Lyons Bancorp, Inc.

2022
ANNUAL REPORT

A LETTER TO SHAREHOLDERS

Robert A. Schick

Board Chairman &
President, Lyons Bancorp, Inc.

When centenarians are asked what their secret to longevity is, they commonly respond, "enjoy life but don't over-indulge; do all things in moderation." Good advice for everyone. I'm sure a few recent minted ex-bankers wish they had followed that counsel. More on that in a minute. But first, I'm pleased to report that 2022 was, yet again, another financially successful year for Lyons Bancorp, Inc. And at the risk of sounding like a broken record, the heart of our success remains our staff. Over the years I've used many words and phrases in an attempt to properly describe our employees. Let me try another—everyday people who constantly do extraordinary things for our customers and the communities we serve! Ultimately, along with our customers and neighbors, you, our shareholders, reap the rewards of their labor. When your path crosses with one of our employees, offer a handshake, a smile, and a thank you. I'm betting that this simple act of recognition will inspire the recipient to work even harder.

EARNINGS PERFORMANCE

For 2022, Lyons Bancorp, Inc. posted after-tax net income of $17.2 million, an almost 11% increase from the $15.5 million we reported in 2021. On a per common share basis, we earned $4.86 versus the $4.62 we tallied in 2021. Both numbers are reported on a fully dilutive basis. We averaged 180,000 more shares outstanding in 2022—the full year's effect of our 2021 common stock offering. Recall that on September 8, 2021, we raised over $9 million by selling slightly more than 237,000 shares at a price of $39.50 per share. Those who participated have been well rewarded.

Our strong earnings performance was propelled by growth in both our loans and deposits. On December 31, 2022, our assets totaled $1.75 billion compared to $1.63 billion on December 31, 2021. Loans grew by $163 million or 14% and deposits grew $152 million or 10%. We intentionally redeployed $40 million of maturing investments proceeds to provide additional liquidity for loan growth.

With our loan portfolio growing nicely, we added another $3.5 million to our reserve for possible loan losses, bringing that reserve to a total of $21.5 million. We did so even though the actual loan charge-offs in 2022 was a mere $344,000 or three-tenths of one percent of total loans. Sticking to our roots by hiring great people and hewing to a conservative lending philosophy is the basis for our long-term performance.

The increased interest income generated from our balance sheet growth offset a drop in fee income. With the Federal Reserve Bank on a tear raising interest rates, the number of residential mortgages we originated in 2022 and the fee income we generated from originations slowed dramatically.

For the most part, we were able to hold our expenses in check. With that said, just like every other company, we struggled to find new employees to help us grow. Some degree of our struggle, though, is self-induced as our current staff has set the performance bar high—a level we want to maintain. With inflation running at a 40-year high, we did the right thing, without hesitation, and paid our staff the highest annual wage increase in years.

RECENT NEWS

Regarding the business model of the failed West Coast bank and how it compares to ours: it doesn't. Funding a balance sheet almost exclusively with very large deposits from a limited number of customers within a single industry is hardly best practice. We fund our balance sheet with deposits from over 34,000 retail, commercial, and municipal customers. Our portfolio of commercial customers is well-diversified and that diversification is constantly monitored. Ninety-five percent of the customer deposits at the failed bank exceeded FDIC coverage. The industry average is approximately 20%, while ours is lower than the industry average. That bank's bond portfolio was its largest component of assets, roughly 60%. At year's end, our bond portfolio amounted to 20% of our total assets.

We do have book losses in our bond portfolio. Any bank, insurance company, pension fund, and even individual who owned bonds prior to March of last year when the Federal Reserve Bank began raising interest rates, now own those bonds at an unrealized book loss. Our bond portfolio is structured to provide liquidity annually. As I mentioned earlier, our bond portfolio provided approximately $40 million in liquidity in 2022 to help fund our loan growth. Going forward, as bonds mature, we will decide then how to redeploy the funds.

From time to time, we look at bankers located in growth areas of the country and with envy, grouse about the ease they seem to have growing their customer base. Not being located in a growth area, we, on the other hand, have to sharpen our pencil to attract that new customer or lure one from one of our competitors. That forces us to focus on each and every opportunity. In light of recent events, maybe we are better positioned?

MANY THANKS

Our directors can be counted among the best of the best, and one of the best, Jim Homburger, hung up his spikes and called it a career. Jim was elected to the board as we were in the process of growing the Bank and changing its culture. At first, Jim was quiet and did not say much. I soon realized, though, that this wasn't a reflection of a timid attitude. He was observing and formulating his thoughts. When the time was right, we heard those comments and they were spot on. He was professional and respectful in his delivery but, again, not timid. Much of our success over the years can be attributed to Jim and the commitment he made to understanding banking, the role of a bank director, and his affinity for the communities we serve. He knew the Bank could play an important role in advancing those communities, and he encouraged us to be the catalyst to make things happen. But he also understood the fiduciary responsibility the Bank had to its depositors and shareholders. He knew when to guide and he knew when to insist. He knew when it was time to be businesslike, and he knew when it was time to be one of the boys. He laughed with us and wasn't afraid to cry when there was sadness within the LNB family. The Lyons National Bank is a better bank today because Jim Homburger was a member of our Board of Directors. I'm a better banker, and person, because I had the pleasure of working with Jim. All of us at LNB wish Jim and his wife Peggy good health and continued blessings. Jim, your chair in the boardroom may be empty, but our hearts are filled with love for you two. God bless you and Peg; visit often!

FRIENDS REMEMBERED

Our LNB family is greatly saddened by the loss of two longtime dedicated employees: Kim Kelley and Anna Bridger. Kim, our Director of Human Resources, was one of the first executives we hired as we embarked on the growth of the Bank. At the time, one new branch was up and running and another was in the planning stages. We were expanding almost every support department. Yet we had no formal human resources department. Not a good place to be in for a company being built on the foundation that our employees are our most valued assets. Kim was the right person to solve our dilemma. She thrived on our employee-centric model, and her contagious enthusiasm for it was often the reason we were successful in hiring so many of our outstanding employees. She was the first person recruits talked to—why would they want to work elsewhere? Kim was the perfect blend of businesswoman and humanitarian. Direct when she had to be and motherly when it called for it.

Anna, who, like Kim, was a local , and a commercial loan officer. While tiny in stature, she held her own in a field dominated by males. Her confidence came from doing her homework, knowing banking, and understanding her clients. Anna loved Lyons and was actively involved in the community. She was especially fond of the Lyons Community Center. She devoted much of her time to the Center, overseeing its operation and finances and providing a haven for many local youth and seniors in need. She and her husband Keith were leaders in many community organizations and in organizing and running events.

Kim and Anna are examples of the kind of exemplary employees we are blessed with at LNB. Others will now step up and fill in for both. However, it won't be the same. We will smile when we think of them often, but we will also have a tear in our eye. Until we meet again, rest in peace, Kim and Anna, knowing you will always be loved.

Robert A. Schick

BEST 50 OTCQX 2023

LYONS BANCORP, INC. RECOGNIZED FOR TOP PERFORMANCE

Lyons Bancorp, Inc. (OTCQX: LYBC) was named to the 2023 OTCQX® Best 50, a ranking of top performing companies traded on the OTCQX Best Market in 2022.

As an OTCQX Top 50 recipient, Lyons Bancorp is among the elite group of companies that have demonstrated strong financial performance, transparency, and corporate governance.

> **"This prestigious recognition is a testament to LNB's commitment to excellence and was only made possible by our hardworking board of directors, staff, and leadership team."**
>
> **Robert Schick**

PRESIDENT'S MESSAGE

Thomas L. Kime

President & CEO,
The Lyons National Bank

After several roller-coaster years of unprecedented events and an uncertain economy, I am very proud to report that in 2022 Lyons Bancorp, Inc. and The Lyons National Bank continued its successful trend with yet another impressive year of earnings. LNB achieved record financial performance, steady growth, and maintained a quality loan portfolio, all while taking a conservative approach to sustaining strong reserves and investing in our staff and technology. This leaves LNB very well positioned for what will continue to be uncertain times for our customers and the economy.

TEAM EFFORT

LNB's success is truly impressive given the fact that we, like many financial institutions, are operating in an inflationary environment with continued historic instability in interest rates, as well as an unsteady geopolitically impacted market. The banking industry and the business environment have had and will continue to have many challenges in the coming year. However, when challenges arise, the LNB team has consistently shown the ability to be at its best in knowing, advising, and providing services to our customers and local communities. Our local LNB team, made up of staff, officers, Advisory Board members and Board members, are among the best in the business at what it does, and our results are excellent examples of what locally informed and knowledgeable people can accomplish with hard work and determination. As I look back on 2022 and many past years, I am reminded of the gratitude that is owed to the many players that make up this LNB Team who are not just responsible for 2022's results, but for our ongoing and consistent success for the past several decades. I am fortunate to work with this group, and we all are fortunate to have the continuing support of our shareholders. My most sincere thanks to all.

COMMUNITY BANKING

Relative to LNB's results, while CFO Chad Proper's report will cover this in more detail, I wanted to note some key points. Our earnings increase of 11% in 2022 to $17.2 million was an all-time record earnings level for Lyons Bancorp, Inc. Perhaps more impressive is the fact that we did so while still maintaining our prudent approach to sustainable quality growth, conservative income recognition, strong reserves, and a credit process that allows us to consistently grow our loan portfolio while still achieving low delinquency and minimal charge-off results, both of which were better than our peer group. LNB also maintains a stable balance sheet that is not structured anything like those banks recently making headlines and misrepresented as "small community banks." SVB had several hundred billion dollars in deposits; almost doubled in size in a single year; and had deposits and loans that were concentrated in large risky industries. And over 90% of its accounts contained significantly more than what the FDIC would cover. By contrast, LNB (and many other true community banks) is a $1.7 billion bank with a diversified loan portfolio reflective of and across our entire retail, commercial, and agricultural marketplace, with no one loan type larger than 10% of total loans, and with over 80% of our deposit base covered by FDIC insurance. Even then over 42% of these deposits are actually checking/true core operating accounts. To refer to the top five or six $500 billion-to-$3 trillion banks and all small community banks as a homogeneous group is not reflective of the bulk of the community banks or of the mostly rural and diverse communities that depend on us and that we serve.

These factors are especially important in light of the challenging economic and political times in which we operate. The fact is, over the past 20 years LNB has grown from $188 million in assets to $1.74 billion in assets for an annualized average increase of 12%. During that same period, we have grown the Bank's annual earnings from $1.37 million to $18.1 million, or an annualized annual growth of 14%. These 20 years of consistent yet stable and profitable growth are a testament to our community banking model, as well as the determination of the entire LNB team to do the best job possible.

HIGH-TOUCH & HIGH-TECH

LNB's hallmark is our WOW! service, which we deliver to our customers through our 16 local full-service offices, each staffed with dedicated local professionals who are actively engaged in all aspects of their communities. Our commitment to personal service for our customers is further supported by an outstanding technology platform offering capabilities and services that stack up against any of the top banks in the industry. Our mortgage application process gives customers the opportunity to work online or in person with a local LNB mortgage originator throughout the entire process, from application to closing. Notifi℠, our real-time alerts platform, allows LNB customers to select the notifications they want to receive and how they wish to receive them. With LNB's Instant Issue Advantage™ service, customers can walk into any local LNB office and walk out with a debit card, be it a new one or a replacement card. The LNB branch staff is always prepared to assist customers with services like Zelle® (for person-to-person transfers or payments) and the creation of their mobile digital wallet. We're proud to offer these services with our personal touch.

For our commercial and agricultural customers, LNB offers business mobile services, including remote deposit capture, as well as a full suite of secure cash management services. Consistent with our highly personal retail approach, the LNB business and cash management team of experts is available to help customers with set-up and ongoing support. LNB offers top-level technology in conjunction with our unique WOW! personal service that is available at all of our offices to help our customers fully utilize our many tech platforms and services.

LNB continues to invest strategically in our operations and customer support programs to improve efficiency, which has helped lower LNB's efficiency ratio. LNB's enhanced wire service process allows us to provide more efficient and secure service to our customers. Similarly, we have placed an emphasis on cross-training our staff across the bank and specifically within the operations departments and the help desk units, which has added to our service profile for customers.

Outreach and education for our customers is always at the top of our mind. During 2022, LNB collaborated with a national cybersecurity firm to offer in-depth, up-to-date information on the current cybersecurity environment and enhanced future security for our business and municipal customers. This service would otherwise not be available to many of these customers. In addition, LNB has provided cyber/forensic services in unique circumstances to assist our customers.

LOOKING FORWARD

Looking forward, we recognize that 2023 will bring with it many financial and other challenges that are not within our control. As we face tighter margins from the impact of inflation, an inverted yield curve, an environment of increased regulations, and other economic factors, we will continue to strategically plan for ways to mitigate issues and capitalize on opportunities to succeed.

Our past ability to successfully grow while being conservative in how we operate has positioned us well and will help us in the future. LNB has had some of our best success in adding new customers to LNB and achieving strong financial results during challenging times such as the pandemic, and we will continue to look for ways to achieve the best possible outcomes for our customers, staff, and shareholders.

Providing LNB's in-person yet high-tech model of banking is unique in today's environment. By providing both the best possible face-to-face customer experience and complementing that with best-in-class effective and convenient technology, LNB ensures that customers have what they want, when they want it, and how they want it. As noted in the comments under technology, whether you are an individual or a business with complex needs, we can help, and we also have the people and process to help you utilize it. Even with the growth of technology, LNB's offices have still experienced gains in our lobby traffic each of the last three years, even with the pandemic. LNB's lobbies continue to bustle, with our tellers processing an average of more than 160,000 transactions each month, along with direct retail lending applications, such as Home Equity Line of Credit (HELOC) loans which increased by approximately 25%. Even in this competitive market, LNB grew core deposits and surpassed the growth of its marketplace. To the degree that operating with our high-personal-touch and high-tech model of banking helps us to be profitable, and take better care of our customers and our communities, we are glad to do so. This is the very essence of community banking done right.

Just as providing exceptional service to our customers remains a top priority, LNB's commitment to the communities we serve is stronger than ever. Many banks have discontinued or drastically reduced their financial and community service investment in their markets. LNB has done the opposite. Our employees contributed more than 11,000 hours of community service to organizations and causes in 2022, and LNB supports this commitment day and night. With LNB's support, our staff are looked to as key leaders for many of the boards and organizations they serve on, with many serving as chair, president, treasurer, or a similar leadership role. Financially, LNB continues to lead the way with crucial financial support to ensure that important organizations are able to provide services and activities to their communities. This financial and human capital support is highly important throughout our marketplace.

LNB's more than 240 employees, which includes our front-line staff, lenders, operations, technology, and management teams, are all based locally and live in the communities we serve. LNB is a top employer and taxpayer in many of our communities, and with the advice of our 43 local community-oriented Advisory Board members and a dozen Board of Directors members, LNB remains a truly connected and involved community-focused bank. In the majority of our markets, we are the top residential mortgage lender, the top small business lender, and the top agricultural lender, to name a few accomplishments. LNB's impact on the local economy cannot be overstated, and quite frankly, in an environment in which other banks are closing branches and leaving markets, LNB's presence has rarely been more important for our communities.

IN CLOSING

I've never been more proud of the collective efforts of the LNB team, nor have I been more confident that we are exceptionally well positioned to meet potential challenges and to continue our 170 years of successfully serving our customers and communities. We achieved strong and consistent financial results for our shareholders, and at the same time, we compensated our staff appropriately for their outstanding efforts in providing WOW! services to our customers. Thank you and sincere congratulations to all.

Tom

Thomas L. Kime

CELEBRATING OUR WOW! CULTURE

LNB celebrates WOW! culture at its bank-wide event held in 2022 at Lincoln Hill Farms in Canandaigua, NY.

CONGRATULATIONS TO OUR WOW! AWARD WINNERS

As part of our Annual WOW! Employee Event, President & CEO Tom Kime recognized the following individuals who have demonstrated exceptional performance and dedication to the Bank in 2022.

(Left to right)

Michael L. Warner
Banking Officer & Business Data Analyst
Ultimate Team Player Award

Cheryl M. Gregory
Assistant Vice President & Branch Manager, Ontario
Exceeding Expectations Award

Scott W. Russell
Banking Officer & Mortgage Underwriter
Leading By Example Award

Susan L. Snyder
Assistant Vice President & Senior Assistant Branch Manager, Penn Yan
Employee of the Year Award

2022 FINANCIAL HIGHLIGHTS

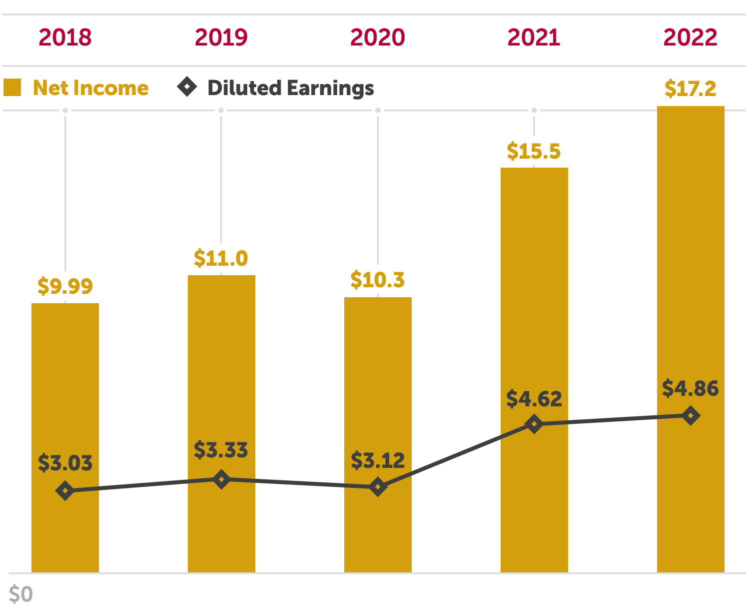
Chad J. Proper

Senior Vice President & CFO
The Lyons National Bank

RESULTS OF OPERATIONS

Despite lingering effects of the pandemic, new economic challenges from inflation, and a rising rate environment, 2022 was another year of increased profits. We are pleased that we are able to continue to report such profits, but, rest assured, they do not come at the sacrifice of asset quality or responsible management. It takes careful planning and execution to ensure that we are in a position to be safely profitable in good times and in times such as we are currently experiencing. Net income in 2022 was $17.2 million, representing an increase of $1.7 million or 11%. Net income in 2022 represented diluted earnings per common share of $4.86 compared to $4.62 in 2021, an increase of $0.24 or 5.2%. Basic earnings per common share of $4.96 represented an increase from $4.71 in 2021 of $0.25 or 5.3%. Net income expressed as a return on average assets was 1.01% and as a return on average shareholders' equity was 18.53% in 2022, compared to 0.99% and 15.62%, respectively, in 2021.

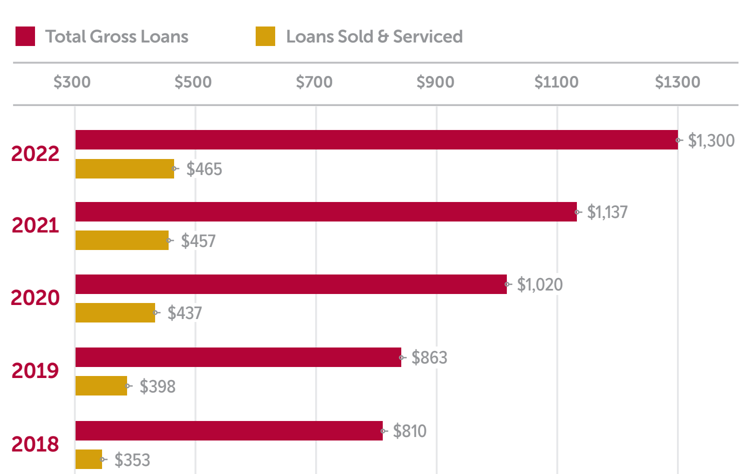
NET INCOME & DILUTED EARNINGS PER SHARE



Our provision for loan losses is based upon our assessment of a variety of factors, such as recurring items that include, but are not limited to, the general economic environment and changes in the volume of our loan portfolio. From time to time, it also includes items considered nonrecurring such as the pandemic-related activities. Recent years have seen an appropriate amount of funding in our provision for loan losses in light of changing times with totals of $3.5 million, $1.3 million, $6.3 million, and $2.3 million, in 2022, 2021, 2020, and 2019, respectively. As previously reported, the $6.3 million recorded in 2020 was a direct result of the pandemic. The provision for loan losses can be seen as a measure of local, regional, and national conditions and their potential loss impact on our loan portfolio. The 2022 provision of $3.5 million resulted in an allowance for loan losses of 1.65% of total gross loans at December 31, 2022, compared to 1.61% at December 31, 2021. As discussed below, our levels of delinquent loans, nonaccrual loans, and impaired loans at December 31, 2022, remain low and consistent with amounts at December 31, 2021.

Net interest income, which is the difference between the interest income we earn on our interest-earning assets (primarily loans and investment securities) and the interest paid on our interest-bearing liabilities (primarily deposit accounts and borrowings), is the largest source of income. Net interest income for 2022 was $51.2 million, an increase of $3.7 million or 7.8% over the 2021 total of $47.5 million. This increase was due primarily to the modest growth of our loan portfolio funded by a rise in deposits. The increase in loan growth outperformed its national peer group, as well as most of its local peer group. Asset growth without sacrificing quality remains a core objective for us in this period of rising interest rates. The average balance of our interest-earning assets increased $154.1 million or 10.2% to $1.658 billion during 2022 compared to $1.504 billion during 2021. This compares to an increase of $252.7 million or 20.2% in 2021 compared to 2020. The average balance of our earning assets was suppressed by unrealized losses in our available-for-sale securities portfolio. These unrealized losses totaled $53.3 million at December 31, 2022, compared to $6.3 million at December 31, 2021. The increase in unrealized losses, which do not impact our earnings, is a function of rising interest rates and not related to quality issues with the securities we own. A fundamental principle of bond investing is that market interest rates and bond prices generally move in opposite directions. When market interest rates rise,

LOAN BREAKDOWN
($ MILLIONS)



	2022			2021		
	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)
INTEREST-EARNING ASSETS: (Thousands $)						
Residential real estate	609,306	20,814	3.42%	484,598	16,683	3.44%
Commercial and agricultural real estate	391,582	17,816	4.55%	334,490	15,544	4.65%
Commercial and agricultural loans	184,006	9,382	5.10%	211,066	11,729	5.56%
Consumer installment loans	38,203	1,975	5.17%	33,665	1,785	5.30%
TOTAL LOANS	**1,223,097**	**49,987**	**4.09%**	**1,063,819**	**45,741**	**4.30%**
Investments	408,956	6,479	1.58%	363,114	5,898	1.62%
Federal funds sold & other interest-earning assets	25,904	453	1.75%	76,953	96	0.12%
TOTAL INTEREST-EARNING ASSETS	**1,657,957**	**56,919**	**3.43%**	**1,503,886**	**51,735**	**3.44%**
Noninterest-earning assets	**40,718**			**67,842**		
TOTAL ASSETS	**1,698,675**			**1,571,728**		
INTEREST-BEARING LIABILITIES: (Thousands $)						
Interest-bearing checking	187,082	160	0.09%	173,451	234	0.14%
Money market and savings accounts	672,200	1,970	0.29%	611,274	1,699	0.28%
Time deposits	202,278	2,061	1.02%	213,831	1,370	0.64%
Other	42,948	1,560	3.63%	20,896	896	4.29%
TOTAL INTEREST-BEARING LIABILITIES	**1,104,508**	**5,751**	**0.52%**	**1,019,452**	**4,199**	**0.41%**
Noninterest-bearing deposits	475,573			430,101		
Other noninterest-bearing liabilities	25,772			22,799		
TOTAL LIABILITIES	**1,605,853**			**1,472,352**		
Total equity	92,822			99,376		
TOTAL LIABILITIES AND EQUITY	**1,698,675**			**1,571,728**		
Net interest spread			2.91%			3.03%
Net interest income/margin on earning assets		51,168			47,536	
Tax equivalent adjustment		260			267	
Net interest income/margin on a tax equivalent basis		51,428	3.10%		47,803	3.18%

prices of fixed-rate bonds fall. Although these changes in value are unrealized because we haven't sold the securities, we need to reflect the most accurate measurement on the books as a result of the interest rate environment that changed significantly in 2022. Losses such as these are unfortunately the norm in today's environment. However, the unrealized loss was well below its national peer group, as well as most of its local peer group. Average interest-bearing liabilities increased $85.1 million or 8.3% to $1.104 billion in 2022 compared to $1.019 billion in 2021. This compares to an increase of $146.9 million or 16.8% in 2021 compared to 2020.

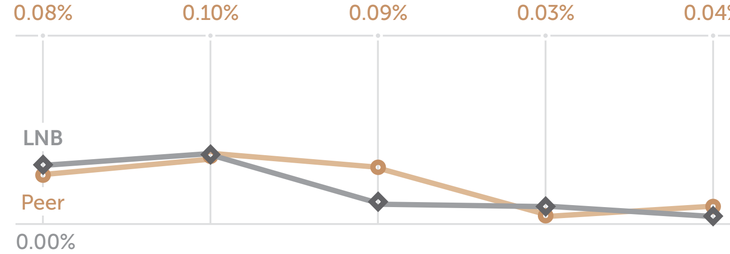
Average noninterest-bearing deposits increased $45.5 million in 2022 and $98.8 million in 2021. Strong and stable Demand Deposit Accounts (DDAs) or noninterest bearing deposit balances reduce our cost of funds, thereby effectively contributing to net interest income. DDAs or noninterest bearing deposits are critical in providing additional funding for our asset growth.

Our tax-equivalent margin measured 3.10% in 2022 compared to 3.18% in 2021, as the rising rate environment put pressure on our margins.

See the discussion above concerning the provision for loan losses recorded in 2022 and 2021. At December 31, 2022, our nonperforming loans totaled 0.27% of total loans, as compared to 0.31% at December 31, 2021. These ratios continue to compare favorably to our peer group ratio of 0.33% at December 31, 2022. Our net charge-offs to average loans during 2022 totaled 0.03%, down slightly from the prior year amount of 0.04%. A continuing trend. Loans past due 30 days or more totaled $5.1 million and $4.3 million in 2022 and 2021, respectively. Loans on nonaccrual status totaled $3.8 million and $3.5 million in 2022 and 2021, respectively. Impaired loans, those loans not paying in accordance with their contractual terms, totaled $2.8 million and $3.1 million in 2022 and 2021, respectively. These amounts are impressive when one considers that the total amount of gross loans was $1.3 billion and $1.1 billion at December 31, 2022, and 2021, respectively. These loan-related asset quality metrics and measures continue to demonstrate high quality in our loan portfolio.

NET CHARGED-OFF LOANS TO AVERAGE LOANS

2018	2019	2020	2021	2022
0.09%	0.10%	0.05%	0.04%	0.03%
0.08%	0.10%	0.09%	0.03%	0.04%



Noninterest income continues to remain an important revenue source for us given the interest rate environment, which continues to put pressure on margins. Noninterest income includes, but is not limited to, loan servicing fees, cardholder fees, service charges, financial services fees, and gains (losses) on sales of loans and securities. In 2022, noninterest income represented 19% of all revenue sources and totaled $13.4 million, a decrease of $1.3 million or 8.8% from the $14.7 million recorded in 2021. The decrease in noninterest income in 2022 was primarily due to a $2.1 million decrease in the gain on sale of loans, as again this year we held more loans in our portfolio versus selling them in the secondary market. This decrease was offset by a $592,000 loss on the sales of securities recorded in 2021 with no gain or loss on the sale of securities in 2022.

Noninterest expense consists primarily of compensation and employee benefits, occupancy expenses, professional fees, data processing, professional fees, FDIC insurance, and other operating expenses. In 2022, total noninterest expense was $39.2 million, a decrease of $2.3 million or 5.5% compared to $41.5 million recorded in 2021. Reductions in compensation and employee benefits, data processing, and other miscellaneous operating expenses were the primary drivers of the decrease. Other expense categories had insignificant fluctuations.

ANALYSIS OF FINANCIAL CONDITION

Again this year we had growth in our balance sheet with total assets increasing 7.8% from $1.626 billion at December 31, 2021, to $1.754 billion at December 31, 2022. Stockholders' equity (nontangible) increased $14.1 million or 12.4% to $127.3 million at December 31, 2022, from $113.2 million at December 31, 2021.

Total loans were $1.3 billion at December 31, 2022, an increase of $163 million or 14.3% from $1.137 billion at December 31, 2021. We experienced growth in most of our loan types. The largest increase, totaling $77.7 million, was in 1-4 family residential real estate loans. We continue to support our strategy of maintaining balance within the loan portfolio between consumer and agricultural/commercial loans, ending 2022 with 53% consumer-related loans versus 47% agricultural/commercial-related loans—a change from 2021 when we ended with 46% consumer-related loans versus 54% agricultural/commercial-related loans as a result of the Paycheck Protection Program (PPP) loans that were forgiven under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Our securities portfolio classifications are: available-for-sale (which may be sold to satisfy liquidity purposes as needed), held-to-maturity, and restricted equity securities. We maintain the investment portfolio to provide us with a critical liquidity source and to generate earnings while not sacrificing asset quality and creating undue risk. Our investment portfolio consists primarily of United States agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2022, our investment portfolio totaled $352.6 million, a decrease of $39.3 million from the total of $391.9 million at December 31, 2021. The aggregate amortized cost of our securities portfolio actually grew by $9.1 million during 2022; however, the unrealized losses in our available-for-sale securities portfolio grew by $47 million. It is important to point out again that these unrealized losses, which do not impact our earnings, are a function of rising interest rates and are not related to quality issues with the securities we own.

Deposits generated within our local markets continue to be the major source of funds for our lending and investment securities activities. Total deposits at December 31, 2022, were $1.623 billion, an increase of $152 million or 10.3% over $1.471 billion at December 31, 2021. Growth in our core retail and commercial deposit bases continued in 2022 as they have in recent years. Public deposit balances represented 18% of total deposits at December 31, 2022, compared to 17% at December 31, 2021.

Again this year we had growth in our balance sheet with total assets increasing 7.8% from $1.626 billion at December 31, 2021, to $1.754 billion at December 31, 2022.

Total loans were $1.3 billion at December 31, 2022, an increase of $163 million or 14.3% from $1.137 billion at December 31, 2021.

We continue to have capital levels well in excess of regulatory minimums. The Board of Directors and the management team remain committed to providing a dependable and safe return to our shareholders. We declared cash dividends of $1.38 per share during 2022 compared to $1.34 in 2021. The 2022 dividend represents a yield of 2.5% based on our December 31, 2022, market price of $55.00 per share. This compares to a yield of 3.1% in 2021 based on a December 31, 2021, market price of $43.20.

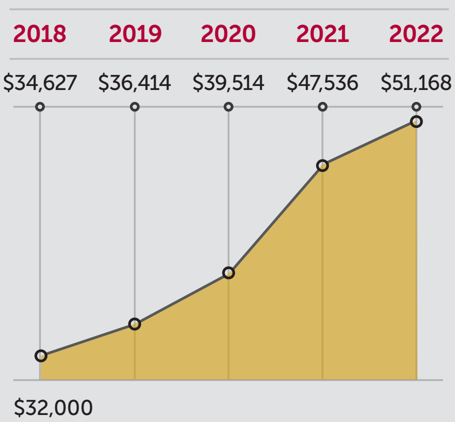
For more information regarding our 2022 operating results and financial position, please refer to www.BankwithLNB.com for our Consolidated Financial Report as of and for the year ended December 31, 2022.

SELECTED FINANCIAL DATA

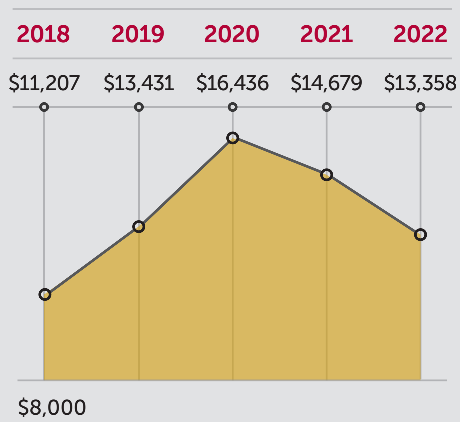
YEAR ENDED DECEMBER 31

	2022	2021	2020	2019	2018
FINANCIAL STATEMENT HIGHLIGHTS (Thousands $)					
Assets	**1,753,815**	1,626,165	1,423,147	1,163,683	1,081,697
Investments w/o M-to-M	**405,825**	396,707	288,580	214,668	197,302
Investments with M-to-M	**352,583**	391,935	292,293	214,341	191,919
Loans, gross	**1,299,741**	1,136,959	1,109,696	862,509	810,136
Deposits	**1,623,204**	1,470,870	1,285,967	1,029,485	945,837
Borrowings	**0**	0	0	25,000	42,000
Total shareholders' equity (nontangible)	**127,292**	113,227	92,676	87,037	82,046
Interest income	**56,919**	51,735	46,547	44,985	40,589
Interest expense	**5,751**	4,199	7,033	8,571	5,962
Net interest income	**51,168**	47,536	39,514	36,414	34,627
Provision for loan losses	**3,498**	1,340	6,258	2,341	2,133
Net interest income (after provision for loan losses)	**47,670**	46,196	33,256	34,073	32,494
Net income	**17,204**	15,524	10,268	11,005	9,992
PER SHARE INFORMATION ($)					
Basic earnings per share	**4.96**	4.71	3.16	3.38	3.06
Diluted earnings per share	**4.86**	4.62	3.12	3.33	3.03
Cash dividends declared	**1.38**	1.34	1.24	1.22	1.14
Book value per share (incl. Conv. Pref.)	**24.69**	30.98	28.99	26.38	23.61
Book value per share (excl. Conv. Pref.)	**24.12**	30.63	28.53	25.82	22.95
SELECTED RATIOS					
Return on average assets	**1.01%**	0.99%	0.78%	0.98%	0.95%
Return on average shareholders' equity	**18.53%**	15.62%	10.47%	12.99%	13.37%
Leverage ratio (Bank)	**8.56%**	8.51%	8.41%	8.44%	8.50%
Dividend payout ratio	**28.65%**	29.81%	40.53%	37.43%	38.69%
Efficiency ratio	**61.31%**	71.61%	70.58%	67.94%	67.44%
OTHER SELECTED DATA (Whole Numbers)					
Banking offices	**16**	16	16	15	15

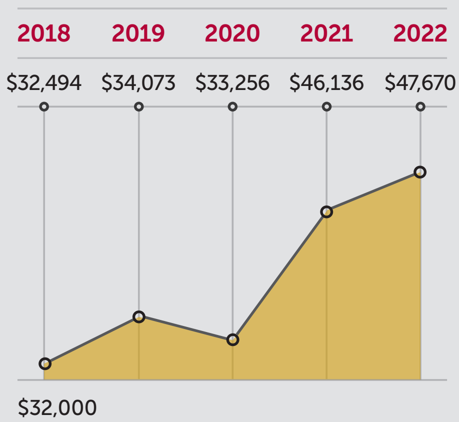
NET INTEREST INCOME
(BEFORE PROVISION)



FEE INCOME



NET INTEREST INCOME
(AFTER PROVISION FOR LOAN LOSSES)



BOARD OF DIRECTORS

LEADING WITH EXPERIENCE

At LNB, we rely on our decades of experience both inside and outside the banking industry to help provide our loyal customers with the financial products and services they rely on for success and prosperity. With a combined 180 years of service to LNB's Board of Directors, all of our members bring unique perspectives and experience to the role of governance and stewardship of the Bank. We are fortunate to have a committed group of local individuals who truly care about our customers and our communities today, tomorrow, and well into the future.

Standing (left to right)

Joseph A. Fragnoli
President & Owner, Super Casuals
Board Service: 11 Years

Clair J. Britt, Jr.
Executive Vice President & Chief Commercial Lending Officer, LNB
Board Service: 22 Years

Thomas L. Kime
President & CEO, LNB
Board Service: 18 Years

Robert A. Schick
Chairman of the Board & President, Lyons Bancorp, Inc.
Board Service: 26 Years

Carol A. Snook
Assistant Vice President & Corporate/Executive Secretary, LNB
Board Service: 18 Years

Joseph P. Bartolotta, Esq.
Senior Managing Director, R&M Real Estate Group
Board Service: 4 Years

John A. Colaruotolo
President & Owner, Anco Builders, LLC
Board Service: 4 Years

Bradley A. Person
President & General Manager, Nuttall & Spacemaker Companies
Board Service: 12 Years

Seated (left to right)

Kaye E. Stone-Gansz
President & CEO, Stone Goose Enterprises; President, LaGasse Machine & Fabrication, Inc.; President, Keg Rag Cellars
Board Service: 9 Years

David J. Breen, Jr.
Retired Supermarket Executive
Board Service: 23 Years

Case A. Marshall
Vice President & Chief Financial Officer, Marshall Companies
Board Service: 9 Years

Dale H. Hemminger
Principal, Hemdale Farms, Inc.
Board Service: 18 Years

Dale L. Hunt
President, Hunt Properties
Board Service: 1 Year

Teresa M. Jackson
Owner, Dudley Poultry Company
Board Service: 5 Years

COMMUNITY COMMITMENT MAKES US EXTRAORDINARY

As a community bank, we have the opportunity every day to have a positive impact on the lives of others, and for LNB employees that effort doesn't stop when the bank doors close at the end of the day. At LNB, our community engagement is foundational to who we are. We are committed to supporting our team members in their community initiatives by celebrating volunteerism and promoting involvement on boards and committees of local organizations. In 2022, individuals played supporting roles in over 250 diverse organizations throughout our Bank's footprint—all of them important to the vibrancy and vitality of our communities.

Bravo to our extraordinary team!

UNITED WAY GIVING

Each year, LNB supports the efforts of our local United Way chapters. Angi Merola (left) and Amanda McDonald help organize LNB's participation in United Way's annual day of service and workplace campaign. Since 2017, the Bank and its employees have donated more than $100,000 to this worthy human services organization.

CLOSE TO THE HEART

LNB employees donate countless hours to organizations close to the heart. Many focus on families and youth. Tim and Yvonne Lead (celebrating 72 years of combined service with LNB) have been volunteering with the Special Olympics organization for 11 years. Joining them in this photo is their son and athlete, Caleb.

DEDICATED TO SAFETY

First responders play a vital role in the safety and security of our community members. In addition to fundraisers and blood drives, many of our employees volunteer in hands-on roles. Juan Ortiz, volunteer firefighter, and Susan Lockwood, ambulance service volunteer, help their local towns by providing safety services to their neighbors.

COMMUNITY INTERESTS

We encourage employees to get involved in their communities. In 2022, employees contributed more than 11,000 service hours to a wide range of organizations. Representing service to local arts and entertainment, Robb Flowers (left) serves as a board member of The Smith Center for the Arts and Jay Smith serves as a board member of the Geneva Music Festival.

ADVISORY BOARDS

LNB's Advisory Boards are comprised of community leaders who live and operate their businesses in the communities we serve. These trusted advisors offer insight regarding important issues facing their local community and provide valuable feedback that helps keep LNB well aligned with the local economy, as well as with the people of the community.

CANANDAIGUA

J. David Damaske
Parkview Fairways Golf Course

Alexandra M. Farnsworth
Garber Randall Buick GMC & Garber Randall Cadillac

Gail D. Herman
The Medicine Shoppe Pharmacy

Kurt M. Koczent
Thompson Health

Jack W. Moran
Roseland Bowl Family Fun Center

Charles W. Potter
J&T Properties of Canandaigua

Justin Sensenig
Sensenig's Landscape Supply & Flint Creek Transportation

CAYUGA COUNTY

Richard L. Beauchine, CPA
Waterloo Container

John F. Bouck
Bouck Real Estate

Keith R. Cuttler
Syracuse Community Health

Mark A. DiVietro, O.D.
Silbert Optical, Inc.

Christopher J. Geherin
Builder's Choice Lumber Company

FARMINGTON

Megan Larmouth Avila
Pioneer Millworks and New Energy Works

Barbara J. Cole
Retired Town of Victor Finance Director

Thomas G. Ewing
Ewing Graphics, Inc.

John E. Garvey
Retired Ontario County Administrator

Kyle W. Johnson
Leonard's Express, Inc.

Tyler W. Wolk
Rochester Insulated Glass

GENEVA

Stephen J. Blowers
Blowers Agri Service, Inc.

Peter J. D'Amico, Jr.
Retired Business Owner

Jason S. Feinberg, MD
Finger Lakes Health

Matthew D. Horn
MRB Group

Bernard G. Lynch
Lynch Furniture - Geneva

Anne D. Nenneau
CCN International

Lawrence Wright
Superintendent, Geneva City School District

PENN YAN

Bonnie B. Curbeau
Curbeau Realty

Ryan T. Kennedy
Morgan Marine

James H. Long
Longs' Cards and Books

Paul W. Marble, Jr.
Marble's Automotive and Glass

Henry H. Martin
Town of Benton Dairy Farmer

Steven D. Perry
Knapp & Schlappi Lumber Co., Inc.

Neil J. Simmons
Simmons Vineyards

PERINTON PARK

James W. Diem
Alliance Insurance Group

Donald R. Fox, Esq.
Partner, Evans & Fox, LLP

Martha M. Malone
Fairport OCED

Terrence A. O'Neil
Retired Business Owner

Howard I. Sharp
Retired Business Owner

J. Lincoln Swedrock, P.E.
BME Associates

SENECA COUNTY

Salvatore N. Franzone
Ciccino's Pizzeria and Restaurant

Rodney D. Littlejohn, DDS, MS
Littlejohn & Barbi Orthodontics

Kenneth W. Padgett, DC
Northeast College of Health Sciences

Erica L. Paolicelli
Three Brothers Wineries & Estates

Eugene F. Pierce
Glenora Wine Cellars, Inc.

Raymond A. Tuuri, Jr.
Finger Lakes Equipment Rental

Stephen J. Wadhams
Wadhams Enterprises, Inc.

CULTIVATING FROM WITHIN

PROMOTIONS

The following LNB team members were recognized for their drive, hard work, and commitment to excellence. Congratulations on your promotions, and thank you for your contributions.

Danielle M. Ayers
Vice President and
Director of Human Resources

Promoted from Banking Officer and Director of Human Resources

Barbara L. Hennessy
Senior Vice President and
Director of Marketing

Promoted from Vice President and Director of Marketing

Carol A. Snook
Vice President and
Corporate/Executive Secretary

Promoted from Assistant Vice President and Corporate/Executive Secretary

Maureen K. Conner
Banking Officer and
Branch Manager, Jordan

Promoted from Assistant Branch Manager

Leah S. Hodge
Assistant Vice President and
Branch Manager, Penn Yan

Promoted from Banking Officer and Branch Manager

Melonie L. Tiffany
Senior Vice President and
Director of Internal Audit

Promoted from Vice President and Director of Internal Audit

Jenna L. DeBrock
Assistant Vice President and
Executive Administrative Assistant

Promoted from Banking Officer and Executive Administrative Assistant

Amanda M. McDonald
Senior Vice President and
Director of Credit Administration

Promoted from Vice President and Senior Credit Administrator

Michael L. Warner
Banking Officer and
Business Data Analyst

Promoted from Business Data Analyst

Andrew P. Feinberg
Banking Officer and
Mortgage Specialist

Promoted from Mortgage Specialist

Mackenzie M. Roberts
Banking Officer and Agricultural/
Commercial Loan Representative

Promoted from Agricultural/ Commercial Loan Representative

EXECUTIVE MANAGEMENT TEAM

Thomas L. Kime
President & Chief Executive Officer

Clair J. Britt, Jr.
Executive Vice President & Chief Commercial Lending Officer

Stephen V. DeRaddo
Executive Vice President & Chief Experience Officer

Todd F. Juffs
Executive Vice President & Chief Technology/Cybersecurity Officer

Chad J. Proper
Senior Vice President & Chief Financial Officer

Robert W. Sollenne
Senior Vice President & Chief Operating Officer

Jeffrey A. Friend
Senior Vice President & Director of Branch/Market Development

Barbara L. Hennessy
Senior Vice President & Director of Marketing

Amanda M. McDonald
Senior Vice President & Director of Credit Administration

Joshua N. Miller
Senior Vice President & Director of Retail Loans/Mortgage Division

Melonie L. Tiffany
Senior Vice President & Director of Internal Audit

Danielle M. Ayers
Vice President & Director of Human Resources

Robert S. Flowers
Vice President & Legal/Business Development Officer

15 THE AVERAGE YEARS OF SERVICE AMONGST THE TEAM.

LNB's talented Executive Management Team has **198 combined** years of service with the Bank.

BANK OFFICERS & SUPERVISORS

ADMINISTRATION

Thomas D. Muller
Senior Vice President & Project Administrator

Carol A. Snook
Vice President & Corporate/Executive Secretary

Jenna L. DeBrock
Assistant Vice President & Executive Administrative Assistant

BRANCH DIVISION

Demetrius Murphy
Vice President & Branch Manager, Auburn

Tara R. Rago
Vice President & Branch Manager, Canandaigua

Julieann B. Downey
Assistant Vice President & Branch Manager, Lyons

Cheryl M. Gregory
Assistant Vice President & Branch Manager, Ontario

Steven J. Hasseler
Assistant Vice President & Branch Manager, Newark

Emily E. Hilimire
Assistant Vice President & Branch Manager, Seneca County

Leah S. Hodge
Assistant Vice President & Branch Manager, Penn Yan

Kelsey L. Journell
Assistant Vice President & Branch Manager, Geneva

Susan L. Lockwood
Assistant Vice President & Branch Manager, Wolcott

Charles K. Parkhurst
Assistant Vice President & Branch Manager, Farmington

Daniela A. Qualdieri
Assistant Vice President & Branch Manager, Perinton Park

Susan L. Snyder
Assistant Vice President & Senior Assistant Branch Manager, Penn Yan

Michele L. Waeghe
Assistant Vice President & Branch Manager, Macedon

Meghan A. Nagel
Banking Officer & Assistant Branch Manager, Lyons

Maureen K. Conner
Banking Officer & Branch Manager, Jordan

Allison M. Verkey
Banking Officer & Branch Manager, Clyde

BANK OFFICERS & SUPERVISORS CONT.

COMMERCIAL LENDING

Ryan M. Hallings
Senior Vice President & Team Leader/ Agricultural/Commercial Loan Officer

Mark J. DeBacco
Vice President & Commercial Loan Officer

Stephen V. D'Orazio
Vice President & Commercial Loan Officer

Michael A. Fratto
Vice President & Commercial Loan Officer

James H. King
Vice President & Commercial Loan Officer

Scott A. MacKenzie
Vice President & Team Leader/ Agricultural/Commercial Loan Officer

Todd L. Borsa
Assistant Vice President & Commercial Loan Officer

Michael E. Rusinko
Assistant Vice President & Commercial Loan Officer

Kraig M. vonHahmann
Assistant Vice President & Agricultural/ Commercial Loan Officer

Mackenzie M. Roberts
Banking Officer & Agricultural/ Commercial Loan Representative

CREDIT ADMINISTRATION & COMPLIANCE

Pamela J. Lee
Vice President & Loan Portfolio Monitoring Officer

Eric R. Heieck
Assistant Vice President & Compliance/BSA & AML Officer

Cristin M. Menotti
Banking Officer & Senior Credit Underwriter

RETAIL & RESIDENTIAL MORTGAGE LENDING

Angela M. Merola
Vice President & Collections Manager

Craig A. Schojan
Vice President & Senior Mortgage Underwriter

James M. Allison
Assistant Vice President & Mortgage Specialist

Joseph M. Arbogast
Assistant Vice President & Mortgage Specialist

Valorie A. Heinzman
Assistant Vice President & Mortgage Specialist

Timothy H. Lead
Assistant Vice President & Mortgage Underwriter

Craig R. Mietz
Assistant Vice President & Mortgage Specialist

Kari R. Bezek
Banking Officer & Mortgage Specialist

Wendy E. Disanto
Banking Officer & Guaranteed Loan Coordinator

Andrew P. Feinberg
Banking Officer & Mortgage Specialist

Trisha A. Mastrodonato
Banking Officer & Mortgage Specialist

Jennifer C. Dunn
Banking Officer & Mortgage/Home Equity Processor

Paul R. Rowan
Banking Officer & Mortgage Underwriter

Scott W. Russell
Banking Officer & Mortgage Underwriter

FINANCE

Shannon M. Romano
Assistant Vice President & Senior Assistant Controller

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial Services

David J. DeRaddo
Assistant Vice President & Financial Services Representative

Kim M. Emperato
Banking Officer & Financial Services Representative

Donna J. Johnson
Banking Officer & Financial Services Representative

OPERATIONS & IT

Hope A. Alexanian
Vice President & Retail Loan Operations Supervisor

Lynnette M. Zelias
Vice President & Commercial Loan Operations Supervisor

Karen D. Lombardozzi
Assistant Vice President & Systems Administrator

Greg T. Noel
Assistant Vice President & Deposit Operations Supervisor

Michael L. Warner
Banking Officer & Business Data Analyst

SECURITY & FACILITIES

Michael J. Colacino
Vice President & Director of Security and Facilities

TRAINING

Daryl L. Snyder
Assistant Vice President & Director of Training

16 FULL-SERVICE LOCATIONS ACROSS SEVEN COUNTIES

AUBURN
63 Genesee Street,
Suite 3
Auburn, NY 13021
(315) 612-3456

311 Grant Avenue Road
Auburn, NY 13021
(315) 567-0200

CANANDAIGUA
3225 East Lake Road,
Suite 215
Canandaigua, NY 14424
(585) 394-2265

CLYDE
4 Williams Street
Clyde, NY 14433
(315) 923-2100

FARMINGTON
1423 Hathaway Drive
Farmington, NY 14425
(585) 433-8700

GENEVA
399 Exchange Street
Geneva, NY 14456
(315) 781-5000

JORDAN
2 North Main Street
Jordan, NY 13080
(315) 689-9530

LYONS
Corner Routes 14 & 31
Lyons, NY 14489
(315) 946-4505

35 William Street
Lyons, NY 14489
(315) 946-4871

MACEDON
359 NYS Route 31
Macedon, NY 14502
(315) 986-9681

NEWARK
750 West Miller Street
Newark, NY 14513
(315) 331-0296

ONTARIO
6280 Furnace Road,
Suite 200
Ontario, NY 14519
(315) 524-9661

PENN YAN
205 Liberty Street
Penn Yan, NY 14527
(315) 536-2300

PERINTON PARK
1314 Fairport Road
Fairport, NY 14450
(585) 433-2900

SENECA COUNTY
2433 State Route 414
Waterloo, NY 13165
(315) 539-4100

WOLCOTT
5996 New Hartford Street
Wolcott, NY 14590
(315) 594-6002

PROFILE

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.75 billion as of December 31, 2022. Lyons Bancorp, Inc. has a banking subsidiary, The Lyons National Bank. The Lyons National Bank is a community bank with offices in Clyde, Lyons, Macedon, Newark, Ontario, and Wolcott in Wayne County, Jordan in Onondaga County, Canandaigua, Farmington and Geneva in Ontario County, Penn Yan in Yates County, Waterloo in Seneca County, Fairport in Monroe County, and Auburn in Cayuga County. The Lyons National Bank has a subsidiary, Lyons Realty Associates Corp.

VISION

The vision of The Lyons National Bank is to be the employer and financial institution of choice and to foster an environment of opportunity, growth, and prosperity for our employees, customers, shareholders, and local communities.

MISSION

The Lyons National Bank is an independent, hometown community bank with an expanding geographic market. Our mission is to safely and profitably serve all of our customers and communities with the most professional service available. We will accomplish this by making a commitment to our most valuable assets—our employees—to treat them with integrity, compensate them appropriately, and provide them with the necessary systems, technology, and training to enable them to become well-respected professionals. Our employees, in turn, will provide our growing customer base with superior service and respect and will be leaders in promoting the quality of life in the communities we serve.

OUR CULTURE—WOW!

WOW! is having a positive attitude and personal conviction to provide customers and fellow employees with a level of service that exceeds their expectations during each and every encounter.

COMMUNITY CHOICE AWARDS

LNB was recognized as Best Bank in the Finger Lakes in the FLX Finest contest; Best Bank and Best Mortgage Loan Provider in The Best Of The Region Awards by *The Citizen* in Auburn; and Best Bank in the Finger Lakes by the *Finger Lakes Times'* Readers' Choice Awards.

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2022

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 3, 2023

To the Stockholders and the Board of Directors
of Lyons Bancorp Inc.:

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Lyons Bancorp, Inc. (a New York State corporation) and subsidiaries as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2023, expressed an unqualified opinion.

Basis for Opinion
These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

171 Sully 's Trail
Pittsford, New York 14534
p (585) 381-1000
f (585) 381-3131

www.bonadio.com

(Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

Critical Audit Matter
The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses
The Company's loan portfolio totaled $1.30 billion as of December 31, 2022, and the associated allowance for loan losses (allowance) was $21.5 million. As discussed in Note 1 and 4 of the consolidated financial statements, the allowance represents management's estimate of incurred credit losses inherent in the loan portfolio at the consolidated balance sheet date. Management estimates the allowance by applying expected loss rates derived from a statistical analysis of historical default and loss severity experience to existing loans with similar characteristics. The allowance also considers adjustments to reflect management's assessment of qualitative factors that may not be measured in the statistical analysis of expected losses, including external factors, along with Company and portfolio specific factors.

Auditing management's allowance is complex and involves a high degree of subjectivity due to the judgment required in evaluating management's determination of the qualitative external, Company and portfolio specific factor adjustments to the allowance described above.

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's allowance process, including controls over the appropriateness of the allowance methodology, the reliability and accuracy of data used to support qualitative factor adjustments to the allowance, and management's review and approval process over qualitative factor adjustments to the allowance.

To test the qualitative factor adjustments, our audit procedures included, among others, assessing management's methodology and considering whether relevant risks were reflected in the modeled provision and whether adjustments to modeled calculations were appropriate. We tested the underlying data used to estimate the qualitative adjustments to determine whether it was accurate, complete and relevant. We evaluated whether qualitative adjustments were reasonable based on changes in the loan portfolio and changes in management's policies, procedures and lending personnel. For example, we performed a sensitivity analysis by assessing whether qualitative adjustments were consistent with publicly available information (e.g. macroeconomic and peer bank data). Further, regarding measurement of the qualitative factors, we evaluated and tested external market data as well as internal data used in the Company's calculation by agreeing significant inputs and underlying data used in the determination of the qualitative adjustments to internal and external sources. We searched for and evaluated information that corroborates or contradicts the Company's identification and measurement of qualitative factors as of the consolidated balance sheet date.

We have served as the Company's auditor since 2011.

Bonadio & Co., LLP

Bonadio & Co., LLP
Pittsford, New York

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 3, 2023

To the Board of Directors and
Stockholders of Lyons Bancorp, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited Lyons Bancorp, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of the Company, and our report dated March 3, 2023, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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(Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

Definition and Limitations of Internal Control over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Bonadio & Co., LLP
Pittsford, New York

Bonadio & Co., LLP

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

March 3, 2023

This management report is intended to meet the management reporting requirements under Part 363.2(b) of the FDIC Rules and Regulations and should not be used for any other purpose.

Statement of Management's Responsibilities

The management of Lyons Bancorp, Inc. (the "Institution") is responsible for preparing the Institution's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only - FFIEC 041 ("FDIC Call Report"); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Institution has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the year that ended on December 31, 2022. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022.

Management's Assessment of Internal Control Over Financial Reporting

The Institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., FDIC Call Report. The Institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Institution are being made only in accordance with authorizations of management and directors of the Institution; and (3) provide reasonable assurance regarding prevention,

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or timely detection and correction of unauthorized acquisition, use, or disposition of the Institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2022, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013).

Based upon its assessment, management has concluded that, as of December 31, 2022, the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, is effective based on the criteria established in Internal Control-Integrated Framework (2013) set forth by COSO.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2022, has been audited by Bonadio Co., LLP, an independent public accounting firm, as stated in their report dated March 3, 2023.

Lyons Bancorp, Inc.

Thomas Kime
President and Chief Executive Officer

Chad Proper
Chief Financial Officer

Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets	(In thousands)	
Cash and due from banks	**$22,047**	$15,618
Interest-bearing deposits in banks	**18,887**	31,306
Investment securities:		
Available for sale	**308,632**	354,999
Held to maturity	**38,429**	32,049
Restricted securities	**5,523**	4,888
Total Investment Securities	**352,584**	391,936
Loans	**1,299,741**	1,136,959
Less: allowance for loan losses	**(21,498)**	(18,344)
Net Loans	**1,278,243**	1,118,615
Land, premises and equipment, net	**25,888**	26,699
Bank-owned life insurance	**21,755**	21,327
Accrued interest receivable and other assets	**34,411**	20,665
Total Assets	**$1,753,815**	$1,626,166
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	**$1,149,101**	$1,018,939
Non-interest-bearing	**474,103**	451,931
Total Deposits	**1,623,204**	1,470,870
Subordinated debentures	**20,915**	20,903
Accrued interest payable and other liabilities	**22,335**	24,744
Total Liabilities	**1,666,454**	1,516,517
Stockholders' Equity		
Lyons Bancorp, Inc. stockholders’ equity:		
Preferred stock	**3**	3
Common stock	**1,718**	1,718
Paid-in capital	**28,386**	28,344
Retained earnings	**99,842**	87,568
Accumulated other comprehensive loss	**(41,902)**	(7,416)
Treasury stock, at cost	**(742)**	(624)
Total Lyons Bancorp, Inc. Stockholders’ Equity	**87,305**	109,593
Noncontrolling interest	**56**	56
Total Stockholders' Equity	**87,361**	109,649
Total Liabilities and Stockholders' Equity	**$1,753,815**	$1,626,166

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
	(In thousands, except per share data)	
Interest Income		
Loans	**$49,987**	$45,741
Investment securities:		
Taxable	**5,899**	4,944
Non-taxable	**1,033**	1,050
Total Interest Income	**56,919**	51,735
Interest Expense		
Deposits	**4,192**	3,303
Borrowings	**1,559**	896
Total Interest Expense	**5,751**	4,199
Net Interest Income	**51,168**	47,536
Provision for Loan Losses	**3,498**	1,340
Net Interest Income after Provision for Loan Losses	**47,670**	46,196
Noninterest Income		
Cardholder fees	**4,284**	3,962
Service charges on deposit accounts	**3,082**	2,624
Loan servicing fees	**2,321**	2,767
Financial services fees	**1,725**	1,805
Realized gains on loans sold	**1,219**	3,360
Earnings on investment in bank owned life insurance (BOLI)	**428**	365
Net realized losses from sales of securities	**-**	(592)
Other	**299**	388
Total Noninterest Income	**13,358**	14,679
Noninterest Expense		
Salaries and wages	**16,759**	17,342
Pensions and benefits	**5,245**	5,851
Occupancy	**3,619**	3,456
Professional fees	**3,059**	3,189
Data processing	**2,357**	2,801
Cardholder expense	**1,450**	1,685
FDIC and OCC assessments	**894**	1,038
Advertising	**851**	937
Office supplies	**273**	225
Other	**4,667**	5,013
Total Noninterest Expense	**39,174**	41,537
Income before Income Taxes	**21,854**	19,338
Income Tax Expense	**4,645**	3,809
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	**17,209**	15,529
Net income attributable to noncontrolling interest	**5**	5
Net income attributable to Lyons Bancorp, Inc.	**17,204**	15,524
Preferred stock dividends	**250**	250
Net Income available to common shareholders	**$16,954**	$15,274
Earnings Per Share – basic	**$4.96**	$4.71
Earnings Per Share – diluted	**$4.86**	$4.62

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
	(in thousands)	
Net Income	**$ 17,209**	$ 15,529
Other Comprehensive Income (loss)		
Securities Avaliable for Sale:		
Net unrealized losses during the year	**(48,470)**	(9,077)
Reclassification adjustment for losses included in income	**-**	592
Pension and Postretirement Benefits:		
Amortization of prior service credit	**-**	(2)
Amortization of net gain	**255**	305
Net actuarial gain (loss)	**2,226**	(22)
Cash Flow Hedge:		
Reclassification adjustment for losses included in income	**7**	15
	(45,982)	(8,189)
Net Tax Benefit	**11,496**	2,048
Other Comprehensive Loss	**(34,486)**	(6,141)
Total Comprehensive (Loss) Income	**(17,277)**	9,388
Comprehensive Income attributable to noncontrolling interest	**(5)**	(5)
Comprehensive (Loss) Income attributable to Lyons Bancorp, Inc.	**$ (17,282)**	$ 9,383

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2022 and 2021

(In thousands, except per share data)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total
BALANCE, January 1, 2021	$ 1,599	$ 3	$ 19,374	$ 76,665	$ (1,275)	$ (960)	$ 56	$ 95,462
Net income for 2021	-	-	-	15,524	-	-	5	15,529
Total other comprehensive loss, Net	-	-	-	-	(6,141)	-	-	(6,141)
Rights Offering - Par value 237,274 Shares @ $0.50 per share	119	-	8,963	-	-	-	-	9,082
Deferred Comp shares issued from treasury	-	-	7	-	-	336	-	343
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.34 per share	-	-	-	(4,371)	-	-	-	(4,371)
BALANCE, December 31, 2021	$ 1,718	$ 3	$ 28,344	$ 87,568	$ (7,416)	$ (624)	$ 56	$ 109,649
Net income for 2022	$ -	$ -	$ -	$ 17,204	$ -	$ -	$ 5	$ 17,209
Total other comprehensive loss, Net	-	-	-	-	(34,486)	-	-	(34,486)
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(334)	-	(334)
Deferred Comp shares issued from treasury	-	-	42	-	-	216	-	258
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.38 per share	-	-	-	(4,680)	-	-	-	(4,680)
BALANCE, December 31, 2022	$ 1,718	$ 3	$ 28,386	$ 99,842	$ (41,902)	$ (742)	$ 56	$ 87,361

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities	(In thousands)	
Net income	**$ 17,209**	$ 15,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**3,498**	1,340
Earnings on investment in bank owned life insurance	**(428)**	(365)
Net realized loss from sales of securities	**-**	592
Realized gains on loans sold	**(1,219)**	(3,360)
Amortization of debt issuance costs	**12**	12
Deferred compensation expense	**171**	1,003
Net amortization on securities	**581**	795
Depreciation and amortization	**1,416**	1,418
Deferred income tax	**(742)**	(1,387)
Contribution to defined benefit pension plan	**(3,530)**	-
Decrease in accrued interest receivable and other assets	**980**	3,320
Increase in accrued interest payable and other liabilities	**817**	2,504
Loans originated for sale	**(72,459)**	(103,930)
Proceeds from sales of loans	**73,156**	111,384
Net Cash Provided by Operating Activities	**19,462**	28,855
Cash Flows from Investing Activities		
Net change in interest bearing deposits at other financial institutions	**12,419**	12,140
Purchases of securities available for sale	**(25,145)**	(219,035)
Proceeds from sales of securities available for sale	**-**	45,649
Proceeds from maturities and calls of securities available for sale	**22,321**	87,185
Purchases of held to maturity securities	**(9,484)**	(30,317)
Proceeds from maturities of securities held to maturity	**3,244**	7,064
Net increase in restricted securities	**(635)**	(61)
Net increase in portfolio loans	**(162,604)**	(121,736)
Purchase of BOLI	**-**	(1,900)
Premises and equipment purchases	**(605)**	(413)
Net Cash Used in Investing Activities	**(160,489)**	(221,424)
Cash Flows from Financing Activities		
Net (decrease) increase in demand and savings deposits	**(7,607)**	236,737
Net increase (decrease) in time deposits	**159,941**	(51,834)
Preferred Stock Dividend	**(250)**	(250)
Purchase of treasury stock	**(334)**	-
Issuance of treasury stock	**258**	-
Issuance of common stock in connection with rights offering, net	**-**	9,082
Dividends paid	**(4,552)**	(3,325)
Net Cash Provided by Financing Activities	**147,456**	190,410
	6,429	(2,159)
Cash and Cash Equivalents – Beginning	**15,618**	17,777
Cash and Cash Equivalents – Ending	**$ 22,047**	$ 15,618
Supplementary Cash Flow Information		
Interest paid	**$ 3,716**	$ 3,548
Income taxes paid	**$ 3,509**	$ 4,194
Dividends declared not yet paid	**$ 1,179**	$ 1,046

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Lyons Bancorp, Inc. (the Company) provides a full range of commercial and retail banking services to individual and small business customers through its wholly-owned subsidiary, The Lyons National Bank (the Bank). The Bank's operations are conducted in sixteen branches located in Wayne, Onondaga, Yates, Ontario, Monroe, Seneca and Cayuga Counties, New York. The Company and the Bank are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Company owns all of the voting common shares of Lyons Capital Statutory Trust II (Trust II). Trust II was formed in 2004. The Trust was formed for the purpose of securitizing trust preferred securities, the proceeds of which were advanced to the Company and contributed to the Bank as additional capital.

The Bank owns all of the voting stock of Lyons Realty Associates Corp. (LRAC). LRAC is a real estate investment trust which holds a portfolio of real estate mortgages. In order to maintain its status as a real estate investment trust, LRAC holds the real estate mortgages until they are paid. The real estate mortgages held by LRAC are included in loans on the consolidated balance sheets.

Basis of Presentation

The consolidated financial information included herein combines the results of operations, the assets, liabilities, and shareholders' equity (including comprehensive income or loss) of the Company and all entities in which the Company has a controlling financial interest. All significant intercompany balances and transactions are eliminated in consolidation.

Reclassification

Amounts in the prior year consolidated financial statements are reclassified when necessary to conform to the current year's presentation. The effects of such reclassifications, if any, did not have a material impact on the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near future relate to the determination of the allowance and provision for loan losses, actuarial assumptions associated with the Company's benefit plans and other temporary investment losses.

Coronavirus Pandemic

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) and subsequent relief, in addition to providing financial assistance to both businesses and consumers, created a forbearance program for federally-backed mortgage loans, protected borrowers from negative credit reporting due to loan accommodations related to the national emergency and provided financial institutions the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. Guidance from the Federal and New York State banking and regulatory agencies, concurrence of the Financial Accounting Standards Board and provisions of the CARES Act allowed modifications made on a good faith basis in response to COVID-19 to borrowers who were

Note 1 - Summary of Significant Accounting Policies (Continued)
Coronavirus Pandemic – (Continued)

generally current with their payments prior to any relief, to not be treated as troubled debt restructurings. The Company has worked with its customers affected by COVID-19 and accommodated a number of modifications across its loan portfolios.

The CARES Act also provided authorization to the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). An eligible business could apply for a PPP loan up to the greater of: (1) 2.5 times its average monthly "payroll costs"; or (2) $10.0 million. PPP loans have: (a) an interest rate of 1%, (b) a 2-5 year loan term to maturity, and (c) principal and interest payments deferred for 15.5 months from the date of disbursement. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under PPP so long as the employee and compensation levels of the business are maintained and at least 60% of the loan proceeds are used for payroll expenses, with the remaining 40%, or less, of the loan proceeds used for other qualifying purchases.

The Small Business Administration (SBA), in consultation with the U.S. Treasury Department, reopened the Paycheck Protection Program (PPP) for First Draw PPP loans the week of January 11, 2021. The SBA began accepting applications for Second Draw PPP loans on January 13, 2021. The PPP allowed certain eligible borrowers that previously received a PPP loan to apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. Second Draw PPP loans could be used to help fund payroll costs, including benefits. Funds could also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. For most borrowers, the maximum loan amount of a Second Draw PPP Loan was 2.5x average monthly 2019 or 2020 payroll costs up to $2 million. For borrowers in the Accommodation and Food Services sector, the maximum loan amount for a Second Draw PPP Loan was 3.5x average monthly 2019 or 2020 payroll costs up to $2 million. A borrower was generally eligible for a Second Draw PPP loan if the borrower:

- Previously received a First Draw PPP Loan and had used the full amount only for authorized uses
- Has no more than 300 employees; and
- Could demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.

Second Draw PPP loans made to eligible borrowers qualify for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

- Employee and compensation levels are maintained in the same manner as required for the First Draw PPP loan;
- The loan proceeds are spent on payroll costs and other eligible expenses; and
- At least 60 percent of the proceeds are spent on payroll costs.

PPP loans have: (a) an interest rate of 1%, (b) a 5 year loan term to maturity, and (c) principal and interest payments deferred for 15.5 months from the date of disbursement. The SBA guarantees 100% of the PPP loans made to eligible borrowers. Under the PPP, small businesses may, subject to certain regulatory requirements, obtain low interest (1%), government-guaranteed SBA loans. These loans may be forgiven if the funds are used for designated expenses and meet certain designated requirements. If our borrowers fail to qualify for PPP loan forgiveness, or if the PPP loans are not fully guaranteed by the US government or if the SBA determines that there is a deficiency in the manner in which the Bank originated, funded or serviced the PPP loans, the Bank risks holding loans with unfavorable terms and may experience loss related to its PPP loans.

Note 1 - Summary of Significant Accounting Policies (Continued)
Coronavirus Pandemic – (Continued)

The Company originated 661 loans in the amount of $50.0 million during 2021. The Company has two second draw loans outstanding in the amount of $24,000 at December 31, 2022. The Company had 64 second draw loans outstanding in the amount of $7.4 million at December 31, 2021. These loans are recorded as commercial loans on the consolidated balance sheets. The Company recorded $1.9 million of second draw PPP fee income during 2021 and $530,000 during 2022.

Investment Securities

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them until maturity. Debt securities to be held for indefinite periods of time are classified as available for sale and carried at fair value, with the unrealized holding gains and losses reported as a component of other comprehensive income, net of tax. Securities held for resale for liquidity purposes are classified as trading and are carried at fair value, with changes in unrealized holding gains and losses included in income. Management determines the appropriate classification of securities at the time of purchase.

Purchase premiums and discounts are recognized in interest income using the interest method or methods that approximate the interest method over the terms of the securities. Interest and dividends on securities are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method and are recorded on the trade date.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Company intends to sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Company will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write-down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying security and it is more likely than not that the Company would not have to sell the security prior to recovery.

The Company considers the following factors in determining whether a credit loss exists and the period over which the security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;
- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;
- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;
- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

Note 1 - Summary of Significant Accounting Policies (Continued)
Investment Securities – (Continued)

- Any adverse change to the credit conditions of the issuer of the security such as credit downgrades by the rating agencies.

Restricted Securities

The Bank is a member of the Federal Home Loan Banks (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

The Bank is a member of its regional Federal Reserve Bank (FRB). FRB stock is carried at cost, classified as a restricted equity security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans

The Bank grants real estate, commercial and consumer loans to its customers. A substantial portion of the loan portfolio is represented by real estate loans in Wayne, Ontario, Monroe, Yates, Onondaga, Seneca and Cayuga Counties. The Company's loan portfolio includes residential real estate, commercial real estate, agricultural real estate, commercial and agricultural loans, and consumer installment classes. Residential real estate loans include classes for 1-4 family and home equity loans. Consumer installment loans include classes for direct and indirect loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income or the allowance for loan losses if the interest income was earned in a prior period. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable fair value or the fair value of underlying collateral if the loan is collateral-dependent. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Cash receipts on impaired loans are generally applied to reduce the principal balance outstanding. In considering loans for evaluation of impairment,

Note 1 - Summary of Significant Accounting Policies (Continued)
Loans – (Continued)

management generally excludes smaller balance, homogeneous loans: residential mortgage loans, home equity loans, and all consumer loans, unless subject to a troubled debt restructuring. These loans are collectively evaluated for risk of loss.

Loans Held for Sale

Generally, loans held for sale consist of residential mortgage loans that are originated and are intended to be sold through agreements the Bank has with the FHLB and the Federal Home Loan Mortgage Corporation (Freddie Mac). Realized gains and losses on sales are computed using the specific identification method. These loans are carried on the consolidated balance sheets at the lower of cost or estimated fair value determined in the aggregate. Residential loans held for sale totaled $3.9 million and $3.4 million at December 31, 2022 and 2021, respectively, and are included in loans on the consolidated balance sheets.

During 2022 and 2021, the Company sold residential mortgage loans totaling $73.2 million and $111.4 million, respectively, and realized gains on these sales were $1.2 million and $3.4 million, respectively. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2022 and 2021, the Company recorded mortgage-servicing assets of $589,000 and $892,000, respectively. Amortization of mortgage-servicing assets amounted to $404,000 in 2022 and $735,000 in 2021. Net mortgage-servicing assets included in other assets in the consolidated balance sheets totaled $3.1 million and $2.9 million, net of amortization, as of December 31, 2022 and 2021, respectively.

Government-guaranteed loans which may be sold after origination are not classified as held for sale in as much as sale of such loans is largely dependent upon the extent to which gains may be realized.

During 2022 and 2021, the Company sold no commercial loans. There were no commercial loans held for sale at December 31, 2022 or 2021.

Total loans serviced for others and excluded from the consolidated balance sheets of the Company amounted to $477.1 million and $457.3 million at December 31, 2022 and 2021, respectively.

Allowance for Loan Losses

The allowance for loan losses (allowance) is established as losses are estimated on the consolidated statements of income to have occurred in the loan portfolio. The allowance is recorded through a provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Under the Paycheck Protection Program (PPP), small businesses may, subject to certain regulatory requirements, obtain low interest (1%), government-guaranteed SBA loans. As the PPP loans are 100% guaranteed by the SBA, no allowance is attributed to these loans.

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Loan Losses – (Continued)

The allowance consists of general, specific and unallocated components as further described below.

General Component

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan classes: commercial real estate, agricultural real estate, commercial and agricultural loans, residential real estate and consumer loan segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. The historical loss factor is adjusted for the following qualitative factors: levels and trends of delinquencies, non-accruals and classified loans; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; national and local economic trends and conditions; collateral value for collateral dependent loans; concentrations of credit; and legal and regulatory environment. For the year ended December 31, 2022, within the calculated allowance, qualitative factors remain elevated in our attempt to measure the potential impact of the state of the economy, inflation concerns and potential recession. For the year ended December 31, 2021, within the calculated allowance, qualitative factors remain elevated in the Company's attempt to measure the potential ongoing impact of the COVID-19 pandemic, with increased concerns from the newer COVID-19 variant.

The qualitative factors are determined based on the various risk characteristics of each loan type. Risk characteristics relevant to each loan type are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. The majority of loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this class.

Commercial real estate – Loans in this class represent both extensions of credit for owner-occupied real estate and income-producing properties throughout the local region. The underlying cash flows of the operating commercial businesses (owner-occupied) and income properties (non-owner-occupied) can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this class. In a majority of cases, the Company obtains rent rolls annually and continually monitors the cash flows of non-owner occupied loans commensurate with sound lending practices.

Agricultural real estate – Loans in this class represent extensions of credit for owner-occupied agricultural real estate throughout the local region. The underlying cash flows generated by the agribusinesses can be adversely impacted by adverse climate and a weakened economy, which in turn, will have an effect on the credit quality in this class. Management obtains annual tax returns and continually monitors the cash flows of these loans commensurate with sound lending practices.

Commercial and Agricultural loans – Loans in these classes are made to businesses and generally secured by the assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this class.

Consumer installment loans – Loans in this segment may be secured or unsecured and repayment is dependent on the credit quality of the individual borrower. Unemployment rates will have an effect on the credit quality in this class.

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Loan Losses – (Continued)

Specific Component

The specific component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for commercial and agricultural loans, commercial real estate and agricultural real estate by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if determined to be more appropriate. An allowance is established when the discounted cash flow or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer or residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

All impaired loans require appraisals and/or chattel evaluations within 180 days of impairment, unless existing evaluation is less than 24 months old and no market or physical deterioration is noted. Re-appraisals and/or re-evaluations are conducted whenever deemed appropriate, but typically performed on a 24-month cycle if repayment is predicated upon liquidation of collateral and evidence suggests collateral values may have deteriorated.

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. Loans modified in a TDR often involve temporary interest-only payments, term extensions, reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, or substituting or adding a new borrower or guarantor. TDRs are measured at the present value of estimated future cash flows using the loans effective rate at inception. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Loan Losses – (Continued)

Nonaccrual loans that are restructured remain on nonaccrual status, but may move to accrual status after they have performed according to the restructured terms for a period of time of at least six months.

Section 4013 of the CARES Act and subsequent federal legislation permitted the suspension of ASC 310-40 for loan modifications that were made by financial institutions in response to the COVID-19 pandemic if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modifications are related to arrangements that deferred or delayed the payment of principal or interest, or changed the interest rate on the loan. Such modifications were not considered a troubled debt restructuring and were excluded from being reported as a troubled debt restructuring.

Land, Premises and Equipment

Land is stated at cost. Premises and equipment are recorded at cost and are generally depreciated by the straight-line method over the estimated useful lives of the assets. Buildings are generally depreciated over a useful life of thirty-nine and one half years, furniture and equipment over a useful life of three to seven years, and leasehold improvements over the lesser of the asset's useful life or the term of the lease.

Bank Owned Life Insurance

Bank owned life insurance (BOLI) was purchased by the Bank as a financing tool for employee benefits and to fund discretionary retirement benefits for the Board of Directors and executive management. The value of life insurance financing is the tax preferred status of increases in life insurance cash values and death benefits and the cash flow generated at the death of the insured. The proceeds or increases in cash surrender value of the life insurance policy results in tax-exempt income to the Company. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is stated on the Company's consolidated balance sheets at its current cash surrender value. Increases in BOLI's cash surrender value are reported as noninterest income in the Company's consolidated statements of income.

Foreclosed Real Estate

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cash basis. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The recorded investment in residential real estate in process of foreclosure at December 31, 2022 and 2021 was $1.1 million and $477,000, respectively. There was no foreclosed real estate at December 31, 2022 or 2021.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which

Note 1 - Summary of Significant Accounting Policies (Continued)
Mortgage Servicing Rights – (Continued)

requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying costs.

Servicing rights are evaluated for impairment based on the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increases to income. The fair value of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the consolidated statements of income as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $2.3 million and $2.8 million for the years ended December 31, 2022 and 2021. Late fees and ancillary fees related to loan servicing are not material. For the years ended December 31, 2022 and 2021, the Company did not recognize any impairment on mortgage servicing rights.

Treasury Stock

Treasury stock is recorded at cost. Shares are reissued on the average cost method, except for issuance of deferred compensation shares, which are discussed in Note 9.

Advertising Costs

Advertising costs are expensed as incurred.

Noncontrolling Interest

Noncontrolling interest represents the portion of ownership and interest expense that is attributable to the minority owners of LRAC. The minority ownership is in the form of 8.50% cumulative preferred stock, and the dividends paid are included in noncontrolling interest as a charge against income.

Income Taxes

Income taxes are provided for the tax effects of certain transactions reported in the consolidated financial statements. Income taxes consist of taxes currently due plus deferred taxes related primarily to temporary differences between the financial reporting and income tax basis of available for sale securities, the allowance for loan losses, premises and equipment, and prepaid and accrued employee benefits. The deferred tax assets and liabilities represent the future tax return consequences of the temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

Note 1 - Summary of Significant Accounting Policies (Continued)
Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Earnings per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Treasury shares are not deemed outstanding for earnings per share calculations. See Note 11 for earnings per share calculations.

Comprehensive Income

GAAP requires recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income. Other comprehensive income includes unrealized gains and losses on securities held for sale, changes in the funded status of the pension plan and unrealized gains and losses on cash flow hedges.

Statements of Cash Flows

For the purpose of presentation in the consolidated statements of cash flows, cash and cash equivalents are defined as the sum of cash and due from banks and federal funds sold.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. See Note 13 for summary of commitments and standby letters of credit.

Segment Reporting

The Company has evaluated the activities relating to its strategic business units, and determined that these strategic business units are similar in nature, and managed accordingly. The strategic business units are not reviewed separately to make operating decisions or assess performance. Therefore, the Company has determined it has no reportable segments.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued an Update (ASU 2016-13) to its guidance on "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for

Note 1 - Summary of Significant Accounting Policies (Continued)
Recently Issued Accounting Pronouncements (Continued)

credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the adoption date is for fiscal years beginning after December 2020. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities' annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. The Company will adopt ASU 2016-13 January 1, 2023. The Company has evaluated the potential impact on our consolidated results of operations or financial position. The initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, nor will it have an impact on our consolidated financial position at the date of adoption of this Update. This Update will have an impact on the methodology process we utilize to calculate the allowance. A vendor has been selected and alternative methodologies have been chosen. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. The Company has completed its data and integrity verification process, methodology review and is prepared for implementation of the guidance.

In December 2019, the FASB issued Accounting Standards Update (ASU) 2019-12 "Income Taxes (Topic 740)": Simplifying the Accounting for Income Taxes, in an effort to simplify the accounting of income taxes. The ASU removes certain exceptions from the general principles of ASC 740, Income Taxes, and clarifies and simplifies several aspects of income tax accounting. The amendments provided in the ASU are part of the FASB's broader initiative of short-term projects aimed at reducing the cost and complexity of applying accounting standards. The changes brought forth by ASU 2019-12 represent a departure from the current accounting standards, particularly for interim reporting. For public business entities, the amendments in the ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted in any interim or annual period, and an entity that elects early adoption must adopt all the amendments in the same period. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial position.

In March 2020, the FASB issued an Update (ASU 2020-04), Reference Rate Reform (Topic 848). The amendments in this Update provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The following optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference

Note 1 - Summary of Significant Accounting Policies (Continued)
Recently Issued Accounting Pronouncements (Continued)

rate reform and that meet certain scope guidance: (1) Modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. (2) Modifications of contracts within the scope of Topics 840, Leases, and 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (for example, the incremental borrowing rate) or remeasurements of lease payments that otherwise would be required under those Topics for modifications not accounted for as separate contracts. (3) Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging— Embedded Derivatives. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments in this Update must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. An entity may elect to apply the amendments in this Update to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The adoption of this guidance does not have a material impact on the Company’s consolidated results of operation or financial position.

In March 2022, the FASB issued an Update (ASU 2022-02) to its guidance on “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”. This update eliminates the recognition and measurement guidance for troubled debt restructurings (“TDR’s”) by creditors in ASC 310-40. This update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or continuation of an existing loan. Additionally, the amendments in the ASU require a public business entity to disclose current-period gross write-offs by year of origination for refinancing receivables and net investments in leases in the existing vintage disclosures. The amendments in this update are effective for entities that have adopted amendments in update 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in update 2016-13, the effective date for the amendments in this update are the same as the effective dates in update 2016-13. Early adoption is permitted in any interim period if an entity has adopted ASU 2016-13 and such election may be made individually to adopt the guidance related to TDR’s, including related disclosures, and the presentation of gross write-offs in the vintage disclosure. This update requires prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDR’s may be adopted on a prospective or modified retrospective transition method. The adoption of this standard is not expected to have a material effect on the Company’s operating results or financial condition.

Note 2 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2022 and 2021:

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022:				
Available for Sale:				
United State Agencies	$ 156,591	$ 57	$ (28,748)	$ 127,900
State and local governments	91,618	5	(8,769)	82,854
Corporate	17,800	-	(1,434)	16,366
Mortgage-backed securities	95,865	-	(14,353)	81,512
Total Available for Sale	$ 361,873	$ 62	$ (53,304)	$ 308,632
Held to Maturity:				
United State Agencies	$ 20,156	$ -	$ (2,531)	$ 17,625
State and local governments	8,857	-	-	8,857
Mortgage-backed securities	9,416	-	(1,467)	7,949
Total Held to Maturity	$ 38,429	$ -	$ (3,998)	$ 34,431
Restricted Securities:	$ 5,523	$ -	$ -	$ 5,523

Note 2 – Investments (Continued)

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021:				
Available for Sale:				
United State Agencies	$ 153,417	$ 126	$ (4,528)	$ 149,015
State and local governments	87,965	673	(715)	87,923
Corporate	14,300	193	(109)	14,384
Mortgage-backed securities	104,089	560	(972)	103,677
Total Available for Sale	$ 359,771	$ 1,552	$ (6,324)	$ 354,999
Held to Maturity:				
United State Agencies	$ 15,637	$ -	$ (221)	$ 15,416
State and local governments	6,968	-	-	6,968
Mortgage-backed securities	9,444	-	(176)	9,268
Total Held to Maturity	$ 32,049	$ -	$ (397)	$ 31,652
Restricted Securities:	$ 4,888	$ -	$ -	$ 4,888

The Company's current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations including subordinated debt of banks and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and Government National Mortgage Association (GNMA), and collateralized mortgage obligations issued by these entities. At December 31, 2022 and 2021, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were in the securities portfolio. The Company's investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are primarily supported by state aid. Primarily, these investments are issued by municipalities within New York State. Restricted equity securities primarily include non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to both the Company's borrowing levels with the FHLB and commitments to sell residential mortgage loans to the FHLB. Holdings of FHLBNY stock and FRB stock totaled $3.6 million and $1.4 million at December 31, 2022, respectively, and $3.2 million and $1.1 million at December 31, 2021, respectively. These securities are carried at par, which is also cost. The Company has an investment in Federal Agricultural Mortgage Corp (Farmer Mac) class A stock totaling $223,000 and $238,000 at December 31, 2022 and 2021, respectively, in order to participate in certain lending activities with Farmer Mac. The stock is actively traded on the NYSE, pays a dividend, and is reflective of current market value. Restricted equity securities also include miscellaneous investments carried at par, which is also cost.

Note 2 – Investments (Continued)

Restricted equity securities are held as a long-term investment and value is determined based on the ultimate recoverability of the par value. Impairment of these investments is evaluated quarterly and is a matter of judgment that reflects management's view of the issuer's long-term performance, which includes factors such as the following: its operating performance; the severity and duration of declines in the fair value of its net assets related to its capital stock amount; its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance; and its liquidity and funding position. After evaluating these considerations, the Company concluded that the par value of these investments will be recovered and, as such, has not recognized any impairment on its holdings of restricted equity securities during the current year.

The following table sets forth the Company's investment in securities with unrealized losses of less than twelve months and unrealized losses of twelve months or more at December 31:

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unreailzed Losses	Fair Value	Unrealized Losses
2022:						
United States agencies	**$ 12,605**	**$ (1,839)**	**$ 130,863**	**$ (29,440)**	**$ 143,468**	**$ (31,279)**
State and Local Governments	**33,888**	**(2,171)**	**47,567**	**(6,597)**	**81,455**	**(8,769)**
Corporate	**8,792**	**(958)**	**4,074**	**(476)**	**12,866**	**(1,434)**
Mortgage-backed securities	**37,632**	**(4,796)**	**51,829**	**(11,025)**	**89,461**	**(15,820)**
	$ 92,917	**$ (9,764)**	**$ 234,333**	**$ (47,538)**	**$ 327,250**	**$ (57,302)**

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021:						
United States agencies	$ 125,434	$ (3,275)	$ 29,870	$ (1,474)	$ 155,304	$ (4,749)
State and Local Governments	47,188	(507)	7,701	(208)	54,889	(715)
Corporate	4,941	(109)	-	-	4,941	(109)
Mortgage-backed securities	66,087	(1,062)	1,864	(86)	67,951	(1,148)
	$ 243,650	$ (4,953)	$ 39,435	$ (1,768)	$ 283,085	$ (6,721)

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, (6) whether the Company intends to sell or

Note 2 – Investments (Continued)

more likely than not be required to sell the debt security, and (7) if the present value of the expected cash flow is not sufficient to recover the entire amortized cost.

There were 215 securities with unrealized losses at December 31, 2022, with a fair value of $92.9 million that were less than 12 months. There were 320 securities with unrealized losses at December 31, 2022, with a fair value of $234.3 million that were 12 months or longer. There were 305 securities with unrealized losses at December 31, 2021, with a fair value of $243.7 million that were less than 12 months. There were 23 securities with unrealized losses at December 31, 2021, with a fair value of $39.4 million that were 12 months or longer. Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. Except for certain state and local government obligations, all securities rated by an independent rating agency carry an investment grade rating. Financial information relating to unrated state and government obligations is reviewed for indications of adverse conditions that may indicate other-than-temporary impairment. The Company did not consider these investment securities to be other than temporarily impaired at December 31, 2022 and 2021.

The amortized cost and fair value of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

(In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 7,831	$ 7,730	$ 4,518	$ 4,517
Due after one year through five years	78,123	70,585	13,162	11,954
Due after five years through ten years	135,452	112,517	11,187	9,865
Due after ten years	26,802	19,922	146	146
Securities not due at a single maturity date	113,665	97,878	9,416	7,949
	$ 361,873	$ 308,632	$ 38,429	$ 34,431

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties

During 2022, there were no sales of available for sale securities, while in 2021 the Company sold $45.6 million. Gross losses on the sale of investments in 2021 were $592,000. Investment securities with carrying amounts of $225.9 million and $156.0 million at December 31, 2022 and 2021, respectively, were pledged to secure deposits as required or permitted by law.

Note 3 – Loans

Loans consisted of the following at December 31:

	2022	2021
Real estate:	(In thousands)	
Residential:		
1-4 family	**$526,191**	$448,449
Home equity	**123,991**	105,146
Commercial	**334,341**	289,788
Agriculture	**86,910**	74,747
Total mortgage loans on real estate	**1,071,433**	918,130
Commercial loans	**148,462**	142,745
Agriculture loans	**41,801**	39,721
Consumer installment loans:		
Direct	**33,053**	29,756
Indirect	**4,992**	6,607
Total consumer installment loans	**38,045**	36,363
Total loans	**$1,299,741**	$1,136,959

Net unamortized loan origination costs totaled $971,000 at December 31, 2022 and $456,000 at December 31, 2021, respectively and are included with their related loan class.

The Company has transferred a portion of its originated commercial, commercial real estate, agriculture and agriculture real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2022 and 2021, the Company was servicing loans for participants aggregating $12.7 million and $11.5 million, respectively.

Under the PPP, small businesses may, subject to certain regulatory requirements, obtain low interest (1%), government-guaranteed SBA loans. These loans may be forgiven if the funds are used for designated expenses and meet certain designated requirements. If our borrowers fail to qualify for PPP loan forgiveness, or if the PPP loans are not fully guaranteed by the US government or if the SBA determines that there is a deficiency in the manner in which we originated, funded or serviced the PPP loans, we risk holding loans with unfavorable terms and may experience loss related to our PPP loans. The Company originated 661 second draw PPP loans in the amount of $50.0 million during 2021. These loans are recorded as commercial loans on the consolidated balance sheets. As of December 31, 2022, the Company had received forgiveness for 1,827 PPP loans in the amount of $166.9 million. As of December 31, 2021, the Company had received forgiveness for 1,733 PPP loans in the amount of $156.0 million.

Note 3 – Loans (Continued)

As of December 31, 2022, the Company had 2 PPP loans in the amount of $24,000 remaining on its consolidated balance sheets. As of December 31, 2021, the Company had 103 PPP loans in the amount of $10.2 million remaining on its consolidated balance sheets. During 2022, the Company had recorded $530,000 of deferred fees as a yield adjustment to interest income on loans and processing fees with no remaining fees to be recorded. During 2021, the Company had recorded $4.1 million of deferred fees as a yield adjustment to interest income on loans and processing fees with a remaining fees of $571,000 to be recorded.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements.

The following table presents past due loans by classes of the loan portfolio at December 31, 2022 and 2021:

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
2022:					
Commercial loans	**$147,960**	**$183**	**$319**	**$148,462**	**$1,030**
Commercial real estate	**332,519**	**357**	**1,465**	**334,341**	**1,166**
Agriculture loans	**41,223**	**-**	**578**	**41,801**	**578**
Agriculture real estate	**86,567**	**-**	**343**	**86,910**	**448**
Residential real estate:					
1-4 family	**524,902**	**987**	**302**	**526,191**	**453**
Home equity	**123,525**	**420**	**46**	**123,991**	**46**
Consumer installment loans:					
Direct	**33,044**	**9**	**-**	**33,053**	**-**
Indirect	**4,916**	**76**	**-**	**4,992**	**60**
Total	**$1,294,656**	**$2,032**	**$3,053**	**$1,299,741**	**$3,781**

Note 3 – Loans (Continued)

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
2021:					
Commercial loans	$142,508	$53	$184	$142,745	$1,399
Commercial real estate	288,276	1,014	498	289,788	563
Agriculture loans	39,044	-	677	39,721	677
Agriculture real estate	74,390	-	357	74,747	479
Residential real estate:					
1-4 family	447,288	883	278	448,449	278
Home equity	104,799	301	46	105,146	46
Consumer installment loans:					
Direct	29,740	16	-	29,756	-
Indirect	6,607	-	-	6,607	52
Total	$1,132,652	$2,267	$2,040	$1,136,959	$3,494

At December 31, 2022 and 2021, there were no loans over 90 days' delinquent and still accruing interest.

Activity in the allowance for loan losses for the years ended December 31, 2022 and 2021 is as follows:

2022	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Total**
Beginning balance	**$4,288**	**$5,364**	**$1,554**	**$1,171**	**$5,433**	**$534**	**$18,344**
Provisions for loan losses	**266**	**1,731**	**(363)**	**293**	**1,466**	**105**	**3,498**
Recoveries of loans previously charged off	**54**	**-**	**-**	**-**	**3**	**75**	**132**
Loans charged off	**(76)**	**(248)**	**-**	**-**	**(6)**	**(146)**	**(476)**
Ending balance	**$4,532**	**$6,847**	**$1,191**	**$1,464**	**$6,896**	**$568**	**$21,498**
2021							
Beginning balance	$4,848	$5,571	$1,201	$970	$4,275	$517	$17,382
Provisions for loan losses	(233)	(207)	350	201	1,155	74	1,340
Recoveries of loans previously charged off	3	-	3	-	3	96	105
Loans charged off	(330)	-	-	-	-	(153)	(483)
Ending balance	$4,288	$5,364	$1,554	$1,171	$5,433	$534	$18,344

Note 3 – Loans (Continued)

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2022 and 2021:
(In thousands)

2022:	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Total**
Amount of allowance for loan losses on loans individually evaluated for impairment	**$ -**	**$ -**	**$ 170**	**$ -**	**$ -**	**$ -**	**$ 170**
Amount of allowance for loan losses on loans collectively evaluated for impairment	**4,532**	**6,847**	**1,021**	**1,464**	**6,896**	**568**	**21,328**
Total allowance for loan losses	**$ 4,532**	**$ 6,847**	**$ 1,191**	**$ 1,464**	**$ 6,896**	**$ 568**	**$ 21,498**
Loans individually evaluated for impairment	**$ 939**	**$ 948**	**$ 576**	**$ 343**	**$ -**	**$ -**	**$ 2,806**
Loans collectively evaluated for impairment	**147,523**	**333,393**	**41,225**	**86,567**	**650,182**	**38,045**	**1,296,935**
Total Loans	**$ 148,462**	**$ 334,341**	**$ 41,801**	**$ 86,910**	**$ 650,182**	**$ 38,045**	**$ 1,299,741**

2021:	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Total**
Amount of allowance for loan losses on loans individually evaluated for impairment	$ -	$ -	$ 350	$ -	$ -	$ -	$ 350
Amount of allowance for loan losses on loans collectively evaluated for impairment	4,288	5,364	1,204	1,171	5,433	534	17,994
Total allowance for loan losses	$ 4,288	$ 5,364	$ 1,554	$ 1,171	$ 5,433	$ 534	$ 18,344
Loans individually evaluated for impairment	$ 1,399	$ 563	$ 677	$ 479	$ -	$ -	$ 3,118
Loans collectively evaluated for impairment	141,346	289,225	39,044	74,268	553,595	36,363	1,133,841
Total Loans	$ 142,745	$ 289,788	$ 39,721	$ 74,747	$ 553,595	$ 36,363	$ 1,136,959

Management is committed to early recognition of loan problems and to maintaining an adequate allowance. At least quarterly, management reviews all commercial and commercial real estate loans and leases and agriculturally related loans with an outstanding principal balance of over $250,000 that are internally risk rated substandard or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, agricultural mortgages and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factor is reasonable.

Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While

Note 3 – Loans (Continued)

management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The above allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may occur, nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

The following table summarizes information regarding impaired loans by loan portfolio class as of December 31, 2022 and 2021:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Income Recognized
December 31, 2022					
With no related allowance recorded:					
Commercial loans	$ 939	$ 154	$ -	$ 1,097	$ -
Commercial real estate	948	217	-	496	-
Agricultural loans	-	9	-	5	-
Agricultural real estate	343	140	-	441	-
Total	$ 2,230	$ 520	$ -	$ 2,039	$ -
With an allowance recorded:					
Commercial Loans	$ -	$ 1,299	$ -	$ 100	$ -
Commercial real estate	-	1,955	-	478	-
Agricultural loans	576	637	170	616	-
Agricultural real estate	-	420	-	-	-
Total	$ 576	$ 4,311	$ 170	$ 1,194	$ -
Summary:					
Commercial loans	$ 939	$ 1,453	$ -	$ 1,197	$ -
Commercial real estate	948	2,172	-	974	-
Agricultural loans	576	646	170	621	-
Agricultural real estate	343	560	-	441	-
Total	$ 2,806	$ 4,831	$ 170	$ 3,233	$ -

Note 3 – Loans (Continued)

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Income Recognized
December 31, 2021					
With no related allowance recorded:					
Commercial loans	$ 1,399	$ 328	$ -	$ 545	$ -
Commercial real estate	563	110	-	355	-
Agricultural loans	9	-	-	80	-
Agricultural real estate	479	-	-	528	-
Total	$ 2,450	$ 438	$ -	$ 1,508	$ -
With an allowance recorded:					
Commercial Loans	$ -	$ 1,182	$ -	$ 774	$ -
Commercial real estate	-	459	-	-	-
Agricultural loans	668	713	350	687	-
Agricultural real estate	-	571	-	102	-
Total	$ 668	$ 2,925	$ 350	$ 1,563	$ -
Summary:					
Commercial loans	$ 1,399	$ 1,510	$ -	$ 1,319	$ -
Commercial real estate	563	569	-	355	-
Agricultural loans	677	713	350	767	-
Agricultural real estate	479	571	-	630	-
Total	$ 3,118	$ 3,363	$ 350	$ 3,071	$ -

As of December 31, 2022 and 2021, the Company has a recorded investment in troubled debt restructurings of $5.6 million and $6.1 million, respectively. The Company has allocated $170,000 and $350,000 of specific allowance for those loans at December 31, 2022 and 2021 respectively.

The modification of the terms of such commercial real estate loan performed during the year ended December 31, 2022 included a charge-off and non-accrual loan recast. The modifications of the terms of such commercial loans, agriculture loans, commercial real estate loans and residential real estate loans performed during the year ended December 31, 2021 included an extension of the maturity date, interest rate reduction, payment deferrals, loan increase and additional collateral.

Note 3 – Loans (Continued)

December 31, 2022 (in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Commercial	**4**	**$ 1,039**	**$ 689**
Agriculture	**1**	**500**	**458**
Commercial Real Estate	**4**	**4,136**	**4,255**
Residential Real Estate	**1**	**191**	**199**
Total	**10**	**$ 5,866**	**$ 5,601**

The troubled debt restructurings described above did not increase the allowance for loan losses and did not result in charge-offs during the year ended December 31, 2022.

December 31, 2021 (in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Troubled Debt Restructurings:			
Commercial	4	$ 1,039	$ 973
Agriculture	1	500	480
Commercial Real Estate	3	4,089	4,449
Residential Real Estate	1	191	203
Total	9	$ 5,819	$ 6,105

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in charge-offs during the year ended December 31, 2021.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within the first twelve months following the modification during the years ended December 31, 2022 and 2021:

Troubled Debt Restructurings That Subsequently Defaulted:	**Number of Loans**	**Recorded Investment**
December 31, 2022		
Agriculture	**1**	**$ 458**
Total	**1**	**$ 458**

Note 3 – Loans (Continued)

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in additional charge-offs during the year ended December 31, 2022.

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
December 31, 2021		
Agriculture	1	$ 480
Total	1	$ 480

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in additional charge-offs during the year ended December 31, 2021.

A loan is considered to be in payment default once it is 15 days contractually past due under the modified terms.

Additionally, the Company worked with borrowers impacted by COVID-19 and provided modifications to include principal and interest deferral. These modifications were excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022 and 2021, the Company does not have any remaining loan modifications.

Credit Quality

The Company utilizes a ten grade internal loan rating system for commercial, commercial real estate, agriculture and agriculture real estate loans. Loans that are rated "1" through "6" are considered "pass" rated loans with low to average risk.

Loans rated a "7" are considered "special mention". These loans have potential weaknesses that deserve management's close attention. These weaknesses may, if not checked or corrected, weaken the asset or inadequately protect the Company's position at some future date. Borrowers may be experiencing adverse operating trends, or an ill-proportioned balance sheet. Adverse economic or market conditions may also support a special mention rating. These assets pose elevated risks, but their weakness does not yet justify a substandard classification.

Loans rated an "8" are considered "substandard". Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard loans have a high probability of payment default or they have other well-defined weaknesses. They require more intensive supervision by Company management. Substandard loans are generally characterized by current or unexpected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization.

Loans rated a "9" are considered "doubtful". Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. There were no doubtful loans at December 31, 2022 or 2021.

Loans rated a "10" are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is

Note 3 – Loans (Continued)

not practical or desirable to defer writing off this basically worthless loan even though partial recovery may be affected in the future. There were no loss loans at December 31, 2022 or 2021.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial, commercial real estate, agriculture and agriculture real estate loans. The Company also annually engages an independent third party to review a significant portion of loans within these classes. Management uses the results of these reviews as part of its annual review process.

The following table presents the classes of the commercial and agriculture loan portfolios summarized by the aggregate pass rating and the criticized and classified ratings of special mention and substandard within the Company's internal risk rating system as of December 31, 2022 and 2021:

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Total
December 31, 2022					
Grade:					
Pass	**$144,616**	**$324,043**	**$41,212**	**$85,775**	**$595,646**
Special Mention	**3,668**	**3,923**	**587**	**1,030**	**9,208**
Substandard	**178**	**6,375**	**2**	**105**	**6,660**
Total	**$148,462**	**$334,341**	**$41,801**	**$86,910**	**$611,514**
December 31, 2021					
Grade:					
Pass	$137,622	$278,391	$38,459	$72,413	$526,885
Special Mention	3,171	3,973	585	406	8,135
Substandard	1,952	7,424	677	1,928	11,981
Total	$142,745	$289,788	$39,721	$74,747	$547,001

Loans within the residential real estate and consumer portfolios do not have an internal loan rating system. Instead, they are monitored for past due status. If a residential real estate or consumer loan becomes 90 days past due, it is placed into nonaccrual status and the accrual of interest is discontinued.

Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful.

Note 3 – Loans (Continued)

The following table presents the classes of the residential real estate and consumer loan portfolios summarized by performing or nonaccrual as of December 31, 2022 and 2021:

(In thousands)

	1-4 Family	Home Equity	Consumer - Direct	Consumer - Indirect	Total
December 31, 2022					
Performing	**$525,738**	**$123,945**	**$33,053**	**$4,932**	**$687,668**
Nonaccrual	**453**	**46**	**-**	**60**	**559**
Total	**$526,191**	**$123,991**	**$33,053**	**$4,992**	**$688,227**
December 31, 2021					
Performing	$448,171	$105,100	$29,756	$6,555	$589,582
Nonaccrual	278	46	-	52	376
Total	$448,449	$105,146	$29,756	$6,607	$589,958

Note 4 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2022 and 2021:

	2022	2021
	(In thousands)	
Land	**$ 5,875**	$ 5,875
Building	**22,901**	22,847
Furniture and equipment	**10,291**	9,763
Leasehold improvements	**3,055**	3,055
Construction in progress	**-**	12
	42,122	41,552
Less: Accumulated depreciation	**(16,234)**	(14,853)
	$ 25,888	$ 26,699

Note 4 - Land, Premises and Equipment (Continued)

Depreciation and amortization expense in 2022 and 2021 are included in occupancy in noninterest expense as follows:

	2022	2021
	(In thousands)	
Building	**$ 571**	$ 586
Furniture and equipment	**727**	713
Leasehold improvements	**118**	119
	$ 1,416	$ 1,418

At December 31, 2022, the Bank leased out space under non-cancelable operating leases. There are no future minimum rental payments to be received by the Company.

Rental income under the operating leases totaled $71,000 and $96,000 in 2022 and 2021, respectively.

Note 5 - Deposits

Certificates of deposit in denominations of $250,000 and over were $75.8 million and $67.6 million at December 31, 2022 and 2021, respectively.

At December 31, 2022, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2023	**$ 293,400**
2024	**55,036**
2025	**786**
2026	**1,143**
2027	**1,410**
	$ 351,775

Included within certificates of deposits at December 31, 2022 and 2021 were $123.0 million and $5.0 respectively million in brokered certificates of deposits.

Note 6 - Borrowings

Borrowings consist of overnight advances with the Federal Home Loan Bank. At December 31, 2022 and 2021, there were no overnight advances outstanding. The table below details additional information related to overnight advances for the years ended December 31, 2022 and 2021:

Note 6 – Borrowings (Continued)

	2022	2021
	(Dollars in thousands)	
Maximum outstanding balance during the year	**$ 73,000**	$ -
Average outstanding balance	**$ 22,040**	$ -
Interest expense	**$ 568**	$ -
Weighted average interest rate during the year	**2.60%**	0.00%
Weighted average interest rate at end of year	**0.00%**	0.00%

There was no long term debt at December 31, 2022 and 2021.

As a member of the FHLB, the Bank can use certain otherwise unencumbered mortgage-related assets to secure borrowings from the FHLB. At December 31, 2022, total unencumbered mortgage-related loans were $270.0 million. At December 31, 2021, total unencumbered mortgage-related loans were $244.0 million. Additional assets may also qualify as collateral for FHLB advances.

The Company, through the Bank, can use certain otherwise unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2022, total unencumbered collateral in the form of home equity loans and other consumer loans was $47.2 million. At December 31, 2021, total otherwise unencumbered collateral in the form of home equity loans and other consumer loans was $46.5 million.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $127.0 million at December 31, 2022 and $40.0 million at December 31, 2021. There were no outstanding advances against those lines at December 31, 2022 or 2021.

From time to time, the Bank enters into interest rate swap contracts with counterparties for the purpose of limiting the interest rate risk related to variable rate funding costs for overnight advances used to fund long-term fixed rate assets, including loans made to certain of the Bank's customers.

Note 7 - Subordinated Debentures

Junior Subordinated Debentures

On August 23, 2004, the Company issued $5.155 million in junior subordinated debentures due August 23, 2034, to Trust II. The Company owns all of the $155,000 in common equity of Trust II and the debentures are the sole asset of Trust II. Trust II issued $5.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.65%. The coupon rate was 7.34% at December 31, 2022 and 2.81% at December 31, 2021. The securities are callable by the Company subject to any required regulatory approval, at par.

The Company unconditionally guarantees the Trust II capital securities. The terms of the junior subordinated debentures and the common equity of Trust II mirror the terms of the trust capital securities issued by Trust II. The Company used the net proceeds from this offering to fund an additional $5.0 million capital investment in the Bank to fund its operations and future growth.

Note 7 - Subordinated Debentures (Continued)

The accounts of Trust II are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2022 and 2021, $5.0 million in trust capital securities qualified as Tier I capital, respectively.

Subordinated Debenture Offering

In October 28, 2020, Lyons Bancorp, Inc. successfully completed the sale of approximately $16 million of subordinated promissory notes (the "Notes") to accredited investors. The Notes are dated October 23, 2020, and mature on December 31, 2027. The interest rate on the Notes is fixed at 4.25% for the first five years, increases to 4.75% in the sixth year and increases again to 5.25% in the seventh year. The Company retains the right to redeem the Notes, in whole or in part, any time on or after December 31, 2025. The Company intends to use the proceeds from the sale of the Notes for general corporate purposes, to provide capital to support organic growth of the Bank, and to fund possible acquisitions. The net proceeds of the sale, after deducting estimated offering expenses, were $15.7 million.

The sale of the Notes was made in a private placement to accredited investors under the exemption from registration provided under Securities and Exchange Commission Rule 506. The Notes are not registered under the Securities Act of 1933, as amended ("Securities Act"), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

For regulatory purposes, the subordinated promissory notes capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2022, $15.8 million in subordinated promissory notes capital securities qualified as Tier I capital. At December 31, 2021, $15.7 million in subordinated promissory notes capital securities qualified as Tier I capital

Note 8 - Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2022	2021
	(In thousands)	
Current Tax Provision		
Federal	**$ 4,632**	$ 4,443
State	**755**	753
Total current tax provision	**5,387**	5,196
Deferred tax (benefit)		
Federal	**(664)**	(1,017)
State	**(78)**	(370)
Total deferred tax benefit	**(742)**	(1,387)
	$ 4,645	$ 3,809

Note 8 - Income Taxes (Continued)

Income tax expense differed from the statutory federal income tax rate for the years ended December 31 as follows:

	2022	2021
Statutory federal tax rate	**21.0%**	21.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	**(1.0)**	(1.2)
Non-taxable earnings on bank-owned life insurance	**(0.4)**	(0.4)
Disallowed interest expense	**0.1**	0.0
State taxes	**2.4**	1.2
Other, net	**(0.8)**	(0.9)
Effective tax rate	**21.3%**	19.7%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Components of the Company's net deferred tax assets at December 31, included in accrued interest receivable and other assets in the accompanying consolidated balance sheets, are as follows:

	2022	2021
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	**$ 5,596**	$ 4,810
Net unrealized gain on available for sale securities	**13,310**	1,193
Compensation and benefits	**2,685**	2,699
Prepaid pension	**162**	1,186
Other	**1,621**	1,172
Total deferred tax assets	**$ 23,375**	$ 11,060
Deferred tax liabilities:		
Depreciation	**$ 765**	$ 842
Other	**1,098**	943
Total deferred tax liabilities	**$ 1,862**	$ 1,785
Net deferred tax (liabilities) assets	**$ 21,512**	$ 9,275

Management believes it is more likely than not that all of the deferred tax assets will be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

Note 9 - Stockholders' Equity

Preferred Stock – The Company is authorized to issue 5,000 shares of preferred stock having a par value of $0.50 per share and a stated value of $1,000 per share. The board of directors is authorized to issue these shares of preferred stock without stockholder approval in different classes and series and, with respect to each class or series, to determine the dividend rate, the redemption provisions, conversion provisions, liquidation preference, and other rights, privileges, and restrictions.

The Company has offered a private placement of 5,000 shares, par value of $0.50 per share, Series A Non-Cumulative Convertible Preferred Stock at $1,000 per share. The preferred stock is convertible, at any time, into shares of common stock, par value $0.50 per share, at the option of the holder.

Upon a deemed liquidation event of Lyons Bancorp, the holders of the preferred shares are entitled to receive a liquidation distribution of $1,000 per share plus any declared and unpaid dividends, before any distribution of assets to holders of common stock. Dividends will be paid quarterly, if declared by the board of directors, at a rate per annum equal to 5%. As of December 31, 2022 and 2021, all 5,000 shares, par value $0.50 per share, of the authorized preferred stock have been issued and are outstanding.

Common Stock – The holders of the Company's common stock are entitled to receive dividends, if any, the board of directors may declare from time to time from funds legally available therefore, subject to the preferential rights of the holders of any shares of preferred stock that the Company may issue in the future. The holders of the Company's common stock are entitled to one vote per share on any matter to be voted upon by stockholders.

On September 17, 2021, Lyons Bancorp, Inc. successfully completed a $9.4 million common stock offering to its current common and preferred shareholders in the form of a Rights Offering. The Company sold 237,274 shares of common stock. Each shareholder was entitled to one subscription right for each 13 common shares and for each 13 shares of common stock underlying the Company's Series "A" convertible preferred stock held as of the close of business on August 2, 2021. The Company offered the shares at $39.50 per share, a 6% discount from the trading price of Lyons Bancorp, Inc. common stock (stock symbol LYBC), as of the record date. The Company plans to use the proceeds from the stock sale to continue its growth in markets it currently serves and to expand into additional markets in the Finger Lakes area. The net proceeds of the offering, after deducting offering expenses of $291,153, totaled $9.1 million.

On June 15, 2022, Lyons Bancorp, Inc. successfully updated its certificate of incorporation to amend its authorized number of shares of the corporation from 7,500,000 common shares, having a par value of $.50 per share, to 15,000,000 common shares, having a par value of $.50 per share.

The common stock and treasury stock of the Company at December 31, 2022 and 2021 are as follows:

	2022	2021
Common stock, authorized shares, $0.50 par value	**15,000,000**	7,500,000
Issued shares	**3,435,934**	3,435,934
Less: treasury stock shares	**(17,998)**	(16,961)
Outstanding shares	**3,417,936**	3,418,973

Note 9 - Stockholders' Equity – (Continued)

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income (loss) are as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Securities available for sale:	(in thousands)	(in thousands)
Net unrealized (losses) during the year	**$ (12,118)**	$ (2,269)
Reclassification adjustment for losses included in income	**-**	148
Pension and Postretirement benefit:		
Amortization of net loss	**64**	76
Net Actuarial loss	**558**	(6)
Cash Flow Hedge:		
Reclassification adjustment for losses included in income	**-**	4
Tax benefit	**$ (11,496)**	$ (2,048)

Reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2022 and 2021 are as follows:

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item In The Statement Where Net Income is Presented
	2022	2021	
	(in thousands)	(in thousands)	
Unrealized Gains and Losses on avaliable for sale securities (before tax)	**$ -**	$ (592)	Net realized gain/(loss) from sales of securities
Tax (Expense) Benefit	**-**	148	Income tax expense
Net of Tax	**-**	(444)	
Amortization of Pension and postretirement benefit plan items			
Prior service credit	**-**	2	
Net Losses	**(255)**	(305)	
	(255)	(303)	Pensions and benefits expense
Tax Benefit	**64**	75	Income tax expense
Net of Tax	**(191)**	(228)	
Gains and losses on Cash flow hedge (before tax)	**-**	(15)	Interest expense - borrowings
Tax Benefit	**-**	4	Income tax expense
Net of Tax	**-**	(11)	
Total Reclassification for the year, net of tax	**$ (191)**	$ (683)	

Note 9 - Stockholders' Equity (Continued)

The balances and changes in the components of accumulated other comprehensive loss, net of tax, are as follows:

(In thousands)	Unrealized gains (losses) on securities available for sale	Pension and postretire-ment benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2021	$ 2,784	$ (4,041)	$ (18)	$ (1,275)
Other comprehensive income (loss) before reclassifications	(6,808)	(16)	-	(6,824)
Amounts reclassified from accumulated other comprehensive income	444	228	11	683
Other comprehensive income (loss) for 2021	(6,364)	212	11	(6,141)
Balance – December 31, 2021	$ (3,580)	$ (3,829)	$ (7)	$ (7,416)
Other comprehensive income (loss) before reclassifications	**$ (36,352)**	**$ 1,668**	**$ -**	**$ (34,684)**
Amounts reclassified from accumulated other comprehensive income	**-**	**191**	**7**	**198**
Other comprehensive income (loss) for 2022	**(36,352)**	**1,859**	**7**	**(34,486)**
Balance – December 31, 2022	**$ (39,932)**	**$ (1,970)**	**$ -**	**$ (41,902)**

Note 10 - Pension and Postretirement Benefit Plans

The Company participates in the New York State Bankers Retirement System (the "System"), a non-contributory defined benefit pension plan (the "Pension Plan") covering substantially all employees. The benefits are based on years of service and the employee's highest average compensation during five consecutive years of employment.

The Company also maintains an unfunded postretirement health insurance plan (the "Healthcare Plan") for certain employees meeting eligibility requirements.

The Company engages independent, external actuaries to compute the amounts of liabilities and expense relating to these plans, subject to the assumptions that the Company selects. The benefit obligation for these plans represents the liability of the Company for current and retired employees, and is affected primarily by the following: service cost (benefits attributed to employee service during the period); interest cost (interest on the liability due to the passage of time); actuarial gains/losses (experience during the year different from that assumed and changes in plan assumptions); and benefits paid to participants.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The following table provides a reconciliation of the changes in the Pension Plan's benefit obligations and fair value of assets and the accumulated benefit obligation for the Healthcare Plan for the years ending December 31, 2022 and 2021:

	Pension Plan		Healthcare Plan	
	2022	2021	**2022**	2021
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 28,521**	$ 26,400	**$ 458**	$ 426
Service cost	**1,946**	2,002	**11**	8
Interest cost	**856**	736	**21**	18
Actuarial (gain) loss	**(9,540)**	215	**41**	42
Expected expenses	**(166)**	(208)	-	-
Benefits paid "expected"	**(497)**	(624)	**(30)**	(36)
Benefit obligation at end of year	**21,120**	28,521	**501**	458
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 23,768**	$ 23,171	-	-
Actual return on plan assets	**(6,053)**	1,457	-	-
Employer contribution	**3,500**	-	**30**	36
Actual expenses paid	**(204)**	(215)	-	-
Benefits paid	**(611)**	(645)	**(30)**	(36)
Fair value of plan assets at end of year	**20,400**	23,768	-	-
Unfunded status recognized	**$ (720)**	$ (4,753)	**$ (501)**	$ (458)
Accumulated benefit obligation	**$ 17,648**	$ 23,018	**$ (583)**	$ (687)

The unfunded status of the Pension and Healthcare Plans as of December 31, 2022 and 2021 has been recognized in other liabilities in the consolidated balance sheets.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The components of net periodic benefit cost and other comprehensive income for the years ending December 31, 2022 and 2021 are as follows:

	Pension Plan		Healthcare Plan	
	2022	2021	2022	2021
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	$ 1,946	$ 2,002	$ 11	$ 8
Interest cost	856	736	21	18
Expected return on plan assets	(1,070)	(1,200)	-	-
Amortization of prior service cost (credits)	-	-	-	(2)
Amortization of net loss	214	261	41	44
Net periodic benefit cost	$ 1,946	$ 1,799	$ 73	$ 68
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	$ (2,265)	$ (15)	$ 39	$ 37
Recognized actuarial loss	(214)	(261)	(41)	(44)
Recognized prior service credit	-	-	-	2
Recognized in other comprehensive income	(2,479)	(276)	(2)	(5)
Total recognized in net periodic benefit cost and other comprehensive income	$ (533)	$ 1,523	$ 71	$ 63

The following table presents the components of accumulated other comprehensive loss, net of taxes, as of December 31:

	Pension Plan		Healthcare Plan	
	2022	2021	2022	2021
	(In thousands)			
Other	$ -	$ -	$ 84	$ (27)
Net actuarial loss	1,824	3,684	62	172
	$ 1,824	$ 3,684	$ 146	$ 145

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2022 are as follows:

	Pension Plan	Healthcare Plan	Total
		(In thousands)	
Net actuarial loss	$ 34	$ 8	$ 42
Total	$ 34	$ 8	$ 42

Weighted-average assumptions used in accounting for the plans were as follows:

	Pension Plan		Healthcare Plan	
	2022	2021	2022	2021
Discount rates:				
Benefit cost for Plan Year	**3.03%**	2.82%	**2.74%**	2.39%
Benefit obligation at end of Plan Year	**5.41%**	3.03%	**4.99%**	2.74%
Expected long-term return on plan assets	**6.00%**	5.25%	**N/A**	N/A
Rate of compensation increase:				
Benefit cost for Plan Year	**3.00%**	3.00%	**N/A**	N/A
Benefit obligation at end of Plan Year	**3.00%**	3.00%	**N/A**	N/A

The assumed health care cost trend rate used in the postretirement health care plan at December 31, 2022 was 4.00%. Assumed health care trend rates may have a significant effect on the amounts reported for this plan. A 1% increase in the trend rate would increase the periodic benefit cost by $4,300 and increase the accumulated postretirement benefit obligation by $70,000.

The discount rate used for each period was based upon the rates of return on high-quality fixed income investments. The objective of using this approach is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay benefits when they became due. The discount rates are evaluated at each measurement date to give effect to changes in the general level of interest rates.

The Company utilizes Total Data Set Employee/Retiree Sex-distinct Mortality Tables with Contingent Survivor Tables for current beneficiaries (Pri-2012), with full generational projection using Scale MP-2021. The change in projection scale from MP-2020 to MP-2021 increased the projected benefit obligation by $134,000.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The Company's funding policy is to contribute, at a minimum, an actuarially determined amount that will satisfy the minimum funding requirements determined under the appropriate sections of the Internal Revenue Code. The Company made a $3.5 million contribution in 2022 and no contribution in 2021.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

	Pension Plan	Healthcare Plan
Years Ending December 31,	(In thousands)	
2023	$ 613	$ 35
2024	649	34
2025	810	43
2026	883	43
2027	951	43
2028-2032	6,481	211
Total	**$ 10,387**	**$ 409**

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The fair value of the Company's pension plan assets at December 31, 2022 and 2021 by asset category are as follows:

	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2022				
Cash equivalent:				
Foreign currencies	$ -	$ -	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	-	-	-	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	-	-	-	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	-	-	-	-
Investments valued using Net Asset Value	**20,400**			
Total	**$ 20,400**			

Note 10 - Pension and Postretirement Benefit Plans (Continued)

	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2021				
Cash equivalent:				
Foreign currencies	$ -	$ -	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	-	-	-	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	-	-	-	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	-	-	-	-
Investments valued using Net Asset Value	23,768			
Total	$ 23,768			

At December 31, 2022 and 2021, the portfolio was substantially managed by one investment firm who controlled approximately 96% and 100%, respectively, of the System's assets. In addition, as of December 31, 2022 and 2021, approximately $821,000 and $0, respectively, of Pension Plan monies had not yet been allocated to an investment manager.

At December 31, 2022 and 2021, the System had an investment concentration of approximately 96% and 100% respectively, of its total portfolio in the JPMCD LDI Diversified Balanced Fund, a commingled pension trust fund.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1- Quoted prices in active markets for identical assets or liabilities.

- Level 2- Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Fund is valued utilizing the valuation policies set forth by a JP Morgan's asset management committee. Underlying investments for which market quotations are readily available are valued at their market value. Underlying investments for which market quotations are not readily available are fair valued by approved affiliated and/or unaffiliated pricing vendors, third-party broker-deals or methodologies as approved by the asset management committee. Fixed income instruments are valued based on prices received from approved affiliated and unaffiliated pricing vendors or third party broker-dealers (collectively referred to as "Pricing Services"). The Pricing Services use multiple valuation techniques to determine the valuation of fixed income instruments. In instances where sufficient market activity exists, the Pricing services may utilize a market-based approach through which trades or quotes from market makers are used to determine the valuation of these instruments. In instances where sufficient market activity may not exist, the Pricing Services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining fair value and/or market characteristics in order to estimate the relevant cash flows, which are then discounted to calculate the fair values. Equities and other exchange-traded instruments are valued at the last sales price or official market closing price on the primary exchange on which the instrument is traded before the net asset values ("NAV") of the Funds are calculated on a valuation date. Futures contracts are generally valued on the basis of available market quotations. Forward foreign currency exchange contracts are valued utilizing market quotations from approved Pricing Services. The Fund invests in the Commingled Pension Trust Fund ("Strategic Property Fund") of JPMorgan Chase Bank, N.A. (the "SPF"), which holds significant amounts of investments which have been fair valued at December 31, 2022 and 2021.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

During the years ended December 31, 2022 and 2021, there were no changes in valuation methodologies and no transfers in or out of levels 1, 2 or 3.

The Pension Plan was established in 1938 to provide for the payment of benefits to employees of participating banks. The Pension Plan is overseen by a Board of Trustees who meet quarterly and set the investment policy guidelines.

The New York Bankers Retirement System ("System") overall investment strategy is to invest in a diversified portfolio while managing the variability between the assets and projected liabilities of underfunded pension plans. The System's Board Members approved a migration (the "Migration") of substantially all of the System's assets to one fund, Commingled Pensions Trust Fund (LDI Diversified Balanced) of JPMorgan Chase Bank, N.A. ("JPMCB LDI Diversified Balanced Fund" or the "Fund"). The Board made the election in their December 2018 meeting and the Migration had an effective trade date of February 28, 2019. The Fund employs a liability driven investing ("LDI") strategy for pension plans that are seeking a solution that is balanced between growth and hedging. The Bloomberg Barclays Long A U.S. Corporate Index, the Fund's primary liability-performance benchmark, is used as a proxy for plan projected liabilities. The growth-oriented portion of the Fund invests in a mix of asset classes that the Fund's Trustee believes will collectively maximize total risk-adjusted return through a combination of capital appreciation and income. This portion of the Fund will comprise between 35% and 90% of the portfolio and will invest directly or indirectly via underlying funds in a broad mix of global equity, credit, global fixed income, real estate and cash-plus strategies. The remaining portion of the Fund, between 10% and 65% of the portfolio, provides exposure to U.S. long duration fixed income and is used to minimize volatility relative to a plan's projected liabilities. This portion of the Fund will invest directly or indirectly via underlying funds in investment grade corporate bonds and securities issued by the U.S. Treasury and its agencies or instrumentalities.

Prior to the Migration, the System's overall investment strategy was to achieve a mix of approximately 97% of investments for long-term growth and 3% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The Board made the election in their December 2018 meeting and the Migration had an effective trade date of February 28, 2019. The Fund employs a liability driven investing ("LDI") strategy for pension plans that are seeking a solution that is balanced between growth and hedging. The Bloomberg Barclays Long A U.S. Corporate Index, the Fund's primary liability-performance benchmark, is used as a proxy for plan projected liabilities. The growth-oriented portion of the Fund invests in a mix of asset classes that the Fund's Trustee believes will collectively maximize total risk-adjusted return through a combination of capital appreciation and income. This portion of the Fund will comprise between 35% and 90% of the portfolio and will invest directly or indirectly via underlying funds in a broad mix of global equity, credit, global fixed income, real estate and cash-plus strategies. The remaining portion of the Fund, between 10% and 65% of the portfolio, provides exposure to U.S. long duration fixed income and is used to minimize volatility relative to a plan's projected liabilities. This portion of the Fund will invest directly or indirectly via underlying funds in investment grade corporate bonds and securities issued by the U.S. Treasury and its agencies or instrumentalities.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The target allocation for 2022 and actual allocation of plan assets as of December 31, 2022 and 2021 are as follows:

		% of Plan Assets at December 31,	
Asset Category	**Target Allocation 2022**	**2022**	2021
Cash equivalents	**0%**	**16.6%**	0.0%
Equity securities	**30%**	**25.1%**	35.7%
Fixed income securities	**15%**	**21.7%**	35.0%
Other financial instruments	**55%**	**36.7%**	29.4%

Defined Contribution Plan

The Bank has a contributory 401(k) Plan for substantially all employees. Employees are eligible to contribute a percentage of their salary up to the maximum as determined by the Internal Revenue Service. The Bank is required to match 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed $606,000 and $586,000 under these provisions during 2022 and 2021, respectively.

Supplemental Employee Retirement Plans

The Company maintains supplemental employee retirement plans (the "SERP") for certain executives. All benefits provided under the SERP are unfunded and, as these executives retire, the Company will make payments to plan participants. The unfunded status of the SERP at December 31, 2022 and 2021 was $7.3 million and $7.4 million, respectively, and is recorded in other liabilities in the consolidated balance sheets. Compensation expense related to the SERP was ($70,000) and $793,000 for the years ended December 31, 2022 and 2021.

Deferred Compensation Plans

The Company's deferred compensation plans require a vesting period of three years from the original date the executive enters the plan. Awarded shares from the plan are restricted from being sold until employment is terminated.

The Company obtains shares for the new deferred compensation plan either through open market purchases or from treasury shares. The amount of awarded shares is based on the amount earned by each executive under the deferred compensation plan. The executives are awarded a number of shares based on the amount of deferred compensation earned divided by the value of the shares. The value of the shares purchased on the open market is the price paid. The value of the shares from treasury is the average daily closing price of the stock for each day within the past quarter. Total deferred compensation shares were 154,074 and 158,448 at December 31, 2022 and 2021 respectively. Total shares awarded were 5,663 and 8,345 for 2022 and 2021, respectively. Compensation expense is recognized over the vesting period, and is based upon the total amount of the value of the shares awarded to each executive. Compensation expense related to the plan was approximately $109,000 and $258,000 for the years ended December 31, 2022 and 2021, respectively.

Note 11 - Earnings Per Share

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for each of the years ended December 31:

	2022	2021
	(In thousands, except per share data)	
Net Income attributable to Lyons Bancorp, Inc.	$ 17,204	$ 15,524
Adjustments for dilutive potential common shares	-	-
Less: Preferred stock dividends	(250)	(250)
Net income available for diluted common shares	$ 16,954	$ 15,274
Weighted average common shares used to calculate basic EPS	3,419,885	3,239,977
Add: effect of common stock equivalents[1]	120,000	120,000
Weighted average common shares used to calculate diluted EPS	3,539,885	3,359,977
Earnings per common share:		
Basic	$ 4.96	$ 4.71
Diluted	$ 4.86	$ 4.62

(1) 5,000 shares of convertible preferred stock are convertible into 120,000 shares of LYBC common stock

Note 12 - Related Party Transactions

In the ordinary course of business, the Bank has and expects to continue to have transactions, including loans and deposit accounts, with the Company's and the Bank's executive officers and directors and their affiliates. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other unrelated persons and did not involve more than a normal risk of collectability or present any other unfavorable features.

The amount of loans to such related parties for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
	(In thousands)	
Beginning Balance	$ 17,491	$ 15,190
New Loans	3,258	5,354
Sold Loans	(1,410)	-
Repayments	(2,920)	(3,053)
Ending Balance	$ 16,419	$ 17,491

Deposits from principal officers, directors, and their affiliates at year-end 2022 and 2021 were $14.0 million and $15.6 million.

Note 13 - Commitments and Contingent Liabilities

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments summarized as follows at December 31:

	2022	2021
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 147,305**	$ 181,564
Unfunded commitments under commercial lines of credit	**159,677**	149,527
Unfunded commitments under consumer lines of credit	**139,002**	119,604
Standby letters of credit	**10,829**	11,783
	$ 456,813	$ 462,478

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Generally, letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank generally holds collateral supporting those commitments. Such collateral amounted to $9.5 million and $10.1 million at December 31, 2022 and 2021, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2022 and 2021.

In addition to other investors, the Bank sells residential mortgage loans to the FHLB. The agreement with the FHLB includes a maximum credit enhancement liability of $5.8 million at both December 31, 2022 and 2021 respectively, which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's spread account. The FHLB is funding the spread account annually based on the outstanding balance of loans sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread

Note 13 - Commitments and Contingent Liabilities (Continued)

account. As such, the Bank does not anticipate recognizing any losses and, accordingly, has not recorded a liability for the credit enhancement.

In addition to pledging investment securities to secure deposits, the Bank has entered into an agreement with the FHLB whereby the FHLB agrees to issue letters of credit for the benefit of securing deposits. In the event the FHLB makes a payment under this agreement, such payment will constitute an advance to the Bank and shall be immediately due and payable. The Bank has pledged otherwise unencumbered mortgage-related assets to secure letters of credit from the FHLB. As of December 31, 2022 the Bank had letters of credit outstanding with FHLB of $51.5 million and as of December 31, 2021 the Bank had letters of credit outstanding with the FHLB of $63.8 million.

Note 14 - Concentrations of Credit

The Company's loan customers are located primarily in the New York communities served by the Bank. Investments in state and local government securities also involve governmental entities within the Company's market area. Although operating in numerous communities in New York State, the Company is still dependent on the general economic conditions of New York. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $96.8 million or 7.45% of total loans as of December 31, 2022. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $82.5 million or 7.26% of total loans as of December 31, 2021. Risk related to this concentration is controlled through adherence to loan policy guidelines, including appropriate debt service coverage, adequate property values substantiated by current appraisals, and obtaining guarantors where appropriate. The Company, as a matter of policy, does not extend credit to any single borrower, or group of related borrowers, in excess of its legal lending limit. Further information on the Company's lending activities is provided in Note 3.

Note 15 - Regulatory Matters

The supervision and regulation of financial and bank holding companies and their subsidiaries is intended primarily for the protection of depositors, the deposit insurance funds regulated by the Federal Deposit Insurance Corporation ("FDIC") and the banking system as a whole, and not for the protection of shareholders or creditors of bank holding companies. The various bank regulatory agencies have broad enforcement power over financial holding companies and banks, including the power to impose substantial fines, operational restrictions and other penalties for violations of laws and regulations and for safety and soundness considerations.

Capital

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 15 - Regulatory Matters (Continued)
Capital (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined by regulation) and of Tier I capital (as defined) to average assets (as defined). The Company's and the Bank's capital amounts and ratios are also presented in the table below.

The Basel III Capital Rules establish a comprehensive capital framework for U.S. banking organizations. The rules implement the framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules define the components of capital, and address risk weights and other issues affecting the denominator in the banking institutions' regulatory capital ratios.

Dodd-Frank requires a common equity tier 1 capital ratio (CET1). This ratio allows only common equity to qualify as tier 1 capital. The CET1 ratio includes most elements of accumulated other comprehensive income, including unrealized securities gains and losses, as part of both total regulatory capital (numerator) and total assets (denominator).

Community banks, however, were given the opportunity to make a one-time irrevocable election to include or not to include certain elements of other comprehensive income, most notably unrealized securities gains or losses. The Company and the Bank elected to not include the certain items of other comprehensive income in their capital calculations.

Capital rules include a capital conservation buffer, which must be added to each of the minimum capital ratios and is designed to absorb losses during periods of economic stress. The capital conservation buffer was phased-in over five years that began on January 1, 2016 and is now set at 2.5% when fully phased-in. If a banking organization fails to hold capital above minimum capital ratios, including the capital conservation buffer, it will be subject to certain restrictions on capital distribution and discretionary bonus payments.

Note 15 - Regulatory Matters (Continued)

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions		Minimum for Capital Adequacy with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022:								
Total risk-based capital								
Consolidated	$ 145,269	12.0%	$ 97,214	≥8.0%	$ 121,518	≥10.0%	$ 127,594	≥10.5%
Bank	$ 165,677	13.6%	$ 97,150	≥8.0%	$ 121,438	≥10.0%	$ 127,509	≥10.5%
Tier 1 capital								
Consolidated	$ 129,946	10.7%	$ 72,911	≥6.0%	$ 97,214	≥8.0%	$ 103,290	≥8.5%
Bank	$ 150,363	12.4%	$ 72,863	≥6.0%	$ 97,150	≥8.0%	$ 103,222	≥8.5%
Tier 1 leverage								
Consolidated	$ 129,946	7.4%	$ 70,003	≥4.0%	$ 87,504	≥ 5.0%	$ 87,504	≥ 5.0%
Bank	$ 150,363	8.6%	$ 70,017	≥4.0%	$ 87,521	≥ 5.0%	$ 87,521	≥ 5.0%
Common Equity Tier 1								
Consolidated	$ 88,044	7.2%	$ 54,683	≥4.5%	$ 78,987	≥ 6.5%	$ 85,063	≥ 7.0%
Bank	$ 108,461	8.9%	$ 54,647	≥4.5%	$ 78,934	≥ 6.5%	$ 85,006	≥ 7.0%

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions		Minimum for Capital Adequacy with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021:								
Total risk-based capital								
Consolidated	$ 131,317	12.1%	$ 86,918	≥8.0%	$ 108,647	≥10.0%	$ 114,080	≥10.5%
Bank	$ 151,750	13.9%	$ 87,065	≥8.0%	$ 108,831	≥10.0%	$ 114,273	≥10.5%
Tier 1 capital								
Consolidated	$ 117,622	10.8%	$ 65,188	≥6.0%	$ 86,918	≥8.0%	$ 92,350	≥8.5%
Bank	$ 138,031	12.7%	$ 65,299	≥6.0%	$ 87,065	≥8.0%	$ 92,507	≥8.5%
Tier 1 leverage								
Consolidated	$ 117,622	7.3%	$ 64,891	≥4.0%	$ 81,114	≥ 5.0%	$ 81,114	≥ 5.0%
Bank	$ 138,031	8.5%	$ 64,910	≥4.0%	$ 81,138	≥ 5.0%	$ 81,138	≥ 5.0%
Common Equity Tier 1								
Consolidated	$ 110,213	10.1%	$ 48,891	≥4.5%	$ 70,621	≥ 6.5%	$ 76,053	≥ 7.0%
Bank	$ 130,623	12.0%	$ 48,974	≥4.5%	$ 70,740	≥ 6.5%	$ 76,182	≥ 7.0%

Note 15 - Regulatory Matters (Continued)

Management believes, as of December 31, 2022 and 2021, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of the most recent notification from the Office of the Comptroller of the Currency, the Bank was categorized as well capitalized. There are no conditions or events since the notification that management believes have changed the institution's category

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of interest expense on the debentures, dividends to shareholders and to provide for other cash requirements. Banking regulations may limit the amount of dividends that may be paid. Approval by regulatory authorities is required if the effect of dividends declared would cause the regulatory capital of the Bank to fall below specified minimum levels. Approval is also required if dividends declared exceed the net profits for that year combined with the retained net profits for the preceding two years.

At December 31, 2022, the Bank's retained earnings available for the payment of dividends were approximately $29.5 million. At December 31, 2021, the Bank's retained earnings available for the payment of dividends were approximately $23.7 million.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various assets and liabilities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Fair Value Hierarchy

The Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market.

Level 2: Valuation is based upon inputs other than quoted prices included within level 1 that are observable either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2022 and 2021:

Cash, Due From Banks, and Interest-bearing Deposits in Banks

The carrying amounts reported in the consolidated balance sheets for these assets approximate fair values based on the short-term nature of the assets.

Investment Securities

The fair value of securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or pricing models (Level 2), which consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used.

Management's best estimate consists of external support on certain Level 3 investments. Management has determined that the fair value of local government securities in the held to maturity portfolio approximate their carrying value. Restricted equity securities have restrictions on their sale and are primarily carried at cost due to their limited marketability. The fair value of the Company's investment in Farmer Mac is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1).

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Loans Held for Sale

The fair value of loans held for sale is determined using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan, resulting in a Level 3 classification.

Loans

The fair values of loans held in portfolio are estimated using discounted cash flow analyses. The discount rate considers a market participant's cost of funds, liquidity premiums, capital charges, servicing charges, and expectations of future rate movements (for variable rate loans), resulting in a Level 3 classification. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal, and adjusted for potential defaulted loans.

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $2.8 million and $3.1 million, net of valuation allowances of $170,000 and $350,000 as of December 31, 2022 and 2021, respectively.

Accrued Interest Receivable and Payable

The carrying amount of accrued interest receivable and accrued interest payable approximates fair value.

Mortgage Servicing Rights

The carrying amount of mortgage servicing rights approximates their fair value.

Deposits

The fair values disclosed for demand and savings deposits are equal to carrying amounts at the reporting date. Fair values of fixed rate certificates of deposit are estimated using discounted cash flows and interest rates currently being offered in the market on similar certificates, resulting in a Level 2 classification.

Borrowings from the Federal Home Loan Bank

Fair values of borrowings from the FHLB are estimated using discounted cash flow analysis, based on quoted prices for new borrowings from the FHLB with similar credit risk characteristics, terms and remaining maturity, resulting in a Level 2 classification. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Junior Subordinated Debentures

The fair values of junior subordinated debentures are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity, resulting in a Level 2 classification.

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Subordinated Debt Offering

The fair values of the subordinated debt offering are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. The Company does not consider the difference between carrying value and fair value to be material.

Off-Balance Sheet Financial Instruments

Fair values for off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2022 and 2021 are as follows:

	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2022:				
Securities available for sale:				
United States agencies	**$ 127,900**	**$ -**	**$ 127,900**	**$ -**
State and local governments	**82,854**	**-**	**82,854**	**-**
Mortgage-backed securities	**81,512**	**-**	**81,512**	**-**
Corporate securities	**16,366**	**-**	**16,366**	**-**
Total securities available for sale	**$ 308,632**	**$ -**	**$ 308,632**	**$ -**
Restricted equity security	**$ 223**	**$ 223**	**$ -**	**$ -**
December 31, 2021:				
Securities available for sale:				
United States agencies	$ 149,015	$ -	$ 149,015	$ -
State and local governments	87,923	-	87,923	-
Mortgage-backed securities	103,677	-	103,677	-
Corporate securities	14,384	-	14,384	-
Total securities available for sale	$ 354,999	$ -	$ 354,999	$ -
Restricted equity security	$ 238	$ 238	$ -	$ -

Note 16 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired loans (level 3), mortgage servicing rights (level 2) and loans held for sale (level 3) are measured at fair value on a nonrecurring basis at December 31, 2022 and 2021.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2022 and 2021 are as follows:

		2022		2021	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
			(In thousands)		
Financial assets:					
Cash and due from banks	1	**$22,047**	**$22,047**	$15,618	$15,618
Interest-bearing deposits in banks	1	**18,887**	**18,887**	31,306	31,306
Investment securities	1 and 2	**352,584**	**302,327**	391,935	350,532
Loans, net of allowance	3	**1,278,243**	**1,112,319**	1,118,615	1,126,617
Accrued interest receivable	1	**5,533**	**5,533**	4,407	4,407
Mortgage servicing rights	2	**3,051**	**3,051**	2,866	2,866
Financial liabilities:					
Demand and savings deposits	1	**$1,271,330**	**$1,271,330**	$1,279,946	$1,279,946
Certificates of deposit	2	**322,750**	**347,085**	190,539	190,307
Borrowings from FHLB	2	**-**	**-**	-	-
Junior subordinated debentures	2	**5,155**	**5,113**	5,155	5,150
Subordinated debt offering	2	**15,760**	**15,760**	15,748	15,748
Accrued interest payable	1	**586**	**586**	109	109

Amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The fair values of off-balance sheet financial instruments are not significant.

Note 17 – Revenue Recognition

The majority of the Company's revenue-generating transactions are not subject to Accounting Standards Codification ASC Topic 606, including revenue generated from financial instruments, such as loans and investment securities which are presented in our consolidated statements of income as components of net interest income. All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income, with the exception of net gains and losses from sales of foreclosed real estate, which is recognized within non-interest expense when applicable.

Note 17 – Revenue Recognition (Continued)

The following table presents revenues subject to ASC 606 for the years ended December 31, 2022 and 2021, respectively. Items outside the scope of ASC 606 are noted as such.

	For the years ended December 31, *(In thousands)*	
	2022	2021
Service charges on deposit accounts		
Insufficient funds fees	**$ 1,634**	$ 1,326
Deposit related fees	**463**	443
ATM/point of sale fees	**985**	855
	3,082	2,624
Cardholder fees		
Debit card interchange fees	**3,454**	3,437
Other cardholder fees	**830**	525
	4,284	3,962
Loan servicing fees and realized gain on sales of loans		
Loan Servicing Fees*	**2,321**	2,767
Realized gain on sale of loans*	**1,219**	3,360
	3,540	6,127
Financial services fees	**1,725**	1,805
Other miscellaneous income*	**727**	161
	$ 13,358	$ 14,679

*Not within scope of ASC 606.

<u>Service Charges on Deposit Accounts</u>: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which included services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are recognized at the time the maintenance occurs. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Note 17 – Revenue Recognition (Continued)

Cardholder Fees: The Company earns interchange fees from debit cardholder transactions conducted through the Fiserv payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to cardholder.

Loan Servicing Fees and Realized Gain on sale of Loans: Revenue from mortgage fee income, commercial loan fees, and realized gain on sales of loans is earned through the origination of residential mortgages and sales of one-to-four family residential mortgages loans and is recognized as transactions occur.

Financial Services Fees: The Company earns commissions from investment brokerage services provided to its customers by a third-party service provider. The Company receives fees from the third-party service provider on a monthly basis based upon customer activity for the month. The Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does control the selection of services but does not control the services rendered to the customers. Investment brokerage fees are presented net of related costs.

Note 18 – Leases

The Company enters into leases in the normal course of business for five of its branch locations and its back-office operations center. During the year ended December 31, 2022, the Company entered into a new lease agreement for one of its branch locations.

The Company's leases have remaining terms that vary from less than six years up to 23 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when the Company believes it is reasonably certain that the renewal options will be exercised.

The components of the lease expense are as follows:

(In thousands)	**December 31, 2022**	December 31, 2021
Operating lease cost	**$378**	$375
Total	**$378**	$375

Supplemental cash flow information related to leases was as follows:

(In thousands)	**December 31, 2022**	December 31, 2021
Cash paid for amount included in the measurement of operating lease liabilities:		
Operating cash used for operating leases	**$378**	$375

Note 18 – Leases (Continued)

Supplemental consolidated balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	Balance Sheet Classification	**December 31, 2022**	December 31, 2021
Operating Leases			
Operating lease right-of-use assets	Other assets	**$4,027**	$3,962
Operating lease liabilities	Other liabilities	**$4,371**	$4,278
Weighted Average Remaining Lease Term			
Operating Leases		**16.4 years**	17.9 years
Weighted Average Discount Rate			
Operating Leases		**3.56%**	3.68%

Maturities of operating lease liabilities were as follows:

Year Ending December 31, *(In thousands)*	
2023	**230**
2024	**243**
2025	**267**
2026	**284**
2027	**297**
Thereafter	**3,050**
Total minimum lease payments	**$4,371**

Note 19 – Subsequent Events

Management has evaluated subsequent events through March 3, 2023, the date in which the consolidated financial statements were available to be issued.

Lyons Bancorp, Inc.
It's all about people.

PROFILE

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.75 billion as of December 31, 2022. Lyons Bancorp, Inc. has a banking subsidiary, The Lyons National Bank.

The Lyons National Bank is a community bank with offices in Clyde, Lyons, Macedon, Newark, Ontario, and Wolcott in Wayne County, Jordan in Onondaga County, Canandaigua, Farmington and Geneva in Ontario County, Penn Yan in Yates County, Waterloo in Seneca County, Fairport in Monroe County, and Auburn in Cayuga County. The Lyons National Bank has a subsidiary, Lyons Realty Associates Corp.

STOCK SYMBOL

LYBC

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