Risk Factors Comparison 2024-02-26 to 2023-02-24 Form: 10-K

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

An investment in the Corporation' s common stock is subject to risks inherent to the Corporation' s business. Before making an investment, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report. This report is qualified in its entirety by these risk factors. Risks Related to Market Interest Rates ~~The reversal of the historically low interest rate environment may adversely affect our net interest income and profitability. The FRB decreased benchmark interest rates significantly, to near zero, in response to the COVID- 19 pandemic. The FRB has reversed its policy of near zero interest rates given its concerns over inflation. Market interest rates have risen in response to the FRB' s rate increases. These policies can thus affect the activities and results of operations of financial institutions. The actions of the FRB influence the rates of interest that we charge on loans and that we pay on borrowings and interest- bearing deposits. Rates of interest can also affect the value of our on- balance sheet and off- balance sheet financial instruments. Thus, the increase in market interest rates may have an adverse effect on our net interest income and profitability.~~ Our results of operations may be adversely affected by credit losses relating to our investment portfolio. The Corporation maintains an investment portfolio, including available- for- sale and held- to- maturity securities. We **are** ~~may be~~ required to record ~~future~~ charges to earnings if we determine a decline in fair value of these investments has resulted from credit losses ~~or other factors~~ . Numerous factors, including the lack of liquidity for resales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions, any changes to the rating of the security by a rating agency, unanticipated changes in the competitive environment, changes in market interest rates and limited investor demand, could have a negative effect on our investment portfolio. Credit loss charges ~~could~~ **would** negatively impact our earnings and regulatory capital ratios. The Corporation is subject to interest rate risk. Our profitability is dependent to a large extent on our net interest income. Like most financial institutions, we are affected by changes in general interest rate levels and by other economic factors beyond our control. Changes in interest rates influence not only the interest we receive on loans and investment securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain **and retain** deposits and the fair value of our financial assets and liabilities. Although we have implemented strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial and prolonged change in market interest rates could adversely affect our operating results. Net interest income may decline in a particular period if: • in a declining interest rate environment, more interest- earning assets than interest- bearing liabilities re- price or mature, or • in a rising interest rate environment, more interest- bearing liabilities than interest- earning assets re- price or mature. Our net interest income may decline based on our exposure to a difference in short- term and long- term interest rates. **When** ~~If the difference between the~~ short- term ~~and~~ **rates are higher than** long- term ~~interest~~ rates **, that is referred to as an inverted yield curve. If the yield curve inversion** ~~continue~~ **continues** ~~to shrink~~ or ~~disappears~~ **worsens** , the difference between rates paid on deposits and received on loans could narrow significantly resulting in a decrease in net interest income and our profitability. ~~In addition to these factors, if market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income. Also, certain adjustable rate loans re- price based on lagging interest rate indices. This lagging effect may also negatively impact our net interest income when general interest rates continue to rise periodically.~~ Changes in the estimated fair value of debt securities may reduce stockholders' equity and net income. At December 31, ~~2022~~ **2023** , the Corporation maintained a debt securities portfolio of $ ~~505~~ **497** . ~~0~~ **3** million, of which $ ~~350~~ **351** . ~~3~~ **6** million was classified as available- for- sale. The estimated fair value of the available- for- sale debt securities portfolio may change depending on the credit quality of the underlying issuer, market liquidity, changes in interest rates and 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, net of the related tax expense or benefit, under the category of accumulated other comprehensive income (loss). During the year ended December 31, ~~2022~~ **2023** , we incurred other comprehensive ~~losses~~ **gains** of $ ~~38~~ **5** . ~~8~~ **7** million related to net changes in unrealized holding losses in the available- for- sale investment securities portfolio. A decline in the estimated fair value of this portfolio will result in a decline in ~~reported~~ stockholders' equity, as well as book value per common share. The decrease will occur even though the securities are not sold. Risks Related to Our Lending Activities The Corporation is subject to lending risk. Risks associated with lending activities include, among other things, the impact of changes in interest rates and economic conditions, which may adversely impact the ability of borrowers to repay outstanding loans and the value of the associated collateral. Various laws and regulations also affect our lending activities, and failure to comply with such applicable laws and regulations could subject the Corporation to enforcement actions and civil monetary penalties. At December 31, ~~2022~~ **2023** , approximately ~~81~~ **79** . ~~3~~ **2** % of our loan and lease portfolio ~~, excluding Paycheck Protection Program (PPP) loans,~~ consisted of commercial, financial and agricultural, commercial real estate and construction loans and leases, which are generally perceived as having more risk of default than residential real estate loans. Commercial business, commercial real estate and construction loans are more susceptible to a risk of loss during a downturn in the business cycle. These types of loans involve larger loan balances to a single borrower or groups of related borrowers. Commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties and the successful operation of the borrower' s business, as well as the factors affecting residential real estate borrowers. Loans secured by properties where repayment is dependent upon payment of rent by third party tenants or the sale of the property may be impacted by loss of tenants, lower lease rates needed to attract new tenants ~~or the inability to sell a completed project in a timely fashion and at a profit~~ . Commercial business loans and leases are typically affected by the borrowers' ability to repay the loans from the cash flows of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. The collateral securing the loans and leases often depreciates over time, is difficult to appraise and liquidate and fluctuates in value based on the success of the business. In addition, many commercial business loans have a variable rate that is indexed off of a floating rate such as the Prime Rate **or the** ~~, London Interbank Offer Rate (LIBOR),~~ Secured Overnight Financing Rate (**"** SOFR **"** ~~) and Bloomberg Short Term Bank Yield Index (BSBY~~). If interest rates rise, the borrower' s debt service requirement may increase, negatively impacting the borrower' s ability to service their debt. Risk of loss on a construction loan depends largely upon whether our initial estimate of the property' s value at completion of construction equals or exceeds the cost of the property construction (including interest). During the construction phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed. Included in real estate- construction is track development financing, which has greater risk because of the potential for diminished demand for residential housing and decreases in real estate valuations. When projects move slower than anticipated, the properties may have significantly lower values than when the original underwriting was completed, resulting in lower collateral values to support the loan. Extended time frames may also cause the interest carrying cost for projects to be higher than the builder projected, negatively impacting the builder' s profit and cash flows and, therefore, their ability to make principal and interest payments. An increase in nonperforming loans and leases from these types of loans could result in an increase in the provision for credit losses and an increase in loan and lease charge- offs. The risk of credit losses on loans and leases increases if the economy worsens. The Corporation' s allowance for ~~possible~~ credit losses on loans and leases may be insufficient, and an increase in the allowance would reduce earnings. We maintain an allowance for credit losses on loans and leases. The allowance is established through a provision for credit losses on loans and leases based on management' s evaluation of current expected credit losses in our loan portfolio factoring in current and forecasted economic conditions. The allowance is based upon a number of factors, including the size and composition of the loan and lease portfolio, asset classifications, economic trends, industry experience and trends, industry and geographic concentrations, ~~estimated~~ collateral values, management' s assessment of the current expected credit losses in the portfolio, historical loan and lease loss experience and loan underwriting policies. In addition, we evaluate all loans and leases identified as not sharing similar risk characteristics with other pooled loans and leases and augment the allowance based upon our estimation of the potential loss associated with those individually analyzed loans and leases. Additions to our allowance for credit losses on loans and leases decrease our net income. If the evaluation we perform in connection with establishing loan and lease loss reserves is wrong, our allowance for credit losses on loans and leases may not be sufficient to cover our losses, which would have an adverse effect on our operating results. The regulators, in reviewing our loan and lease portfolio as part of a regulatory examination, may from time to time require us to increase our allowance for credit losses, ~~loans and leases,~~ thereby negatively affecting our earnings, financial condition and capital ratios ~~at that time~~ . Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans and leases, identification of additional impaired loans and leases and other factors, both within and outside of our control. Additions to the allowance ~~could~~ **would** have a negative impact on our results of operations. Changes in economic conditions and the composition of our loan and lease portfolio could lead to higher loan charge- offs and / or an increase in our provision for credit losses ~~, loans and leases~~ , which may reduce our net income. Changes in national and regional economic conditions could impact our loan and lease portfolios. For example, an increase in unemployment, an increase in inflation, potential recessionary conditions, a decrease in real estate values or changes in interest rates, as well as other factors, could weaken the economies of the communities we serve. Weakness in the market areas we serve could depress our earnings as customers may not demand our products or services, borrowers may not be able to repay their loans, the value of the collateral securing our loans to borrowers may decline and / or the quality of our loan portfolio may decline. Any of these scenarios could require us to charge **-** off loans, which could result in an increase to our provision for credit losses on loans and leases, which would reduce our net income and capital levels **. Concentrations of loans in certain industries could have adverse effects on credit quality. The concentration and mix of our assets could increase the potential for significant credit losses. In the ordinary course of business, we may have heightened credit exposure to a particular industry, geography, asset class or financial market. Although there are limitations on the extent of total exposure to an individual consumer or business borrower, events adversely affecting specific customers or counterparties, industries, geographies, asset classes or financial markets, including a decline in their creditworthiness or a worsening overall risk profile, could materially affect us. The schedule on page 39 provides a break- out of our loan portfolio by certain loan and industry types** . The Corporation depends on the accuracy and completeness of information about customers and counterparties. In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer' s audited financial statements conform to U. S. generally accepted accounting principles (**"** U. S. GAAP **"**) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. Our financial condition, results of operations and capital could be negatively impacted to the extent we incorrectly assess the creditworthiness of our borrowers, fail to detect or respond to deterioration in asset quality in a timely manner, or rely on financial statements that do not comply with U. S. GAAP or are materially misleading. The Corporation is subject to environmental liability risk associated with lending activities. In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. The Corporation may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination or the release of hazardous or toxic substances at a property. Our policies and procedures require environmental factors to be considered during the loan application process. An environmental review is performed before initiating any commercial foreclosure action; however, these reviews may not be sufficient to detect all potential environmental hazards. Possible remediation costs and liabilities could have a material adverse effect on our financial condition. Risks Related to ~~the COVID- 19 Pandemic The ongoing COVID- 19 pandemic and measures intended to prevent its spread could adversely affect the Corporation' s business activities, financial condition, and results of operations. Global health concerns relating to the COVID- 19 pandemic and related government actions taken to reduce the spread of the virus have affected the macroeconomic environment, both nationally and in the Corporation' s market area. Federal and state agencies may pass measures to address the economic and social consequences of the pandemic that could impact the Corporation' s financial results and have a destabilizing effect on financial markets, key market indices, and overall economic activity. Prolonged measures by public health or other governmental authorities encouraging or requiring significant restrictions on travel, assembly or other core business practices could harm the Bank' s business and that of its customers, in particular small to medium- sized business customers. Although the Corporation has business continuity plans and other safeguards in place, there is no assurance that they will be effective. A decline in economic conditions generally and a prolonged negative impact on small to medium- sized businesses, in particular, due to the COVID- 19 pandemic, could result in a material adverse effect on the Corporation' s business, financial condition, and results of operations and may heighten many of the known risks described herein and in other filings with the SEC. Risks Related to~~ Our Operations The Corporation' s controls and procedures may fail or be circumvented. Our management and board review and update the Corporation' s internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure to follow or circumvention of these controls, policies and procedures could have a material adverse impact on our financial condition and results of operations. The Corporation may not be able to attract and retain skilled people. We are dependent on the ability and experience of a number of key management personnel who have substantial experience with our operations, the financial services industry, and the markets in which we offer products and services. The loss of one or more senior executives or key managers may have an adverse effect on our businesses. We maintain change in control agreements and grant equity awards with time- based vesting with certain executive officers to aid in our retention of these individuals. Our success depends on our ability to continue to attract, manage, and retain **these and** other qualified management personnel. **A lack of liquidity could adversely affect the Corporation' s financial condition and results of operations. Liquidity is essential to the Corporation' s business. The Corporation relies on its ability to generate deposits and effectively manage the repayment of its liabilities to ensure that there is adequate liquidity to fund operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. The Corporation' s most important source of funds is its deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk adjusted return, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as negative trends in the banking sector, the level of and / or composition of our uninsured deposits, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the FRB or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, the Corporation would lose a relatively low- cost source of funds, which would increase its funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and / or loans, brokered deposits, borrowings from the FHLB and / or FRB discount window, and unsecured borrowings. The Corporation also may borrow funds from third- party lenders, such as other financial institutions. The Corporation' s access to funding sources in amounts adequate to finance or capitalize its activities, or on terms that are acceptable, could be impaired by factors that affect the Corporation directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of the Corporation' s business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Corporation or the financial sector in general. Any decline in available funding could adversely impact the Corporation' s ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations.** If we lose a significant portion of our low- cost deposits, it would negatively impact our liquidity and profitability. Our profitability depends in part on our success in attracting and retaining a stable base of low- cost deposits. At December 31, ~~2022~~ **2023** , ~~35~~ **23** % of our deposit base was comprised of noninterest- bearing deposits, of which ~~26~~ **16** % consisted of business deposits, which are primarily operating accounts for businesses, and ~~9~~ **7** % consisted of consumer deposits. The competition for these deposits in our markets is strong and customers are increasingly seeking investments with higher interest rates that are safe, including the purchase of U. S. Treasury securities and other government- guaranteed obligations, as well as the establishment of accounts at the largest, most **well** - ~~well~~ capitalized banks. If we were to lose a significant portion of our low- cost deposits, it would negatively impact our liquidity and profitability. The Corporation' s information technology systems, and the systems of third parties upon which the Corporation relies, may experience a failure, interruption or breach in security, which could negatively affect our operations and reputation. The Corporation heavily relies on information technology systems, including the systems of third- party service providers, to conduct its business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in the Corporation' s customer relationship management and general ledger, deposit, loan, and other systems. While the Corporation has policies and procedures designed to prevent or limit the impact of any failure, interruption, or breach in ~~our~~ **its** security systems (including cyber- attacks), there can be no assurance that such events will not occur or if they do occur, that they will be adequately addressed. Information security and cyber ~~-~~ security risks have increased significantly in recent years because of new technologies and the increased number of employees working remotely ~~,~~ **and** the **increased** use of the Internet and other electronic delivery channels (including mobile devices) to conduct financial transactions. Accordingly, the Corporation may be required to expend additional resources to ~~continue to~~ enhance its protective measures or to investigate and remediate any information security vulnerabilities or exposures. The occurrence of any system failures, interruptions, or breaches in security could expose the Corporation to reputation risk, litigation, regulatory scrutiny and possible financial liability that could have a material adverse effect on our financial condition and results of operations. Although the Corporation takes protective measures to maintain the confidentiality, integrity and availability of information, its computer systems, software and networks may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber- attacks and other events that could have an adverse security impact. Furthermore, the Corporation may not be able to ensure that all of its clients, suppliers, counterparties and other third parties have appropriate controls in place to protect themselves from cyber- attacks or to protect the confidentiality of the information that they exchange with us, particularly where such information is transmitted by electronic means. Although the Corporation has developed, and continues to invest in, systems and processes that are designed to detect and prevent security breaches and cyber- attacks, a breach of its systems and global payments infrastructure or those of our fintech partners and processors could result in: losses to the Corporation and its customers; loss of business and / or customers; damage to its reputation; the incurrence of additional expenses (including the cost of **investigation and remediation and the cost of** notification to consumers, credit monitoring and forensics, and fees and fines imposed by the card networks); disruption to its business; an inability to grow its online services or other businesses; additional regulatory scrutiny or penalties; and / or exposure to civil litigation and possible financial liability- any of which could have a material adverse effect on the Corporation' s **reputation,** business, financial condition and results of operations. Although the impact to date for these type of events has not had a material impact on us, we cannot be sure this will be the case in the future. The failure to maintain current technologies **,** and the costs to update technology **,** could negatively impact the Corporation' s business and financial results. Our future success depends, in part, on our ability to effectively embrace technology to better serve customers and reduce costs. The Corporation **has been required, and** may be required **in the future,** to expand additional resources to employ the latest technologies. Failure to keep pace with technological change could potentially have an adverse effect on our business operations and financial condition and results of operations. **Our Board of Directors relies on management and outside consultants in overseeing cybersecurity risk management. The Board of Directors has established an Enterprise- Wide Risk Management Committee, consisting of a minimum of four directors, at least three are independent directors. The Chief Risk Officer is the primary management liaison to the Enterprise- Wide Risk Management Committee. The Enterprise- Wide Risk Management Committee meets four times a year, or more frequently if needed, and provides minutes of its meetings to the Board of Directors. The Enterprise- Wide Risk Management Committee provides oversight, from a risk perspective, of information systems security, among other things. In that regard, the Chief Information Security Officer provides information security updates to the Enterprise- Wide Risk Management Committee at each Enterprise- Wide Risk Management Committee meeting. The Corporation also engages outside consultants to support its cybersecurity efforts. Not all directors of the Corporation or members of the Enterprise- Wide Risk Management Committee have significant experience in cybersecurity risk management in other business entities comparable to the Corporation, and directors rely on the Chief Risk Officer, the Chief Information Security Officer and consultants for cybersecurity guidance.** We are a community bank and our ability to maintain our reputation is critical to the success of our business. 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. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, cybersecurity incidents and questionable or fraudulent activities of our customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers and employees, costly litigation and increased governmental regulation, all of which could adversely affect our business and operating results. We borrow from the Federal Home Loan Bank, the Federal Reserve and correspondent banks, and these lenders could modify or terminate their current programs, which could have an adverse effect on our liquidity and profitability. We utilize the FHLB for overnight borrowings and term advances. We also borrow from the Federal Reserve and from correspondent banks under our federal funds lines of credit. The amount loaned to us is generally dependent on the value of the collateral pledged as well as the FHLB' s internal credit rating of the Bank. These lenders could reduce the percentages loaned against various collateral categories, could eliminate certain types of collateral and could otherwise modify or even terminate their loan programs, particularly to the extent they are required to do so, because of capital adequacy or other balance sheet concerns **about us** . Any change or termination of our borrowings from the FHLB, the Federal Reserve or correspondent banks would have an adverse effect on our liquidity and profitability. Other Risks Related to Our Business ~~Uncertainty surrounding the future of LIBOR may~~

~~affect the fair value and return on the Corporation' s financial instruments that use LIBOR as a reference rate. The Corporation holds assets, liabilities, and derivatives that are indexed to the various tenors of LIBOR. The LIBOR yield curve is also utilized in our fair value calculations. The reform of major interest benchmarks led to the announcement that LIBOR would not be supported in its current form after June 30, 2023; however banking regulators have indicated that new contracts entered into before December 31, 2021 should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR' s discontinuation. Additionally, banking regulators have stated that the failure to adequately prepare for LIBOR' s discontinuance could undermine financial stability and an institution' s safety and soundness and create litigation, operational, and consumer protection risks. The Corporation believes the U. S. financial sector will maintain an orderly and smooth transition to new interest rate benchmarks, which the Corporation will evaluate and adopt if appropriate. While in the U. S., the Alternative Rates Committee of the FRB and Federal Reserve Bank of New York have identified the SOFR as an alternative U. S. dollar reference interest rate, we do not know the financial impact this rate index replacement may have, if at all.~~ Natural disasters, acts of war or terrorism **, outbreaks or escalations of hostilities** and other external events could negatively impact the Corporation. Natural disasters, acts of war or terrorism **, outbreaks or escalations of hostilities** , the emergence of widespread health emergencies or pandemics and other adverse external events could have a significant impact on the Corporation' s ability to conduct business. In addition, such events could affect the stability of the Corporation' s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and / or cause the Corporation to incur additional expenses. We have established disaster recovery policies and procedures that are expected to mitigate events related to natural or man-made disasters; however, the occurrence of any such event and the impact of an overall economic decline resulting from such a disaster could have a material adverse effect on the Corporation' s financial condition and results of operations. Risks Related to Economic Conditions 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. **In** ~~Over the past year, in~~ response to a pronounced rise in inflation, the FRB has raised certain benchmark interest rates to combat inflation. As discussed above under " Risks Related to Market Interest Rates – The Corporation is subject to interest rate risk, " 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 non- interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates by the FRB to tame persistent inflationary price pressures could also push down asset prices **, reduce loan demand, increase deposit costs** and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non- performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations. The Corporation' s earnings are impacted by general business and economic conditions. The Corporation' s operations and profitability are impacted by general business and economic conditions, including long- term and short- term interest rates, **the shape of the interest rate curve,** inflation, money supply **, supply chain issues** , political issues, legislative, tax, accounting and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, values of real estate and other collateral and the strength of the U. S. economy and the local economies in which we operate, all of which are beyond our control. Negative changes in these general business and economic conditions could have the following consequences, any of which could have a material adverse effect on the business, financial condition, liquidity and results of operations: • demand for the products and services may decline; • we may increase our allowance for credit losses; • loan delinquencies, problem assets, and foreclosures may increase **; • increase in our funding costs and noninterest expenses** ; • collateral for loans, especially real estate, may decline in value, thereby reducing customers' 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. The Corporation' s profitability is affected by economic conditions in Pennsylvania and New Jersey markets. Unlike larger regional banks that operate in large geographies, the Corporation provides banking and financial services to customers primarily in ~~13~~ **19** counties in the Southeastern ~~and~~ **,** Central **and Western** regions of Pennsylvania, three counties in New Jersey and **four counties in** ~~recently expanded into Western Pennsylvania and~~ Maryland. Because of our geographic concentration, a downturn in the local economy could make it more difficult to attract loans and deposits, and could cause higher losses and delinquencies on our loans than if the loans were more geographically diversified. Adverse economic conditions in the region, including, without limitation, declining real estate values or higher unemployment, could cause our levels of nonperforming assets and loan losses to increase. Regional economic conditions have a significant impact on the ability of borrowers to repay their loans as scheduled. A sluggish local economy could, therefore, result in losses that materially and adversely affect our financial condition and results of operations. Risks Related to Regulation 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 primary regulators, the Pennsylvania Department of Banking and Securities and the Federal Reserve Bank of Philadelphia, and by the FDIC, the regulating authority that insures customer deposits. Also, as a member of the FHLB, the Bank must comply with applicable regulations of the Federal Housing Finance Agency and the FHLB. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareholders. The Bank' s activities are also regulated under consumer protection laws applicable to our lending, deposit, and other activities. A material claim against the Bank under these laws or an enforcement action by our regulators could have a material adverse effect on our financial condition and results of operations. These regulations, along with the currently existing tax, accounting, securities, deposit insurance and monetary laws, rules, standards, policies, and interpretations, control the ways financial institutions conduct business, implement strategic initiatives, and prepare financial reporting and disclosures. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the ability to impose restrictions on our operations and comment on the classification of our assets and the level of our allowance for credit losses. Changes in such regulation and oversight, whether in the form of regulatory or enforcement policy, new regulations, legislation or supervisory action, may have a material impact on our operations. Further, compliance with such regulation may increase our costs and limit our ability to pursue business opportunities. ~~We cannot predict the effect of legislative and regulatory initiatives, which could increase our costs of doing business and adversely affect our results of operations and financial condition. Changes to statutes, regulations and / or regulatory or accounting policies could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer, limit the fees we may charge, increase the ability of non- banks to offer competing financial services and products, change regulatory capital requirements or the required size of our allowance for credit losses or change deposit insurance assessments, any of which would negatively impact our financial condition and result of operations. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and / or reputation damage, which could have a material adverse effect on the Corporation' s business, financial condition and results of operations.~~ Risks Related to the Wealth Management Industry Revenues and profitability from our wealth management business may be adversely affected by any reduction in assets under management, which could reduce fees earned. The **majority of the revenue from the** wealth management business ~~derives the majority of its revenue from noninterest income, which~~ consists of trust, investment advisory and brokerage and other servicing fees. Substantial revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management may decline for various reasons including declines in the market value of the assets in the funds and accounts managed, which could be caused by price declines in the securities markets generally or by price declines in specific market segments. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities. If our assets under management decline and there is a related decrease in fees, it will negatively affect our results of operations. We may not be able to attract and retain wealth management clients. Due to strong competition, our wealth management business may not be able to attract and retain clients. Competition is strong because there are numerous well- established and successful investment management and wealth advisory firms **with which we compete,** including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have. Our ability to successfully attract and retain wealth management clients is dependent upon our ability to compete with competitors' investment products, our level of investment performance, our client services **, our fees** and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted. The wealth management business is subject to extensive regulation, supervision and examination by regulators, and any enforcement action or adverse changes in the laws or regulations governing our business could decrease our revenues and profitability. The wealth management business is subject to regulation by regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of non- compliance with regulation, governmental regulators, including the SEC and the Financial Industry Regulatory Authority, may institute administrative or judicial proceedings that may result in censure, fines, civil money penalties, the issuance of cease- and- desist orders, the deregistration or suspension of the non- compliant introducing broker- dealer or investment adviser or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment' s operating results and financial condition. The wealth management business also may be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which could adversely impact our profitability. Risks Related to the Insurance Industry Revenues and profitability from our insurance business may be adversely affected by market conditions, which could reduce insurance commissions and fees earned. The revenues of our fee- based insurance business are derived primarily from commissions from the sale of insurance policies, which commissions are generally calculated as a percentage of the policy premium. These insurance policy commissions can fluctuate as insurance carriers change the premiums on the insurance products we sell. Due to the cyclical nature of the insurance market and the impact of other market and macroeconomic conditions on insurance premiums, commission levels may vary. The reduction of these commission rates, along with general volatility and / or declines in premiums, may adversely impact our profitability. Risks Related to Competition The Corporation operates in a highly competitive industry and market area, which could adversely impact its business and results of operations. We face substantial competition ~~in all phases of our businesses~~ from a variety of different competitors. Our competitors, including commercial banks, community banks, savings institutions, credit unions, consumer finance companies, insurance companies, securities dealers, brokers, mortgage bankers, investment advisors, money market mutual funds and other financial technology and financial institutions, compete with us for loans and deposits and insurance and wealth management services offered by us. Increased competition in our markets may result in reduced loans and deposits **, less wealth management fees or insurance revenues** or may negatively impact the pricing of such products **and services** . Many of these competing institutions have much greater financial and marketing resources than we have. Due to their size, many competitors can achieve larger economies of scale and may offer a broader range of products and services than we can. If we are unable to compete effectively in the offerings of our products and services, our business may be negatively affected. Additionally, these competitors may offer higher interest rates than the Corporation, which could decrease the deposits that the Corporation attracts or require the Corporation to increase its rates to retain existing deposits or attract new deposits. Increased deposit competition could adversely affect the Corporation' s ability to generate the funds necessary for lending operations. As a result, the Corporation may need to seek other sources of funds that may be more expensive to obtain **,** which could increase the cost of funds and decrease profitability. Some of the financial services organizations with which we compete are not subject to the same degree of regulation or tax structure as is imposed on bank holding companies and federally insured financial institutions. As a result, these non- bank competitors have certain advantages over us in providing lower- cost products, accessing funding and in providing various services. The banking business in our primary market areas is very competitive, and the level of competition and their pricing structure facing us may increase further, which may limit our asset growth and financial results. Risks Related to Strategic Activities The anticipated benefits of our digital initiatives may not be fully realized. We have devoted substantial resources to our strategic digital initiatives. The success of these initiatives will depend on, among other things, our ability to upgrade our technology and digital solutions in a manner that improves experiences of customers and employees. If we are unable to successfully achieve this objective, the anticipated benefits of these initiatives may not be realized fully, or at all, or may take longer to realize than expected. Additionally, the implementation of new technologies and digital solutions may cause business disruptions that affect our ability to maintain relationships with clients, customers, depositors and employees and could have an adverse effect on us for an undetermined period. Our business strategy includes significant investment in growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. We **expanded** ~~are expanding~~ into the Western Pennsylvania and **northern** Maryland markets, and may further expand into additional markets as a result of our digital initiatives. Our growth initiatives require us to recruit experienced personnel. The failure to retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, as we expand our lending beyond our current market areas, we could incur additional risk related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets. A weak economy, low demand and competition for credit may impact our ability to successfully execute our growth plan and adversely affect our business, financial condition, results of operations, reputation and growth prospects. While we believe we have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth. We regularly evaluate potential growth and expansion opportunities. If appropriate opportunities present themselves, we may engage in other business growth initiatives or undertakings. We may not successfully identify appropriate opportunities, may not be able to negotiate or finance such activities and such activities, if undertaken, may not be successful. We may need to raise additional capital in the future and such capital may not be available when needed or at all. Federal regulatory agencies have the authority to change the Corporation' s and Bank' s capital requirements and new accounting rules could have a negative impact on our regulatory capital ratios. Accordingly, we may need to raise additional capital in the future to provide us with sufficient capital resources to meet our commitments and business needs. We may also ~~at some point~~ need to raise additional capital to support our continued growth. If we raise capital through the issuance of additional shares of our common stock or other securities, it would dilute the ownership interests of existing shareholders and may dilute the per share book value of our common stock. New investors may also have rights, preferences and privileges senior to our current shareholders, which may adversely impact our current shareholders. Our ability to raise additional capital, if needed, or at attractive prices, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. An inability to raise additional capital on acceptable terms when needed could have a material adverse effect on our business, financial condition and results of operations. Potential acquisitions may disrupt the Corporation' s business and dilute shareholder value. We regularly evaluate opportunities to acquire and invest in banks and in other complementary businesses. As a result, we may engage in negotiations or discussions that, if they were to result in a transaction, could have a material effect on our operating results and financial condition, including on our short **-** and long- term liquidity and capital structure. Our acquisition activities could be material to us. For example, we could issue additional shares of common stock in a merger transaction, which could dilute current shareholders' ownership interest and the per share book value of our common stock. Further, an acquisition could require us to use a substantial amount of cash, other liquid assets, and / or incur debt. Our acquisition activities could involve a number of additional risks, including the risks of: • Incurring time and expense associated with identifying and evaluating and negotiating potential transactions; • Using estimates and judgments to evaluate credit, operations, management, and market risks with respect to the target institution or its assets, which later prove to be inaccurate; • The time and expense required to integrate the operations and personnel of the combined businesses; • Creating an adverse short- term effect on our results of operations; • Failing to realize related revenue synergies and / or cost savings within expected time frames; and • Losing key employees and customers or a reduction in our stock price as a result of an acquisition that is poorly received. We may not be successful in overcoming these risks or any other problems encountered in connection with potential acquisitions. Our inability to overcome these risks could have an adverse effect on our ability to achieve our business strategy and could have an adverse effect on our financial condition and results of operations. Risks Related to Our Common Stock The Corporation' s stock price can be volatile. The Corporation' s stock price can fluctuate in response to a variety of factors, some of which are not under our control. The factors that could cause the Corporation' s stock price to decrease include, but are not limited to: • Our past and future dividend practice; • Our financial condition, performance, creditworthiness and prospects; • Variations in our operating results or the quality of our assets; • **General investor sentiment regarding the banking industry; •** Operating results that vary from the expectations of management, securities analysts and investors; • Changes in expectations as to our future financial performance; • Changes in financial markets related to market valuations of financial industry companies; • The operating and securities price performance of other companies that investors believe are comparable to us; • Future sales of our equity or equity- related securities; • The credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally; and • Changes in global financial markets and global economies and general market conditions, such as interest or foreign exchange rates, inflation, recessionary conditions, stock, commodity or real estate valuations or volatility and other geopolitical, regulatory or judicial events. The limited liquidity of our common stock may limit your ability to trade our shares and may impact the value of our common stock. While the Corporation' s common stock is traded on the NASDAQ Global Select Market, the trading volume has historically been less than that of larger financial services companies. Stock price volatility may make it more difficult for investors to sell their common stock when they want and at prices they find attractive. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the relatively low trading volume of our common stock, significant sales of our common stock in the public market, or the perception that those sales may occur, could cause the trading price of our common stock to decline or to be lower than it otherwise might be in the absence of those sales or perceptions. Anti- takeover provisions could negatively impact our shareholders. Certain provisions in the Corporation' s Articles of Incorporation and Bylaws, as well as federal banking laws, regulatory approval requirements, and Pennsylvania law, could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation' s shareholders. There may be future sales or other dilution of the Corporation' s equity, which may adversely affect the market price of our common stock. The Corporation is generally not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of any additional shares of common stock or preferred stock or securities convertible into, exchangeable for or that represent the right to receive common stock or the exercise of such securities could be substantially dilutive to shareholders of our common stock. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. The market price of our common stock could decline as a result of offerings or because of sales of shares of our common stock made after offerings or the perception that such sales could occur. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us. The Corporation relies on dividends from our subsidiaries for most of our revenue. The Corporation is a bank holding company and our operations are conducted by our subsidiaries from which we receive dividends. The ability of our subsidiaries to pay dividends is subject to legal and regulatory limitations, profitability, financial condition, capital expenditures and other cash flow requirements. The ability of the Bank to pay cash dividends to the Corporation is limited by its obligation to maintain sufficient capital and by other restrictions on its cash dividends that are applicable to state member banks in the Federal Reserve System. If the Bank is not permitted to pay cash dividends to the Corporation, it is unlikely that we would be able to pay cash dividends on our common stock.