Risk Factors Comparison 2024-03-12 to 2023-03-13 Form: 10-K

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

The material risks and uncertainties that Management believes affect the Company are described below. These risks and uncertainties are not the only ones affecting the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also affect the Company' s business operations. This report is qualified in its entirety by these risk factors. If any one or more of the following risks actually occur, the Company' s financial condition and results of operations could be materially and adversely affected. Risks Related to the COVID- 19 Pandemic The economic...... of financial institutions. Risks Related to Economic Matters Negative developments in the financial services industry and U. S. and global credit markets **and the U. S. debt obligations** may adversely impact our operations and results. Our businesses and operations, which primarily consist of lending money, **accepting** ~~borrowing money from clients in the form of~~ deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U. S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process and the medium and long- term fiscal outlook of the federal government is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U. S. economic growth. Weak economic conditions or a return of recessionary conditions and / or negative developments in the domestic and international credit markets are often characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and / or depressed prices in the secondary market for mortgage loans, increased loan delinquencies, real estate price declines and lower home sales and commercial activity. Our business is also significantly affected by monetary and related policies of the U. S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects. Further, a U. S. government debt default would have a material adverse impact on our business and financial performance, including a decrease in the value of Treasury bonds and other government securities held by us, which could negatively impact the Bank' s capital position and its ability to meet regulatory requirements. Other negative impacts could be volatile capital markets, an adverse impact on the U. S. economy and the U. S. dollar, as well as increased default rates among borrowers in light of increased economic uncertainty. Some of these impacts might occur even in the absence of an actual default but as a consequence of extended political negotiations around the threat of such a default and a government shutdown. We are more sensitive to adverse changes in the local economy than our more geographically diversified competitors. Unlike larger regional banks that operate in large geographies, much of our business is with clients located within Central and Northern New Jersey **, Pennsylvania** , as well as New York City. Our business loans are generally made to small to mid- sized businesses, most of whose success depends on the regional economy. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. Due to our geographic concentration, a downturn in the local economy could make it more difficult to attract deposits and could cause higher losses and delinquencies on our loans than if the loans were more geographically diversified. Adverse economic and business conditions in our market area could reduce our growth, affect our borrowers' ability to repay their loans and, consequently, adversely affect our financial condition and performance. Further, we place substantial reliance on real estate as collateral for our loan portfolio. A sharp downturn in real estate values in our market area could leave our loans under- secured, which could adversely affect our earnings. Inflation and increase in market interest rates and potential effects from a recession 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 response to** ~~Recently, there has been~~ a pronounced rise in inflation ~~and~~ the Federal Reserve Board ~~has~~ raised certain benchmark interest rates ~~to combat inflation~~ . As inflation increases and market interest rates rise the value of our investment securities, particularly those with longer maturities, would decrease further. 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, rising interest rates, 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 Federal Reserve Board to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and 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~~ **any** of which, ~~in turn, would~~ **could** adversely affect our business, financial condition and results of operations. Further, **continued high** ~~the increase in~~ market interest rates **may** ~~is likely to~~ reduce our loan origination volume, particularly refinance volume, and / or reduce our interest rate spread, which could have an adverse effect on our profitability and results of operations. Risks Related to Lending Matters Our exposure to credit risk could adversely affect our earnings and financial condition. There are certain risks inherent in making loans, including risks that the principal of or interest on the loan will not be repaid timely or at all or that the value of any collateral securing the loan will be insufficient to cover our outstanding exposure. These risks may be affected by the strength of the borrower' s business and local, regional and national market and economic conditions. Our risk management practices, such as monitoring the concentration of our loans within specific industries and our credit approval practices, may not adequately reduce credit risk, and our credit administration personnel, policies and procedures may not adequately adapt to changes in economic or any other conditions affecting clients and the quality of the loan portfolio.

Finally, many of our loans are made to small- and medium- sized businesses that are less able to withstand competitive, economic and financial pressures than larger borrowers. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have a material adverse effect on our business, financial condition, results of operations and prospects **. Our concentrations of loans in certain industries could have adverse effects on credit quality. As of December 31, 2023, the Company' s loan portfolio included loans to: (i) lessors of office buildings of $ 107. 0 million, or 2. 0 percent of total loans; and (ii) borrowers in the retail industry of $ 229. 4 million, or 4. 2 percent of total loans. Because of these concentrations of loans in specific industries, a deterioration within these industries, especially those that have been particularly adversely impacted by long- term work- from- home arrangements on the commercial real estate sector, including retail stores, hotels and office buildings, creates greater risk exposure for our commercial real estate loan portfolio. Should the fundamentals of the commercial real estate market deteriorate, our financial condition and results of operations could be adversely affected. The performance of our New York multifamily real estate loans could be adversely impacted by regulation. In June 2019, New York enacted legislation increasing the restrictions on rent increases in a rent- regulated apartment building, including, among other provisions, (i) repealing the vacancy bonus and longevity bonus, which allowed a property owner to raise rents as much as 20 percent each time a rental unit became vacant, (ii) eliminating high rent vacancy deregulation and high- income deregulation, which allowed a rental unit to be removed from rent stabilization once it crossed a statutory high- rent threshold and became vacant, or the tenant' s income exceeded the statutory amount in the preceding two years, and (iii) eliminating an exception that allowed a property owner who offered preferential rents to tenants to raise the rent to the full legal rent upon renewal. This legislation generally limits a landlord' s ability to increase rents on rent- regulated apartments and makes it more difficult to convert rent regulated apartments to market rate apartments. As a result, the value of the collateral located in New York securing our multifamily loans or the future net operating income of such properties could potentially become impaired. At December 31, 2023, our total multifamily rent regulated exposure in New York was approximately $ 941 million, or 17 percent, of the total loan portfolio** . If our allowance for credit losses is not sufficient to cover actual loan losses, our earnings would decrease. We maintain allowances for credit losses on loans and off- balance sheet credit exposures. The amount of each allowance account represents management' s best estimate of current expected credit losses on these financial instruments considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current economic conditions, and reasonable and supportable forecasts. As a result, the determination of the appropriate level of allowance for credit losses inherently involves a high degree of subjectivity and requires us to make significant estimates related to current and expected future credit risks and trends, all of which may undergo material changes. Continuing deterioration in economic conditions, including the possibility of a recession, affecting borrowers and securities issuers; inflation; rising interest rates; new information regarding existing loans, credit commitments and securities holdings; ~~the effects of the COVID- 19 pandemic or other global pandemics; natural disasters and risks related to climate change;~~ and identification of additional problem loans ratings downgrades and other factors; both within and outside of our control, may require an increase in the allowances for credit losses on loans and off- balance sheet credit exposures. In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in credit loss expense or the recognition of further loan charge- offs, based on judgments different than those of management. Furthermore, if any charge- offs related to loans or off- balance sheet credit exposures in future periods exceed our allowances for credit losses on loans or off- balance sheet credit exposures, we will need to recognize additional credit loss expense to increase the applicable allowance. Any increase in the allowance for credit losses on loans and / or off- balance sheet credit exposures will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our business, financial condition and results of operations. Our commercial real estate loan and commercial C & I portfolios expose us to **greater** risks ~~that may be greater~~ than ~~the risks related to our~~ other mortgage loans. Our loan portfolio includes non- owner- occupied commercial real estate loans for individuals and businesses for various purposes. The repayment of these loans typically depends upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service. This may be adversely affected by changes in the economy or local market conditions. These loans expose us to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be liquidated as easily as residential real estate. If we foreclose on these loans, our holding period for the collateral typically is longer than for a single or multifamily residential property because there are fewer potential purchasers of the collateral. Additionally, non- owner- occupied commercial real estate loans generally involve relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge- offs on non- owner- occupied commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Unexpected deterioration in the credit quality of our commercial real estate loan portfolio may require us to increase our provision for ~~loan~~ **credit** losses, which would reduce our profitability and could materially adversely affect our business, financial condition ~~,~~ **and** results of operations ~~and prospects~~ . The source of repayment of C & I loans is typically the cash flows of the borrowers' 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 which is indexed off of a floating rate such as the U. S. Prime Rate or the ~~London Interbank Offer~~ **Secured Overnight Financing** Rate ~~(" LIBOR ")~~ . If interest rates rise, the borrower' s debt service requirement may increase, negatively impacting the borrower' s ability to service their debt. The level of the commercial real estate loan portfolio may subject the Bank to additional regulatory scrutiny. The federal bank regulatory agencies have promulgated joint guidance on sound risk management practices for financial institutions with concentrations in commercial real estate lending. Under the guidance, a financial institution that, like the Bank, is actively involved in commercial real estate lending should perform a risk assessment to identify concentrations. A financial institution may be subject to this guidance if, among other factors, (i) total reported loans for construction, land acquisition and development and other land represent 100 percent or more of total capital, or (ii) total reported loans secured by **multifamily** ~~multi- family~~ and non- farm residential properties, loans for construction, land acquisition and development and other land, and loans otherwise sensitive to the general commercial real estate market, including loans to commercial real estate related entities, represent 300 percent or more of total capital. Based on these factors, the Bank has a concentration in commercial real estate lending, as such loans represented ~~392~~ **375** percent of total bank capital as of December 31, ~~2022~~ **2023** . The guidance focuses on exposure to commercial real estate loans that are dependent on the cash flow from the real estate held as collateral and that are likely to be at greater risk to conditions in the commercial real estate market (as opposed to real estate collateral held as a secondary source of repayment or in an abundance of caution). The guidance assists banks in developing risk management practices and determining capital levels commensurate with the level and nature of real estate concentrations. The guidance states that management should employ heightened risk management practices including board and management oversight and strategic planning, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing. While it is management' s belief that policies and procedures with respect to the Bank' s commercial real estate loan portfolio have been implemented consistent with this guidance, bank regulators could require that additional policies and procedures be implemented consistent with their interpretation of the guidance that may result in additional costs or that may result in the curtailment of commercial real estate lending that would adversely affect the Bank' s loan originations and profitability. We are subject to environmental liability risk associated with our lending activities. In the course of our business, we may purchase real estate or foreclose on and take title to real estate. As a result, we could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation or clean- up costs incurred by these parties in connection with environmental contamination. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. Any significant environmental liabilities could cause a material adverse effect on our business, financial condition, results of operations and prospects. Risks Related to Interest Rates Changes in interest rates may adversely affect our earnings and financial condition. Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest- earning assets and the interest expense incurred on deposits and borrowed funds. Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience " gaps " in the interest rate sensitivities of our assets and liabilities. That means either our interest- bearing liabilities will be more sensitive to changes in market interest rates than our interest- earning assets, or vice versa. When interest- bearing liabilities mature or reprice more quickly than interest- earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest- earning assets mature or reprice more quickly than interest- bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, recession, unemployment, money supply, governmental policy, domestic and international events and changes in the United States and other financial markets. In addition, changes in interest rates can affect the average life of loans and investment securities. A reduction in interest rates causes increased prepayments of loans and mortgage- backed securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that the Bank may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates earned on the prepaid loans or securities. Conversely, an increase in interest rates generally reduces prepayments. Additionally, increases in interest rates may decrease loan demand and / or make it more difficult for borrowers to repay adjustable- rate loans. Changes in interest rates may also affect the current estimated fair value of the securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. Unrealized net losses on securities available- for- sale are reported as a separate component of stockholders' equity. To the extent interest rates increase and the value of the available- for- sale portfolio decreases, stockholders' equity will be adversely affected. ~~During~~ **Changes in** the ~~year ended~~ **estimated fair value of debt securities may reduce stockholders' equity and net income. At** December 31, ~~2022~~ **2023** , ~~we incurred~~ **the Company maintained a debt securities portfolio of $ 658. 4 million, of which $ 550. 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 increases or decreases 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 (** ~~losses~~ -- **loss)** ~~of $ 71~~ . **A decrease can occur even though** ~~1 million related to net changes in unrealized holding losses in~~ the ~~available- for- sale investment~~ securities **are not sold** ~~portfolio. The reversal of the historically low interest rate environment may adversely affect our net interest income and profitability. The Federal Reserve Board decreased benchmark interest rates significantly, to near zero, in response to the COVID- 19 pandemic. The Federal Reserve Bord has reversed its policy of near zero interest rates given its concerns over inflation. Market interest rates have risen in response to the Federal Reserve Board' s recent rate increases. The increase in market interest rates may have an adverse effect on our net interest income and profitability~~ . Other Risks Related to Our Business We are exposed to the risks of public health issues, natural disasters, severe weather, acts of war or terrorism, government shutdowns, geopolitical events and other potential external events. We are exposed to the risks of public health issues, natural disasters, pandemics, severe weather, acts of war or terrorism, and other potential external events, any of which could have a significant impact on **our** ~~the Company' s~~ ability to conduct business. In addition, such events could: impair the ability of borrowers to qualify for loans and / or repay their obligations, impair the value of collateral securing loans, cause depositors to withdraw funds, cause wealth management clients to withdraw assets under management, and / or cause **us** ~~the Company~~ to incur additional expenses. Further, any of these events could affect the financial markets in general, causing a diminishment in the market value of assets under management for our wealth management clients and / or cause a yield curve not advantageous to the Company or the banking industry in general. Any of the above could have a material adverse effect on **our** ~~the Company' s~~ financial condition and / or results of operations. Additionally, financial markets may be adversely affected by the current or anticipated impact of military conflict, including escalating military tension between Russia and Ukraine, terrorism or other geopolitical events. ~~Uncertainty surrounding~~ **The soundness of** ~~the~~ **other** ~~future of LIBOR may~~ **financial institutions could adversely** affect **us.** ~~the fair value and return on the Company' s financial~~ **Financial** ~~instruments that use LIBOR~~ **services institutions are interconnected** as a ~~reference rate~~ **result of trading, clearing, counterparty, or other relationships** . We **have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, investment banks, commercial banks, and other institutional clients. Some of these transactions expose us to credit risk if there is a default by our client or counterparty. Additionally, our credit risk may be impaired when collateral** ~~hold~~ **held** ~~assets, liabilities, and~~ **by us cannot be realized or is liquidated at prices insufficient to recover the full amount of the credit or** ~~derivatives~~ - **derivative** ~~that are indexed to~~ **exposure due us; such losses could have a material adverse effect on our financial condition and results of operations. In early 2023, the failures of Silicon Valley Bank, First Republic Bank, and Signature Bank resulted in decreased confidence in banks among depositors,** ~~the~~ **other counterparties and investors** ~~various tenors of LIBOR~~ . **Such events and developments could materially and adversely affect our business or financial condition, including through declines in deposits, increased costs of funds, potential liquidity pressures, increased regulation, and declines and volatility in the price of our common stock. Risks Relating to Regulatory Matters** The ~~LIBOR yield curve is also utilized in~~ **Dodd- Frank Wall Street Reform and Consumer Protection Act has and may continue to adversely affect** our ~~fair value calculation~~ **business activities, financial condition, and profitability by increasing our regulatory compliance burden and associated costs, placing restrictions on certain products and services, and limiting our future capital raising strategies** . The ~~reform of major interest benchmarks led~~ **Dodd- Frank Act has and may continue** to **increase our regulatory compliance burden. Among** the **Dodd- Frank Act** ~~announcement of the United Kingdom~~ ' s **significant** ~~Financial Conduct Authority, the regulator~~ **regulatory changes** ~~of the LIBOR index~~ , ~~that LIBOR would not be supported in its~~ - **it created** ~~current form after~~ the ~~end~~ **CFPB, which is empowered to promulgate new consumer protection regulations and revise existing regulations in many areas** of ~~2021~~ **consumer protection. Moreover, the Dodd- Frank Act permits states to adopt stricter consumer protection laws and state attorney generals may enforce consumer protection rules issued by the CFPB. These changes have increased, and may continue to increase, our regulatory compliance burden and costs and may restrict the financial products and services we offer to our clients** . The ~~use~~ **Dodd- Frank Act also increased regulation** of **derivatives** ~~LIBOR in new contracts was discontinued after December 31, 2021, although certain USD LIBOR tenors will continue to be published on a representative basis until June 30, 2023. We believe the U. S. financial sector will maintain an~~ **and hedging** ~~orderly and smooth transition~~ **transactions , which could limit our ability** to ~~new~~ **enter into, or increase the costs associated with,** interest rate ~~benchmarks of which we will evaluate~~ and ~~adopt if appropriate. While in the~~ **other** ~~U~~ **hedging transactions** . ~~S~~ **Government regulation significantly affects our business** . **The banking industry is extensively regulated. Banking regulations are intended primarily to protect depositors** , ~~the Alternative Rates Committee of the FRB~~ and **the FDIC deposit insurance fund, not our shareholders. We are subject to regulation and supervision by the New Jersey Department of Banking and Insurance and the** Federal Reserve Bank **. Such regulation and supervision governs the activities in which an institution and its holding company may engage. The bank regulatory agencies possess broad authority to prevent or remedy unsafe or unsound practices or violations** of ~~New York~~ **law. Regulatory authorities** have ~~identified~~ **extensive discretion in** ~~the~~ **their** ~~Secured Overnight Financial Rate (" SOFR ")~~ supervisory and enforcement activities,including the imposition of restrictions on operations,the classification of assets and determination of the level of the allowance for credit losses.Regulatory requirements affect our lending practices,capital structure,investment practices,dividend policy and growth.In addition,changes in laws,regulations and regulatory practices affecting the banking industry may limit the manner in which we conduct our business.Such changes may adversely affect us,including our ability to offer new products and services,obtain financing,attract deposits,make loans and achieve satisfactory spreads and may impose additional costs on us.The Bank is also subject to a number of federal laws,which,among other things,require it to lend to various sectors of the economy and population,and establish and maintain comprehensive programs relating to anti- money laundering and customer identification.The Bank' s compliance with these laws will be considered by the federal banking regulators when reviewing bank merger and bank holding company acquisitions or commencing new activities or making new investments in reliance on the Gramm- Leach- Bliley Act.As a public company,we are also subject to the corporate governance standards set forth in the Sarbanes- Oxley Act, as **well as** ~~an~~ **any** ~~alternative~~ **rules or regulations promulgated by the SEC and the NASDAQ Stock Market. Monetary policies and regulations of the Federal Reserve Board could adversely affect the Company' s business, financial condition, and results of operations. The Company' s earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of** U. S. ~~dollar reference~~ **government securities, adjustments of the discount rate and changes in banks' reserve requirements against certain transaction account 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 ~~rate~~ **rates** ~~, it is too early to predict~~ **charged on loans or paid on deposits. The monetary policies and regulations of** the **Federal Reserve Board have a significant effect on the overall economy and the operating results of** financial **institutions** ~~impact this rate index replacement may have, if at all~~ . Risks Related to Capital We may need to raise additional capital in the future, which may not be available when needed or available on acceptable terms. **We are** ~~The Company is~~ required by federal regulatory authorities to maintain adequate levels of capital to support its operations. **We** ~~The Company~~ may at some point need to raise additional capital to support continued growth. **Our** ~~The Company' s~~ ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside **our** ~~the Company' s~~ control, and on its financial performance. Accordingly, **we** ~~the Company~~ cannot be assured of its ability to raise additional capital if needed or on terms acceptable to **us** ~~the Company~~ . If **we** ~~the Company~~ cannot raise additional capital when needed, the ability to further expand its operations could be materially impaired. Further, if we raise capital through the issuance of additional shares of our common stock, 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. We are subject to certain capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares. A financial institution and its holding company, such as the Bank and the Company, ~~is~~ **are** subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if ~~its~~ **their** capital level falls below the required amounts. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions. The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and / or increase our holdings of liquid assets. See Part I, Item1, " Business- Capital Requirements. " Our ability to pay dividends to our common shareholders is limited by law. Since the principal source of income for the Company is dividends paid to the Company by the Bank, the Company' s ability to pay dividends to its shareholders will depend on whether the Bank pays dividends to it. As a practical matter, restrictions on the ability of the Bank to pay dividends act as restrictions on the amount of funds available for the payment of dividends by the Company. As a New Jersey- chartered commercial bank, the Bank is subject to the restrictions on the payment of dividends contained in the New Jersey Banking Act of 1948, as amended. Under the Banking Act, the Bank may pay dividends only out of retained earnings, and out of surplus to the extent that surplus exceeds 50 percent of stated capital. The Company is also subject to Federal Reserve Board policies, which may, in certain circumstances, limit its ability to pay dividends. The Federal Reserve Board policies require, among other things, that a bank holding company maintain a minimum capital base and the Federal Reserve Board in supervisory guidance has cautioned bank holding companies about paying out too much of their earnings in dividends and has stated that banks should not pay out more in dividends than they earn. The Federal Reserve Board would most likely seek to prohibit any dividend payment that would reduce a holding company' s capital below these minimum amounts. Risks Related to Liquidity Limits on our ability to use brokered deposits as part of our funding strategy may adversely affect our ability to grow. A " brokered deposit " is any deposit that is obtained from or through the mediation or assistance of a deposit broker, which includes larger correspondent banks and securities brokerage firms. These deposit brokers attract deposits from individuals and companies throughout the country and internationally whose deposit decisions are based almost exclusively on obtaining the highest interest rates. At December 31, ~~2022~~ **2023** , brokered deposits represented approximately ~~1~~ **2** . ~~7~~ **5** percent of our total deposits and equaled $ ~~86~~ **130** . ~~0~~ **5** million, comprised of the following: interest- bearing demand- brokered of $ ~~60~~ **10** . 0 million, and brokered certificates of deposits of $ ~~25~~ **120** . ~~4~~ **5** million. To continue to maintain our level of brokered deposits, we may be forced to pay higher interest rates than contemplated by our asset- liability pricing strategy. In addition, banks that become less than " well capitalized " under applicable regulatory capital requirements may be restricted in their ability to accept or **be** prohibited from accepting brokered deposits. If this funding source becomes more difficult or expensive to access, we will have to seek alternative funding sources in order to continue to fund our growth. This may include increasing our reliance on Federal Home Loan Bank borrowings, attempting to attract non- brokered deposits, reducing our available for sale securities portfolio or selling loans. There can be no assurance that brokered deposits will be available, or if available, sufficient to support our continued growth. We may lose lower- cost funding sources, which may affect our profitability. Checking, savings, and money market deposit account balances and other forms of client deposits can decrease when clients perceive alternative investments, such as the stock market, as providing a better risk / return tradeoff. If clients move money out of bank deposits and into other investments, we would lose a relatively low- cost source of funds and have to replace them with higher cost funds, thus increasing our funding costs and reducing our net interest income and net income. The Bank does have certain deposits with high dollar balances which are subject to volatility. Customers with large average deposits may move these deposits for operational needs, investment opportunities or other reasons, which could require the Bank to pay higher interest rates to retain these deposits or use higher rate borrowings as an alternative funding source. A lack of liquidity could adversely affect the Company' s financial condition and results of operations. Liquidity is essential to the Company' s business. The Company relies on its ability to generate deposits and effectively manage the repayment and maturity schedules of loans to ensure that there is adequate liquidity to fund its 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 Company' s most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk / return tradeoff, 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 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 Company 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 borrowings from the FHLB of New York. The Company also has an available line of credit with the FRB discount window. The Company also may borrow funds from third- party lenders, such as other financial institutions. The Company’ 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 Company 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 Company’ s business activity as a result of a downturn in markets or by one or more adverse regulatory actions against the Company. Any decline in available funding could adversely impact the Company’ s ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as repaying borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on its liquidity, business, financial condition and results of operations. Risks Related to Competition Competition from other financial institutions in originating loans and attracting deposits may adversely affect our profitability. We face substantial competition in originating loans from other banks, savings institutions, credit unions, mortgage banking companies and other lenders. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, and more accessible branch office locations. In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. We also compete with non- bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non- bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non- bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition. Risks Related to Operational Matters Cyber- attacks and information security breaches could compromise our information or result in the data of our customers being improperly divulged, which could expose us to liability and losses. Many financial institutions and companies engaged in data processing have reported significant breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber- attacks and other means. We are subject to such cyber- attacks or other information security breaches, which could result in losses. Additionally, our risk exposure to security matters may remain elevated or increase in the future due to, among other things, the increasing size and prominence of the Company in the financial services industry, our expansion of Internet and mobile banking tools and products based on customer needs and an increased level of employees working remotely. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Disruptions or failures in the physical infrastructure or operating systems that support our businesses, customers or third parties, or cyber- attacks or security breaches of the networks, systems or devices that our customers or third parties use to access our products and services could result in customer attrition, financial losses, the inability of our customers or vendors to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other costs, and / or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition. Our information technology systems and the systems of third parties upon which we rely may experience a failure, interruption or breach in security that could negatively affect our operations and reputation. We rely heavily on information technology systems to conduct our business, including the systems of third- party service providers. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management and general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the impact of any failure, interruption, or breach in our security systems (including privacy and 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, the use of the Internet and other electronic delivery channels (including mobile devices) to conduct financial transactions. Accordingly, we may be required to expend additional resources to continue to enhance our 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 us 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. Our failure to successfully keep pace with technological changes could have a material adverse impact on our business and, in turn, our financial condition and results of operations. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology- driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve clients and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our clients. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations. **Our board of directors relies on management and outside consultants in overseeing cybersecurity risk management. The Company**

has a standing Information Technology Committee. The Chief Information Officer is the primary management liaison to the committee. The committee meets quarterly, or more frequently if needed, and reports to the board of directors after each meeting through committee minutes. The Company also engages outside consultants to support its cybersecurity efforts. Our directors do not have significant experience in cybersecurity risk management in other business entities comparable to the Company and rely on the Chief Information Officer and other consultants for cybersecurity guidance.
We are subject to operational risk. We face the risk that the design of our controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in the detection of errors or inaccuracies in data and information. Management regularly reviews and updates our internal controls, 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 or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, financial condition and results of operations. We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Our performance is largely dependent on the talents and efforts of highly skilled individuals. There is intense competition in the financial services industry for qualified employees. In addition, we face increasing competition with businesses outside the financial services industry for the most highly skilled individuals. Our business operations could be adversely affected if we were unable to attract new employees and retain and motivate our existing employees. Risks Related to Our Wealth Management Business 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 wealth management business derives the majority of its revenue from non- interest income, which consists of trust, investment advisory 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, which could be caused by price declines in the securities markets. 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 the assets under management we supervise 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 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, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted. The wealth management industry 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 a number of 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 penalties, the issuance of cease- and- desist orders or the deregistration or suspension of the non- compliant 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. We 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.