Risk Factors Comparison 2023-06-14 to 2022-06-15 Form: 10-K

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

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment. The risks below also include forward- looking statements. This report is qualified in its entirety by these risk factors. Risks Related to Macroeconomic Conditions ~~The COVID- 19 pandemic has adversely affected our ability to conduct business and is expected to adversely impact our future 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 COVID- 19 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 Company: ● 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 and the regional economies on which we depend. Substantially all of our loans are to businesses and individuals in the states of Washington and Oregon. A decline in the economies of the seven counties in which we operate, including the Portland, Oregon metropolitan area, which we consider to be our primary market area, could have a ~~material~~ **materially** adverse effect on our business, financial condition, results of operations and prospects. Weakness in the global economy ~~has~~ **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~~ **Changes** in ~~tariffs being imposed on international trade~~ **agreements or relationships between the U. S. and other countries** may also affect these businesses. **A** ~~Changes in agreements or relationships between the U. S. and other countries may also affect these businesses. Deterioration~~ **deterioration** in economic conditions in the market areas we serve ~~as a result of COVID- 19 or other factors~~ could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition **, liquidity** and results of operations: ● loan delinquencies, problem assets and foreclosures may increase; ● we may increase our allowance for loan losses; ● ~~the slowing of sales of foreclosed assets; ●~~ demand for our products and services may decline possibly resulting in a decrease in our total loans or assets; ● collateral for loans ~~made~~ **, especially real estate,** may decline ~~further~~ in value, **thereby** ~~exposing us to increased risk loans,~~ reducing customers' **future** borrowing power, and reducing 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 ● the amount of our low- cost or non- interest bearing deposits may decrease **. Many of the loans in our portfolio are secured by real estate** . A decline in local 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 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 earthquakes and tornadoes. 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. **Inflationary pressures** ~~Adverse changes in the regional~~ and **rising prices may** ~~general economy could reduce our growth rate, impair our ability to collect loans and generally have a negative effect~~ **affect** ~~on~~ our **results of operations and** financial condition **. Inflation has risen sharply since the end of 2021 to levels not seen in more than 40 years. Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate,** and **in some cases this deterioration may occur quickly, which would adversely impact our** results of operations **and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition** . Risks Related to our Lending ~~ActivitiesOur~~ --- **Activities Our** real estate construction **loans are based upon estimates of costs** and **the value of the completed project, and as with** land ~~acquisition and development~~ loans ~~expose us~~ **may be more difficult** to ~~risk~~ **liquidate, if necessary** . We make construction and land ~~acquisition and development~~ loans primarily to builders to finance the construction of single and multifamily homes, subdivisions, as well as commercial properties ~~. We~~ **, a portion of which are** ~~originate~~ **originated** ~~these loans~~ whether or not the collateral property underlying the loan is under contract for sale. At March 31, ~~2022~~ **2023** , **real estate** construction **and land** loans totaled $ ~~24~~ **54** . 2 million, or ~~2~~ **5** . ~~4~~ **37** % of our total loan portfolio, **and was comprised** of ~~which~~ $ ~~11~~ **18. 2 million of speculative and presold construction loans, $ 6** . 4 million **of land loans and** ~~were for residential real estate projects. Undisbursed funds for construction projects totaled~~ $ **29** ~~39. 0 million at March 31, 2022. Land acquisition and development loans, which are loans made with land as security, totaled $ 11~~ . 6 million ~~, or 1. 17 %~~ of ~~our total~~ **commercial / multi- family construction** ~~loan~~ **loans** ~~portfolio at March 31, 2022~~ . In general, construction and land lending ~~involves~~ - **involve** additional risks **when compared with other lending** because of the inherent difficulty in estimating a property' s value both before and at completion of the project, as well as the estimated cost of the project and the time needed to sell the property at completion. Construction costs may exceed original estimates as a result of increased materials, labor or other costs. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan- to- value ratio. Changes in the demand, such as for new housing and higher than anticipated building costs may cause actual results to vary significantly from those estimated. For these reasons, this type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. A downturn in housing, or the real estate market, could increase loan delinquencies, defaults and foreclosures, and significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. Some of our builders have more than one loan outstanding with us and also have residential mortgage loans for rental properties 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. ~~31In addition~~ **Construction loans often involve the disbursement of funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take- out financing, rather than the ability of the borrower or guarantor to repay principal and interest. Moreover** , during the term of most of our construction loans, no payment from the borrower is required since the accumulated interest is added to the principal of the loan through an interest reserve. ~~As a result, construction loans often involve the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest.~~ If ~~the~~ **our** appraisal of the value of ~~the~~ **a** completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Because construction loans require active monitoring of the building process, including cost comparisons and on- site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest **also** may have a more pronounced effect on construction loans by rapidly increasing the end- purchasers' borrowing costs, thereby reducing the overall demand for the project. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which also complicates the process of working out problem construction loans. This may require us to advance additional funds and / or contract with another builder to complete construction. ~~Further~~ **Furthermore** , in the case of speculative construction loans, there is the added risk associated with identifying an end- purchaser for the finished project ~~, and thus pose a greater potential risk than construction loans to individuals on their personal residences~~ . Loans on land under development or raw land held for future construction, including lot loans made to individuals for the future construction of a residence also pose additional risk because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can ~~also~~ be significantly impacted by supply and demand conditions. ~~At March 31~~ **As a result** , ~~2022~~ **this type of lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to develop** , **sell or lease the property, rather than the ability of the borrower or guarantor to independently repay principal and interest. There were no non- performing** real estate construction and land ~~acquisition and development~~ loans ~~totaled $ 35~~ **at March 31, 2023** . **A material increase in non- performing real estate** ~~7 million comprised mainly of $ 11. 4 million of speculative and presold~~ construction **and land** loans ~~, $ 11. 6 million of~~ **could have a material adverse effect on our financial condition** ~~land~~ - **and results** ~~acquisition and development loans and $ 12. 7 million~~ of **operation.** ~~commercial~~ **Commercial** ~~/~~ **and** multi- family ~~construction loans. Our emphasis on commercial~~ real estate lending ~~may~~ **involves higher risks than real estate one- to- four family and other consumer lending, which** ~~expose~~ **exposes** us to increased lending risks. **While** ~~Our current business strategy~~

~~is focused on the expansion of~~ commercial **and multi- family** real estate lending **is typically** ~~. This type of lending activity, while potentially~~ more profitable than ~~single~~ **real estate one** - **to- four** family ~~residential~~ lending, **it** is generally more sensitive to regional and local economic conditions, making loss levels more difficult to predict. Collateral evaluation and financial statement analysis in these types of loans requires a more detailed analysis at the time of loan underwriting and on an ongoing basis. ~~Many~~ **At March 31, 2023, we had $ 620. 3 million of commercial and multi- family real estate loans, representing 61. 49 % of our total loan portfolio. Commercial and multi- family real estate 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 ~~. At March 31, 2022, we had $ 643. 0 million of commercial and multi- family real estate mortgage loans, representing 64. 9 % of our total loan portfolio. 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 one- to- four family residential loan. Repayment on these loans 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~~ **33adversely** 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. Commercial and multi- family mortgage loans also expose a lender to greater credit risk than loans secured by one- to- four family residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial and multi- family real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non- payment. A secondary market for most types of commercial real estate and multi- family 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 commercial or multi- family real estate loan, our holding period for the collateral typically is longer than for one- to- four family residential mortgage loans because there are fewer potential purchasers of the collateral. Accordingly, charge- offs on commercial and multi- family real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. 32The level of our commercial real estate...... through market analysis and stress testing. Our business may be adversely affected by credit risk associated with residential property **and declining property values** . At March 31, ~~2022~~ **2023** , $ ~~82~~ **99** . ~~0~~ **7** million, or ~~8~~ **9** . ~~3~~ **88** % of our total loan portfolio, ~~was secured by~~ **consisted of real estate** one- to- four family ~~mortgage~~ loans and home equity loans **. Our first- lien real estate one- to- four family loans are primarily made based on the repayment ability of the borrower and the collateral securing these loans. Home equity lines of credit generally entail greater risk than do real estate one- to- four family loans where we are in the first- lien position. For those home equity lines secured by a second mortgage, it is less likely that we will be successful in recovering all of our loan proceeds in the event of default. Our foreclosure on these loans requires that the value of the property be sufficient to cover the repayment of the first mortgage loan, as well as the costs associated with foreclosure** . This type of lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A ~~decline in residential real estate values resulting from a~~ downturn in the ~~Washington and Oregon~~ **economy or the** housing ~~markets~~ - **market** in ~~which we operate~~ **our market areas or a rapid increase in interest rates** may reduce the value of the real estate collateral securing these types of loans and increase ~~our~~ **the** risk ~~of~~ **that we would incur** ~~loss~~ **losses** if borrowers default on their loans ~~. Recessionary conditions or declines in the volume of real estate sales and / or the sales prices coupled with 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. Many of our one- to- four family loans and home equity lines of credit are secured by liens on mortgage properties~~ . Residential loans with high combined loan- to- value ratios **generally** 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. In addition, if the borrowers sell their homes, ~~they~~ - **the borrowers** may be unable to repay their loans in full from the sale **proceeds** . ~~Further~~ **As a result** , ~~the~~ **these** ~~majority of our home equity lines of credit consist of second mortgage~~ loans **may experience higher rates of delinquencies** ~~. For those home equity lines secured by a second mortgage~~ , ~~it is unlikely that we~~ **defaults and losses, which** will ~~be successful~~ in ~~recovering all~~ **turn adversely affect** ~~or~~ **our financial condition** ~~a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan~~ and **results** ~~such repayment and the costs associated with a foreclosure are justified by the value~~ of **operations** ~~the property~~ . Repayment of our commercial business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. At March 31, ~~2022~~ **2023** , ~~we had $ 225. 0 million, or 22. 7 % of total loans, in~~ commercial business loans ~~other than SBA PPP~~ **totaled $ 232. 9 million, or 23. 08 % of total** loans. Our commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The borrowers' cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. This collateral may consist of equipment, inventory, accounts receivable, or other business assets. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the specific type of business and equipment. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself which, in turn, is often dependent in part upon general economic conditions and secondarily on the underlying collateral provided by the borrower. ~~33Our~~ - **Our** allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio **. Future additions to our allowance for loan losses, as well as charge- offs in excess of reserves, will reduce our earnings** . 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: ● the cash flow of the borrower and / or the project being financed; ● in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral; ● the duration of the loan; **34** ● the credit history 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 for loan losses charged 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 general reserve, based on our historical default and loss experience and certain macroeconomic factors based on management' s expectations of future events; ● our specific reserve, based on our evaluation of impaired loans and their underlying collateral or discounted cash flow; 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 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 increases in our allowance for loan losses through the provision for losses on loans which is charged against income. 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 also require an increase in the allowance for loan losses. Additionally, pursuant to our growth strategy, management 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. Further, **bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge- offs based on their judgment about information available to them at the time of their examination. In addition,** the FASB has adopted **an** ~~a new~~ accounting standard ~~that will be effective for our first fiscal year beginning after December 15, 2022. This standard,~~ referred to as ~~“~~ Current Expected Credit Loss ~~”~~, or ~~“~~ CECL ~~”~~, ~~will~~ **which** ~~require~~ **requires** 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 will change the current method of providing allowances for credit losses ~~that~~ **only when they have been incurred and** are probable ~~. We anticipate that~~ **, which is expected to require us to adjust** our allowance for loan losses **and greatly increase the types of data we need to collect and review to determine the appropriate level of the allowance for credit losses. This accounting pronouncement is applicable to us effective April 1, 2023. As of the adoption and day one measurement date of April 1, 2023, the Company expects to record a one- time cumulative- effect adjustment to retained earnings, net of income taxes, on the consolidated balance sheet. Also, as required by CECL, the Company reviewed the held- to- maturity debt securities portfolio and determined the expected losses were immaterial. The magnitude of the change in the Company' s allowance for credit losses at the adoption date** will ~~increase~~ **depend upon the nature and characteristics of the portfolio at the adoption date,** as ~~a result of~~ **well as macroeconomic conditions and forecasts at that time,** ~~the~~ **other management judgements** ~~implementation of CECL~~ , ~~however, until our~~ **and continued refinement and** ~~evaluation~~ - **validation** ~~is complete, the magnitude~~ of the **model and methodologies** ~~increase will be unknown~~ . **See also** ~~For more information~~ , ~~see~~ Note 1 of the Notes to Consolidated Financial Statements- Recently Issued Accounting Pronouncements contained in Item 8 of this report. **The federal banking regulators** ~~In addition, a decline in national and local economic conditions~~ , including ~~as~~ **the Federal Reserve and the FDIC, have adopted** a ~~result of~~ **rule that gives a banking organization the option to phase in over a** ~~the~~ **three** ~~COVID~~ - **year period** ~~19 pandemic, results of~~ the ~~bank~~ **day- one adverse effects of CECL on its** regulatory **capital** ~~agencies' periodic review of our allowance for loan losses or other factors may require an increase in the provision for 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 replenish the allowance for loan losses~~ . Any increases in the ~~allowance~~ **provision** 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 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 and the property is taken in as REO and at certain other times during the assets' holding periods. 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, or if property values decline, the fair value of the investments in real estate may not be sufficient to recover our carrying value in such assets, resulting in the need for additional write- downs. Significant write- downs to our investments in real estate could~~ have a material adverse effect on our financial condition, **results of operations,** liquidity and **capital** ~~results of operations. 34In addition, bank regulators periodically review our REO and may require us to recognize further write- downs. Any increase in our write- downs, as required by the bank regulators, may have a material adverse effect on our financial condition, liquidity and results of operations~~ . Risks Related to Market and Interest Rate ChangesChanges in interest rates may reduce our net interest income and may result in higher defaults in a rising rate environment. Our earnings and cash flows are largely dependent upon our net interest income, which is the difference, or spread, between the interest earned on loans, securities and other interest- earning assets and the interest paid on deposits, borrowings, and other interest- bearing liabilities. 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 Federal Reserve. ~~In~~ **Since** March ~~2020~~ **2022** , in response to **inflation** ~~the COVID- 19 pandemic~~ , the Federal Open Market Committee (" FOMC ") of the Federal Reserve ~~reduced the targeted federal funds rate 150 basis points to a range of 0. 00 % to 0. 25 %. The reduction in the targeted federal funds rate~~ has ~~resulted in a decline in overall interest rates which negatively impacted our net interest income. However, the FOMC has recently begun to increase~~ **increased** ~~rates. In March 2022, in response to inflation, the FOMC commenced increasing~~ the target range for the federal funds rate by ~~implementing~~ **475 basis points, including 50 basis points during the first quarter of 2023, to** a **range of 4. 75 % to 5. 00 % as of March 31, 2023. In May 2023, the FOMC increased the target range for the federal funds rate another** 25 basis ~~point~~ **35points** ~~increase~~ to a range of ~~0~~ **5. 00 % to 5** . 25 % ~~to 0. 50 %. In May 2022, the FOMC implemented a 50 basis point increase to a range of 0. 75 % to 1. 00 %. The FOMC has indicated further increases are to be expected this year~~ . If the FOMC further increases the targeted federal funds rates, overall interest rates will likely **continue to** rise, which will positively impact our net interest income but may negatively impact ~~both~~ the housing market by reducing refinancing ~~actively~~ **activity** ~~and~~ **,** new home purchases and the U. S. economy. In addition, **as previously discussed,** ~~deflationary~~ **inflationary** pressures **will increase** ~~, while possibly lowering~~ our operational costs ~~,~~ **and** 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, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but also can affect: (1) our ability to originate and / or sell loans; (2) 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; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; (4) the ability of our borrowers to repay adjustable or variable rate loans; and (5) 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 fall more quickly 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. Changes in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations or by reducing our margins and profitability. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates — up or down — could adversely affect our net interest margin and, as a result, our net interest income. Although the yields we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the " yield curve " — or the spread between short- term and long- term interest rates — could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short- term rates are lower than long- term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage- backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. A sustained increase in market interest rates could adversely affect our earnings. A significant portion of our loans have fixed interest rates and longer terms than our deposits and borrowings. As is the case with many financial institutions, our emphasis on ~~35increasing~~ -- **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 which have a shorter duration than our assets. At March 31, ~~2022~~ **2023** , we had $ ~~494~~ **404** . ~~8~~ **9** million in non- interest bearing demand deposits and $ ~~77~~ **84** . ~~2~~ **6** million in certificates of deposit that mature within one year. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Our net interest income could be adversely affected if the rates we pay on deposits and borrowings increase more rapidly than the rates we earn on loans. In addition, a substantial amount of our home equity lines of credit 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. 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. **At March 31, 2023, we recorded an $ 18. 3 million accumulated other comprehensive loss, which is reflected as a reduction to 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. See Item 7A., " Quantitative and Qualitative Disclosures About Market Risk, " of this Form 10- K. 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 to the ~~securities~~ **36securities** , 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 **fiscal** year ended March 31, ~~2022~~ **2023** , we did not incur any other- than- temporary impairments on our securities ~~portfolioRevenue~~ **portfolio. Revenue** from broker loan fees ~~are~~ **is** sensitive to changes in economic conditions, decreased economic activity, a slowdown in the housing market, higher interest rates or new legislation which may adversely impact our financial condition and results of operations. Our mortgage brokerage operations provide **additional** ~~a significant portion of our~~ non- interest income. The Company employs commissioned brokers who originate mortgage loans (including construction loans) for various mortgage companies. The loans brokered to mortgage companies are closed in the name of, and funded by, the purchasing mortgage company and are not originated as an asset of the Company. In return, the Company receives a fee ranging from 1. 5 % to 2. 0 % of the loan amount that it shares with the commissioned broker. The prevailing interest rate environment has a strong influence on the loan volume and amount of fees generated from our mortgage brokerage activity. In general, during periods of rising interest rates, the volume of loans and the amount of brokered loan fees included in non- interest income generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of brokered loan fees generally increase as a result of the increased mortgage loan demand. A general decline in economic conditions may adversely affect the fees generated by our asset management company. To the extent our asset management clients and their assets become adversely affected by weak economic and stock market conditions, they may choose to withdraw the amount of assets managed by us and the value of their assets may decline. Our asset management revenues are based on the value of the assets we manage. If our clients withdraw assets or the value of their assets decline, the revenues generated by the Trust Company will be adversely affected. ~~36Risks~~ -- **Risks** Related to Regulatory, Legal and Compliance ~~MattersWe~~ **MattersThe 32The level of our** commercial real estate loan portfolio may subject us to additional regulatory scrutiny.The FDIC,the Federal Reserve and the OCC have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending.Under this guidance,a financial institution that,like us,is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations.A financial institution may have a concentration in commercial real estate lending if,among other factors (i) total reported loans for construction,land development,and other land represent 100 % or more of total capital,or (ii) total reported loans secured by multi- family and non- farm residential properties,loans for construction,land development and other land,and loans otherwise sensitive to the general commercial real estate market,including loans to commercial real estate related entities,represent 300 % or more of total capital.Based on these criteria,the Bank **has** ~~determined that it did not have~~ a concentration in commercial real estate lending as total loans for multifamily,non- farm / non- residential,construction,land development and other land represented ~~285~~ **310** % of total risk- based capital at March 31, ~~2023~~ **2022** .The particular focus of the guidance is on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or as an abundance of caution).The purpose of the guidance is to guide banks in developing risk management practices and capital levels commensurate with the level and nature of real estate concentrations.The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning,development of underwriting standards,risk assessment and monitoring through market analysis and stress testing **.** operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations. The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit a company’ s shareholders. These regulations may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution’ s allowance for loan losses. These bank regulators also have the ability to impose conditions in the approval of merger and acquisition transactions. The significant federal and state banking regulations that affect us are described under the heading “ Item 1. Business- Regulation ” in Item I of this Form 10- K. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation, change in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator’ s interpretation of a law or regulation, may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations. Additionally, actions by regulatory agencies or significant litigation against us may lead to penalties that materially affect us. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. These accounting changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes. Non- 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 Act and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Recently, 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. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a ~~material~~ **materially** adverse effect on our business, financial condition, results of operations and growth prospects. 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 shareholder 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. 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 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 the Company' s 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, 38the 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.** ~~37Risks~~ -- **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 clients for such fraudulent transactions on clients' 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. 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 clients' or counterparties' confidential information, including employees. The Company is continuously working to install new and upgrade its existing information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to further protect the Company 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~~ **39companies** , 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 a cyber- security breach or other act, however, some of our clients may have been affected by third-party breaches, which could increase their risks of identity theft, credit 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 clients 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 clients, our loss of business and / or clients, 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 ~~38exposure~~ -- **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 Company 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 our 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 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~~ **materially** 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. As a bank, we are susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses or increased costs to us or our clients, disclosure or misuse of our information or our client information, misappropriation of assets, privacy breaches against our clients, 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. ~~Risks~~ **40Risks** Related to Accounting ~~MattersWe~~ **MattersThe Company' s reported financial results depend on management' s selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future. The Company' s accounting policies and methods are fundamental to how the Company records and**

reports its financial condition and results of operations. The Company' s management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management' s judgment regarding the most appropriate manner to report the Company' s financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in the Company' s reporting materially different results than would have been reported under a different alternative. Certain accounting policies are critical to presenting the Company' s financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting estimates include, but are not limited to the allowance for loan losses, the valuation of investment securities, goodwill valuation and the calculation of income taxes, including tax provisions and realization of deferred tax assets; and the fair value of assets and liabilities. Because of the uncertainty of estimates involved in these matters, the Company may be required, among other things, to significantly increase the allowance for loan losses, sustain credit losses that are significantly higher than the reserve provided, and / or record a write- off of goodwill as a result of impairment. For more information, refer to " Management' s Discussion and Analysis of Financial Condition and Results of Operations- Critical Accounting Estimates " contained in this Form 10- K. We may experience future goodwill impairment, which could reduce our earnings. We performed our annual goodwill impairment test as of October 31, ~~2021~~ **2022** , and the test concluded that recorded goodwill was not impaired. Our assessment of the fair value of goodwill is based on an evaluation of current purchase transactions, discounted cash flows from forecasted earnings, our current market capitalization, and a valuation of our assets. Our evaluation of the fair value of goodwill involves a substantial amount of judgment. If our judgment was incorrect, or if events or circumstances change, and an impairment of goodwill was deemed to exist, we would be required to write down our goodwill resulting in a charge to earnings, which would adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations or regulatory capital. We performed a qualitative assessment of goodwill at March 31, ~~2022~~ **2023** and concluded that recorded goodwill was not impaired. Our test of goodwill for potential impairment is based on a qualitative assessment by management that takes into consideration macroeconomic conditions, industry and market conditions, cost or margin factors, financial performance and share price. ~~39Risks~~ -- **Risks** Related to our Business and Industry GeneralWe 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 or strategic focus or for any other reason, could be disruptive to 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 the 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 clients, or cyber- attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client 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. ~~We~~ **41We** will be required to transition from the use of ~~the London Interbank Offered Rate ("~~ LIBOR ~~")~~ in the future. We have junior subordinated debentures indexed to LIBOR to calculate the interest rate. ~~The continued availability of~~ **ICE Benchmark Administration,** the **authorized and regulated administrator of** LIBOR ~~index is not guaranteed after~~ **, ended publication of the one- week and two- month U. S. Dollar (" USD ") LIBOR tenors on December 31,** ~~2022~~ **2021** and ~~by~~ **the remaining USD LIBOR tenors will end publication in** June 2023 ~~, LIBOR is scheduled to be eliminated entirely~~ . **Financial services regulators** ~~We cannot predict whether~~ and **industry groups have collaborated** to **develop alternate reference rate indices** ~~what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR~~ or ~~whether any additional reforms~~ **reference rates. The transition** to ~~LIBOR may be enacted~~ **a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies** . 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 the Secured Overnight Financing Rate, or SOFR) ~~.~~ ~~Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR- based loans, and to a lesser extent securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings, including the rates we pay on our subordinated debentures and trust preferred securities~~ . 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 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 agreements may result in incurring significant expenses in effecting the transition, may result in reduced loan balances if the substitute index or indices is not accepted and may result in disputes or litigation with customers 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. 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, the sale of loans or investment securities, 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 Washington or Oregon 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 withdraw 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 " of this Form 10- K. ~~40Additionally~~ -- **Additionally** , collateralized public funds are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities to ensure repayment, which on the one hand tends to reduce our contingent liquidity risk by making these funds somewhat less credit sensitive, but on the other hand reduces standby liquidity by restricting the potential liquidity of the pledged collateral. Although these funds historically have been a relatively stable source of funds for us, availability depends on the individual municipality' s fiscal policies and cash flow needs. Our branching strategy may cause our expenses to increase faster than revenues. ~~We recently~~ **Since June 2020, we** opened three new branches in Clark County, Washington and may open additional branches in our market area in the future. The success of our branch expansion strategy is contingent upon numerous factors, such as our ability to secure managerial resources, hire and retain qualified personnel and implement effective marketing strategies. The opening of new branches may not increase the volume of our loans and deposits as quickly or to the degree that we hope and opening new branches will increase our operating expenses. On average, de novo branches do not become profitable until three to four years after opening. Further, the projected timeline and the estimated dollar amounts involved in opening de novo branches could differ significantly from actual results. We may not successfully manage the costs and implementation risks associated with our branching strategy. Accordingly, any new branch may negatively impact our earnings for some period of time until the branch reaches certain economies of scale. Finally, there is a risk that our new branches will not be successful even after they have been established. ~~Our~~ **42Our** 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 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 **. If we fail to meet the expectations of our stakeholders with respect to our environmental, social and governance (" ESG ") practices, including those relating to sustainability, it may have an adverse effect on our reputation and results of operation. Our reputation may also be negatively impacted by our diversity, equity and inclusion (" DEI ") efforts if they fall short of expectations. In addition, various private third- party organizations have developed ratings processes for evaluating companies on their approach to ESG and DEI matters. These ratings may be used by some investors to assist with their investment and voting decisions. Any unfavorable ratings may lead to reputational damage and negative sentiment among our investors and other stakeholders. Furthermore, increased ESG related compliance costs could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, and our stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure** . Competition with other financial institutions could adversely affect our profitability. Although we consider ourselves competitive in our market areas, we face intense competition in both making loans and attracting deposits. Price competition for loans and deposits might result in our earning less on our loans and paying more on our deposits, which reduces net interest income. Some of the institutions with which we compete have substantially greater resources than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability will depend upon our continued ability to compete successfully in our market areas. Our ability to retain and recruit key management personnel and bankers is critical to the success of our business strategy and any failure to do so could impair our customer relationships and adversely affect our business 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 where the Bank conducts its business. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our President and Chief Executive Officer, and certain other employees. Our ability to retain and grow our loans, deposits, and fee income depends upon the business generation capabilities, reputation, and relationship management skills of our lenders. If we were to lose the services of any of our bankers, including successful bankers employed by banks that we may acquire, to a new or existing competitor, or otherwise, we may not be able to retain valuable relationships and some of our customers could choose to use the services of a competitor instead of our services. In addition, our success has been and continues to be highly dependent upon the services of our directors, many of whom are at or nearing retirement age, and we may not be able to identify and attract suitable candidates to replace such directors. ~~41Managing~~ **43Managing** 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 or operational failures due to integration or conversion challenges as a result of acquisitions we undertake, 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. We rely on dividends from the Bank for substantially all of our revenue at the holding company level. ~~We are an~~ **Riverview is a separate legal** entity ~~separate and distinct~~ from **its** ~~our principal subsidiary~~ **subsidiaries** ~~,~~ **and does not have significant operations of its own. The long- term ability of Riverview to pay dividends to its stockholders and debt payments is based primarily upon the ability of** the Bank **to make capital distributions to Riverview** , and ~~derive substantially all~~ **also on the availability** of **cash** ~~our revenue~~ at the holding company level ~~in the form~~ **. The availability** of dividends from ~~that subsidiary~~ **the Bank is limited by the Bank' s earnings and capital, as well as various statutes and regulations** . ~~Accordingly~~ **In the event the Bank is unable to pay dividends to us** , we **may not** ~~are, and will~~ be **able** ~~, 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 **or make payments on our outstanding debt** . ~~The~~ **Consequently, the inability to receive dividends from the** Bank **could adversely affect** ~~' 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~~ **financial condition, results of operations, and future prospects** . 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. ~~42~~ **44**