Risk Factors Comparison 2023-12-14 to 2022-12-14 Form: 10-K

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In addition to factors discussed in the description of our business and elsewhere in this report, the following are factors that could adversely affect our future results of operations and financial condition. Economic and Market Area Changes in economic conditions, in particular an economic slowdown in the markets we operate in, could materially and negatively affect our business. Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. Any deterioration in economic conditions, whether caused by national or local concerns, in particular any further economic slowdown in the markets we operate in, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or non- interest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. Our success significantly depends upon the growth in population, income levels, deposits, and housing starts in our markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally are unfavorable, our business may not succeed. An economic downturn or prolonged recession may result in the deterioration of the quality of our loan portfolio and reduce our level of deposits, which in turn would hurt its business. If we experience an economic downturn or a prolonged economic recession occurs in the economy as a whole, borrowers will be less likely to repay their loans as scheduled. Unlike many larger institutions, we are not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies. An economic downturn could, therefore, result in losses that materially and adversely affect our business. Inflationary pressures and rising prices may affect our results of operations and financial condition. Inflation rose sharply at the end of 2021 and ~~has continued rising in~~ **remained at an elevated level through** 2022 **and** ~~at levels not seen for over 40 years. Inflationary pressures are currently expected to remain elevated throughout 2022~~ **2023** . Small to medium- sized businesses may be impacted more during periods of high inflation as they are not able to leverage economics of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to the Company to increase, which could adversely affect our results of operations and financial condition ~~. The COVID- 19 pandemic could continue to pose risks and could harm our business, our results of operations and the prospects of the Company. The COVID- 19 pandemic has adversely impacted the global and national economy and certain industries and geographies in which our clients operate. Given its ongoing and dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic on the business of the Company, its clients, employees and third- party service providers. The extent of such impact will depend on future developments, which are highly uncertain. Additionally, the responses of various governmental and nongovernmental authorities and consumers to the pandemic may have material long- term effects on the Company and its clients which are difficult to quantify in the near- term or long- term~~ . Concentration of Loans in Our Primary Market Area May Increase the Risk of Increased Nonperforming Assets. Our success depends primarily on the general economic conditions in the Pennsylvania counties of Monroe, Northampton, Lehigh, Lackawanna, Luzerne, Chester, Delaware and Montgomery as nearly all of our loans are to customers in these markets. Accordingly, the local economic conditions in these market areas have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, decline in real estate values in these market areas would also lower the value of the collateral securing loans on properties in these market areas. In addition, weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results. Strong Competition Within Our Market Areas May Limit Our Growth and Profitability. Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long- term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see " Item 1. Business — Competition. " The Soundness of Other Financial Services Institutions May Adversely Affect Our Credit Risk. We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition. ~~Changes to LIBOR may adversely impact the value of, and the return on, our loans, investment securities and derivatives which are indexed to LIBOR. ICE Benchmark Administration, the authorized and regulated administrator of LIBOR, ended publication of the one- week and two- month USD LIBOR tenors on December 31, 2021 and the remaining USD LIBOR tenors will end publication in June 2023. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. Uncertainty as to the nature of such potential changes, alternative reference rates, the~~

~~elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our loans, and our investment securities.~~ Interest Rate and Asset Quality Future Changes in Interest Rates Could Reduce Our Profits. Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between: 1. the interest income we earn on our interest- earning assets, such as loans and securities; and 2. the interest expense we pay on our interest- bearing liabilities, such as deposits and borrowings. The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of times. Like many banks, our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, as market interest rates change over time. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers speed up prepayments of mortgage loans, and mortgage- backed securities and callable investment securities are called, requiring us to reinvest those cash flows at lower interest rates. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. Furthermore, increases in interest rates may adversely affect our ability to originate loans and / or the ability of our borrowers to make loan repayments on adjustable- rate loans, as the interest owed on such loans would increase as interest rates increase. In addition, changes in interest rates can affect the average life of loans and mortgage- backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage- backed and related securities, as borrowers refinance their loans in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Alternatively, increases in interest rates may decrease loan demand and / or make it more difficult for borrowers to repay adjustable rate loans. Changes in interest rates also affect the current market value of our interest- earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, ~~2022~~ **2023** , the fair value of our investment securities available for sale totaled $ ~~208~~ **334** . ~~6~~ **1** million. Unrealized net losses on these available for sale securities totaled approximately $ ~~17~~ **22** . ~~6~~ **2** million at September 30, ~~2022~~ **2023** and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders' equity. We evaluate interest rate sensitivity by estimating the change in the Bank' s Economic Value of Equity (" EVE ") over a range of interest rate scenarios. EVE is the net present value of the Company' s asset cash flows minus the net present value of the Company' s liability cash flows. At September 30, ~~2022~~ **2023** , in the event of an immediate 200 basis point increase in interest rates, the Company' s model projects that we would experience a $ ~~13~~ **30** . ~~3~~ **7** million, or ~~3~~ **10** . 2 %, decrease in net portfolio value. See " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk. " A significant portion of our assets consists of investment securities, which generally have lower yields than loans, and we classify a significant portion of our investment securities as available for sale, which creates potential volatility in our equity and may have an adverse impact on our net income. As of September 30, ~~2022~~ **2023** , our securities portfolio totaled $ ~~265~~ **386** . ~~9~~ **3** million, or ~~14~~ **16** . ~~3~~ **8** % of our total assets. Investment securities typically have lower yields than loans. For the year ended September 30, ~~2022~~ **2023** , the weighted average yield of our investment securities portfolio was ~~2~~ **4** . ~~78~~ **50** %, as compared to 4. ~~07~~ **65** % for our loan portfolio. Accordingly, our net interest margin is lower than it would have been if a higher proportion of our interest- earning assets consisted of loans. Additionally, at September 30, ~~2022~~ **2023** , $ ~~208~~ **334** . ~~6~~ **1** million, or ~~78~~ **86** . 5 % of our investment securities, are classified as available for sale and reported at fair value with unrealized gains or losses excluded from earnings and reported in other comprehensive income, which affects our reported equity. Accordingly, given the significant size of the investment securities portfolio classified as available for sale and due to possible mark- to- market adjustments of that portion of the portfolio resulting from market conditions, we may experience greater volatility in the value of reported equity. Moreover, given that we actively manage our investment securities portfolio classified as available for sale, we may sell securities which could result in a realized loss, thereby reducing our net income. Our Continued Emphasis on Commercial Real Estate Lending Increases Our Exposure to Increased Lending Risks. Our business strategy centers on continuing our emphasis on commercial real estate lending. We have grown our loan portfolio in recent years with respect to this type of loan and intend to continue to emphasize this type of lending. At September 30, ~~2022~~ **2023** , $ ~~678~~ **822** . ~~8~~ **0** million, or ~~46~~ **48** . ~~6~~ **3** %, of our total loan portfolio consisted of commercial real estate loans. Loans secured by commercial real estate generally expose a lender to greater risk of non- payment and loss than one- to four- family residential mortgage loans because repayment of the commercial real estate loans often depends on the successful operation of the property and the income stream of the underlying property. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four- family residential mortgage loans. Accordingly, an adverse development with respect to one loan or one credit relationship can expose us to greater risk of loss compared to an adverse development with respect to a one- to four- family residential mortgage loan. We seek to minimize these risks through our underwriting policies, which require such loans to be qualified on the basis of the property' s collateral value, net income and debt service ratio; however, there is no assurance that our underwriting policies will protect us from credit- related losses. ~~At September 30, 2022, our largest commercial real estate lending relationship was $ 17. 8 million of loans located in Lehigh County, Pennsylvania and secured by real estate. These loans were performing in accordance with its repayment terms. See " Item 1. Business — Lending Activities — Commercial Real Estate Loans. "~~ Increases to the Allowance for Credit Losses May Cause Our Earnings to Decrease. Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. In addition, the estimates used to determine the fair value of such loans as of the acquisition date may be inconsistent with the actual performance of the acquired loans. Hence, we may experience significant credit losses, which could have a material adverse effect on our operating results. We 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 loans. In determining the amount of the allowance for credit losses, we rely on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to the allowance. Material additions to the allowance would materially decrease our net income. Our emphasis on the origination of commercial real estate and business loans is one of the more significant factors in evaluating our allowance for credit losses. As we continue to increase the amount of these loans, additional or increased provisions for credit losses may be necessary and as a result would decrease our earnings **. Source of Funds Our funding sources may prove insufficient to replace deposits at maturity and support our future growth. A lack of liquidity could adversely affect our financial condition and results of operations and result in regulatory limits being placed on the Company. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our primary source of funds for use in lending and investment activities. We also receive funds from loan repayments, investment maturities and income on other interest- earning assets. While we emphasize the generation of low- cost core deposits as a source of funding, there is strong competition for such deposits in our market area. Additionally, deposit balances can decrease if customers perceive alternative investments as providing a better risk / return tradeoff. Accordingly, as a part of our liquidity management, we must use a number of funding sources in addition to deposits and repayments and maturities of loans and investments. As we continue to grow, we may become more dependent on these sources, which could include Federal Home Loan Bank advances, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, pay our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. A lack of liquidity could also attract increased regulatory scrutiny and potential restraints imposed on us by regulators. Depending on the capitalization status and regulatory treatment of depository institutions, including whether an institution is subject to a supervisory prompt corrective action directive, certain additional regulatory restrictions and prohibitions may apply, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Our reliance on wholesale funding could adversely affect our liquidity and operating results. Among other sources of funds, we rely on wholesale funding, including short- and long- term borrowings, brokered deposits and non- brokered deposits acquired through listing services, to provide funds with which to make loans, purchase investment securities and provide for other liquidity needs. On September 30, 2023, wholesale funding totaled $ 588. 8 million, or approximately 25. 7 % of total assets. In the future, this funding may not be readily replaced as it matures, or we may have to pay a higher rate of interest to maintain it. Not being able to maintain or replace those funds as they mature would adversely affect our liquidity. Paying higher interest rates to maintain or replace funding would adversely affect our net interest margin and operating results** . Regulatory Matters A new accounting standard may require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations. The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for our first fiscal year beginning after December 15, 2022. This standard, referred to as Current Expected Credit Loss, or CECL, will 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. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. Bank regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or loan charge- offs. Any increase in our allowance for credit losses or loan charge- offs as required by these regulatory authorities could have a material adverse effect on our results of operations and / or financial condition. We Operate in a Highly Regulated Environment and May Be Adversely Affected by Changes in Laws and Regulations. We are subject to extensive regulation, supervision, and examination by the Federal Reserve Board, the FDIC and the Department. Such regulators govern the activities in which we may engage, primarily for the protection of depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank, the imposition of higher capital requirements, and the adequacy of a bank' s allowance for credit losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on us and our operations. We believe that we are in substantial compliance with applicable federal, state and local laws, rules and regulations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. There can be no assurance that proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Security Risks Associated with System Failures, Interruptions, Or Breaches of Security Could Negatively Affect Our Earnings. Information technology systems are critical to our business. We use various technology systems to manage our customer relationships, general ledger, securities investments, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches (including privacy breaches), but such events may still occur or may not be adequately addressed if they do occur. In addition, any compromise of our systems could deter customers from using our products and services. Although we rely on security systems to provide security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security. In addition, we outsource a majority of our data processing to certain third- party providers. If these third- party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected.

Threats to information security also exist in the processing of customer information through various other vendors and their personnel. The occurrence of any system failures, interruption, or breach of security could damage our reputation and result in a loss of customers and business thereby subjecting us to additional regulatory scrutiny, or 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. Risks Associated with Cyber- Security Could Negatively Affect Our Earnings. The financial services industry has experienced an increase in both the number and severity of reported cyber- attacks aimed at gaining unauthorized access to bank systems as a way to misappropriate assets and sensitive information, corrupt and destroy data, or cause operational disruptions. We have established policies and procedures to prevent or limit the impact of security breaches, but such events may still occur or may not be adequately addressed if they do occur. Although we rely on security safeguards to secure our data, these safeguards may not fully protect our systems from compromises or breaches. 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. Our customers are also the target of cyber- attacks and identity theft. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses. The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and 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. **While our Board of Directors takes an active role in cybersecurity risk tolerance, we rely to a large degree on management and outside consultants in overseeing cybersecurity risk management. Our Board of Directors takes an active role in the cybersecurity risk tolerance of the Company and all members receive cybersecurity training annually. The Board reviews the annual risk assessments and approves information technology policies, which include cybersecurity. Furthermore, our Audit Committee is responsible for reviewing all audit findings related to information technology general controls, internal and external vulnerability, and penetration testing. We also engage outside consultants to support our cybersecurity efforts. However, our directors do not have significant experience in cybersecurity risk management outside of the Company and therefore, its ability to fulfill its oversight function remains dependent on the input it receives from management and outside consultants.**