**Risk Factors Comparison 2023-09-05 to 2022-09-02 Form: 10-K**

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

We assume and manage a certain degree of risk in order to conduct our business. In addition to the risk factors described below, other risks and uncertainties not specifically mentioned, or that are currently known to, or deemed by, management to be immaterial also may materially and adversely affect our financial position, results of operation and / or cash flows. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this Form 10- K. If any of the circumstances described in the following risk factors actually occur to a significant degree, the value of our common stock could decline, and you could lose all or part of your investment. Risks Related to Macroeconomic Conditions ~~The COVID- 19 pandemic has adversely impacted our ability to conduct business and is expected to adversely impact our financial results and those of our customers. The ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic. The COVID- 19 pandemic continues to negatively impact economic and commercial activity and financial markets, both globally and within the United States. In our market areas, stay- at- home orders, travel restrictions and closure of non- essential businesses and similar orders imposed across the United States to restrict the spread of COVID- 19 in 2020 resulted in significant business and operational disruptions, including business closures, supply chain disruptions, and significant layoffs and furloughs. Although local jurisdictions have subsequently lifted stay- at- home orders and moved to the opening of businesses, worker shortages, vaccine and testing requirements, new variants of COVID- 19 and other health and safety recommendations have impacted the ability of businesses to return to pre- pandemic levels of activity and employment. While the overall economy has improved, disruptions to supply chains continue and significant inflation has been seen in the market. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10- K could be exacerbated, including the following risks of COVID- 19, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations of the Corporation: ● effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls; ● declines in demand for loans and other banking services and products, as well as a decline in the credit quality of our loan portfolio, owing to the effects of COVID- 19 in the markets served by us; ● if the economy is unable to remain open in an efficient manner, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; ● collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; ● our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect net income; ● the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments; ● higher operating costs, increased cybersecurity risks and potential loss of productivity as the result of an increase in the number of employees working remotely; ● increasing or protracted volatility in the price of the Company' s common stock, which may also impair our goodwill; and ● risks to the capital markets that may impact the performance of our investment securities portfolio, as well as limit our access to capital markets and other funding sources. Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID- 19' s effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, possible future virus variants, the effectiveness of any work- from- home arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.~~ Our business may be adversely affected by downturns in the national economy and the regional economies on which we depend. As of June 30, ~~2022~~ **2023**, approximately ~~69~~ **68** % of our real estate loans were secured by collateral and made to borrowers located in Southern California with the balance located predominantly throughout the rest of California. A return of recessionary conditions or adverse economic conditions in California may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our capital, liquidity, financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, **may** also ~~may~~ adversely affect our profitability. Weakness in the global economy and global supply chain issues have adversely affected many businesses operating in our markets that are dependent upon international trade ~~and it is not known how changes in tariffs being imposed on international trade may also affect these businesses~~. Changes in agreements or relationships between the United States and other countries may also affect these businesses. A deterioration in economic conditions in the market areas we serve as a result of **inflation, a recession, the effects of** COVID- 19 **variants** or other factors **,** could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations: ● ~~an increase in loan delinquencies, problem assets and foreclosures; ● we may increase our allowance for loan losses; ● the slowing of sales of foreclosed assets; ● a decline in demand for our products and services;~~ ● a decline in the value of collateral for loans may in turn reduce customers' borrowing power, and the value of assets and collateral associated with existing loans; ~~● the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and ● a decrease in the amount of our low cost or non interest- bearing deposits.~~ A decline in California economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower' s

ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as fires, droughts and earthquakes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected. **External economic factors, such as changes in monetary policy and inflation and deflation, may have an adverse effect on our business, financial condition and results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the FRB. Actions by monetary and fiscal authorities, including the FRB, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Inflation has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years. Inflationary pressures, while dissipating, have remain elevated throughout the first half of 2023. Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Corporation to increase, which could adversely affect our results of operations and financial condition. Virtually all of our assets and liabilities are monetary in nature. As a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. Interest rates do not necessarily move in the same direction or by the same magnitude as the prices of goods and services. The economic impact of the COVID- 19 pandemic could continue to affect our financial condition and results of operations. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the business of the Corporation, its clients, employees and third- party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Corporation and its clients which are difficult to quantify in the near- term or long- term. We could be subject to a number of risks as the result of the COVID- 19 pandemic, any of which could have a material, adverse effect on our business, financial condition, liquidity, results of operations, ability to execute our growth strategy, and ability to pay dividends. These risks include, but are not limited to, changes in demand for our products and services; increased loan losses or other impairments in our loan portfolios and increases in our allowance for loan losses; a decline in collateral for our loans, especially real estate; unanticipated unavailability of employees; increased cyber security risks as employees work remotely; a prolonged weakness in economic conditions resulting in a reduction of future projected earnings could necessitate a valuation allowance against our current outstanding deferred tax assets; a triggering event leading to impairment testing on our goodwill or core deposit and customer relationships intangibles, which could result in an impairment charge; and increased costs as the Corporation and our regulators, customers and vendors adapt to evolving pandemic conditions.** Risks Related to our Lending ActivitiesOur business may be adversely affected by credit risk associated with residential property. At June 30, ~~2022~~ **2023** , $ ~~378~~ **518** . ~~2~~ **8** million, or **48** ~~40. 3~~ % of our loans held for investment, were secured by single- family residential real property. This type of lending is generally sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Jumbo single- family loans which do not conform to secondary market mortgage requirements for our market areas are not immediately saleable in the secondary market and may expose us to increased risk because of their larger balances. **Higher market interest rates,** ~~Recessionary~~ **recessionary** conditions or declines in the volume of single- family real estate sales and / or the sales prices as well as ~~35elevated~~ -- **elevated** unemployment rates **,** may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity and damage our financial condition and business operations. A few of our **legacy** residential mortgage loans are secured by ~~liens on mortgage~~ properties in which the borrowers have little or no equity because either we originated a first mortgage with an 80 % loan- to- value ratio and a concurrent second mortgage for a combined loan- to- value ratio of up to 100 % or because of a decline in home values in our market areas. Residential loans ~~with~~ **37with** high loan- to- value ratios will be more sensitive to declining property values than those with lower combined loan- to- value ratios and therefore may experience a higher incidence of default and severity of losses. Our multi- family and commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. We originate multi- family ~~residential~~ and commercial real estate loans for individuals and businesses for various purposes, which are secured by residential and non- residential properties. At June 30, ~~2022~~ **2023** , we had $ ~~555~~ **551** . ~~1~~ **7** million or **51** ~~59. 2~~ % of total loans held for investment in multi- family and commercial real estate ~~mortgage~~ loans. These loans typically involve higher principal amounts than other types of loans and some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a single- family residential loan. Repayment on these loans ~~are~~ **typically is** dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower' s project is reduced as a result of leases not being obtained or renewed, the borrower' s ability to repay the loan may be impaired. Multi- family and commercial real estate loans also expose a lender to greater credit risk than loans secured by single- family residential real estate because the collateral securing these loans typically cannot be sold as easily as single- family residential real estate. In addition, many of our multi- family and commercial real estate loans are not fully amortizing and contain large balloon payments upon

maturity **, which would** . Such balloon payments may require the borrower to either sell or refinance the underlying property to make the **ballon** payment **at maturity** , **thus** which may increase **increasing** the risk of default or non- payment. A secondary market for many types of multi- family and commercial real estate loans is not readily liquid, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a multi- family or commercial real estate loan, our holding period for the collateral typically is longer than for a single- family residential mortgage loan because there are fewer potential purchasers of the collateral. Accordingly, charge- offs on multi- family and commercial real estate loans may be larger on a per loan basis than those incurred with **within** our **the** single- family residential loan portfolio. We occasionally purchase loans in bulk or " pools. " We may experience lower yields or losses on loan " pools " because the assumptions we use when purchasing loans in bulk may not prove correct. In order to achieve our loan growth objectives and / or improve earnings, we may purchase loans, either individually, through participations, or in bulk. The Corporation **We did not** purchased -- **purchase any loans in fiscal 2023, as compared to the purchase of** $ 6. 4 million of single- family loans and $ 16. 9 million of multi- family and single- family loans to be held for investment in fiscal 2022 and 2021, respectively . When we determine the purchase price we are willing to pay to purchase loans in bulk, management makes certain assumptions about, among other things, how fast borrowers will prepay their loans, the real estate market, our ability to collect loans successfully and, if necessary, our ability to dispose of any real estate that may be acquired through foreclosure. **In addition,** When **when** we purchase loans in bulk , we perform certain due diligence procedures and typically require customary limited indemnities. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change, the purchase price paid for " pools " of loans may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. For example, if we purchase pools of loans at a premium and some of the loans are prepaid before we expected **modeled,** we will earn less interest income on the purchase than expected. Our success in growing **our loan portfolio** through purchases of loan " pools " depends on our ability to price loan " pools " properly and on the general economic conditions within the geographic areas where the underlying properties of our loans are located. 36Acquiring -- **Acquiring** loans through bulk purchases may involve acquiring loans of a type or in geographic areas where management may not have substantial prior experience. We may be exposed to a greater risk of loss to the extent that bulk purchases contain such loans. Our **38Our** allowance for loan losses may **not** prove to be insufficient -- **sufficient** to absorb losses in our loan portfolio. Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: ● cash flow of the borrower and / or the project being financed; ● the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan; ● the duration of the loan; ● the character and creditworthiness of a particular borrower; and ● changes in economic and industry conditions. We maintain an allowance for loan losses, which is a reserve established through a provision (recovery) for loan losses charged (credited) to expense, which we believe is appropriate to provide for probable losses in our loan portfolio. The amount of this allowance is determined by management through periodic reviews and consideration of several factors, including, but not limited to: ● our collectively evaluated allowance, based on our historical default and loss experience and certain macroeconomic factors based on management' s expectations of future events; ● our individually evaluated allowance, based on our evaluation of non- performing loans and the underlying fair value of collateral or based on discounted cash flow for restructured loans; and ● an unallocated reserve to provide for other credit losses inherent in our loan portfolio that may not have been contemplated in the other loss factors. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, losses, and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses, which is charged against income. **In addition,** Deterioration **deterioration** in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the provision for loan losses and our allowance for loan losses. Further, included in our single- family residential loan portfolio, which comprised **48** 40. 3 % of our total loan portfolio at June 30, 2022 **2023** , were $ 20. 3 **6** million or **4** 2. 2 % of total loans held for investment that were non- traditional single- family loans, which include negative amortization and more than 30- year amortization loans, stated income loans and low FICO score loans, all of which have a higher risk of default and loss than conforming residential mortgage loans. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Furthermore **Bank regulatory agencies also periodically review our allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge- offs** , **based on judgments different than** the **those of management. If charge- offs in future periods exceed the allowance for loan losses, we may need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our** Financial **financial** Accounting Standards Board (" FASB ") has **condition and results of operations. Finally, beginning on July 1, 2023, the Bank is required to** adopted -- **adopt the CECL** a new accounting standard , ASC 326 Current Expected Credit Losses (" CECL "), that will be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, however, the FASB board in July 2019 extended the adoption date for certain SEC registrants, including the Corporation, to fiscal years, including interim periods within those fiscal years,

~~beginning after December 15, 2022. This standard will require financial institutions~~ to determine ~~periodic~~ estimates of lifetime expected credit losses on loans ~~,~~ and recognize the expected credit losses as allowances for credit losses at inception of the loan. ~~This~~ **The adoption of CECL** will change the ~~current method of calculating allowances~~ - **allowance** ~~for credit~~ **calculation methodology from a historical incurred** ~~losses~~ -- **loss** ~~that are probable~~ **model to an expected future loss model** , which ~~may~~ **will** require us to increase our ~~allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the~~ allowance for credit losses. **39If** ~~The federal banking regulators (the FRB, 37the OCC and the FDIC) have adopted regulations that apply to smaller reporting companies, such as the Corporation, beginning in 2023. In addition, a decline in national and local economic conditions, including as a result of the COVID- 19 pandemic, and results of the bank regulatory agencies periodic review of our allowance for loan losses or other factors may require an increase in the provision for possible loan losses or the recognition of further loan charge- offs. If charge- offs in future periods exceed the allowance for loan losses, we may need additional provisions to increase the allowance for loan losses to appropriate levels. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital. If~~ our non- performing assets increase, our earnings will be adversely affected. At June 30, **2023 and** 2022 ~~and 2021~~ , our non- performing assets were $ 1. **3 million and $ 1.** 4 million ~~and $ 8. 6 million~~ , or 0. **10 % and 0.** 12 ~~% and 0. 73~~ % of total assets, respectively. Our non- performing assets adversely affect our net income in various ways: ● we record interest income only on a cash basis for non- performing loans except for non- performing loans under the cost recovery method where interest is applied to the principal of the loan as a recovery of the charge- offs, if any, and we do not record interest income for REO; ● 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 **REO** properties ~~in our REO portfolio~~ to reflect changing market values or recognize other- than- temporary impairment (" OTTI ") on non- performing investment securities; ● there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to ~~our~~ REO; and ● the resolution of non- performing assets requires the active involvement of management, which can divert 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 significantly, which could have a material adverse effect on our financial condition and results of operations. If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced. We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken in as REO and at certain other times during the REO holding period. Our net book value (" NBV ") in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (" fair value "). A charge- off is recorded for any excess in the asset' s NBV over its fair value. If our valuation process is incorrect, the fair value of the investments in real estate may not be sufficient to recover our NBV in such assets, resulting in the need for additional charge- offs. Additional material charge- offs to our investments in real estate could have a material adverse effect on our financial condition and results of operations. In addition, bank regulators periodically review our REO and may require us to recognize further charge- offs. Any increase in our charge- offs, as required by the bank regulators, may have a material adverse effect on our financial condition and results of operations. Risks Related to Market and Interest Rate ChangesFluctuating interest rates can adversely affect our profitability. Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the FRB. ~~In~~ **Beginning in** March ~~2020~~ **2022** , in response to **high inflation** ~~the COVID- 19 pandemic~~ , the Federal Open Market Committee (" FOMC ") ~~of~~ **commenced increasing** the ~~FRB reduced the targeted~~ -- **target range for the federal funds rates by implementing multiple increases. As of June 30, 2023, the target range for the** federal funds rate ~~150~~ **was 5. 00 % to 5. 25 %. Subsequently, on July 26, 2023, the FOMC raised its targeted range an additional 25** basis points to a range of **5** ~~0. 00 % to 0~~ . 25 % ~~. The reduction in the targeted federal funds rate resulted in a decline in overall interest rates which has negatively impacted our net interest income. However, the FOMC has recently begun~~ to **5** ~~increase rates. In March 2022, in response to inflation, the FOMC commenced increasing the target range for the federal funds rate by implementing a 25 basis point 38increase. During the second quarter of 2022, the FOMC increased the target range for the federal funds rate by an additional 125 basis points to a range of 1~~ . 50 % **(** ~~to 1. 75 % and in July 2022, the FOMC enacted~~ a ~~second consecutive 75 basis point interest~~ **22- year high) as economic conditions remain relatively resilient and inflation remains elevated. More importantly, going forward, the Fed has left the door open for further** rate **hikes before calendar** ~~increase as it seeks to control inflation without creating a recession. The FOMC has indicated further increases are to be expected this~~ year **- end, although the pace remains unclear** . If the FOMC further increases the targeted federal funds rates, overall interest rates will likely rise, which will ~~positively~~ **negatively** impact our net interest income ~~but~~ **and** may negatively impact both the housing market by reducing refinancing activity and new home purchases and the U. S. economy ~~. In addition, deflationary pressures, while possibly lowering our operational costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of collateral securing loans which could negatively affect our financial performance~~ . We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. ~~Changes in monetary policy~~ **If we are unable to manage interest rate risk effectively** , ~~including changes~~ **our business, financial condition and results of operations could be materially affected. 40A sustained increase** in **market** interest rates ~~,~~ could ~~influence~~ **adversely affect our earnings. As is the case with many financial institutions, our emphasis on increasing core deposits, those deposits bearing** ~~not~~ - **no** ~~only the~~ **or a relatively low rate of** interest **with no stated maturity date, has resulted in our having a significant amount of these deposits, which have a shorter duration than our assets. At June 30, 2023,** we ~~receive~~ **had $ 166. 5 million in time deposits that mature within** ~~on~~ **one** ~~loans~~ **year, $ 103. 0 million in noninterest- bearing checking accounts** and ~~investments and the amount of~~ **$ 626. 6**

**million in** interest ~~we pay on~~ **- bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these** deposits ~~and borrowings, but these changes could also affect (i) our ability to originate and purchase loans, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits~~ in **a rising interest** ~~competition with other available investment alternatives; (iv) the ability of our borrowers to repay adjustable or variable~~ rate **environment** ~~loans; and (v) the average duration of our investment securities portfolio and other interest- earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected~~ . Earnings could also be adversely affected if the interest rates received on loans and other investments ~~decline more rapidly than the interest rates paid on deposits and other borrowings. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected. A sustained increase in market interest rates could adversely affect our earnings. As is the case with many financial institutions, our emphasis on increasing the development of core deposits, those deposits bearing no or a relatively low rate of interest with no stated maturity date, has resulted in our having a significant amount of these deposits bearing a relatively low rate of interest and having a shorter duration than our assets. At June 30, 2022, we had $ 78. 6 million in time deposits that mature within one year, $ 125. 1 million in non interest- bearing checking accounts and $ 709. 3 million in interest- bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments~~ fall more quickly than the interest rates paid on deposits and other borrowings. In addition, most of our mortgage loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment. Changes in interest rates also affect the value of our ~~interest- earning assets and, in particular, our~~ securities portfolio **available for sale** . Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders’ equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders’ equity. Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our consolidated balance sheet or projected operating results. For additional information concerning the effect of interest rates on our loan portfolio, see Item 7A, “ Quantitative and Qualitative Disclosures about Market Risk ” of this Form 10- K. ~~39Certain~~ -- **Certain** hedging strategies that we may use to manage investment in mortgage servicing ~~rights~~ **assets** , mortgage loans held for sale and interest rate lock commitments may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity. We may use derivative instruments to economically hedge mortgage servicing ~~rights~~ **assets** , mortgage loans held for sale and interest rate lock commitments to offset changes in fair value resulting from changing interest rate environments. Our hedging strategies are susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact earnings. We may incur losses on our securities portfolio as a result of changes in interest rates. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect ~~of~~ **to** the securities, defaults by, or other adverse events affecting, the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other- than- temporary impairments and realized and / or unrealized losses in future periods and declines in other comprehensive income, which could have a material effect on our business, financial condition and results of operations. The process for determining whether impairment of a security is other- than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in other- than- temporary impairments of these assets, and would lead to accounting charges that could have a material adverse effect on our net income and capital levels. For the year ended June 30, ~~2022~~ **2023** , we did not incur any other- than- temporary impairments on our securities portfolio. ~~Risks~~ **41Risks** Related to Regulatory, Legal and Compliance MattersNon- compliance with the USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury’ s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Several banking institutions have received large fines for non- compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value.

We have established processes and procedures intended to identify, measure, monitor, report, analyze, and control the types of risk to which we are subject to. These risks include, among others, liquidity, credit, market, interest rate, operational, legal and compliance, and reputational risk. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. We also maintain a compliance program to identify, measure, assess, and report on our adherence to applicable laws, policies, and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate risk under all circumstances, or that it will adequately mitigate any risk or loss to us. However, as with any risk management framework, there are inherent limitations to our risk management strategies as they may exist, or develop in the future, including risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could ~~40suffer~~ -- **suffer** unexpected losses and our business, financial condition, results of operations or growth prospects could be materially adversely affected. We may also be subject to potentially adverse regulatory consequences. **Climate change and related legislative and regulatory initiatives may materially affect our business and results of operations. The effects of climate change continue to create an alarming level of concern for the state of the global environment. As a result, the global business community has increased its political and social awareness surrounding the issue, and the United States has entered into international agreements in an attempt to reduce global temperatures, such as reentering the Paris Agreement. Further, the U. S. Congress, state legislatures and federal and state regulatory agencies continue to propose numerous initiatives to supplement the global effort to combat climate change. Similar and even more expansive initiatives are expected under the current administration, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate- related factors and encouraging investment by banks in climate- related initiatives and lending to communities disproportionately impacted by the effects of climate change. The lack of empirical data surrounding the credit and other financial risks posed by climate change render it difficult, or even impossible, to predict how specifically climate change may impact our financial condition and results of operations; however, the physical effects of climate change may also directly impact us. Specifically, unpredictable and more frequent weather disasters may adversely impact the real property, and / or the value of the real property, securing the loans in our portfolios. Additionally, if insurance obtained by our borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to our borrowers, the collateral securing our loans may be negatively impacted by climate change, natural disasters and related events, which could impact our financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on our customers and impact the communities in which we operate. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on our financial condition and results of operations.** ~~Our~~ **42Our** litigation related costs may increase. **We are** ~~The Bank is~~ subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank' s business. **Our** ~~The Bank' s~~ involvement in litigation may increase significantly. The expenses of some legal proceedings will adversely affect the **our** ~~Bank' s~~ results of operations until they are resolved. Further, there can be no assurance that the **our** ~~Bank' s~~ loan ~~workout~~ **workouts** and other activities will not expose **us** ~~the Bank~~ to additional legal actions, including lender liability or environmental claims. Risks Related to Cybersecurity, Data and FraudWe are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a cyber attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber- attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage. Further, our cardholders use their debit and credit cards to make purchases from third parties or through third party processing services. As such, we are subject to risk from data breaches of such third party' s information systems or their payment processors. Such a data security breach could compromise our account information. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment- related data is compromised due to a breach or misuse of data, we may be liable for losses associated with reimbursing our customers for such fraudulent transactions on customers' card accounts, as well as costs incurred by payment card issuing banks and other third parties or may be subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. We may also incur other costs related to data security breaches, such as replacing cards associated with compromised card accounts or credit monitoring services. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs. Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or our customers' or counterparties'

confidential information, including employees. The Corporation is continuously working to install new and upgrade its existing information technology systems and provide employee awareness training around ransomware, phishing, malware, and other cyber risks to further protect the Corporation against cyber risks and security breaches. There continues to be a rise in electronic fraudulent activity, security breaches and cyber- attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for companies, including ours. We are not aware that we have experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of ~~41a~~ **a** cyber- security breach or other act, however, some of our customers may have been affected by these breaches, which ~~could~~ **43could** increase their risks of identity theft, debit and card fraud and other fraudulent activity that could involve their accounts with us. Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber- attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and / or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations. Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. While the Corporation selects third- party vendors carefully, it does not control their actions. If our third- party providers encounter difficulties including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber- attacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third- party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot ~~assure~~ **ensure** that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses as a result of third party failures and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third- party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations. ~~The board of directors oversees the risk management process, including the risk of cybersecurity, and engages with management on cybersecurity issues.~~ Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes. **We** ~~As a bank, we~~ are susceptible to fraudulent activity that may be committed against us or our customers, which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer' s information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur. ~~42Risks~~ **44Risks** Related to ~~our~~ **Our** Business and Industry GenerallyWe **are** ~~will be~~ required to transition from the use of the LIBOR interest rate index ~~in the future~~ **starting July 1, 2023** . ~~A majority~~ **The LIBOR index was discontinued on June 30, 2023. Many** of ~~our~~ **the** loans **in the Bank' s existing loan portfolio** are ~~indexed~~ **tied** to **the** LIBOR **index and are required** to ~~calculate the loan~~ **be transitioned to another** interest rate **indices by June 30, 2023** . The ~~continued~~ **Bank formed a committee in 2020 to study the options** ~~availability~~ - **available** ~~of~~ **and evaluate** the **risks associated with the transition. The purpose of the committee is to recommend replacement indices that will have a limited impact to earnings, reduce the exposure to legal and accounting risks, and meet regulatory guidelines. As of June 30, 2023, the Bank had $ 132. 0 million of single- family and $ 337. 4 million of multi- family and commercial real estate adjustable** LIBOR **indexed loans. The FRB issued a new regulation, Regulation ZZ, which specifically addresses " tough legacy contracts, " which are LIBOR contracts that will not mature by June 30, 2023, cannot be easily amended, and lack adequate fallback provisions for determining a replacement benchmark. Loans**

**covered by and that transition to a replacement** index **under Regulation ZZ are afforded the safe harbors and protections provided under Regulation ZZ, such as (among others) that the Bank** is not ~~guaranteed after 2022~~ **to be subject to any claim or cause of action in law or equity or request for equitable relief, or have liability for damages, arising out of the selection of the Board- selected benchmark replacement as a replacement index for LIBOR. The Committee has tested the Bank' s operating, documentation,** and **accounting systems and believes they will be able to handle the transition before sunset of the indexes. The effect on revenue should be approximately neutral. The legal and compliance risks are minimized** by ~~June 2023~~ **following Regulation ZZ and the regulatory guidance issued by the FRB** , **the Alternative Reference Rates Committee (a group of private- market participants convened by the FRB and the New York Fed to help ensure a successful transition from U. S. dollar** LIBOR ~~is scheduled to be eliminated entirely. We cannot predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on SOFR~~ ) ~~. Uncertainty as to the nature of alternative reference rates~~ and ~~as to potential changes or other~~ -- **the CFPB** ~~reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR- based loans, and to a lesser extent securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings~~ . **Notwithstanding** ~~The language in our LIBOR- based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to~~ the **foregoing** ~~designated rate would be selected. If a trigger is satisfied~~ , ~~contracts and financial instruments may give~~ the ~~calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The~~ implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our ~~borrowers~~ **existing borrowings** may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with ~~customers~~ **clients and creditors** over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations ~~. We began to use SOFR and other indices as a substitute for LIBOR for new originations in fiscal 2022. As of June 30, 2022, there were $ 547. 2 million of loans in our portfolio tied to LIBOR~~ . Ineffective liquidity management could adversely affect our financial results and condition. Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the California markets in which our loans are concentrated, negative operating results, or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations. See " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources " of this Form 10- K. We rely on other companies to provide key components of our business infrastructure. We rely on numerous external vendors to provide us with products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor' s organizational structure, financial condition, support for existing products and services, strategic focus or for any other reason, could be disruptive ~~to~~ **45to** our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by a third party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors' performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and customers, or cyber- attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in ~~43customer~~ -- **customer** attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and / or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition. Managing reputational risk is important to attracting and maintaining customers, investors and employees. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial condition and performance. Accordingly, we cannot make

assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may result in the dilution of the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action. The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete. The financial services market is undergoing rapid changes with frequent introductions of new technology- driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected. Earthquakes, fires, mudslides and other natural disasters in our primary market area may result in material losses because of damage to collateral properties and borrowers' inability to repay loans. Since our geographic concentration is in California, we are subject to earthquakes, fires, mudslides, droughts and other natural disasters. A major earthquake or other natural disaster may disrupt our business operations for an indefinite period of time and could result in material losses, although we have not experienced any losses in many years as a result of earthquake damage or other natural disaster. Although we are in an earthquake prone area, we and other lenders in the market area may not require earthquake insurance as a condition of making a loan. In addition to possibly sustaining damage to our own properties, if there is a major earthquake, fire, mudslide, or other natural disaster, we face the risk that ~~many~~ **46many** of our borrowers may experience uninsured property losses, or sustained job interruption and / or loss which may materially impair their ability to meet the terms of their loan obligations. ~~44Any~~ -- **Any** breach of representations and warranties made by us to our loan purchasers or credit default on our loan sales may require us to repurchase or substitute such loans we have sold. We have previously engaged in bulk loan sales pursuant to agreements that generally require us to repurchase or substitute loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early payment default on such mortgage loans, may require us to repurchase or substitute loans. Any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. During fiscal **2023 and** 2022 ~~and 2021~~ , the Bank did not repurchase any loans. Additionally, the Bank did not have any claims or settlements for previously sold loans during fiscal **2023 and** 2022 ~~, as compared to fiscal 2021 when the Bank settled a repurchase claim for previously sold loans for $ 175, 000~~ . Our assets as of June 30, ~~2022~~ **2023** include a deferred tax asset, the full value of which we may not be able to realize. We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At June 30, ~~2022~~ **2023** , the net deferred tax asset was approximately $ **218, 000** ~~1. 4 million~~ , a decrease from $ ~~2~~ **1** . ~~5~~ **4** million at the prior fiscal year end. The net deferred tax asset results primarily from (1) deferred loan costs, (2) provisions for loan losses recorded for financial reporting purposes, which were in the past significantly larger than net loan charge- offs deducted for tax reporting proposes and (3) deferred compensation, among others. We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, ~~2022~~ **2023** is fully realizable based on our expected future earnings; however, expected future earnings may not be realized, which could impact our deferred tax assets. ~~Climate change~~ **Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices** may ~~materially adversely affect~~ **impose additional costs on us** ~~our~~ - **or** ~~business and results of operations~~ **expose us to new or additional risks** . ~~Concerns over~~ **Companies are facing increasing scrutiny from customers, regulators, investors, and** ~~the~~ **other stakeholders related** ~~long- term impacts of climate change have led and will continue~~ to ~~lead to governmental efforts around the~~ **their environmental, social** ~~world to mitigate those impacts. Consumers~~ and ~~businesses~~ **governance (“ ESG ”) practices and disclosure. Investor advocacy groups, investment funds and influential investors are** also **increasingly focused** ~~may change their behavior~~ on ~~their own~~ **these practices, especially** as ~~a~~ **they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG related compliance costs could** result **in** ~~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 **to** ~~, asset value reductions and operating process changes. The impact on our customers will likely vary depending on their specific attributes, including reliance on or~~ **our overall operational costs** ~~role in carbon intensive activities~~ . **Failure to adapt to** ~~For~~ - **or** ~~example, residential or commercial construction projects may be impacted as builders may incur additional expenses to~~ comply with ~~possible~~ **regulatory requirements or investor or stakeholder expectations and** standards ~~of increasing green space or reducing emissions. Possible requirements may lengthen the required time to complete construction projects. If requirements are not satisfied, conversion of the loan from the construction phase to the permanent phase may be significantly delayed. Among the impacts to us~~ could ~~be a drop in demand for our products and services, particularly in certain industry sectors as well as possibly having a negative~~ **negatively** impact ~~on our cash flow. In addition, we could face reductions in creditworthiness on the part of some customers or~~ **our reputation** ~~in the value of assets securing loans. Our efforts to take these risks into account in~~

~~making lending and other decisions~~ , **ability to do** ~~including by increasing our~~ business with **certain partners** ~~climate- friendly companies~~ , ~~may not be effective~~ **and our stock price. New government regulations could also result** in ~~protecting us from the negative impact of~~ new ~~laws and regulations~~ or ~~changes in consumer or business behavior~~ **more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure** . We rely on dividends from the Bank for substantially all of our revenue at the holding company level. We are an entity separate and distinct from our principal subsidiary, the Bank, and derive substantially all of our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will continue to be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on our common stock. The Bank' s ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock. Also, our right to participate in a distribution of assets upon a subsidiary' s liquidation or reorganization is subject to the prior claims of the subsidiary' s creditors.