real estate is not the primary source of collateral. Commercial loans represented 82. ~~6~~ **4** % of our total loan portfolio at December 31, ~~2022~~ **2023** . Commercial loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Our high concentration in commercial real estate could cause our regulators to restrict our ability to grow and could adversely affect our results of operations and financial condition. CRE lending continues to be a significant focus of federal and state bank regulators with multiple guidelines issued in an attempt by regulators to manage CRE lending risk across the banking system. These various guidelines and pronouncements were issued in response to the agencies' concerns that rising CRE concentrations might expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the CRE market. For example, bank regulators have issued guidance which refer to as the CRE Concentration Guidance that identifies certain CRE concentration levels that, if exceeded, will expose an institution to additional supervisory analysis with regard to the institution' s CRE concentration risk. The CRE Concentration Guidance is designed to promote appropriate levels of capital and sound loan and risk management practices for institutions with a concentration of CRE loans. In general, the CRE Concentration Guidance establishes the following supervisory criteria as preliminary indications of possible CRE concentration risk: (i) the institution' s total construction, land development and other land loans represent 100 % or more of total risk- based capital; or (ii) total CRE loans as defined in the regulatory guidelines represent 300 % or more of total risk- based capital, and the institution' s CRE loan portfolio has increased by 50 % or more during the prior 36- month period. Pursuant to the CRE Concentration Guidelines, loans secured by owner- occupied CRE are not included for purposes of CRE Concentration calculation. As of December 31, ~~2022~~ **2023** , using regulatory definitions in the CRE Concentration Guidance, our CRE loans represented ~~253~~ **280** . ~~9~~ **7** % of our total risk- based capital, as compared to **253. 9 %,** 269. 8 % ~~,~~ **and** 256. 1 % ~~and 243. 6 %~~ as of December 31, **2022,** 2021 ~~,~~ **and** 2020 ~~and 2019~~ , respectively. The FDIC may become concerned about our CRE loan concentrations, and they may inhibit our organic growth by restricting our ability to execute on our strategic plan. Our residential ~~property~~ **mortgage** loan product consists primarily of non- qualified residential mortgage loans which may be considered riskier and less liquid than qualified residential mortgage loans. As of December 31, ~~2022~~ **2023** , our residential ~~property~~ **mortgage** loan portfolio amounted to $ ~~333~~ **389** . ~~7~~ **4** million or 16. ~~3~~ **8** % of our total loans held- for- investment portfolio. As of such date, all of our residential ~~property~~ **mortgage** loans consisted of non- qualified residential mortgage loans. Non- qualified loans are residential loans that do not comply with certain standards set by the Dodd- Frank Act and its related regulations. These non- qualified residential mortgage loans are considered to have a higher degree of risk and are less liquid than qualified mortgage loans. We offer two residential mortgage products: a lower LTV, alternative document non- qualified residential mortgage loan, and a qualified residential mortgage loan. We originated non- qualified residential mortgage loans of $ **63. 4 million and $** 177. 1 ~~million and $ 93. 2~~ million, respectively, for the years ended December 31, **2023 and** 2022 ~~and 2021~~ . We originated qualified residential mortgage loans of $ **0 and $** 400 thousand ~~and $ 9. 7 million~~ , respectively, for the years ended December 31, **2023 and** 2022 ~~and 2021~~ . As of December 31, ~~2022~~ **2023** , our non- qualified residential mortgage loans had a weighted average LTV of ~~63~~ **65** . ~~5~~ **3** % and a weighted average Fair Isaac Corporation (" FICO ") score of ~~762~~ **761** . Our non- qualified residential mortgage loans are designed to assist Asian- Americans who have recently immigrated to the U. S. or are self- employed business owners and as such are willing to provide higher down payment amounts and pay higher interest rates and fees in return for documentation requirements more accommodative for self- employed borrowers. Non- qualified residential mortgage loans are considered less liquid than qualified residential mortgage loans because such loans cannot be securitized and can only be sold directly to other financial institutions. Such non- qualified residential mortgage loans may be considered riskier than qualified mortgage loans. Despite the original intention to hold to maturity for our non- qualified residential mortgage loans at the time of origination, we may sell these loans in the secondary market if opportunity arises. However, 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 investors may change from time to time, which could limit our ability to sell these loans in the secondary market. Mortgage production, including refinancing activity, historically declines in rising interest rate environments. While we have been experiencing historically low interest rates over the last five years, this low interest rate environment likely will not continue indefinitely. Consequently, when interest rates increase further, our mortgage production may not continue at current levels. Curtailment of government guaranteed loan programs could affect a segment of our business. A significant segment of our business consists of originating and periodically selling the U. S. government guaranteed loans, in particular those guaranteed by the SBA. Presently, the SBA guarantees 75 % to 85 % of the principal amount of each qualifying SBA loan originated under the SBA' s 7 (a) loan program. The U. S. government may not maintain the SBA 7 (a) loan program, and even if it does, such guaranteed portion may not remain at its current level. In addition, from time to time, the government agencies that guarantee these loans reach their internal limits and cease to guarantee future loans. In addition, these agencies may change their rules for qualifying loans or Congress may adopt legislation that would have the effect of discontinuing or changing the loan guarantee programs. Therefore, if these changes occur, the volume of loans to small business and industrial borrowers of the types that now qualify for government guaranteed loans could decline. Also, the profitability of the sale of the guaranteed portion of these loans could decline as a result of market displacements due to increases in interest rates, and premiums realized on the sale of the guaranteed portions could decline from current levels. As the funding and sale of the guaranteed portion of SBA 7 (a) loans is a major portion of our business and a significant portion of our noninterest income, any significant changes to the funding for the SBA 7 (a) loan program may have an unfavorable impact on our prospects, future performance and results of operations. The gain on sale of SBA loans was $ **3. 6 million and $** 8. 0 million ~~and $ 12. 8 million~~ , respectively, or **33. 4 % and** 55. 1 ~~% and 69. 3~~ %, respectively, of the total noninterest income, for the years ended December 31, **2023 and** 2022 ~~and 2021~~ . The small- and medium- sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower' s ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition. We target our business development and marketing strategy primarily to serve the banking and financial services needs of small- to medium- sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competitors, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower' s ability to repay a loan. In addition, the success of a small and medium- sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium- sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected. Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects. Real estate construction loans, including land development loans, comprised approximately ~~0~~ **1** . ~~8~~ **1** % of our total loans held- for- investment portfolio as of December 31, ~~2022~~ **2023** , and such lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related LTV ratio. The risks inherent in construction lending may affect adversely our results of operations. Such risks include, among other things, the possibility that contractors may fail to complete, or complete on a timely basis, construction of the relevant properties; substantial cost overruns in excess of original estimates and financing; market deterioration during construction; and lack of permanent take- out financing. Loans secured by such properties also involve additional risks because they have no operating history. In these loans, loan funds are advanced upon the security of the project under construction (which is of uncertain value prior to completion of construction) and the estimated operating cash flow to be generated by the completed project. Such properties may not be sold or leased so as to generate the cash flow anticipated by the borrower. A general decline in real estate sales and prices across the U. S. or locally in the relevant real estate market, a decline in demand for residential property, economic weakness, high rates of unemployment and reduced availability of mortgage credit are some of the factors that can adversely affect the borrowers' ability to repay their obligations to us and the value of our security interest in collateral, and thereby adversely affect our results of operations and financial results. Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future. As of December 31, ~~2022~~ **2023** , our nonperforming loans (" NPLs ") held- for- investment totaled $ 3. ~~4~~ **9** million, or 0. ~~16~~ **17** % of our loans held- for- investment portfolio. ~~We also had NPLs held- for- sale of $ 4. 0 million as of December 31, 2022.~~ Our NPAs, which include NPLs ~~held- for- investment, NPLs held- for- sale~~ and other real estate owned (" OREO "), totaled $ ~~7~~ **6** . ~~4~~ **5** million, or 0. ~~30~~ **23** % of total assets. A loan is placed on nonaccrual status if: (i) it is maintained on a cash basis because of deterioration in the financial condition of the borrower, (ii) payment in full of principal or interest is not expected, or (iii) principal or interest has been in default for a period of 90 days or more, unless the loan is both well secured and in the process of collection. In addition, we had $ ~~134 thousand~~ **1. 4 million** in accruing loans that were 30- 89 days past due as of December 31, ~~2022~~ **2023** . Our NPAs adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO, which adversely affects our net income and returns on assets and equity, increases our loan administration costs and adversely affects our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then- fair market value, which may result in a loss. These NPLs and OREO also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of NPAs requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in NPLs and NPAs, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity. Real estate market volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our other real estate owned fair value appraisals. As of December 31, ~~2022~~ **2023** , we had ~~no~~ OREO **of $ 2. 6 million** on our books. OREO typically consists of properties that we obtain through foreclosure or through an in- substance foreclosure in satisfaction of an outstanding loan. The Company initially records OREO at fair value at the time of foreclosure. Thereafter, OREO is recorded at the lower of cost or fair value based on their subsequent changes in fair value. The fair value of OREO is generally based on recent real estate appraisals adjusted for estimated selling costs. Generally, in determining fair value, an orderly disposition of the property is assumed, unless a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility. In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our OREO disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from the appraisals, comparable sales and other estimates used to determine the fair value of our OREO properties. We could be exposed to risk of environmental liabilities with respect to properties to which we take title. In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third- parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third- parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and cash flows may be materially and adversely affected. Risks Related to Our Deposits Competition among U. S. banks for customer deposits is intense and may increase the cost of retaining current deposits or procuring new deposits. Any changes we make to the rates offered on our deposit products to remain competitive with other financial institutions may adversely affect our profitability and liquidity. Interest- bearing deposit accounts earn interest at rates established by management based on competitive market factors. Our cost of deposits increased from 0. ~~23~~ **62** % for the year ended December 31, ~~2021~~ **2022** , to ~~0~~ **2** . ~~62~~ **87** % for the year ended December 31, ~~2022. We anticipate further pressure to increase the rate we pay on deposits in~~ 2023 ~~, which will negatively impact our profitability and net interest margin~~ . The demand for the deposit products we offer may also be reduced due to a variety of factors, such as demographic patterns, changes in customer preferences, reductions in consumers' disposable income, regulatory actions that decrease customer access to particular products, or the availability of competing products. A large percentage of our deposits is attributable to a relatively small number of customers, which could adversely affect our liquidity, financial condition and results of operations. Our ten largest depositor relationships, excluding wholesale deposits, accounted for approximately ~~15~~ **8** . ~~1~~ **7** % of our deposits at December 31, ~~2022~~ **2023** . Our largest depositor relationship accounted for approximately ~~3~~ **1** . ~~6~~ **4** % of our deposits at December 31, ~~2022~~ **2023** . The Bank maintained brokered deposits of $ **303. 7 million and $** 87 ~~. 0 million and $ 85~~ . 0 million, respectively, and deposits from California State Treasurer of $ 60. 0 million and $ ~~100~~ **60** . 0 million, respectively, at December 31, **2023 and** 2022 ~~and 2021~~ . Federal banking law and regulation place restrictions on depository institutions regarding brokered deposits. Due to the short- term nature of the deposit balances maintained by our large depositors, the deposit balances they maintain with us may fluctuate. The loss of one or more of our ten largest customers, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, would be likely to adversely affect our liquidity and require us to raise deposit interest rates to attract new deposits, purchase federal funds or borrow funds on a short term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income. Risks Related to Our Management We are highly dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our ability to execute on our strategic plan, existing and prospective customer relationships, growth prospects, and results of operations. Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of and experience in the community banking industry generally, and in community banking focused on Korean- Americans specifically. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies can often be lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan and deposit origination, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In addition, our continued success will be highly dependent on retaining the current executive management team, which includes, but is not limited to, executive and senior management, finance, lending, credit administration, and other professionals at the Company and the Bank level who work directly with the management team to implement the strategic direction of the Company' s and the Bank' s Boards of Directors. We believe this management team, comprised principally of long- time employees who have worked in the banking industry for a number of years, is integral to implementing our business strategy. The loss of the services of any one of them could have a material adverse effect on our business, financial condition, results of operations and cash flows. Risks Related to Our Allowance for ~~Loan~~ **Credit** Losses and Other Accounting Estimates Accounting estimates and risk management processes rely on analytical models that may prove inaccurate resulting in a material adverse effect on our business, financial condition and results of operations. The processes we use to estimate ~~probable incurred loan~~ **current expected credit** losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models using those assumptions may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset- liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for determining our ~~probable incurred~~ **current expected** loan losses are inadequate, the **ACL** ~~allowance for loan losses~~ may not be sufficient to support future charge- offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical models could result in losses that could have a material adverse effect on our business, financial condition and results of operations. Our allowance for ~~loan~~ **credit** losses may not be adequate to cover ~~potential~~ **actual** losses in our loan portfolio. A significant source of risk arises from the possibility that losses could be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that the Bank has adopted to address this risk may not prevent unexpected losses and such losses could have a material adverse effect on our business, financial condition, results of operations and cash flows. These unexpected losses may arise from a wide variety of specific or systemic factors, many of which are beyond our ability to predict, influence or control. Like all financial institutions, the Bank maintains an **ACL** ~~allowance for loan losses~~ to provide for loan defaults and non- performance. ~~Allowance for~~ **ACL on** ~~loan~~ **loans** ~~losses~~ , expressed as a percentage of loans held- for- investment, was 1. **19 %, 1.** 22 % ~~,~~ **and** 1. 29 ~~% and 1. 67~~ %, respectively, at December 31, **2023,** 2022 ~~,~~ **and** 2021 ~~and 2020~~ . **ACL** ~~Allowance for loan losses~~ is funded from a provision (reversal) for ~~loan~~ **credit** losses, which is a charge to our income statement. Our provision (reversal) for ~~loan~~ **credit** losses, was $ **(132) thousand, $** 3. 6 million ~~,~~ **and** $ (4. 6) ~~million and $ 13. 2~~ million, respectively, for the years ended December 31, **2023,** 2022 ~~,~~ **and** 2021 ~~and 2020~~ . The determination of an appropriate level of allowance for ~~loan~~ **credit** losses is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. For these reasons, our allowance for ~~loan~~ **credit** losses may not be adequate to cover actual loan losses, and future provision for ~~loan~~ **credit** losses could materially and adversely affect our business, financial condition, results of operations and cash flows ~~. The current expected credit loss standard established by the Financial Accounting Standards Board will require significant data requirements and changes to methodologies. In the aftermath of the 2007- 2008 financial crisis, the FASB, decided to review how banks estimate losses in allowance for loan losses calculation, and it issued the final Current Expected Credit Loss (" CECL "), standard on June 16, 2016. Currently, the impairment model used by financial institutions is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future~~

~~cash flows will be collected in full under the originally contracted terms. This model will be replaced by the CECL model. Financial institutions will be required to use historical information and current conditions to estimate the expected loss over the life of the loan. The Company has formed a committee, developed an implementation plan, and engaged a software vendor to assist the Company to build a model. The Company is in the process of completing a readiness assessment and is engaged in the implementation phase of the project. The Company is working on: (i) developing a new expected loss model with supportable assumptions; (ii) identifying data, reporting, and disclosure gaps; (iii) assessing updates to accounting and credit risk policies; and (iv) documenting new processes and controls. The transition to the CECL model will require significantly greater data requirements and changes to methodologies to accurately account for expected loss. The Bank may be required to increase its allowance for loan losses as a result of the implementation of CECL. The Federal Reserve, FDIC, and OCC issued a final rule regarding the implementation of CECL methodology for allowances for loan losses and related adjustments to capital that became effective in April 2019. The principal effect of the rule is that it allows banks, like the Bank, to elect to phase in over 3 years the adverse effects on regulatory capital that may result from the adoption of CECL. On November 15, 2019, the FASB issued Accounting Standard Update (" ASU ") 2019- 10 delaying the effective date for the CECL standard for smaller public business entities and nonpublic business entities. The FASB pushed back the effective date of CECL from January 2021 to January 2023 for smaller reporting companies as defined by the SEC and from January 2022 to January 2023 for nonpublic companies. The Bank will implement CECL during the first quarter of 2023 and the impact will be recorded as a cumulative-effect adjustment that reduces retained earnings as of January 1, 2023~~ . Risks Related to Our Growth Strategy We may not be able to continue growing our business, particularly if we cannot increase loans and deposits through organic growth because of constrained capital resources or other reasons. We have grown our consolidated assets from $ 1. ~~70~~ **75** billion as of December 31, ~~2018~~ **2019** to $ 2. ~~42~~ **79** billion as of December 31, ~~2022~~ **2023** , and our deposits from $ 1. ~~44~~ **48** billion as of December 31, ~~2018~~ **2019** to $ 2. ~~05~~ **35** billion as of December 31, ~~2022~~ **2023** . We intend to continue to grow our business through organic loan and deposit growth, and we anticipate that much of our future growth will be dependent on our ability to successfully implement our organic growth strategy, which may include establishing additional branches or LPOs in new or existing markets. A risk exists, however, that we will not be able to gain regulatory approval or identify suitable locations and management teams to execute this strategy. Further, our ability to grow organically loan and deposits is dependent on the financial health of our target demographic of Korean- Americans, which is in turn based on the financial health not only of their relevant geographic locations in the U. S. but also more broadly on the economic health of Korea. A decline in economic and business conditions in our market areas or in Korea could have a material impact on our loan portfolio or the demand for our products or services, which in turn may have a material adverse effect on our financial condition and results of operations. Operations in our LPOs have positively affected our results of operations, and sustaining these operations and growing loans may be more difficult than we expect, which could adversely affect our results of operations. We maintain ~~7~~ **seven** LPOs that primarily originate SBA loans. During the year ended December 31, ~~2022~~ **2023** , these LPOs accounted for approximately 11. ~~5~~ **4** % of new loans originated by the Bank. Sustaining the expansion of loan production through use of these out of state LPOs depends on a number of factors, including the continued strength of the markets in which our offices are located and identifying, hiring and retaining critical personnel. The strength of these markets could be weakened by anticipated increases in interest rates and any economic downturn. Moreover, competition for successful business developers and relationship managers in the SBA loan industry is fierce, and we may not be able to attract and retain the personnel we need to profitably operate our LPOs. Unsuccessful operation of our out of state LPOs could negatively impact our financial condition and results of operation. Risks Related to Our Capital **We** ~~As a result of the Dodd- Frank Act and related rulemaking, we~~ are subject to ~~more~~ stringent capital requirements. ~~In July 2013,~~ **We are subject to capital adequacy and liquidity rules and** ~~the~~ **other** ~~U~~ **regulatory requirements specifying minimum amounts and types of capital that must be maintained** . ~~S. federal~~ **From time to time,** banking **regulators** ~~authorities approved the implementation~~ ----- **implement** ~~of~~ **changes to** ~~the~~ **these** ~~Basel III~~ regulatory capital ~~reforms, and issued rules effecting certain changes required by the Dodd- Frank Act. Basel III is applicable to all U. S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than " small bank holding companies " (generally bank holding companies with consolidated assets of less than $ 3 billion). Basel III not only increases most of the required minimum regulatory capital ratios but also introduces a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a " well- capitalized " depository institution under the new regime, an institution must maintain a common equity Tier 1 capital ratio of 6. 5 % or more; a Tier 1 capital ratio of 8 % or more; a total capital ratio of 10 % or more; and a Tier 1 leverage ratio of 5 % or more. The Basel III capital rules became effective as applied to us and the Bank on January 1, 2015 with the finalized phase- in for many of the changes taking effect from January 2022 over a five- year phase- in period. On November 4, 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital~~ adequacy ~~, the CBLR framework, for qualifying community banking organizations. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9 %, less than $ 10 billion in total consolidated assets, off- balance- sheet exposures of 25 % or less of total consolidated assets,~~ and **liquidity guidelines** ~~trading assets and liabilities of 5 % or less of total consolidated assets. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well- capitalized ratio requirements under the PCA regulations and will not be required to report or calculate risk- based capital. A CBLR bank that ceases to meet any of the qualifying criteria in a future period but maintains a leverage ratio greater than 8 % will be allowed a grace period of two reporting periods to satisfy the CBLR qualifying criteria or to otherwise comply with the generally applicable capital requirements. Further, a CBLR may opt out of the framework at any time, without restriction, by reverting to the generally applicable capital requirements. Presently, the Bank does not intend to opt into the CBLR framework~~ .

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 customer 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 conditions, generally. We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, would be adversely affected. We face significant capital and other regulatory requirements as a financial institution. We will likely need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and significantly on our financial condition and performance. Accordingly, we may not be able to raise additional capital if needed or, if we can raise capital, we may not be able to do so on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements or if we fail to raise capital for operations when needed or opportune, our financial condition, liquidity and results of operations would be materially and adversely affected. **The** Company ~~Relies~~ **relies** on ~~Dividends~~ **dividends** from the Bank to ~~Pay~~ **pay** ~~Cash~~ **cash** ~~Dividends~~ **dividends** ~~to Shareholders~~ **, repurchase shares and fund its operating expenses. The** Company is a separate legal entity from its subsidiary, the Bank. **The** Company receives substantially all of its revenue from the Bank in the form of dividends, which is **the Company’ s principal source of funds to pay cash dividends to the** Company' s ~~principal source of funds to pay cash dividends to Company' s common~~ shareholders **, repurchase shares** and cover operational expenses of the holding company. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to Company. In the event that the Bank is unable to pay dividends to Company, Company may not be able to pay dividends to its shareholders and pay interest on the subordinated debentures. As a result, it could have an adverse effect on Company' s stock price and investment value. Under federal law, **the Bank’ s payment of** capital distributions ~~from~~ **to the Company may be limited or prohibited if, for example,** the Bank **does not maintain adequate levels of capital based on regulatory guidelines or by actions taken by** ~~would become prohibited, with limited exceptions, if the Bank were categorized as" undercapitalized" under applicable FRB or~~ **our** ~~FDIC regulations~~ - **regulators** . In addition, as a California bank, the Bank is subject to state law restrictions on the payment of dividends. Legislative and Regulatory Risks We are subject to extensive government regulation that could limit or restrict our activities, which in turn may adversely impact our ability to increase our assets and earnings. We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Federal Reserve, the CDFPI and the FDIC. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels, and other aspects of our operations. These bank regulators possess broad authority to prevent or remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business, profitability or growth strategy. Increased regulation could increase our cost of compliance and adversely affect profitability. The Federal Reserve, the FDIC and the CDFPI periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, they may take a number of different remedial actions as they deem appropriate. Moreover, certain of these regulations contain significant punitive sanctions for violations, including monetary penalties and limitations on a bank’ s ability to implement components of its business plan, such as expansion through mergers and acquisitions or the opening of new branch offices. In addition, changes in regulatory requirements may add costs associated with compliance efforts. Furthermore, government policy and regulation, particularly as implemented through the Federal Reserve, significantly affect credit conditions. Negative developments in the financial industry and the impact of new legislation and regulation in response to those developments could negatively impact our business operations and adversely impact our financial performance. We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions. The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U. S. Department of Justice, federal banking agencies and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution’ s compliance with fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also challenge an institution’ s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects. In addition, federal, state and local laws have been adopted that are intended to eliminate certain lending practices considered “ predatory. ” These laws prohibit practices such as steering borrowers away from more affordable products, selling unnecessary insurance to borrowers, repeatedly refinancing loans and making loans without a reasonable expectation that the borrowers will be able to repay the loans irrespective of the value of the underlying property. It is our policy not to make predatory loans, but these laws create the potential for liability with respect to our lending and loan investment activities. They increase our cost of doing business and, ultimately, may prevent us from making certain loans and cause us to reduce the average percentage rate or the points and fees on loans that we do make. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U. S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Importantly, the Federal Reserve recently and aggressively raised its benchmark federal funds rate in an attempt to combat inflation. This has had a direct effect on financial institutions like us. Further increases by the Federal Reserve could impact, among other elements of our business and operations, our net interest margin as deposit costs generally increase alongside general market interest rate increases following Federal Reserve actions, loan demand may suffer as the cost of credit to borrowers increases, and any economic downturn that results from increased interest rates caused by the Federal Reserve' s actions could impact our borrowers' ability to repay their loans. The effects of such policies upon our business, financial condition and results of operations cannot be predicted precisely, but the effects on our financial condition and results of operations could be severely and negatively impacted. ~~The Federal Reserve may require us to commit capital resources to support the Bank. As a matter of policy, the Federal Reserve expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd- Frank Act codified the Federal Reserve' s policy on serving as a source of financial strength. Under the " source of strength " doctrine, the Federal Reserve may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank 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 require the holding company to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank 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.~~