Risk Factors Comparison 2023-12-11 to 2022-12-09 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 ~~strategy~~ . In addition to the risk factors described below, other risks and uncertainties not specifically mentioned, or that are currently known to, or deemed to be immaterial by management, also may materially and adversely affect our financial position, results of operations 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 and our other filings with the SEC. 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. This report is qualified in its entirety by these risk factors. Risks Related to Economic Conditions Our business may be adversely affected by downturns in the national economy and in the economies in our market areas. Substantially all ~~of~~ our loans are to businesses and individuals in the state of Washington. A return of recessionary conditions or adverse economic conditions in our local market areas of Grays Harbor, Pierce, Thurston, King, Kitsap and Lewis counties Washington, which we consider to be our primary market area, may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our business, financial condition, and results of operations. General economic conditions, including inflation, unemployment and money supply fluctuations, 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: • loan delinquencies, problem assets and foreclosures may increase; • we may increase our allowance for loan losses; • the sale of foreclosed assets may slow; • demand for our products and services may decline possibly resulting in a decrease in our total loans, total deposits, or assets; • collateral for loans made may decline in value, exposing us to increased risk loans, reducing customers' 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 and the composition of our deposits may be adversely affected. 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 loans 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, government rules or policies and natural disasters such as fires 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~~ **inflation** ~~can~~ **and deflation, may** have an adverse ~~impact~~ **effect** on our business **financial conditions** and ~~on~~ **results of operations. Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation,** ~~our~~ - **or** ~~customers~~ **other economic phenomena that could adversely affect our financial performance** . Inflation ~~risk is the risk that the value of assets or income from investments will be worth less in the future as~~ **has risen sharply since the end of 2021 and throughout 2022 at levels not seen for over 40 years.** ~~inflation~~ **Inflationary** ~~decreases~~ **pressures, while dissipating, remained elevated throughout** the ~~value~~ **first half** of ~~money~~ **2023** . The annual inflation rate in the United States ~~increased~~ **decreased** to ~~8~~ **3** . ~~2~~ **7** % in September ~~2022~~ **2023 from its high of 7** . ~~As a result~~ **0 % in December 2021** , ~~the Federal Reserve has~~ - **as reported** ~~continued to increase the target federal funds rate,~~ by ~~300 basis points~~ **the U. S. Bureau of Labor Statistics. Small** to **medium- sized businesses may be impacted more during periods of high** ~~date in 2022, and has indicated its intention to continue to increase interest rates in an effort to combat~~ inflation **as** ~~. As inflation increases, the~~ **they** ~~value~~ **are not able to leverage economies** of **scale to mitigate** ~~our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation increases the~~ cost **pressures compared to larger businesses. Consequently, the ability** of ~~goods and services we use in~~ our business ~~operations, such as electricity and other utilities, which increases our non- interest expenses. Furthermore, our~~ customers ~~are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability~~ to repay their loans ~~with us~~ **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. Virtually all 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** ~~caused significant economic dislocation in~~ the ~~United States and internationally, resulting in a slow- down in economic activity, increased unemployment levels, and disruptions in~~ global ~~supply chains~~ and

national economy ~~financial markets. The pandemic~~ and ~~related government actions to curb~~ **certain industries and geographies in which our clients operate. Given** its **ongoing** ~~spread also resulted in closures of many organizations~~ and **dynamic nature,** ~~the institution of social distancing requirements in many states and communities. Certain industries have been particularly hard- hit~~ - **it is difficult** ~~, including the travel and hospitality industry, the restaurant industry and the retail industry. In response~~ to **predict** ~~the pandemic, various state governments and federal agencies required lenders to provide forbearance and other~~ -- **the full impact of** ~~relief to borrowers (e. g., waiving late payment and other fees). Federal banking agencies encouraged financial institutions to prudently work with affected borrowers and legislation provided relief from reporting loan classifications due to modifications related to~~ the COVID- 19 ~~outbreak~~ **pandemic on the business of the Company, its clients, employees and third- party service providers** . The ~~spread~~ **extent** of **such impact will depend on future developments, which are highly uncertain. Additionally,** the ~~coronavirus also caused us~~ **responses of various governmental and nongovernmental authorities and consumers** to ~~modify~~ **the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify in the near- term** ~~our~~ - **or long- term** ~~business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences~~ . Given the ongoing dynamic nature of variants of COVID- 19, it is difficult to predict the full impact of the COVID- 19 pandemic outbreak on our business. As the result of the COVID- 19 pandemic and the related adverse local and national economic consequences, we could be subject to ~~a~~ **any** number of risks, ~~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 Company and our regulators, customers and vendors adapt to evolving pandemic conditions. Risks Related to our Lending Activities Our real estate construction and land loans expose us to significant risks. We ~~make~~ **specialize in** real estate construction loans ~~to~~ **for** individuals and builders, **mainly focusing on** ~~primarily for the construction of~~ residential ~~properties~~ **property development** . **Our** ~~We originate these~~ loans **are initiated regardless of** whether ~~or not~~ the **property used as** collateral ~~property underlying the loan~~ is under **a sales** contract ~~for sale~~ . ~~At~~ **As of** September 30, ~~2022~~ **2023** , **our** construction loans totaled $ ~~255~~ **273** . ~~62~~ **84** million, ~~or 20~~ **comprising 19** . ~~4~~ **2** % of our ~~total~~ **overall** loan portfolio ~~, of which~~ **. These were allocated as follows:** $ ~~195~~ **203** . ~~97~~ **94** million ~~were~~ for residential real estate projects, $ ~~40~~ **51** . ~~36~~ **06** million for commercial ~~real estate~~ projects **,** and $ ~~19~~ **18** . ~~28~~ **84** million for land development ~~projects~~ . **Comparatively,** ~~This~~ **this** ~~compares to total~~ **marked a 7. 1 % increase from the previous year, where** construction loans ~~of~~ **accounted for** $ ~~233~~ **255** . ~~21~~ **62** million ~~,~~ or ~~21~~ **20** . ~~5~~ **4** % of our total loan portfolio ~~at~~ **as of** September 30, ~~2021~~ **2022** ~~, or an increase of 9~~ . **Notably,** ~~6 % during the past year. Approximately~~ **approximately** $ ~~119~~ **129** . ~~24~~ **70** million of our residential construction loans ~~at September 30, 2022 were made to finance the construction of owner- occupied homes and~~ are structured to ~~be converted~~ -- **convert** ~~to~~ **into** permanent loans **upon** ~~at the end of the~~ construction ~~phase~~ **completion** . ~~In general, construction~~ **Construction** lending involves ~~additional~~ **inherent** risks **due to estimating** ~~because funds are advanced upon estimates of~~ costs in relation to **project** values ~~associated with the completed project~~ . ~~Because of the uncertainties~~ **Uncertainties** ~~inherent~~ in ~~estimating~~ construction costs, ~~as well as the~~ market value ~~of the complete~~ **, and regulatory impacts make accurately evaluating total** project ~~and the effects of governmental regulations on real property, it is relatively difficult to evaluate accurately the total~~ funds ~~required to complete a project~~ and ~~the completed project~~ loan- to- value ~~ratio~~ **ratios challenging** . ~~Changes~~ **Factors like shifts** in **housing** demand ~~for new housing~~ and **unexpected** ~~higher than anticipated~~ building costs ~~may cause~~ **can significantly deviate** actual results ~~to vary significantly~~ from ~~those estimated~~ **estimates** . **Additionally** ~~For these reasons~~ , this type of lending **often** ~~also typically~~ involves higher ~~loan~~ principal amounts and ~~may~~ **might** be concentrated ~~with~~ **among** a **few** ~~small number of~~ builders. A downturn in housing ~~,~~ or ~~the~~ real estate ~~market~~ **markets** ~~,~~ could ~~increase~~ **escalate** delinquencies, defaults ~~and~~ **,** foreclosures, and **compromise collateral** ~~significantly impair the~~ value ~~of our collateral and our ability to sell the collateral upon foreclosure~~ . Some ~~of the~~ builders ~~who are our customers~~ have ~~more than~~ **multiple outstanding loans, meaning problems with** one loan ~~outstanding with~~ **pose a substantial risk to** us. ~~Consequently~~ **Moreover** , **certain** ~~an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss. In addition, during the term of some of our~~ construction loans ~~,~~ **do** ~~no~~ **not require** ~~payment from the~~ borrower **payments during** ~~is required since~~ the **term,** ~~accumulated~~ **accumulating** interest **into** ~~is added to~~ the principal ~~of the loan through an interest reserve~~ . **Thus** ~~As a result~~ , ~~these loans often involve the disbursement of funds with~~ repayment ~~substantially dependent~~ **depends heavily** on ~~the~~ **project** success ~~of the ultimate project~~ and the **borrower' s** ability ~~of the borrower~~ to sell ~~or~~ **,** lease **,** ~~the property~~ or ~~obtain~~ **secure** permanent ~~take- out~~ financing, rather than ~~the~~ **their** ability ~~of the borrower or guarantor~~ to repay principal and interest **directly** . ~~If our appraisal of the~~ **Misjudging a project' s** value **could leave us with** ~~of a completed project proves to be overstated, we may have~~ inadequate security **and potential losses** ~~for the repayment of the loan~~ upon completion ~~of construction of the project and may incur a loss~~ . ~~Because~~ **Actively monitoring** construction loans ~~require active monitoring of the building process~~ , ~~including~~ **involving** cost comparisons and on- site inspections, **adds complexity** ~~these loans are more difficult~~ and ~~costly~~ -- **cost** ~~to monitor~~ . ~~Increases in market~~ **Market** ~~rates of~~ interest **rate hikes also might significantly impact** ~~may have a more pronounced effect on~~ construction loans **, affecting** ~~by rapidly increasing the~~ end- purchaser ~~' s~~ borrowing costs, **potentially** ~~thereby possibly~~ reducing **demand or** the homeowner' s ability to finance the **completed** home ~~upon completion or the overall demand for the project~~ . **Further,** ~~Properties~~ **properties** under construction are **hard to sell and** often **need completion for** ~~difficult to sell and typically must be completed in order to be successfully~~ -- **successful sales,** ~~sold which also complicates~~ **complicating** ~~the process of working our~~ problem ~~construction loans~~ - **loan**

resolution . This ~~may~~ **might** require ~~us to advance~~ additional funds ~~and /~~ or **engaging** ~~contract with~~ another builder ~~to complete construction~~ **, incurring additional costs** and ~~assume the~~ market ~~risk~~ **risks .** ~~of selling the project at a future market price, which may or may not enable us to fully recover~~ - **Moreover** ~~unpaid loan funds and associated construction and liquidation costs. Furthermore~~ , ~~in the case of~~ speculative construction loans **pose additional** ~~, there is the added risk~~ **risks** ~~associated with identifying an~~ **, especially regarding finding** end- ~~purchaser~~ **purchasers** for ~~the~~ finished ~~project~~ **projects** . ~~At~~ **As of** September 30, ~~2022~~ **2023** , $ ~~12~~ **17** . ~~25~~ **10** million of our construction portfolio **consisted** ~~was comprised~~ of speculative one- to four- family construction loans. We also ~~make~~ **offer** land loans for ~~the~~ **land** acquisition **,** ~~of land upon~~ which ~~the purchaser~~ can **be** ~~then build or make improvements necessary to build or to use~~ **used** for **building or** recreational purposes. ~~At~~ **As of** September 30, ~~2022~~ **2023** , land loans ~~totaled~~ **accounted for** $ 26. ~~85~~ **73** million, or ~~2.~~ 1 **. 9** % of our total loan portfolio. **However,** ~~Loans~~ **loans** ~~on~~ **for** land ~~under~~ development or ~~held for~~ future construction **carry** ~~as well as land loans made to individuals for the future construction of a residence also pose~~ additional ~~risk~~ **risks due** ~~because the length of time from financing~~ to **longer** ~~completion of a~~ development **periods, vulnerability** ~~project is significantly longer than for a traditional construction loan. This makes them more susceptible~~ to ~~declines in~~ real estate ~~values~~ - **value** ~~,~~ declines **,** ~~in overall~~ economic **fluctuations** ~~conditions which may delay~~ **delaying** ~~the development of the~~ **projects, political changes affecting** land ~~and changes in the political landscape that could affect the permitted and intended~~ use **,** ~~of the land~~ - **and** ~~being financed, and~~ the ~~potential~~ **collateral' s** illiquid nature ~~of the collateral~~ . ~~In addition, during~~ **During** this ~~long~~ **extended financing- to- completion** period ~~of time from financing to completion~~ , the collateral often ~~does not generate~~ **generates** ~~any~~ **no** cash flow ~~to support the debt service~~ . ~~At~~ **Although as of** September 30, ~~2022~~ **2023** , all construction **and land** loans were performing **according** ~~in accordance~~ to their terms ~~and $ 450~~ , **a significant rise** ~~000 of land loans were non- performing. A material increase~~ in ~~our~~ non- performing construction or land loans could ~~have a material~~ **materially impact** ~~adverse effect on~~ our financial ~~condition~~ **status** and ~~results of operation~~ **operations** . Our emphasis on commercial real estate lending may expose us to increased lending risks. Our current business strategy includes an emphasis on commercial real estate lending. This type of lending activity, while potentially more profitable than single- family residential lending, 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. In our primary market of western Washington, a downturn in 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. Many 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 September 30, ~~2022~~ **2023** , we had $ ~~536~~ **568** . ~~65~~ **27** million of commercial real estate mortgage loans, representing ~~42~~ **39** . 8 % of our total loan portfolio. These loans typically involve higher principal amounts than other types of loans, and repayment 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. Commercial real estate loans also expose a lender to greater credit risk than loans secured by 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 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 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 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 real estate loans may be larger as a percentage of the total principal outstanding than those incurred with our residential or consumer loan portfolios. The level of our commercial real estate loan portfolio may subject us to additional regulatory scrutiny. The FDIC, the Federal Reserve and the Office of the Comptroller of the Currency 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 non- 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. 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. We have concluded that we have a concentration in commercial real estate lending because our balance in commercial real estate loans (including owner- occupied loans) at September 30, ~~2022~~ **2023** represents more than 300 % of total capital. While we believe that we have implemented policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance, bank regulators could require us to implement additional policies and procedures consistent with their interpretation of the guidance that may result in additional costs to us. 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 September 30, ~~2022~~ **2023** , we had $ ~~126~~ **136** . ~~04~~ **3** million, or ~~10~~ **9** . ~~1~~ **6** %, of total loans in commercial business loans. Commercial business lending involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. ~~Our commercial~~ **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. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable, or other business assets, the liquidation of collateral in the event of default is often an insufficient source of repayment because accounts receivable may be uncollectible and inventories may be obsolete or of limited use, among other things ~~. Accordingly, the repayment of commercial business loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower~~ . Our business may be adversely affected by credit risk associated with residential property. At September 30, ~~2022~~ **2023** , $ ~~211~~ **291** . ~~30~~ **5** million, or ~~16~~ **20** . ~~9~~ **4** % ~~,~~ of our total loan portfolio was secured by one- to four- family mortgage loans and home equity loans. 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. **Higher market interest rates,** ~~Recessionary~~ **recessionary** conditions or declines in the volume of single- family real estate and / or the sales prices as well as 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. Further, a decline in residential real estate values resulting from a downturn in the Washington housing market may reduce the value of the real estate collateral securing these types of loans and increase our risk of loss if borrowers default on their loans. Many of our residential mortgage loans are secured by ~~liens on mortgage~~ properties in which the borrowers have little or no equity because either we originated the loan with a relatively high combined loan- to- value ratio or because of the decline in home values in our market areas subsequent to when the loans were originated. Residential loans with combined higher 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. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale proceeds. Further, a significant amount of our home equity lines of credit ~~consist~~ **consists** of second mortgage loans. For those home equity lines secured by a second mortgage, it is unlikely that we will be successful in recovering all or a portion of our loan proceeds in the event of default unless we are prepared to repay the first mortgage loan **,** and such repayment and the costs associated with a foreclosure are justified by the value of the property. For these reasons, we may experience higher rates of delinquencies, default and losses on our residential loans. Our 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: • the 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 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 against operating income, ~~which~~ **that** we believe is appropriate to provide for probable losses in our loan portfolio. The ~~amount~~ **appropriate level** of ~~this allowance~~ **the ALL** is determined by ~~our~~ management through periodic comprehensive reviews and consideration of several factors, including, but not limited to: • an ongoing review of the quality, size and diversity of the loan portfolio; • evaluation of non- performing loans; • historical default and loss experience; • existing economic conditions and management' s expectations of future events; • risk characteristics of the various classifications of loans; • the amount and quality of collateral, including guarantees, securing the loans; and • regulatory requirements and expectations. The determination of the appropriate level of the **ALL** ~~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 and the loss 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 **ALL** ~~allowance for loan losses~~ may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for increases in **the ALL** ~~our allowance for loan losses~~ through the provision for losses on loans which is charged against income. **In addition, deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside our control, may also require an increase in the allowance for loan losses.** 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~~ **the ALL** may be ~~insufficient~~ -- **sufficient** to absorb losses ~~without significant~~ **. Bank regulatory agencies also periodically review our ALL and may require an increase in the provision for possible loan losses or the recognition of further loan charge- offs, based on judgments different from those of management. If charge- offs in future periods exceed the allowance for loan losses, we will need** additional provisions **to replenish** ~~. Further,~~ the **ALL. Any additional provisions** ~~FASB has adopted a new accounting standard that~~ will ~~be~~ **result in a decrease in net income and possibly capital, and may have a material adverse** ~~effective~~ --- **effect** ~~for~~ **on** our ~~fiscal year~~ **financial condition and results of operations. Finally,** beginning **on** October 1, 2023 ~~. This~~ **, the Company adopted the CECL** standard ~~, referred to as CECL 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 providing allowances~~ **allowance calculation methodology from a historical incurred loss model to an expected future loss model. The adjustment recorded upon our adoption of the CECL standard was not significant to the overall allowance** for credit losses **(" ACL")** ~~that are probable. We anticipate that our allowance for loan losses will increase~~ as **compared to** ~~a result of the implementation of CECL; however, until our evaluation is complete, the magnitude of the increase will be unknown. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other~~ **the** ~~factors~~ **ALL at September 30** , **2023** ~~both within and outside of our control, may also require an increase in the allowance for loan losses. In addition, 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 judgments different from those of management. If charge- offs in future periods exceed the allowance for loan losses, we will need additional provisions to replenish the allowance for loan losses. Any additional provisions will result in a decrease in net income and possibly capital, and may have a material adverse effect on our financial condition and results of operations~~ . If our non- performing assets increase, our earnings will be adversely affected. At September 30, ~~2022~~ **2023** , our non- performing assets (which ~~consist~~ **consisted solely** of non- accruing loans ~~, accruing loans 90 days or more past due~~ , non- accrual investment securities, and OREO ~~and other repossessed assets~~) were $ ~~2~~ **1** . ~~17~~ **60** million, or 0. ~~12~~ **09** % of total assets. Our non- performing assets adversely affect our net income in various ways: • We do not record interest income on non- accrual loans or non- performing investment securities, except on a cash basis when the collectibility of the principal is not in doubt. • We must provide for probable loan losses through a current period charge to the provision for loan losses. • Non- interest expense increases when we must write down the value of **OREO** properties ~~in our OREO portfolio~~ **, if any,** to reflect changing market values. • Non- interest income decreases when we must recognize other- than- temporary impairment 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 costs related to ~~our~~ OREO. • The resolution of non- performing assets requires the active involvement of management, which can distract them from more profitable activities. 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 ~~. In addition to the non- performing loans, there were $ 2. 47 million in loans classified as performing TDRs at September 30, 2022~~ . Risk Related to our Business Strategy We may be adversely affected by risks associated with completed and potential acquisitions. As part of our general growth strategy, on October 1, 2018, we completed the acquisition of South Sound Bank, a Washington- state chartered bank, headquartered in Olympia, Washington. Although our business strategy emphasizes organic expansion, ~~we continue,~~ from time to time in the ordinary course of business, ~~to~~ **we** engage in preliminary discussions with potential acquisition targets. There can be no assurance that ~~, in the future,~~ we will successfully identify suitable acquisition candidates, complete acquisitions ~~and~~ **or** successfully integrate acquired operations into our existing operations or expand into new markets. The consummation of any future acquisitions may dilute shareholder value or may have an adverse effect upon our operating results while the operations of the acquired business are being integrated into our operations. In addition, once integrated, acquired operations may not achieve levels of profitability comparable to those achieved by our existing operations, or otherwise perform as expected. Further, transaction- related expenses may adversely affect our earnings. These adverse effects on our earnings and results of operations may have a negative impact on the value of our common stock. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including: • We may be exposed to potential asset quality issues or unknown or contingent liabilities of the banks, businesses, assets, and liabilities we acquire. If these issues or liabilities exceed our estimates, our results of operations and financial condition may be materially negatively affected; • We could experience higher than expected deposit attrition; • The acquisition of other entities generally requires integration of systems, procedures and personnel of the acquired entity into our company to make the transaction economically successful. This integration process is complicated and time consuming and can also be disruptive to the customers of the acquired business. If the integration process is not conducted successfully and with minimal adverse effect on the acquired business and its customers, we may not be able to realize the anticipated economic benefits of ~~particular~~ **the** ~~acquisitions~~ **acquisition** within the expected time frame, and we may lose customers or employees of the acquired business. We may also experience greater than anticipated customer losses even if the integration process is successful; • To the extent that our costs of an acquisition exceed the fair value of the net assets acquired, the acquisition will generate goodwill. As discussed below, we are required to assess our goodwill for impairment at least annually, and any goodwill impairment charge could have a material adverse effect on our results of operation and financial condition; **and** • We expect that our net income will increase following an acquisition; however, we also expect our general and administrative expenses to increase, which could result to an increase in our efficiency ratio. Ultimately, we would expect our efficiency ratio to improve; however, if we are not successful in our integration process, this may not occur, and our acquisition or branching activities may not be accretive to earnings in the short or long- term. Risk Related to Market Interest Rates Changes 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. 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 ~~Board~~ . Since March 2022, in response to inflation, the Federal Open Market Committee (" FOMC") of the Federal Reserve has increased the target range for the federal funds rate by ~~300~~ **525** basis **points** , including ~~150~~ **225** basis points during the ~~third calendar quarter of 2022~~ **2023 fiscal year** , to a range of **5** ~~3. 00 % to 3~~ . 25 % **to 5. 50 %** as of September 30, ~~2022~~ **2023** . **The** ~~As it seeks to control inflation without creating a recession, the~~ FOMC has ~~indicated~~ **paused increases to the target federal funds rate but has not ruled out future increases and hinted that rates will remain higher for longer. If the FOMC** further increases ~~are to be expected this year. If the FOMC further increased~~ the targeted federal funds ~~rates~~ **rate** ,

overall interest rates will likely ~~continue to~~ 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, inflationary pressures will increase 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 these changes could also affect: (1) our ability to originate and / or sell loans and obtain deposits; (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 borrowings increase at a faster rate than the interest 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. 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 yield we earn on our assets and our funding costs tends 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. 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 negatively impact our income. A sustained increase or decrease 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, has resulted in our having a significant amount of these deposits **which have** ~~bearing a relatively low rate of interest and having~~ a shorter duration than our assets. At September 30, ~~2022~~ **2023** , we had $ ~~76~~ **251** . ~~31~~ **74** million in certificates of deposit that mature within one year and $ 1. ~~51~~ **26** billion in non- interest bearing, NOW checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. 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. In addition, a substantial amount of our residential mortgage loans and 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~~ investment 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 investment securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of investment securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. Stockholders' equity, specifically accumulated other comprehensive income (loss) (" AOCI"), is increased or decreased by the amount of change in the estimated fair value of our securities available for sale, net of deferred income taxes. Increases in interest rates generally decrease the fair value of securities available for sale, which adversely impacts stockholders' equity. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity 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 balance sheet or projected operating results. For further discussion of how changes in interest rates could impact us, see" Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information about our interest rate risk management. **Our** ~~We may incur losses on our~~ securities portfolio ~~as a result of changes~~ **may be negatively impacted by fluctuations** in **market value and** 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 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 (" OTTI") and realized and / or unrealized losses in future periods and declines in AOCI. The process for determining whether impairment of a security is other- than- temporary impaired 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 lead to accounting charges that could have a material adverse effect on our business, financial condition and results of operations. An increase in interest rates, change in the programs offered by Freddie Mac or our ability to qualify for their programs may reduce our mortgage revenues, which would negatively impact our non- interest income. The

sale of residential mortgage loans to Freddie Mac has historically provided a significant portion of our non- interest income. ~~Any future~~ **Future** changes in ~~their~~ **Freddie Mac' s** program, **including** our eligibility to participate ~~in such program~~ , the criteria for loans to be accepted or laws that significantly affect the activity of Freddie Mac could ~~, in turn,~~ materially adversely affect our results of operations if we could not find other purchasers. Mortgage banking is generally considered a volatile source of income because it depends largely on the level of loan volume which, in turn, depends largely on prevailing market interest rates. In a rising or higher interest rate environment, the demand for mortgage loans, particularly refinancing of existing mortgage loans, tends to fall and our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold. This would result in a decrease in mortgage revenues and a corresponding decrease in non- interest income. In addition, our results of operations are affected by the amount of non- interest expense associated with our loan sale activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations. In addition, although we sell loans to Freddie Mac or into the secondary market without recourse, we are required to give customary representations and warranties about the loans we sell. If we breach those representations and warranties, we may be required to repurchase the loans and we may incur a loss on the repurchase. Risks Related to Laws and Regulations We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that could increase our costs of operations. The banking industry is extensively regulated. Federal 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 our operations. Certain significant federal and state banking regulations that affect us are described in this report under the heading" Item 1. Business- How We Are Regulated." 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, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and adversely affect our profitability. In this regard, the U. S. Department of the Treasury' s Financial Crimes Enforcement Network (" FinCEN"), published guidelines in 2014 for financial institutions servicing marijuana businesses that are legal under state law. These guidelines allow us to work with marijuana- related businesses that are operating in accordance with state laws and regulations ~~,~~ as long as we comply with required regulatory oversight of their accounts with us. In addition, legislation is currently pending in Congress that would allow banks and financial institutions to serve marijuana businesses in states where it is legal without any risk of federal prosecution. At September 30, ~~2022~~ **2023** , approximately 1. 3 % of our total deposits and a portion of our service charges from deposits are from legal marijuana- related businesses. Any adverse change in this FinCEN guidance, any new regulations or legislation, any 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, could have a negative impact on our non- interest income, as well as the cost of our operations, increasing our cost of regulatory compliance and of doing business and / or otherwise affect us, which may materially affect our profitability. 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 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 adverse effect on our business, financial condition, results of operations and growth prospects. **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 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. Risks Related to Cybersecurity, Third- Parties and Technology The financial services market is undergoing rapid technological changes ~~,~~ and **,** if we are unable to stay current with those changes, we may not be able to effectively compete. The financial services market, including banking services, 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. We 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 or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage. 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 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 operation. 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 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, systems 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 business 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 customers' 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. Managing reputational risk is important to attracting...... in revenues and increased governmental regulation. 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 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 that 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 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. Risks Related to Accounting Matters We may experience future goodwill impairment, which could reduce our earnings. We performed our test for goodwill impairment for fiscal year ~~2022~~ **2023** ~~,~~ **with the assistance of** ~~and~~ **an independent third- party firm specializing in goodwill impairment valuations for financial institutions. Based on** the ~~test concluded~~ **assessment, the Company determined** that ~~recorded~~ **it is not" more likely than not" that the Company' s fair value is less then it carry amount, and, therefore,** 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. 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 against operations, which would adversely affect our results of operations, perhaps materially; however, it would have no impact on our liquidity, operations or regulatory capital. We may experience decreases in the fair value of our loan servicing rights, which could reduce our earnings. Loan servicing rights are capitalized at estimated fair value when acquired through the origination of loans that are subsequently sold with servicing rights retained. At September 30, ~~2022~~ **2023** , our loan servicing rights totaled $ ~~3~~ **2** . ~~02~~ **12** million. Loan servicing rights are amortized to servicing income on loans sold over the period of estimated net servicing income. The estimated fair value of loan servicing rights at the date of the sale of loans is determined based on the discounted present value of expected future cash flows using key assumptions for servicing income and costs and prepayment rates on the underlying loans. On a quarterly basis, we evaluate the fair value of loan servicing rights for impairment by comparing actual cash flows and estimated cash flows from the loan servicing assets to those estimated at the time loan servicing assets were originated. Our methodology for estimating the fair value of loan servicing rights is highly sensitive to changes in assumptions, such as prepayment speeds. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the loan servicing rights portfolio. For example, a decrease in interest rates typically increases the prepayment speeds of loan servicing rights and therefore decreases the fair value of the loan servicing rights. Future decreases in interest rates could decrease the fair value of our loan servicing rights below their recorded amount, which would decrease our earnings. 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 allowances, 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 OREO, and at certain other times during the asset' s holding period. Our net book value (" NBV ") in the loan at the time of foreclosure and thereafter is compared to the updated estimated 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 the property declines in value after foreclosure, the fair value of our OREO may not be sufficient to recover our NBV in such assets, resulting in the need for a valuation allowance. In addition, bank regulators periodically review any OREO we may have and may require us to recognize further valuation allowances. Significant charge- offs to our OREO may have an adverse effect on our financial condition and results of operations. Other Risks Related to Our Business 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. Ineffective liquidity management could adversely affect our financial results and condition. Liquidity is essential to our business. We rely on **several** ~~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 other

sources could have a substantial negative effect on our liquidity. Although we have historically been able to replace maturing deposits and borrowings if desired, we may not be able to replace such funds in the future if, among other things, our financial condition, the financial condition of the FHLB or FRB, or market conditions change. ~~.~~ Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity **due to** ~~as a result of~~ a downturn in the Washington markets in which our loans and deposits 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 " of this Form 10- K. 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 our control, and on our financial condition and performance. If we are able to raise capital, it may not be on terms that are acceptable to us. 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. Our framework for managing risks may not be effective in mitigating risk and loss to us. 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 liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and compliance risk, and reputational risk, among others. 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 all risk and limit losses in our business. As with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses which could have a material adverse effect on our financial condition and results of operations. We are dependent on key personnel, and the loss of one or more of those key personnel may materially and adversely affect our prospects. 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 Chief Executive Officer ~~(who is retiring in January 2023)~~ and certain other employees. In addition, our success has been and continues to be highly dependent upon the services of our directors, and we may not be able to identify and attract suitable candidates to replace such directors. ~~We will be required to transition from the use of the LIBOR interest rate index in the future. Some of our loans are indexed to LIBOR to calculate the loan interest rate. The continued availability of the LIBOR index is not guaranteed after 2022 and by June 2023, 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 the Secured Overnight Financing Rate (" 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. 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 loan agreements with our borrowers may result in our incurring significant expenses in implementing 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 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 will transition to SOFR as a substitute for LIBOR in June of 2023. As of September 30, 2022, there were $ 2. 92 million of loans in our portfolio tied to LIBOR. Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers. Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions and operating process changes. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive~~

~~activities. For example, residential or commercial construction projects may be impacted as builders may incur additional expenses to comply with possible 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 impact on our cash flow. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate- friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.~~