Risk Factors Comparison 2024-03-25 to 2023-03-24 Form: 10-K

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

Our business and results of operations are subject to numerous risks and uncertainties, many of which are beyond our control. The material risks and uncertainties that management believes affect the ~~Bank~~ **Company** are described below. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also impair the Bank' s business operations. This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition, and results of operations could be materially and adversely affected. Our risk factors can be broadly summarized by the following categories: • Risks Related to the Pending Acquisition of **Cornerstone** ~~Noah Bank~~ • Credit and Interest Rate Risks • Risks Related to the Bank' s Common Stock • Economic Risks • Operational Risks • Strategic Risks • Risks Related to the Regulation of our Industry RISKS RELATED TO THE COMPANY' S PENDING ACQUISITION OF **CORNERSTONE** ~~NOAH BANK~~ Regulatory approvals may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that could have an adverse effect on the Company following the transaction. In connection with the Company' s pending acquisition of **Cornerstone** ~~Noah Bank~~ (See Item 1. Business – General), before the acquisition can be completed, the Company and the Bank must obtain approval of the acquisition from the FDIC, the New Jersey Department of Banking and Insurance and the ~~Pennsylvania Department of Banking and Securities, and either the approval of the~~ Federal Reserve ~~or confirmation that such approval is not required~~. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of the Company, the Bank and **Cornerstone** ~~Noah Bank~~, and other factors. An adverse development in either party' s regulatory standing or these factors could result in an inability to obtain approval or a delay in their receipt. These regulators may impose conditions on the completion of the acquisition or require changes to the terms of the Merger Agreement. Such conditions or changes could have the effect of delaying or preventing completion of the acquisition or imposing additional costs on or limiting the revenues of the Company following the completion of the acquisition, any of which might have an adverse effect on the Company following the acquisition. The acquisition may be more difficult, costly or time **-** consuming than expected and the anticipated benefits of the transaction may not be realized. The success of the acquisition, including anticipated benefits, will depend, in part, on the ~~Bank~~ **Company** ' s ability to successfully combine and integrate ~~Noah~~ **Cornerstone** into the ~~Bank~~ **Company** in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of the Bank' s ongoing ~~businesses~~ -- **business** or inconsistencies in standards, controls, procedures and policies that adversely affect the Bank' s ability to maintain relationships with clients, customers, depositors, employees and other constituents or to achieve the anticipated benefits of the transaction. The loss of key employees could adversely affect the Bank' s ability to successfully conduct its business, which could have an adverse effect on the Company' s financial results and the value of its common stock. If the Bank experiences difficulties with the integration process, the anticipated benefits of the acquisition may not be realized fully or at all ~~,~~ or may take longer to realize than expected. As with any acquisition, there also may be business disruptions that cause the Bank to lose customers or cause customers to remove their accounts from the Bank and move their business to competing financial institutions. Integration efforts by the Bank will also divert management **' s** attention and resources. These integration matters could have an adverse effect on the Bank during the transition period and for an undetermined period after completion of the acquisition. The Merger Agreement may be terminated in accordance with its terms, and the acquisition may not be completed. The Merger Agreement is subject to a number of customary closing conditions that must be satisfied or waived in order to complete the acquisition, including the receipt of the requisite regulatory approvals. These conditions to the closing of the acquisition may not be satisfied or waived in a timely manner or at all, and, accordingly, the acquisition may be delayed or may not be completed. In addition, ~~Noah~~ **Cornerstone** or the ~~Bank~~ **Company** may elect to terminate the Merger Agreement in certain other circumstances. Termination of the Merger Agreement could negatively impact the Company. If the Merger Agreement is terminated, there may be various consequences. For example, the Bank' s business may have been impacted adversely by the failure to pursue other opportunities due to management' s focus on the acquisition, without realizing any of the anticipated benefits of completing the acquisition. Additionally, if the Merger Agreement is terminated, the market price of the Company' s common stock could decline to the extent that the current market prices reflect a market assumption that the ~~Noah~~ **Cornerstone** acquisition will be completed. **21** Furthermore, the Company has incurred and will incur substantial expenses in connection with the completion of the transactions contemplated by the Merger Agreement. If the acquisition is not completed, the Company would have to recognize these expenses without realizing the expected benefits of the acquisition. CREDIT AND INTEREST RATE RISKS Our loan portfolio has a significant concentration in commercial real estate and commercial construction loans. Our loan portfolio is made up largely of commercial real estate loans and commercial construction loans. At December 31, ~~2022~~ **2023**, we had approximately $ ~~873~~ **1** . ~~6~~ **14** ~~million~~ **billion** of commercial real estate loans, which represented ~~63~~ **73** . ~~7~~ **8** % of our total loan portfolio. Our commercial real estate loans include loans secured by owner- occupied and non- owner- occupied tenanted properties for commercial uses and multi- family loans. The portfolio also consists of construction loans of approximately $ ~~417~~ **310** . ~~5~~ **2** million, or ~~30~~ **20** . ~~5~~ **0** %, of our total loan portfolio as of December 31, ~~2022~~ **2023** . In addition, we make both secured and unsecured commercial and industrial loans. At December 31, ~~2022~~ **2023**, we had $ ~~28~~ **51** . ~~9~~ **0** million of commercial and industrial loans, which represented ~~2~~ **3** . ~~1~~ **3** % of our total loan portfolio. Commercial real estate loans generally expose a lender to a higher degree of credit risk of nonpayment and loss than other loans because of several factors, including dependence on the successful operation of a business or a project for repayment, the collateral securing these loans may not be sold as easily as for other loans, and loan terms may include a balloon payment rather than full amortization over the loan term. In addition, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers. Underwriting and portfolio management activities cannot completely eliminate all risks related to these loans. Any significant failure to pay on time by our customers or a significant default by our customers could materially and adversely affect us. Loans secured by owner- occupied real estate are reliant on the underlying operating businesses to provide cash flow to meet debt service obligations, and as a result they are more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate market. In general, construction and land lending ~~involves~~ **involve** additional risks 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. In addition, no payment from the borrower is required during the term of most of our construction loans 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 appraisal of the value of the 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 costlier to monitor. Increases in market rates of interest 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, in the case of speculative construction loans, there is added risk associated with identifying an end- purchaser for the finished project which poses a greater potential risk to us than construction loans to individuals on their personal residences. Loans on land under development or held for future construction as well as 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. ~~19~~ Any recession in our local economy and commercial real estate market may make it more difficult for commercial real estate borrowers to repay their loans in a timely manner as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for loan losses and / or an increase in charge offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which could occur as a result of less need for office space due to more people working from home or other factors. This would decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening in the commercial real estate market will increase the likelihood of default on these loans, which could negatively impact our loan portfolio' s performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us. **22** Federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. The guidance requires financial institutions that exceed certain levels of commercial real estate lending compared with their total capital to maintain heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels or restrict our ability to originate new loans secured by commercial real estate. We can provide no assurance that capital would be available at that time. The nature of our construction loan portfolio may expose us to increased lending risks. Given the recent growth in our loan portfolio, a portion of our construction loans are unseasoned, meaning that they were originated relatively recently. Our limited time with these loans does not provide us with a significant payment history pattern with which to judge future collectability. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge off levels above our expectations, which could negatively affect our performance. The small to mid- sized businesses that we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower' s ability to repay a loan to us that could materially harm our operating results. We target our business development and marketing strategy primarily to serve the banking and financial services needs of small to mid- sized businesses. These small to mid- sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. In addition, the success of a small to **mid-** ~~midsized~~ --- **sized** business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Any economic downturns and other events that negatively impact our market areas could cause us to incur substantial credit losses that could negatively affect our results of operations and financial condition. Our allowance for ~~loan~~ **credit** losses may not be adequate to cover actual losses. Like all financial institutions, we maintain an allowance for ~~loan~~ **credit** losses to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about external factors, including the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance for ~~loan~~ **credit** losses may not be sufficient to cover losses inherent in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for ~~loan~~ **credit** losses and may require an increase in our allowance for ~~loan~~ **credit** losses. Although we believe that our allowance for ~~loan~~ **credit** losses at December 31, ~~2022~~ **2023** is adequate to cover known and probable incurred losses included in the portfolio, we cannot provide assurances that we will not further increase the allowance for ~~loan~~ **credit** losses or that our regulators will not require us to increase this allowance. Either of these occurrences could adversely affect our earnings. ~~The Financial Accounting Standards Board (“ FASB ”)~~ **Increased interest rates have decreased the value of a portion of the Company’ s securities portfolio, and the Company would realize losses if it were required to sell such securities to meet liquidity needs. As a result of inflationary pressures and the resulting rapid increases in interest rates over the last two years, the fair value of our securities classified as available for sale** has ~~recently issued an accounting standard update that will~~ **declined. These securities make up a majority of the securities portfolio of the Company,** ~~result~~ **resulting** in **unrealized** ~~a significant change in how we recognize credit~~ losses ~~and may have~~ **embedded in other comprehensive income as** a ~~material impact on~~ **part of shareholders’ equity. If the Company were required to sell such securities to meet liquidity needs, including in the event of deposit outflows** ~~our~~ - **or slower deposit growth, it may incur losses, which could impair the Company’ s capital,** financial condition ~~or~~ **, and** results of operations ~~. 20 In June 2016, the FASB issued an~~ **and require the Company to raise additional capital** ~~accounting standard update, Financial Instruments- Credit Losses (Topic 326), Measurement of Credit Losses~~ on ~~Financial Instruments~~ **unfavorable terms** , ~~which replaces~~ **thereby negatively impacting its profitability. While** the **Company** ~~current “ incurred loss ” model for recognizing credit losses with an “ expected loss ” model referred to as~~ **has taken actions to maximize its funding sources,** ~~the~~ **there is no guarantee that such actions** ~~Current Expected Credit Loss (“ CECL ”) model. Under the CECL model, banks~~ will be **successful** ~~required to present certain financial assets carried at amortized cost, such as loans held for~~ - **or sufficient in** ~~investment, certain off- balance- sheet commitments and held- to- maturity debt securities, at~~ the ~~net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events~~ - **event** ~~, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability~~ of ~~the reported amount~~ **sudden liquidity needs** . **23** ~~This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “ incurred loss ” model required under current generally accepted accounting principles (“ GAAP ”), which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses, and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of the allowance for loan losses. If we are required to materially increase the level of its allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations. The new CECL standard will become effective for the Bank for fiscal years beginning after December 15, 2022 and for interim periods within those fiscal years. We are evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one- time cumulative- effect adjustment to the allowance for loan losses and unfunded commitments as of the beginning of the first reporting period in which the new standard is effective, the quarter ending March 31, 2023, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. Upon adoption of the new CECL standard, effective January 1, 2023, the Bank anticipates recording a one- time decrease, net of tax, in retained earnings of approximately $ 304, 000 (unaudited), a reduction to the allowance for loan losses of approximately $ 264, 000 (unaudited) and a reserve for unfunded liabilities of approximately $ 686, 000 (unaudited).~~ The financial services industry is undergoing a period of great volatility and disruption. Changes in interest rates, in the shape of the yield curve, or in valuations in the debt or equity markets or disruptions in the liquidity or other functioning of financial markets, most of which have occurred, could directly impact us in one or more of the following ways: • Net interest income, the difference between interest earned on interest **-** earning assets and interest paid on interest- bearing liabilities, represents a significant portion of our earnings. Both increases and decreases in the interest rate environment may reduce our profits. We expect that we will continue to realize income from the spread between the interest we earn on loans, securities and other interest earning assets, and the interest we pay on deposits, and borrowings (when applicable). The net interest spread is affected by the differences between the maturity and repricing characteristics of our interest earning assets and interest- bearing liabilities. Our interest **-** earning assets may not reprice as slowly or rapidly as our interest- bearing liabilities. • The market value of our securities portfolio may decline and result in other than temporary impairment charges. The value of the securities in our portfolio is affected by factors that impact the U. S. securities markets in general as well as specific financial sector factors and entities. Uncertainty in the market regarding the financial sector has at times negatively impacted the value of securities within our portfolio. Further declines in these sectors may **in future** result in ~~future~~ other than temporary impairment charges. • Asset quality may deteriorate as borrowers become unable to repay their loans. Changes in interest rates may adversely affect our earnings and financial condition. Our net income depends primarily upon our net interest income. The level of net interest income is primarily a function of the average balance of our interest - earning assets, the average balance of our interest- bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest earning assets and our interest- bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve, and market interest rates. A sustained increase in market interest rates could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our interest earning assets and compresses our net interest margin. In addition, the economic value of equity could decline if interest rates increase. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest- bearing liabilities will be more sensitive to changes in market interest rates than our interest - earning assets, or vice versa. When interest- bearing liabilities mature or re- price more quickly than interest earning assets, an increase in market rates of interest could reduce our net interest income. ~~21~~ Likewise, when interest earning assets mature or re- price more quickly than interest bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance ~~. Uncertainty about the future of the London Interbank Offer Rate (LIBOR) may adversely affect our business and financial results. We have certain floating- rate investment securities that determine their applicable interest rate or payment amount by reference to LIBOR. However, a reduced volume of interbank unsecured term borrowing coupled with legal and regulatory proceedings related to rate manipulation by certain financial institutions led to international reconsideration of LIBOR as a financial benchmark. The United Kingdom Financial Conduct Authority, which regulates the process for establishing LIBOR, announced that LIBOR will cease after June 30, 2023. The U. S. federal banking agencies have encouraged banks to identify LIBOR- referencing contracts that extend beyond June 30, 2023 and implement plans to identify and address insufficient contingency provisions in those contracts. Further, on March 15, 2022, Congress passed the Adjustable Interest Rate Act (the " AIR Act ") to address references to LIBOR in contracts that (i) are governed by U. S. law, (ii) will not mature before June 30, 2023, and (iii) lack fallback provisions providing for a clearly defined and practicable replacement for LIBOR. On December 16, 2022, the Federal Reserve adopted a final rule implementing the AIR Act that replaces references to LIBOR in financial contracts addressed by the AIR Act with certain Federal Reserve- selected benchmark rates based on the Secured Overnight Finance Rate (SOFR). The Company has multiple alternative reference rates available to customers, and there can be no assurances on which benchmark rate (s) may become the primary replacement to LIBOR for purposes of financial instruments that are currently referencing LIBOR. Following the discontinuance of LIBOR, there may be uncertainty or differences in the calculation of the applicable interest rate or payment amount depending on the terms of the governing instruments, and such discontinuation may increase operational and other risks to the Company and the industry. Benchmark rates based on SOFR have emerged as viable replacements for LIBOR. The Alternative Reference Rate Committee, which is a group of large banks, has recommended the use of benchmark rates based on SOFR, including a forward- looking term SOFR rate, as alternatives to LIBOR for various categories of contracts. SOFR has been published by the Federal Reserve Bank of New York (FRBNY) since May 2018, and it is intended to be a broad measure of the cost of borrowing cash overnight collateralized by U. S. Treasury securities. In addition, certain benchmark rates based on SOFR, such as the forward- looking term SOFR rate, are calculated and published by third parties. Because SOFR, and such other benchmark rates based on SOFR, are published by the FRBNY or such other third parties, the Company has no control over their determination, calculation or publication. There can be no assurance that SOFR, or benchmark rates based on SOFR, will not be discontinued or fundamentally altered in a manner that is materially adverse to the parties that utilize such rates as the reference rate for transactions. There is no assurance that SOFR (or benchmark rates based on SOFR) will be widely adopted as the replacement reference rate for LIBOR (or that the Company will ultimately decide to adopt SOFR, or a benchmark rate based on SOFR, as the reference rate for its lending or borrowing transactions). Notwithstanding the above, a consensus has not yet been reached on what rate or rates may be viewed as accepted alternatives to LIBOR. The market transition away from LIBOR to an alternative reference rate, including SOFR (or benchmark rates based on SOFR), is complex and could have a range of adverse effects on the Company' s business, financial condition, and results of operations. In particular, any such transition could: • adversely affect the interest rates paid or received on, and the revenue and expenses associated with, the Company' s floating rate obligations, loans, deposits, derivatives and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR' s role in determining market interest rates globally; • adversely affect the value of the Company' s floating rate obligations, loans, deposits, derivatives and other financial instruments tied to LIBOR rates, or other securities or financial arrangements given LIBOR' s role in determining market interest rates globally; • prompt inquiries or other actions from regulators in respect of the Company' s preparation and readiness for the replacement of LIBOR with an alternative reference rate; • result in disputes, litigation or other actions with counterparties regarding the interpretation and enforceability of certain fallback language in LIBOR- based securities; and 22 • require the transition to or development of appropriate systems and analytics to effectively transition our risk management processes from LIBOR- based products to those based on the applicable alternative pricing benchmark. In addition, the implementation of LIBOR reform proposals may result in increased compliance costs and operational costs, including costs related to continued participation in LIBOR and the transition to a replacement reference rate or rates. We cannot reasonably estimate the expected cost~~ . RISKS RELATED TO THE BANK' S COMMON STOCK The Holding Company' s ability to pay dividends depends primarily on receiving dividends from the Bank, which is subject to regulatory limits and the Bank' s performance. The Company is a bank holding company and banking operations are conducted by its subsidiary, the Bank. The Company' s ability to pay dividends depends on its receipt of dividends from the Bank. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of the Bank to pay dividends is also subject to its profitability, financial condition, capital expenditures, other cash flow requirements, and other factors deemed relevant by its Board of Directors. There is no assurance that the Bank will be able to pay dividends in the future, and if able, that the dividends will be at the same rate as ~~2022~~ **2023** , or that the Company will generate adequate cash flow from the Bank to pay dividends in the future. The Company' s failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock. **24** Our stock price may reflect securities market conditions **.** The effectiveness of governmental, fiscal and monetary policies, and regulatory responses to the market conditions affect the financial markets and the market prices for securities generally, and the market prices for bank stocks, including our common stock. The stock market' s gains due to a concentration of high growth companies has been adversely affected by inflation and higher interest rates and other national and international events. ECONOMIC RISKS Inflation can have an adverse impact on the Company' s business and its customers. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Over the past year, in response to a pronounced rise in inflation, the Federal Reserve has raised certain benchmark interest rates to combat inflation. As discussed above under CREDIT AND INTEREST RATE RISKS — Changes in interest rates may adversely affect our earnings and financial condition, as inflation increases and market interest rates rise, the value of the Company' s investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services the Company uses in its business operations, such as electricity and other utilities, and also generally increases employee wages, any of which can increase the Company' s non- interest expenses. Furthermore, the Company' s 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 the Company. Sustained higher interest rates by the Federal Reserve to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and the Company' s markets could result in an increase in loan delinquencies and non- performing assets, decreases in loan collateral values and a decrease in demand for the Company' s products and services, all of which, in turn, would adversely affect the Company' s business, financial condition and results of operations. We face risks related to health epidemics and other outbreaks, severe weather, power or telecommunications loss, and terrorism which could significantly disrupt our operations. Business disruptions can occur due to forces beyond the Bank' s control such as severe weather, power or telecommunications loss, accidents, flooding, terrorism, health emergencies, the spread of infectious diseases or pandemics. Our business could be adversely impacted by the effects of any of these events to the extent that they harm the local or national economy. Any of these events may also impact our branches, our operations, our customers and / or our vendors, which may materially and adversely affect our business, financial condition and results of operations. These business disruptions may include temporary closure of our branches and / or the facilities of our customers or vendors and suspension of services, which may materially and adversely affect our business, financial condition and results of operations. ~~23~~ Market conditions and economic cyclicality may adversely affect our industry. Market developments, including unemployment, price levels, stock and bond market volatility, and changes, including those resulting from world events, affect consumer confidence levels, economic activity and inflation. Changes in payment behaviors and payment rates may increase ~~in~~ delinquencies and default rates, which could affect our earnings and credit quality. OPERATIONAL RISKS **Further negative developments in the banking industry could adversely affect our business operations and our financial condition and results of operations. The large bank failures during the first half of 2023 and related negative media attention generated significant market trading volatility among publicly traded bank holding companies and, in particular, regional, as well as community banks like the Company. Similar developments in the future could negatively impact customer confidence in regional and community banks, which could prompt customers to move their deposits to larger financial institutions. Further, competition for deposits has increased in recent periods, and the cost of funding has similarly increased, putting pressure on our net interest margin. If we were required to sell a portion of our securities portfolio to address liquidity needs, we may incur losses, including as a result of the negative impact of rising interest rates on the value of our securities portfolio, which could negatively affect our earnings and our capital. If we were required to raise additional capital in the current environment, any such capital raise may be on unfavorable terms, thereby negatively impacting book value and profitability. While we have taken actions to improve our funding, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. 25 There has also been increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Company, designed to address the negative developments in the banking industry in 2023, all of which may increase our costs of doing business and reduce our profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, losses embedded in the held- to- maturity portion of our securities portfolio, contingent liquidity, CRE composition and concentration, capital position and our general oversight and internal control structures regarding the foregoing. As a result, the Company could face increased scrutiny or be viewed as higher risk by regulators and the investor community.** Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability. We face substantial competition in originating loans. This competition comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders in our market area, which is generally an area within an approximate 100 **-** mile radius of Princeton and dominated by large statewide, regional and interstate banking institutions. Many of our competitors enjoy advantages, such as greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans. These competitors may offer higher interest rates on deposits than we do, which could decrease the deposits that we attract or require us to increase our interest rates on deposit accounts to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations and may increase our cost of funds. Additionally, these competitors may offer lower interest rates on loans than we do, which could decrease the amount of loans that we attract or require us to decrease our interest rates on loans to attract new loans. Increased loan competition could adversely affect our net interest margin. We also compete with non- bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable terms. Some of our non- bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non- bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition. If deposit levels are not sufficient, it may be more expensive to fund loan originations. Our deposits have been our primary funding source. In current market conditions, depositors may choose to redeploy their funds into higher yielding investments, the stock market or other investment alternatives, regardless of our effort to retain such depositors. If this occurs, it ~~would~~ **will** hamper our ability to grow deposits and could result in a net outflow of deposits. Our average total deposits for the year ended December 31, ~~2022~~ **2023** of $ 1. ~~41~~ **51** billion ~~fell slightly from~~ **were $ 100. 1 million higher than the** $ 1. ~~42~~ **41** billion for the year ended December 31, ~~2021~~ **2022** . We will continue to focus on deposit growth, which we use to fund loan originations. However, if we are unable to sufficiently increase our deposit balances, we will be required to increase our use of alternative sources of funding, including FHLB advances, or to increase our deposit rates in order to attract additional deposits, each of which would increase our cost of funds. ~~24~~ We must maintain and follow high underwriting standards to grow safely. Our ability to grow our assets safely depends on maintaining disciplined and prudent underwriting standards and ensuring that our relationship managers and lending personnel follow those standards. The weakening of these standards for any reason, such as to seek higher yielding loans, or a lack of discipline or diligence by our employees in underwriting and monitoring loans, may result in loan defaults, foreclosures and additional charge offs and may necessitate that we significantly increase our allowance for ~~loan~~ **credit** losses. As a result, our business, results of operations, financial condition or prospects could be adversely affected. We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance. We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected ~~,~~ by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Additionally, damage to our reputation could undermine the confidence of our current and potential clients in our ability to provide financial services. Such damage could also impair the confidence of our counterparties and business partners, and ultimately affect our ability to effect transactions. Maintenance of our reputation depends not only on our success in maintaining our service- focused culture and controlling and mitigating the various risks described herein, but also on our success in identifying and appropriately addressing issues that may arise in areas such as potential conflicts of interest, anti- money laundering, client personal information and privacy issues, record- keeping, regulatory investigations and any litigation that may arise from the failure or perceived failure of us to comply with legal and regulatory requirements. Maintaining our reputation also depends on our ability to successfully prevent third ~~-~~ parties from infringing on the " The Bank of Princeton " brand and associated trademarks. Defense of our reputation, including through litigation, could result in costs adversely affecting our business, results of operations, financial condition or prospects. **26** Our internal control systems could fail to detect certain events. We are subject to certain operational risks, including but not limited to data processing system failures and errors and customer or employee fraud. We maintain a system of internal controls to mitigate such occurrences which system recently had to be modified to cover the additional risks caused by the increase in the amount of time our employees are working remotely. We also maintain insurance coverage for such risks. However, should such an event occur that is not prevented or detected by our internal controls, is uninsured or in excess of applicable insurance limits, it could have a significant adverse effect on our business, results of operations, financial condition or prospects. ~~25~~ If we cannot favorably assess the effectiveness of our internal controls over financial reporting **,** we may be subject to additional regulatory scrutiny. Like other banks of our size, our management is required to prepare a report that contains an assessment by management of the effectiveness of our internal control structure and procedures for financial reporting (including the Call Report that is submitted to the FDIC) as of the end of ~~such~~ **each** fiscal year ~~. Our independent registered public accounting firm is also required to examine, attest to and report on the assessment of our management concerning the effectiveness of our internal control structure and procedures for financial reporting~~ . The rules that must be met for management to assess our internal controls over financial reporting are complex and require significant documentation and testing and possible remediation of internal control weaknesses. The effort to comply with regulatory requirements relating to internal controls will likely cause us to incur increased expenses and will cause a diversion of management' s time and other internal resources. We also may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. ~~In addition, in connection with the attestation process, we may encounter problems or delays in completing the implementation of any requested improvements or receiving a favorable attestation from our independent registered public accounting firm.~~ If we cannot favorably assess the effectiveness of our internal control over financial reporting ~~, or if our independent registered public accounting firm is unable to provide an~~

~~unqualified attestation report on our internal controls~~, investor confidence and the price of our common stock could be adversely affected **,** and we may be subject to additional regulatory scrutiny. We rely on third parties to provide key components of our business infrastructure, and ~~a~~ **the** failure of these parties to ~~perform~~ **fulfil** their obligations to us could disrupt our operations. Third parties provide key components of our business infrastructure such as data processing, internet connections, network access, core application processing, statement production and account analysis. Our business depends on the successful and uninterrupted functioning of our information technology and telecommunications systems and third- party servicers. The failure of these systems, or the termination of a third- party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third- party systems, we could experience service denials if demand for such services exceeds capacity **,** or such third- party systems fail or experience interruptions. Replacing vendors or addressing other issues with our third- party service providers could entail significant delay and expense. If we are unable to efficiently replace ineffective service providers, or if we experience a significant, sustained or repeated, system failure or service denial, it could compromise our ability to operate effectively, damage our reputation, result in a loss of customer business, and subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our business, financial condition, results of operations and future prospects. We cannot predict how changes in technology will impact our business; increased use of technology may expose us to service interruptions. The financial services market, including banking services, is increasingly affected by advances in technology, including developments in: • telecommunications; • data processing; • automation; • Internet banking, including mobile banking; ~~26~~ • social media; • debit cards and so- called " smart cards "; and • remote deposit capture. **27** Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business customers including Internet banking, mobile banking and electronic bill payment, as well as banking by phone. We also offer ATM and debit cards, wire transfers, and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investment in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service which could expose us to claims by customers or other third parties. We can provide no assurance that we will have sufficient resources or access to the necessary technology to remain competitive in the future. We may be vulnerable to cyberattacks or other security breaches affecting our electronic data and product delivery systems. The financial services industry has experienced an increase in both the number and severity of reported cyberattacks aimed at gaining unauthorized systems access as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. Cybercrime risks have increased as electronic and mobile banking activities have increased. We are increasingly dependent on technology systems to run our core operations and to be a delivery channel to provide products and services to our customers. We also rely on the integrity and security of a variety of third- party processors, payment, clearing and settlement systems, as well as the various participants involved in these systems, many of which have no direct relationship with us. Failure by these participants or their systems to protect our customers' transaction data may put us at risk for possible losses due to fraud or operational disruption. In many cases, in order for these systems to function, they must be connected to the internet, directly or indirectly. These connections open our systems to potential attacks by third parties seeking to steal our data, our customers' information or to disable our systems. A successful attack on our systems could adversely affect our results of operations by, among other things, harming our reputation among current and potential customers if their information is stolen, disrupting our operations if our systems are impaired, the loss of assets which could be stolen in an attack and the costs of remediating our systems after an attack. Although we have security safeguards and take numerous steps to protect our systems from a potential attack, we can provide no assurance that these measures will be successful in preventing intrusions into our systems. A portion of our workforce (which changes based on management' s discretion) are working a portion of their work hours remotely which has only increased our risk in this area. Therefore, the Bank' s information technology department has instituted additional security measures with the use of **laptop** ~~lap top~~ computers at home, such as specially loaded software providing more accessibility, increased monitoring of access logs, and the requirement for employees to bring their **laptop** ~~lap top~~ computer into the office when working there. In addition, files and documents are only allowed to be transferred via the issued **laptop** ~~lap top~~ computer; no personal emails can be used. The occurrence of a breach of security involving our customers could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations. The increasing use of social media platforms presents new risks and challenges and the inability or failure to recognize, respond to, and effectively manage the accelerated impact of social media could materially adversely impact the Bank' s business. There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of internet- based communications which allow individuals' access to a broad audience of consumers and other interested persons. Social media practices in the banking industry are evolving, which creates uncertainty and risk of noncompliance with regulations applicable to the Bank' s business. Consumers value readily available information concerning businesses and their goods and services and often act on such information without further investigation and without regard to its accuracy. Many social media platforms immediately publish the content their subscribers and participants' post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to the Bank' s interests and / or may be inaccurate. The dissemination of information online could harm the Bank' s business, prospects, financial condition, and results of operations, regardless of the information' s accuracy. The harm may be immediate without affording the Bank an opportunity for redress or correction. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about the Bank' s business, exposure of personally identifiable information, fraud, out- of- date information, and improper use by employees, directors and customers. The inappropriate use of social media by the Bank' s customers, directors or employees could result in negative consequences such as remediation costs ~~including~~ **, remedial** training for employees, additional regulatory scrutiny and possible regulatory penalties, litigation, or negative publicity that could damage the Bank' s reputation adversely affecting customer or investor confidence. ~~27~~ STRATEGIC RISKS Our growth has substantially increased our expenses and impacted our results of operations. Although we believe that our growth- oriented business strategy will support our long- term profitability and franchise value, the expense associated with our growth, including compensation expense for the employees needed to support this growth and leasehold and other expenses associated with our locations, has and may continue to negatively affect our results. In addition, in order for our existing branches to contribute to our long- term profitability, we will need to be successful in attracting and maintaining cost- efficient deposits at these locations. In order to successfully manage our growth, we need to effectively execute policies, procedures and controls to maintain our credit quality and oversee our operations. We can provide no assurance that we will be successful in this strategy. **28** Our growth- oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees. We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees, and we may need to adopt additional equity plans in order to do so. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships and to hire, train and manage our employees. RISKS RELATED TO THE REGULATION OF OUR INDUSTRY We are subject to significant government regulation, which could affect our business, financial condition and results of operations. We are subject to extensive governmental supervision, regulation and control. The Company is subject to regulation and supervision by the Federal Reserve, and the Bank is subject to regulation and supervision by the FDIC and the New Jersey Department of Banking and Insurance. ~~Their~~ **These** laws and regulations are subject to change and may require substantial modifications to our operations or may cause us to incur substantial additional compliance costs. In addition, future legislation and government policy could adversely affect the commercial banking industry and our operations. Such governing laws can be anticipated to continue to be the subject of future modification. Our management cannot predict what effect any such future modifications will have on our operations. Changes to laws and regulation applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations. The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting stockholders. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. During the last year, 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, these policies and procedures may not be effective in preventing violations of these laws and regulations. We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase our cost of doing business or otherwise adversely affect us and create competitive advantage for non- bank competitors. ~~28~~ **Our lending limit may restrict our growth. We are limited in the amount we can loan to a single borrower by the amount of our capital. Generally, under current law, we may lend up to 15 % of our unimpaired capital and surplus, including capital notes, to any one borrower. Based upon our current capital levels, the amount we may lend is less than that of many of our larger competitors and may discourage potential borrowers who have credit needs in excess of our lending limit from doing business with us. We may accommodate larger loans by selling participations in those loans to other financial institutions, but this ability may not always be available. 29**