Risk Factors Comparison 2024-03-11 to 2023-03-16 Form: 10-K

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The Corporation is subject to the many risks and uncertainties applicable to all banking companies, as well as risks specific to the Corporation' s geographic locations. Although the Corporation seeks to effectively manage risks, and maintains a level of equity that exceeds the banking regulatory agencies' thresholds for being considered " well capitalized " (see Note ~~18~~ **17** to the consolidated financial statements), management cannot predict the future and cannot eliminate the possibility of credit, operational or other losses. Accordingly, actual results may differ materially from management' s expectations. Some of the Corporation' s significant risks and uncertainties are discussed below. Risk Related to Acquisition Activity – As described in Item 1, the Corporation has completed acquisitions of banking companies in 2020 and 2019 (Covenant and Monument) and expanded its geographic footprint to Southeastern and Southcentral Pennsylvania. Further, management intends to continue to pursue additional acquisition opportunities. Potential acquisitions may disrupt the Corporation' s business and dilute shareholder value. We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial service companies. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including: potential exposure to unknown or contingent liabilities of the target company, exposure to potential asset quality issues of the target company, difficulty and expense of integrating the operations and personnel of the target company, potential disruption to the Corporation' s business, potential diversion of management' s time and attention, the possible loss of key employees and customers of the target company, difficulty in estimating the value of the target company and potential changes in banking or tax laws or regulations that may affect the target company. Acquisitions may involve the payment of a premium over book and market values, and, therefore, some dilution of the Corporation' s tangible book value and net income per share of common stock may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue projections, cost savings, increases in geographic or product presence, and / or other projected benefits from recent or future acquisitions could have a material adverse effect on the Corporation' s financial condition or results of operations **. Risks Related to Banking Industry Turmoil – The Corporation is exposed to the risk that when a bank or other financial institution experiences financial difficulties, there could be an adverse " contagion " impact on other banking institutions. The failures of Silicon Valley Bank in California, Signature Bank in New York and First Republic Bank in California during the first and second quarters of 2023 caused an element of panic and uncertainty in the investor community and among bank customers generally, including, specifically, deposit customers. While the Corporation does not believe that the circumstances of these three failures are necessarily indicators of broader issues for concern with all other banks or with the banking system itself, the failures have reduced customer confidence and are likely to affect sources of funding and liquidity, increase regulatory requirements and costs, adversely affect financial markets and / or have negative reputational ramifications for institutions in the banking industry, including, possibly, the Corporation. The Corporation will continue to closely monitor the ongoing events and volatility in the financial services industry, together with any responsive measures taken by the banking regulators to mitigate or manage the turmoil** . Credit Risk from Lending Activities- A significant source of risk is the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most of the Corporation' s loans are secured, but some loans are unsecured. With respect to secured loans, the collateral securing the repayment of these loans may be insufficient to cover the obligations owed under such loans. **A significant portion of such collateral is real estate located in the Corporation' s core banking markets.** Collateral values may be adversely affected by changes in economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, wide- spread disease, terrorist activity, environmental contamination and other external events **. A decline in local economic conditions may have a greater effect on the Corporation' s earnings and capital than on the earnings and capital of other financial institutions whose real estate loan portfolios are more geographically diverse** . In addition, collateral appraisals that are out of date or that do not meet industry recognized standards may create the impression that a loan is adequately collateralized when it is not. The Corporation has adopted underwriting and credit monitoring procedures and policies, including regular reviews of appraisals and borrower financial statements, that management believes are appropriate to mitigate the risk of loss. Also, as discussed further in the " Provision and Allowance for ~~Loan~~ **Credit** Losses " section of Management' s Discussion and Analysis, the Corporation ~~attempts~~ **uses an expected loss methodology that is referred** to **as the current expected credit loss (" CECL ") methodology. CECL requires an** estimate ~~the amount~~ of **credit** losses **for** ~~that may be inherent in the portfolio through a quarterly evaluation process that includes several members of management and that addresses specifically identified problem loans, as well as other~~ -- **the** ~~quantitative data~~ **remaining estimated life of the financial asset using historical experience, current conditions,** and ~~qualitative factors~~ **reasonable and supportable forecasts** . Such risk management and accounting policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity **. A significant portion of the Corporation' s loan portfolio consists of commercial real estate loans, including owner occupied properties, non- owner- occupied properties, and other commercial properties. These types of loans are generally viewed as having more risk of default than residential real estate loans and depend on cash flows from the owner' s business or the property' s tenants to service the debt. The borrower' s cash flows may be affected significantly by general economic conditions, a downturn in the local economy or in occupancy rates in the market where the property is located, any of which could increase the likelihood of**

default. Commercial real estate loans also typically have larger loan balances, and, therefore, the deterioration of one or a few of these loans could cause a significant increase in the percentage of the Corporation' s non- performing loans. An increase in non- performing loans could result in a loss of earnings from these loans, an increase in the provision for credit losses for loans, and an increase in charge- offs, all of which could have a material adverse effect on the Corporation' s business, financial condition, and results of operations. The banking regulatory agencies have recently expressed concerns about weaknesses in the current commercial real estate market. Banking regulators generally give commercial real estate lending greater scrutiny and may require banks with higher levels of commercial real estate loans to implement enhanced risk management practices, including stricter underwriting, internal controls, risk management policies, more granular reporting, and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. If the Corporation' s banking regulators determine that our commercial real estate lending activities are particularly risky and are subject to such heightened scrutiny, the Corporation may incur significant additional costs or be required to restrict certain of our commercial real estate lending activities. Furthermore, failures in the Corporation' s risk management policies, procedures and controls could adversely affect our ability to manage this portfolio going forward and could result in an increased rate of delinquencies in, and increased losses from, this portfolio, which could have a material adverse effect on the Corporation' s business, financial condition, and results of operations . Interest Rate Risk- Business risk arising from changes in interest rates is an inherent factor in operating a banking organization. The Corporation' s assets are predominantly long- term, fixed- rate loans and debt securities. Funding for these assets comes principally from deposits with no stated maturities, term deposits and borrowed funds. Accordingly, there is an inherent risk of lower future earnings or decline in fair value of the Corporation' s financial instruments when interest rates change. Moreover, the Federal Reserve lowered the Federal Funds rate in 2020 and maintained a rate of 0 % to 0. 25 % throughout 2021 while injecting massive amounts of liquidity into the nation' s monetary system. In 2022, the Federal Reserve changed course, raising the Federal Funds rate several times to a range of 4. 25 % to 4. 50 % at December 31, 2022 ~~and~~ **. Furthermore, in 2023,** ~~then~~ **the Federal Reserve raised 6the rate several times** to ~~4~~ **a range of 5. 25 % to 5** . 50 % **at December 31** ~~to 4. 75 % on February 1~~ , 2023. The Federal Reserve' s rate increases, along with an accompanying tightening of the money supply, have been conducted in an effort to contain inflation. Significant fluctuations in interest rates, including fluctuations in interest rates triggered by the Federal Reserve' s actions, could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity. Limited Geographic Diversification- The Corporation grants commercial, residential and personal loans to customers primarily in the Corporation' s legacy markets of the Northern tier / Northcentral regions of Pennsylvania and Southern tier of New York and in Southeastern and Southcentral Pennsylvania. Although the Corporation has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the local economic conditions within these regions. Deterioration in economic conditions could adversely affect the quality of the Corporation' s loan portfolio and the demand for its products and services, and accordingly, could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity. Competition- All phases of the Corporation' s business are competitive. Some competitors are much larger in total assets and capitalization than the Corporation, have greater access to capital markets and can offer a broader array of financial services. There can be no assurance that the Corporation will be able to compete effectively in its markets. ~~Furthermore~~ **Additionally** , **the financial services industry is undergoing rapid technological change with frequent introductions of new technology- driven products and services, including those related to artificial intelligence, to technologies that automate functions previously performed manually, facilitate the ability of customers to engage in financial transactions and otherwise enhance the customer experience. Many of these initiatives take a significant amount of time to develop and implement, are tied to critical systems, and require substantial financial, human, and other resources. The investments by larger competitors in these initiatives may be more substantial than those of the Corporation, which may cause the Corporation to lose market share. Although the Corporation, in making such investments, takes steps to mitigate the risks and uncertainties associated with these initiatives, they are not always implemented on time, within budget, or without negative financial, operational, or customer impact and do not always perform as the Corporation or its customers expect. Moreover, costs associated with implementing technology- driven products or other services, or technology- related or other** developments increasing the nature or level of competition **,** could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity. Inability to Attract and Develop Qualified Personnel – The ~~Corporation believes that our~~ future success **of the Corporation** will depend in large part on our ability to attract, develop and retain highly qualified management, lending, financial, technological, marketing, sales, and support personnel. Competition for qualified personnel is intense and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for us to hire personnel over time. Our ability to retain key officers and employees may be further impacted by legislation and regulation affecting the financial services industry. For example, legislation and bank regulatory action that places restrictions on executive compensation at, and the pay practices of, financial institutions may further impact our ability to compete for talent with other industries that are not subject to the same limitations as financial institutions. Any inability to attract, develop and retain significant numbers of qualified management and other personnel would have a material adverse effect on our business, results of operations and financial condition. Cyber Security Risks and Technology Dependence – In the ordinary course of business, the Corporation collects and stores sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf. The secure processing, maintenance and use of this information is critical to operations and our business strategy. The Corporation has invested in accepted technologies, and continually reviews processes and practices that are designed to protect our networks, computers and data from damage or unauthorized access, and maintains an information security risk insurance policy. On an ~~6on-~~ **on** - going basis the Corporation assesses its cyber security procedures and controls and performs network penetration tests on at least an annual basis. All employees receive monthly information security awareness training. Despite these security measures, the Corporation' s computer systems and infrastructure or those of third parties used by us to compile, process or store such information may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. **Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to sensitive information, destroy data, steal financial assets, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber- attacks and other means. Denial of service attacks have been launched against a number of large financial services institutions. The Corporation may be subject to similar attacks in the future. Hacking and identity theft risks could 7cause serious reputational harm and financial loss to the Corporation. Cyber threats are rapidly evolving and the Corporation may not be able to anticipate or prevent all such attacks. Advancements in the use of artificial intelligence could lead to attacks by exploiting vulnerabilities to manipulate model outputs or bypass security controls.** A breach of any kind could compromise systems and the information stored there could be accessed, damaged **, locked up,** or disclosed. A breach in security could result in legal claims, regulatory penalties, disruption in operations, and damage to the Corporation' s reputation, which could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity. Government Regulation and Monetary Policy- The Corporation and the banking industry are subject to extensive regulation and supervision under federal and state laws and regulations. The requirements and limitations imposed by such laws and regulations limit the way the Corporation conducts its business, undertakes new investments and activities **,** and obtains financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit the Corporation' s shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is in the control of the Corporation. Significant new laws or changes in, or repeals of, existing laws could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity **. For example, the regulatory authorities may take actions that could result in decreases in service charge revenue from deposit accounts, including overdraft privilege and other fees** . Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects short- term interest rates and credit conditions, and any unfavorable change in these conditions could have a material adverse effect on the Corporation' s financial condition, results of operations or liquidity. Bank Secrecy Act and Related Laws and Regulations- These laws and regulations have significant implications for all financial institutions. In recent years, they have increased due diligence requirements and reporting obligations for financial institutions, created new crimes and penalties, and required the federal banking agencies, in reviewing merger and other acquisition transactions, to consider the effectiveness of the parties to such transactions in combating money laundering activities. Even innocent noncompliance and inconsequential failure to follow the regulations could result in significant fines or other penalties, which could have a material adverse impact on the Corporation' s financial condition, results of operations or liquidity. The Federal Home Loan Bank of Pittsburgh- Through its subsidiary (C & N Bank), the Corporation is a member of the Federal Home Loan Bank of Pittsburgh (FHLB- Pittsburgh), which is one of 11 regional Federal Home Loan Banks. The Corporation has a line of credit with the FHLB- Pittsburgh that is secured by a blanket lien on its loan portfolio. Access to this line of credit is critical if a funding need arises. However, there can be no assurance that the FHLB- Pittsburgh will be able to provide funding when needed, nor can there be assurance that the FHLB- Pittsburgh will provide funds specifically to the Corporation should its financial condition deteriorate and / or regulators prevent that access. The inability to access this source of funds could have a materially adverse effect on the Corporation' s financial flexibility if alternate financing is not available at acceptable interest rates. The failure of the FHLB- Pittsburgh or the FHLB system in general, may materially impair the Corporation' s ability to meet short- and long- term liquidity needs or to meet growth plans. The Corporation owns common stock of the FHLB- Pittsburgh to qualify for membership in the FHLB system and access services from the FHLB- Pittsburgh. The FHLB- Pittsburgh faces a variety of risks in its operations including interest rate risk, counterparty credit risk, and adverse changes in its regulatory framework. In addition, the 11 Federal Home Loan Banks are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB cannot meet its obligations, other FHLBs can be called upon to make required payments. Such risks affecting the FHLB- Pittsburgh could adversely impact the value of the Corporation' s investment in the common stock of the FHLB- Pittsburgh and / or affect its access to credit. Soundness of Other Financial Institutions- In addition to the FHLB- Pittsburgh, the Corporation maintains other credit facilities that provide it with additional liquidity. These facilities include secured and unsecured borrowings from the Federal Reserve Bank and third- party commercial banks. The Corporation believes that it maintains a strong liquidity position and that it is well positioned to withstand foreseeable market conditions. However, legal agreements with counterparties typically include provisions allowing them to restrict or terminate the Corporation' s access to these credit facilities with or without advance notice and at their sole discretion. Financial institutions are interconnected because of trading, clearing, counterparty, and other relationships. Financial market conditions have been negatively impacted in the past and such disruptions or adverse changes in the Corporation' s results of operations or financial condition could, in the future, have a negative impact on available sources of liquidity. Such a situation may arise due to circumstances that are outside the Corporation' s control, such as general market disruptions or operational problems affecting the Corporation or third parties. The Corporation' s efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or ~~7~~ **unanticipated reductions in available liquidity. In such events, the Corporation' s cost of funds may increase, thereby reducing net interest 8**