

## Risk Factors Comparison 2024-10-16 to 2023-09-28 Form: 10-K

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

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock. Risks Related to **Recent Acquisition The Company must successfully integrate the former Regal Merger Somerset Savings Bank** may be unable **operations and retain the former Regal Bank employees and customers. The Company completed its acquisition of Regal Bancorp and its wholly owned subsidiary Regal Bank in September 2023. Future results of operations will depend in large part on the Company's ability to effectively successfully integrate the operations of Regal Bank and retain Regal Bank's operations-employees and customers.** The Merger involves **If the Company is unable to successfully manage** the integration of **the** Regal Bank into Somerset Savings Bank. The difficulties of integrating the operations of these two institutions include, among other things: • integrating personnel with diverse business backgrounds; • combining different corporate cultures ; and • retaining key employees **employee and customer bases and**. The process of integrating operations **operating systems** could cause an **and achieve** interruption of, or loss of momentum in, the **synergies and costs** activities of one or more of SR Bancorp, Somerset Savings **savings Bank it anticipated**, and Regal Bank and the loss of key personnel. The integration of Regal Bank will require the experience and expertise of certain key employees of Regal Bank who are expected to be retained by Somerset Savings Bank. However, there **the Company** can be no assurances that Somerset Savings Bank will be successful in retaining these employees for the period necessary to successfully integrate Regal Bank's **results of operations may**. The diversion of management's attention and any delays or difficulties encountered in connection with the Merger, along with Regal Bank's integration, could have an adverse effect on the business and results of operations of Regal Bancorp and SR Bancorp. We could potentially recognize goodwill impairment charges after the Merger and conversion. Our merger with Regal Bancorp is accounted for using the purchase method of accounting. In accordance with applicable accounting principles, SR Bancorp estimated that, as a result of the Merger and based on pro forma financial data as of March 31, 2023, total intangible assets of \$ 28. 2 million, including goodwill totaling \$ 19. 4 million, would be recorded under Statement of Financial Accounting Standard No. 142 ("SFAS No. 142"). As a result, on a pro forma basis assuming the completion of the offering, goodwill will equal approximately 9. 9 % of the \$ 195. 2 million of pro forma consolidated total shareholders' equity at June 30, 2023. Pursuant to the provisions of SFAS No. 142, SR Bancorp will annually review the fair value of its investment in Regal Bancorp to determine that such fair value equals or exceeds the carrying value of its investment, including goodwill. If the fair value of our investment in Regal Bancorp does not equal or exceed its carrying value, we will be required to record goodwill impairment charges, which may adversely affect **affected** our future earnings. The fair value of a banking franchise can fluctuate downward based on a number of factors that are beyond management's control, e. g. adverse trends in interest rates and increased loan losses. If our banking franchise value declines after consummation of the conversion and the Merger, there may be goodwill impairment charges to operations, which would adversely affect our future earnings. Unanticipated costs relating to the Merger could reduce SR Bancorp's future earnings. Somerset Savings Bank and SR Bancorp believe they have reasonably estimated the likely costs of integrating the operations of Regal Bancorp and Regal Bank and the incremental costs of operating as a combined company. However, it is possible that unexpected transaction costs such as taxes, fees, professional expenses or unexpected future operating expenses, such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, could have a material adverse effect on the results of operations and financial condition of SR Bancorp and / or Somerset Savings Bank after the Merger. If unexpected costs are incurred, the Merger could have a dilutive effect on SR Bancorp's earnings. In other words, if the Merger is completed and SR Bancorp and / or Somerset Savings Bank incurs unexpected costs and expenses as a result of the Merger, SR Bancorp's earnings could be **less than anticipated**. Risks Related to Economic Conditions A worsening of economic conditions in our market area could reduce demand for our products and services and / or result in increases in our level of non- performing loans, which could adversely affect our operations, financial condition and earnings. Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans. A deterioration in economic conditions, especially local conditions, could have the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations, and could more negatively affect us compared to a financial institution that operates with more geographic diversity: • demand for our products and services may decline; • loan delinquencies, problem assets and foreclosures may increase; • collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans; and • the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us. Moreover, a significant decline in general economic conditions caused by inflation, recession, acts of terrorism, civil unrest, an outbreak of hostilities or other international or domestic calamities, an epidemic or pandemic, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance. Inflation can have an adverse impact on our business and on our 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. **Inflation** Recently, there has **remained elevated** been a rise in inflation and **, in response** the Federal Reserve Board has raised certain benchmark interest rates **in an effort to combat inflation**. As discussed below under " — Risks Related to Interest Rates – Changes in interest rates or the shape of the yield curve may adversely affect

our profitability and financial condition, ” as inflation increases and market interest rates rise the value of our 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 we use in our business operations, such as electricity and other utilities, which increases our noninterest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. **An Sustained higher interest rates by the FRB to tame persistent inflationary pressures could decrease asset prices and weaken economic activity.** A recession could result in increases in our level of non-performing loans and / or reduce demand for our products and services, which would lead to lower revenue, higher ~~loan credit~~ losses and lower earnings. Our business activities and earnings are affected by general business conditions in the United States and in our local market area. These conditions include short- term and long- term interest rates, inflation, unemployment levels, real estate values, monetary supply, consumer confidence and spending, fluctuations in both debt and equity capital markets, and the strength of the economy in the United States generally and in our market area in particular. If the national economy experiences a recession, which might include rising unemployment levels, declines in real estate values and / or an erosion in consumer confidence, the ability of our borrowers to repay their loans in accordance with their terms could be impaired. Nearly all of our loans are secured by real estate or made to businesses in the counties in which we have offices in New Jersey. As a result of this concentration, a prolonged or more severe downturn in the local economy could result in significant increases in non- performing loans, negatively impacting our interest income and resulting in higher provisions for ~~loan credit~~ losses. An economic downturn could also result in reduced demand for credit, which would lessen our revenues - The geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in our local market area. Our loan portfolio is concentrated primarily in North Central New Jersey. This makes us vulnerable to a downturn in the local economy and real estate markets, although our local market area has not experienced any recent material declines in real estate value, nor have we experienced a material increase in the number of foreclosures during the preceding twelve months. Adverse conditions in the local economy such as unemployment, recession, a catastrophic event or other factors beyond our control could impact the ability of our borrowers to repay their loans, which could impact our net interest income. Decreases in local real estate values caused by economic conditions, changes in tax laws or other events could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure. Further, deterioration in local economic conditions could increase our allowance for loan losses, which in turn could necessitate an increase in our provision for loan losses and a resulting reduction to our earnings and capital. Changes in interest rates or the shape of the yield curve may adversely affect our profitability and financial condition. We derive our income mainly from the difference or spread between the interest earned on loans, securities and other interest- earning assets and the interest paid on deposits, borrowings and other interest- bearing liabilities. In general, the larger the spread, the more we earn. When market interest rates change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income. In response to rising inflation, the Federal Reserve’ s Federal Open Market Committee has significantly increased market interest rates, with the expectation of **continued maintaining this level of market interest rates increases for the foreseeable future** . Our net interest spread and net interest margin may have decreased and may continue to decrease due to potential increases in our cost of funds that may outpace any increases in our yield on interest- earnings assets. The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many financial institutions, our liabilities generally have shorter contractual maturities than our assets - This is exacerbated due to our historical focus on one- to four- family residential real estate loans, the substantial majority of which have fixed interest rates. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income we earn on our assets may not increase as rapidly as the interest we pay on our liabilities. For example, during the years ended June 30, **2024 and June 30, 2023 and 2022**, Somerset Savings **Regal** Bank experienced an increase in certificates of deposits and a decrease in lower- cost savings accounts reflecting the decision of many depositors to take advantage of increased interest rates being paid on certificates of deposits - In addition, the estimated fair value of the available- for- sale debt securities portfolio may change depending on changes in interest rates, among other factors. Stockholders’ equity is increased or decreased by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of the available- for- sale debt securities portfolio, under the category of accumulated other comprehensive income (loss). During the year ended June 30, 2023, we incurred other comprehensive income of \$ 3. 9 million compared to other comprehensive loss of \$ 3. 8 million for the year ended June 30, 2022, related to net changes in unrealized holding losses in the available- for- sale investment securities portfolio . Interest rates also affect how much money we lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. In addition, changes in interest rates can affect the average life of loans and securities. For example, an increase in interest rates generally results in decreased prepayments of loans and mortgage- backed securities, as borrowers are less likely to refinance their debt. ~~Changes in market interest rates also impact the value of our interest- earning assets and interest- bearing liabilities. In particular, the unrealized gains and losses on securities available for sale are reported, net of tax, in accumulated other comprehensive income, which is a component of shareholders’ equity. Consequently, declines in the fair value of these instruments resulting from changes in market interest rates have, and may continue to, adversely affect shareholders’ equity.~~ Risks Related to **Strategy and** Growth Our business strategy includes **moderate** growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Our business strategy includes **moderate** growth in assets, deposits and the scale of our operations. Achieving our growth targets will require us to attract customers that currently bank at other financial institutions in our market, thereby increasing our share of the market, and to expand the size of our market area. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, the

competitive responses from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in expanding lending capacity, and generally a period of time is required to generate the necessary revenues to offset these costs, especially in areas in which we do not have an established presence. Accordingly, any such business expansion can be expected to negatively impact our earnings until certain economies of scale are reached. New lines of business or new products and services may subject us to additional risks. From time to time, we may implement new lines of business or offer new products and services within existing lines of business. In addition, we will continue to invest in research, development, and marketing for new products and services. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the development and introduction of new lines of business and / or new products or services may not be achieved and price and profitability targets may not prove feasible. Furthermore, if customers do not perceive our new offerings as providing significant value, they may fail to accept our new products and services. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, the burden on management and our information technology in introducing any new line of business and / or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, financial condition and results of operations. ~~All~~ **A significant portion** of our loans are secured by real estate, ~~and~~ **which could negatively impact our profitability upon** a downturn in the local real estate market ~~could negatively impact our profitability~~. At June 30, ~~2023~~ **2024**, ~~approximately \$ 722. 4 million~~ **our** ~~or entire~~ **total 98. 3 % of our** loan portfolio was secured by real estate, most of which is located in our primary lending market area of ~~Essex, Hunterdon, Middlesex and, Morris, Somerset and Union~~ **Essex, Hunterdon, Middlesex and, Morris, Somerset and Union** Counties, New Jersey and surrounding areas. Future declines in real estate values in our primary lending markets and surrounding markets because of an economic downturn could significantly impair the value of the ~~particular~~ collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. This could require us to increase our allowance for ~~loan~~ **credit** losses to address the decrease in the value of the real estate securing our loans, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Unlike larger financial institutions that are more geographically diversified, our profitability depends primarily on the general economic conditions in our primary market area. Local economic conditions have a significant impact on our residential real estate and other types of lending, including, the ability of borrowers to repay these loans and the value of the collateral securing these loans. ~~Moreover, a significant decline in general economic conditions, caused by inflation, acts of terrorism, an outbreak of hostilities or other international or domestic calamities or other factors beyond our control could further impact these local economic conditions and could further negatively affect our financial performance. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.~~ Our reliance on third parties to originate certain loans may negatively impact our financial results if such relationships are discontinued. We purchase residential mortgage loans from third- party brokers. Such purchases represented \$ ~~42-41. 6-5~~ **million, or 70-52. 7 %**, of our residential mortgage loan purchases and originations for the year ended June 30, ~~2023~~ **2024**. Similarly, ~~we Regal Bank~~ **relied on third- party brokers to refer to it us** multi- family real estate loans. Such referrals represented \$ ~~8-16. 8-7~~ **million, or 34-57. 2-6 %**, of ~~Regal Bank's~~ **multi- family** loan originations for the year ended June 30, ~~2023~~ **2024**. These third parties are used to supplement the originations made by in- house staff. In each case, ~~Somerset we and Regal Bank~~ **separately underwrite each loan before it is either purchased or closed. Should these broker relationships be discontinued or the we or Regal Bank are is** otherwise unable to use these companies in the future, our ability to originate residential mortgage loans or multi- family real estate loans may be ~~disrupted~~ **reduced** unless and until we are able to find a suitable replacement or have the capability to originate such loans through our lending staff. If we have to add more staff, our compensation expense would increase. Our income may be negatively affected if our residential mortgage lending or multi- family residential lending operations are disrupted. Because we intend to increase our multi- family and commercial real estate and commercial loan originations, our lending risk will increase. Multi- family and commercial real estate and commercial loans generally have more risk than residential mortgage loans. Because the repayment of multi- family and commercial real estate and commercial loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. Multi- family and commercial real estate and commercial loans may also involve relatively large loan balances to individual borrowers or groups of related borrowers. A downturn in the real estate market or the local economy could adversely impact the value of properties securing the loan or the revenues from the borrower's business thereby increasing the risk of non- performing loans. Also, many multi- family and commercial real estate and commercial business borrowers can have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential mortgage loan. Further, unlike residential mortgages or multi- family and commercial real estate loans, commercial and industrial loans may be secured by collateral other than real estate, such as inventory and accounts receivable, the value of which may be more difficult to appraise, may be more susceptible to fluctuation in value at default, and may be more difficult to realize upon enforcement of our remedies. As our multi- family and commercial real estate and commercial loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase. ~~If~~ **The implementation of the** ~~Current Expected Credit Loss accounting standard could require us to increase~~ **our allowance for credit losses and may have a**

material adverse effect on **is not sufficient to cover actual credit losses**, our **earnings** financial condition and results **capital could decrease**. We make various assumptions and judgments about the collectability of operations **our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for our loans**. In determining the amount of the allowance for credit losses, we review our loans and our loss and delinquency experience, and we evaluate other factors including, among other things, current economic conditions. If our assumptions are incorrect, or if delinquencies or non-performing loans increase, our allowance for credit losses may not be sufficient to cover probable and incurred losses inherent in our loan portfolio, which would require additions to our allowance, that could materially decrease our net income. Our allowance for credit losses was **0.71 % and 0.31 %** of total loans at **June 30, 2024** and **June 30, 2023**, respectively. **the Financial Accounting Standards Board (the "FASB") issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 will be effective for our first fiscal year beginning after December 15, 2022 and will replace the current incurred loss model with an expected loss model. This standard, referred to as "CECL" or "CECL" was effective for SR Bancorp on July 1, 2023. CECL** requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans **and certain other instruments**, and recognize the expected credit losses as allowances for credit losses. **The adoption of CECL may result in..... losses as allowances for credit losses. This will change** **changed** the current method of providing allowances for loan losses that are incurred or probable, which **may** **would** **likely** require us to increase our allowance for credit losses **in the future** and **to will** greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. In addition, **Somerset Regal** bank regulators periodically review our allowance for credit losses and, based on their judgments and information available to them at the time of their review, may require us to increase our allowance for credit losses or recognize further loan charge-offs. An increase in our allowance for credit losses or loan charge-offs as required by these regulatory authorities may reduce our net income and our capital, which may have a material adverse effect on our financial condition and results of operations. **If our non-performing assets increase, our earnings will be adversely affected. At June 30, 2023, we had \$ 200,000 in non-performing assets, which was comprised entirely of non-performing loans and no other real estate owned. Non-performing assets adversely affect our net income in various ways: • we record interest income only on the cash basis or cost-recovery method for non-accrual loans and we do not record interest income for other real estate owned; • we must provide for probable loan losses through a current period charge to the provision for loan losses; • noninterest expense increases when we write down the value of properties in our other real estate owned portfolio to reflect changing market values; • there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees; and • the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity. If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.** Risks Related to Our Funding Our inability to generate core deposits may cause us to rely more heavily on wholesale funding strategies for funding and liquidity needs, which could have an adverse effect on our net interest margin and profitability. We must maintain sufficient funds to respond to the needs of depositors and borrowers. Deposits have traditionally been our exclusive source of funds for use in lending and investment activities. We also receive funds from loan repayments, **investment maturities of securities** and income on other interest-earning assets. While we emphasize generating transaction accounts, we cannot guarantee if and when this will occur. **Certificates of deposit comprised \$ 272.8 million or 33.8 % of our total deposits at June 30, 2024. Certificates of deposit due within one year of June 30, 2024 totaled \$ 111.4 million, or 13.8 % of total deposits**. Further, the considerable competition for deposits in our market area also has made, and may continue to make, it difficult for us to obtain reasonably priced deposits. Moreover, deposit balances can decrease if customers perceive alternative investments as providing a better risk / return tradeoff. If we are not able to increase our lower-cost transactional deposits at a level necessary to fund our asset growth or deposit outflows, we may be forced seek other sources of funds, including other certificates of deposit, Federal Home Loan Bank advances, brokered deposits and lines of credit to meet the borrowing and deposit withdrawal requirements of our customers, which may be more expensive and have an adverse effect on our net interest margin and profitability. **In this regard, total deposits decreased \$ 18.2 million, or 3.5 %, to \$ 503.9 million at June 30, 2023 from \$ 522.1 million at June 30, 2022. The decrease in deposits coupled with a desire to increase liquidity led Somerset Savings Bank to obtain a \$ 20.0 million borrowing from the Federal Reserve Bank under the new Bank Term Funding Program to enhance liquidity and fund loan growth.** Risks Related to Competition Strong competition within our market area may limit our growth and profitability. Competition in the banking and financial services industry is intense. In our market area, 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. Many of our competitors have greater name recognition, market presence and substantially more resources that benefit them in attracting business **and offer certain services that we do not or cannot provide. Our smaller asset size also makes it more difficult to compete, as many of our competitors are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. 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 area. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. Competition also makes it increasingly difficult and costly to attract and retain qualified employees. For additional information see "Business of SR Bancorp and Somerset Savings Regal Bank — Competition."** The financial services industry could become even more competitive as a result of continuing legislative, regulatory and technological changes and continued industry consolidation. Banks, securities firms and insurance companies can

merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many Competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services than we can as well as better pricing for those products and services.

**Risks Related to COVID-19** The COVID-19 pandemic could continue to pose risks to our business, our results of operations and the future prospects of SR Bancorp. 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 SR Bancorp, 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 non-governmental authorities and consumers to the pandemic may have material long-term effects on SR Bancorp and its clients which are difficult to quantify in the near-term or long-term.

**Risks Related to Operations and Security** We face significant operational risks because the nature of the financial services business involves a high volume of transactions. We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of our internal control systems and compliance requirements. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory standards, adverse business decisions or their implementation, or customer attrition due to potential negative publicity. In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and / or suffer damage to our reputation. Cyber-attacks or other security breaches could adversely affect our operations, net income or reputation. We regularly collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf. Information security risks have generally increased in recent years because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial and other transactions and, the increased sophistication and activities of perpetrators of cyber-attacks and mobile phishing and more employees working remotely. Mobile phishing, a means for identity thieves to obtain sensitive personal information through fraudulent e-mail, text or voice mail, is an emerging threat targeting the customers of financial entities. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and / or cause losses. Although we employ a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of information does occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on our behalf, our policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit us to confirm the third party's compliance with the terms of the agreement. As information security risks and cyber threats continue to evolve, we may be required to expend additional resources to continue to enhance our information security measures and / or to investigate and remediate any information security vulnerabilities. If this our confidential or proprietary information were to be mishandled, misused or lost, we could be exposed to significant regulatory consequences, reputational damage, civil litigation and / or financial loss. 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, deposits, and loans. We have established policies and procedures to prevent or limit the impact of system failures, interruptions, and security breaches, but such events may still occur and 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 the 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 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, interruptions, or breaches of security could damage our reputation and result in a loss of customers and business, subject us to additional regulatory scrutiny or 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.

**Our success depends on retaining certain key personnel. Our performance largely depends on the talents and efforts of our experienced senior management team. We rely on key personnel to manage and operate our business, including major revenue generating functions such as loan and deposit generation. The loss of key staff may adversely affect our ability to maintain and manage these functions effectively, which could negatively affect our income. In addition, the loss of key personnel could result in increased recruiting and hiring**

**expenses, which would reduce our net income. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.** The cost of additional finance and accounting systems, procedures and controls to satisfy our new public company reporting requirements will increase our expenses. ~~As a result of the completion of the offering, we will become a public reporting company.~~ The obligations of being a public company, including the substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. Section 404 of the Sarbanes- Oxley Act of 2002 (the “ Sarbanes Oxley Act ”) requires annual management assessments of the effectiveness of our internal control over financial reporting ; ~~starting with the second annual report that we would expect to file with the SEC.~~ Any failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business. In addition, we may need to hire additional compliance, accounting and financial staff with appropriate public company experience and technical knowledge, and we may not be able to do so in a timely fashion. As a result, we may need to rely on outside consultants to provide these services for us until qualified personnel are hired. These obligations will increase our operating expenses and could divert our management’ s attention from our operations. 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. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. 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. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and operating results may be materially adversely affected. Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses. Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use broad and diversified risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Recent economic conditions and heightened legislative and regulatory scrutiny of the financial services industry, among other developments, have increased our level of risk. Accordingly, we could suffer losses if we fail to properly anticipate and manage these risks. **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 our cybersecurity risk management 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. The Board receives an annual information security report from our Chief Technology Officer as it relates to cybersecurity and related issues. 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. Natural disasters, acts of terrorism, global market disruptions and other external events could harm our business. Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition. Additionally, global markets may be adversely affected by natural disasters, the emergence of widespread health emergencies or pandemics, cyber attacks or campaigns, military conflict, terrorism or other geopolitical events. Global market disruptions may affect our business liquidity. Also, any sudden or prolonged market downturn in the U. S. or abroad, as a result of the above factors or otherwise could result in a decline in revenue and adversely affect our results of operations and financial condition, including capital and liquidity levels.** Risks Related to Regulatory Matters Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and / or increase our costs of operations. We are subject to extensive regulation, supervision and examination by our banking regulators. Such regulation and supervision govern the activities in which a financial institution and its holding company may engage and are intended primarily for the protection of insurance funds and the depositors and borrowers of ~~the Somerset Savings~~ Bank rather than for the protection of our shareholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the ability to impose restrictions on our operations, classify our assets and determine the level of our allowance for ~~loan~~ **credit** losses. These regulations, along with the currently existing tax, accounting, securities, deposit insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives, and govern financial reporting and disclosures. As a smaller institution, we are disproportionately affected by the ongoing increased costs of compliance with banking and other regulations. Any change in

such regulation and oversight, whether in the form of regulatory policy, new regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firm. These changes could materially impact, potentially retroactively, how we report our financial condition and results of operations. Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions. 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. The policies and procedures we have adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations. Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market purchases and sales of U. S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted. We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors. We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, we also will not be subject to Section 404 (b) of the Sarbanes- Oxley Act, which would require that our independent auditors review and attest as to the effectiveness of our internal control over financial reporting. We have also elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards. We are also a smaller reporting company, and even if we no longer qualify as an emerging growth company, any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to smaller reporting companies could make our common stock less attractive to investors. In addition to qualifying as an emerging growth company, we SR Bancorp qualifies qualify as a "smaller reporting company" under the federal securities laws. For as long as it we continues- continue to be a smaller reporting company, it we may choose to take advantage of exemptions from various reporting requirements applicable to public companies that are not available to companies that are not smaller reporting companies, including, but not limited to, reduced financial disclosure obligations and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and the price of our common stock may be more volatile. Risks Related to Accounting Matters Changes in accounting standards could affect reported earnings. The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively. Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results. In preparing our this document as well as periodic reports, we will be required to file under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management is and will be required under applicable rules and regulations to make estimates and assumptions as of specified dates. These estimates and assumptions are based on management's best estimates and experience at such times and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for loan credit losses, and the determination of our deferred income taxes, our fair value measurements, our determination of goodwill impairment, and our evaluation of our defined benefit pension plan obligations. Risks Related to Our Common Stock Our return on equity remains will be low following the stock offering. This, which could negatively affect the trading our stock price of our shares of common stock. Net income divided by average shareholders' equity, known as "return on equity," is a ratio many investors use to compare the performance of financial institutions. Our return on equity will be low until we are able to profitably leverage the additional capital we received from the offering. Our return on equity also will be negatively affected by added expenses associated with our new employee stock ownership plan and the stock-based benefit plan we intend to adopt sometime following the conversion and offering. Until we can increase our net interest income and noninterest income and leverage the capital raised in

the offering, we expect our return on equity to be low, which may reduce the market price of our shares of common stock. Various factors may make takeover attempts more difficult to achieve. Certain provisions of our articles of incorporation and bylaws and state and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire control of SR Bancorp without our Board of Directors' approval. Under applicable regulations applicable to the conversion, for a period of three years following completion of the conversion, no person may acquire beneficial ownership of more than 10 % of our common stock without prior approval of the Federal Reserve. Under federal law, subject to certain exemptions, a person, entity or group must notify the Federal Reserve before acquiring control of a bank holding company. There also are provisions in our articles of incorporation and bylaws that may be used to delay or block a takeover attempt, including a provision that prohibits any person from voting more than 10 % of our outstanding shares of common stock. Taken as a whole, these statutory provisions and provisions in our articles of incorporation and bylaws could result in our being less attractive to a potential acquirer and thus could adversely affect the market price of our common stock.

**Risks Related to COVID- 19** There may be a limited trading market in COVID- 19 pandemic could continue to pose risks to our business shares of common stock, our results of operations and the future prospects of SR Bancorp. The COVID- 19 pandemic impacted the global and national economy and certain industries and geographies in which would hinder your ability to sell our common stock and may lower the market price of our common stock. Given its ongoing dynamic nature, it is difficult to predict the full impact of the COVID- 19 pandemic no established market for our common stock. Our common stock began trading on the Nasdaq Capital Market under the symbol "SRBK" upon conclusion of the offering SR Bancorp, its clients, employees and third- party service providers. The development extent of such an impact will active trading market depends on future developments the existence of willing buyers and sellers, the presence of which are highly uncertain is not within our control, or that of any market maker. Additionally The number of active buyers and sellers of the shares of common stock at any particular time may be limited. Under such circumstances, the responses you could have difficulty selling your shares of common stock various governmental and on non short notice, and, therefore, you should not view the shares of common stock as a short- governmental authorities term investment. Purchasers of common stock in the offering should have long- term investment intent and should recognize that there will be a limited trading market in the common stock. This may make it difficult to sell the common stock and may have an and adverse consumers to the pandemic may negatively impact our business and results of operations on the price at which the common stock can be sold.

**Risks Related to the Somerset Regal Charitable Foundation** The contribution to the charitable foundation will dilute your ownership interest and adversely affect net income in fiscal 2024. In connection with the offering, we established a new charitable foundation and contributed to it 452,758 shares of our common stock and \$ 905,517 in cash. The contribution will have an adverse effect on our net income for the quarter and year in which we make the contribution. The after- tax expense of the contribution is expected to reduce net income for the year ended June 30, 2024 by approximately \$ 4.1 million. Our contribution to the charitable foundation may not be tax deductible, which could reduce our profits. We may not have sufficient profits to be able to fully use the tax deduction from our contribution to the charitable foundation. Under the Internal Revenue Code, an entity is permitted to deduct up to 10 % of its taxable income (generally income before federal income taxes and charitable contributions expense) in any one year for charitable contributions. Any contribution in excess of the 10 % limit may be deducted for federal income tax purposes over each of the five years following the year in which the charitable contribution is made. Accordingly, a charitable contribution could, if necessary, be deducted over a six- year period and expires thereafter.