

Risk Factors Comparison 2024-09-25 to 2023-09-26 Form: 10-K

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

Transition from the use of LIBOR may adversely impact the interest rates paid on certain financial instruments. LIBOR was used as a reference rate for certain of the Company's floating rate commercial loans and residential mortgage loans, as well as its interest rate swaps. In 2017, the U. K. Financial Conduct Authority, which regulates LIBOR, announced that the publication of LIBOR would not be guaranteed beyond 2021. In December 2020, the administrator of LIBOR announced its intention to (i) cease the publication of the one-week and two-month U. S. dollar LIBOR after December 31, 2021, and (ii) cease the publication of all other tenors of U. S. dollar LIBOR (one, three, six and 12-month LIBOR) after June 30, 2023. There are ongoing efforts to establish an alternative reference rate. The Federal Reserve Board, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U. S. financial institutions, supports replacing LIBOR with SOFR, a new index calculated by short-term repurchase agreements backed by Treasury securities. The Company has adopted SOFR as its preferred benchmark as an alternative to LIBOR for use in new contracts beginning on or after January 1, 2022. While the Adjustable Interest Rate (LIBOR) Act and implementing regulations will help to transition legacy LIBOR contracts to a new benchmark rate, the substitution of SOFR for LIBOR may have potentially significant economic impacts on parties to affected contracts. SOFR is different from LIBOR in that it is a retrospective-looking secured rate rather than a forward-looking unsecured rate. Additionally, while SOFR appears to be the preferred replacement rate for LIBOR, it is not possible to predict whether SOFR will ultimately prevail in the market as the definitive replacement for LIBOR. Uncertainty as to the nature of alternative reference rates, and as to potential changes or other reforms related to the transition from LIBOR, may adversely affect the value of LIBOR-based financial arrangements of the Company. Public health emergencies, like the COVID-19 outbreak, may have an adverse impact on our business and results of operations. The COVID-19 pandemic caused significant economic dislocation in the United States. Certain industries were particularly hard-hit, including the travel and hospitality industry, the restaurant industry, the retail industry, the healthcare industry, restaurants and food services, and entertainment and recreation. As a result of a public health emergency, including the COVID-19 pandemic, and the related adverse local and national consequences, and as a result of governmental, consumer and business responses to any outbreak, we may be subject to the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, or results of operations: demand for our products and services may decline; if consumer and business activities are restricted, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could increase loan losses; our allowance for loan losses may have to be increased if borrowers experience financial difficulties; cyber security risks may be increased as the result of an increase in the number of employees working remotely; critical services provided by third-party vendors may become unavailable; government actions and vaccine mandates in response to a pandemic may affect our workforce, human capital resources and infrastructure; and the Company may experience staffing shortages and unanticipated unavailability or loss of key employees, harming our ability to execute our business strategy. Any one or a combination of the foregoing factors could negatively impact our business, financial condition, results of operations and prospects. Changes in market conditions, changes in discount rates, changes in mortality assumptions or lower returns on assets may increase required contributions to, and costs associated with, our tax-qualified defined benefit plan in future periods. The funded status and benefit obligations of our tax-qualified defined benefit plan ("pension plan") are dependent upon many factors, including returns on invested assets, certain market interest rates, and the discount rates and mortality assumptions used to determine pension obligations. The pension plan liability is calculated based on various actuarial assumptions, including mortality expectations, discount rates and expected long-term rates of return on plan assets. Unfavorable returns on plan assets could materially change the amount of required plan funding, which would reduce the cash available for our operations. In addition, a decrease in the discount rate and / or changes in the mortality assumptions ~~used~~ **used** to determine pension obligations could increase the estimated value of our pension obligations, which would require us to increase the amounts of future contributions to the plan, thereby reducing our equity and our costs associated with the plan may substantially increase in future periods. Risks Related to Lending We have a significant number of loans secured by real estate, and a downturn in the local real estate market could negatively impact our profitability. At June 30, ~~2023~~ **2024**, approximately \$ 1. ~~0.3~~ **0.3** billion, or ~~90.91~~ **2.6**%, of our total loan portfolio was secured by real estate, most of which is located in our primary lending market, the Capital Region of New York and surrounding markets. Declines in real estate values in the Capital Region of New York and surrounding markets as a result of unemployment, inflation, changes in tax laws, a recession or other factors outside our control could significantly impair the value of the collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. This could require increasing our allowance for ~~loan credit~~ **loan credit** losses ~~on loans~~ **on loans** to address the decrease in the value of the real estate securing our loans, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Our loan portfolio consists of a high percentage of loans secured by commercial real estate. These loans carry a greater credit risk than loans secured by one- to four- family properties. Our loan portfolio includes commercial real estate loans, primarily loans secured by multi- family properties, office buildings, industrial facilities, retail facilities and other commercial properties. At June 30, ~~2023~~ **2024**, our commercial real estate loans totaled \$ ~~424.406~~ **3.2** million, or ~~36.29~~ **6.7**%, of our total loan portfolio. Our commercial real estate loans expose us to greater risk of nonpayment and loss than residential mortgage loans because repayment of the loans often depends on the successful operation and income stream of the borrower's business. Continued uncertainty or weakness in economic conditions may impair a borrower's business operations and lead to

existing lease turnover. Vacancy rates for retail, office and industrial space may increase, which could result in rents falling. The combination of these factors could result in deterioration in the fundamentals underlying the commercial real estate market and the deterioration in value of some of our loans, **especially in industries that have been particularly adversely impacted by long- term work- from- home arrangements, including retail stores, hotels and office buildings, for example**. Any such deterioration could adversely affect the ability of our borrowers to repay the amounts due under their loans. If we foreclose on these loans, our holding period for the collateral typically is longer than for a one- to four- family residential property because there are fewer potential purchasers of the collateral. In addition, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential mortgage loans. Accordingly, charge- offs on commercial real estate loans may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. An unexpected adverse development on one or more of these types of loans can expose us to a significantly greater risk of loss compared to an adverse development with respect to a residential mortgage loan. In addition, the physical condition of non- owner occupied properties may be below that of owner- occupied properties due to lax property maintenance standards, which have a negative impact on the value of the collateral properties. As our commercial real estate loans increase, the corresponding risks and potential for losses from these loans may also increase, which would adversely affect our business, financial condition and results of operations. ~~A-39A~~ portion of our loan portfolio is comprised of commercial and industrial loans secured by accounts receivable, inventory, equipment or other business assets, the deterioration in value of which could increase the potential for future losses. At June 30, ~~2023-2024~~, \$ ~~88-101.2 million, or 7.4 million, or 7.6%~~ of our total loan portfolio, was comprised of commercial and industrial loans and lines of credit to a variety of small and medium- sized businesses in our market area collateralized by general business assets including, among other things, accounts receivable and inventory, and we may augment this collateral with additional liens on real property. These commercial and industrial loans are typically larger in amount than loans to individuals and, therefore, have the potential for larger losses on a per loan basis. Additionally, the repayment of commercial and industrial loans is subject to the ongoing business operations of the borrower. The collateral securing such loans generally includes moveable property such as inventory, which may decline in value more rapidly than we anticipate, or may be difficult to market and sell, exposing us to increased credit risk. For loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to ~~39collect~~ **collect** amounts due from its customers. Significant adverse changes in the economy or local market conditions in which our commercial lending customers operate or individual business activities of our commercial customers could cause rapid declines in loan collectability and the values associated with general business assets, resulting in inadequate collateral coverage that may expose us to credit losses and could adversely affect our business, financial condition and results of operations. We make and hold in our portfolio commercial construction loans, which are considered to have greater credit risk than residential loans made by financial institutions. We originate and purchase commercial construction loans primarily to local developers to finance the construction of commercial and multi- family properties or to acquire land for development of commercial and multi- family properties and to finance infrastructure improvements. We also provide commercial construction loans to local developers for the construction of one- to four- family residential developments, and originate rehabilitation loans, enabling the borrower to partially or totally refurbish an existing structure. At June 30, ~~2023-2024~~, commercial construction loans were \$ ~~92-118.4 million, or 8 million, or 8.0-7%~~ of our total loan portfolio. We also had undrawn amounts on the commercial construction loans totaling \$ ~~28-52.9-7~~ million at June 30, ~~2023-2024~~. The primary credit risks associated with construction lending are underwriting risks, project risks and market risks. Project risks include cost overruns, borrower credit risk, project completion risk, general contractor credit risk, and environmental and other hazard risks. Market risks are risks associated with the sale of the completed project. They include affordability risk, which means the risk of affordability of financing by borrowers, product design risk, and risks posed by competing projects. Commercial construction loans are considered more risky than residential mortgage loans because funds are advanced based on an estimate of costs that will produce a future value at completion. Uncertainties inherent in estimating construction costs and the market value of the completed project, as well as the effects of governmental regulation, make it difficult to accurately evaluate the total funds required to complete a project and the completed project' s loan- to- value ratio. If our estimated value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss. Construction loans may also require active monitoring of the building process, including cost comparisons and on- site inspections, making these loans more difficult and costly to monitor. Properties under construction are often difficult to sell and typically must be completed in order to be successfully sold which can complicate the process of working out problem construction loans. This may require us to advance additional funds and / or contract with another builder to complete construction and assume the market risk of selling the project at a future market price, which may or may not enable us to fully recover unpaid loan funds and associated construction and liquidation costs. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end- purchaser for the finished project. Loans on land under development or held for future construction pose additional risks because of the lack of income being produced by the property and the potential illiquid nature of the collateral. These risks can be significantly impacted by supply and demand. As a result, this type of lending often involves the disbursement of substantial funds with repayment dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor themselves to repay principal and interest. A material increase in our non- performing construction loans could have a material adverse effect on our financial condition and results of operation. ~~Our allowance for loan losses may not be sufficient to cover actual loan losses. We maintain an allowance for loan losses, which is established through a provision for loan losses that represents management' s best estimate of probable incurred losses within our existing portfolio of loans. We make various assumptions and judgments about the collectability of loans in our portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the adequacy of the~~

allowance for loan losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, or if certain intervening events occur (like fraud by a customer or the COVID-19 pandemic), our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, and adjustments may be necessary to address different economic conditions or adverse developments in our loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase our provision for loan losses. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan-