



Lyons Bancorp, Inc.

ANNUAL
REPORT
2024

A large, stylized graphic consisting of three nested, downward-pointing chevrons. The top chevron is a solid dark red diamond. The middle and bottom chevrons are white with dark red outlines. The text "It's all about people." is centered within the top chevron.

**It's all about
people.**



OUR 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.

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It's all about people.

PROFILE

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, NY, with assets of \$1.92 billion as of Dec. 31, 2024. 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.



OUR 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.



OUR WOW! CULTURE

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

A LETTER TO SHAREHOLDERS

Thomas L. Kime

*President & CEO
The Lyons National Bank*



Dear Fellow Shareholders,

As we reflect on the events of 2024, we recognize it as a year marked by unique challenges and noteworthy opportunities. Throughout the year, we faced ongoing pressure on margins, heightened competition for deposits and loans, a significant presidential election, and the Federal Reserve's first rate cuts since March 2020. We also saw many achievements for which LNB is proud: Our dedicated staff, strong management team and engaged Board of Directors — along with our marketplace advisory boards — proved indispensable, navigating these hurdles and emerging even stronger.

Our employees remain our most valuable asset. We are incredibly fortunate to benefit from their unwavering commitment to their roles, our customers, and the communities we serve. In recognition of their exceptional service, we recognized several individuals with WOW! awards for their outstanding contributions. In addition, we celebrated numerous well-deserved promotions. Our WOW! award recipients can be found on pages 4-5 and the LNB employees promoted in 2024 on page 10. We strive to foster growth from within, prioritizing training and development, and empowering our talented team who exemplify LNB's values and culture.

COMMUNITY BANKING

Community banks have long been trusted partners in the communities they serve, funding growth, providing jobs, donations, and essential services. However, as many larger banks have cut staff, closed branches, and scaled back their community involvement to reduce costs and meet earnings targets, rural areas now find themselves in so-called "banking deserts." Fortunately, changes to banking regulations are underway, aimed at easing overregulation and helping both community banks and rural America to thrive once more.

While community banks — defined as institutions with assets under \$10 billion — represent a smaller segment of the banking industry, they are essential to the financial stability of the markets they serve, especially as some larger institutions withdraw from a number of these markets. At LNB, we are deeply committed to our role as a provider of nearly every financial service a community could need — from agricultural and business loans to residential and consumer loans, municipal services, technology solutions, cash management, and investment services. Our asset growth in 2024 was 4.1%, slightly below our historical norm but still a meaningful achievement for the year, especially

when considering our peer group experienced an overall decline during the same period.

Reflecting our commitment to accessibility and dedication to customer service, we relocated our downtown Auburn branch from Genesee Street to Dill Street, a more convenient location offering both drive-up service and enhanced accessibility.

As we continue to evaluate the challenges posed by branch closures, our focus remains on expanding our consumer, business, and municipal client base in each of our communities, as well as enhancing the services we offer to strengthen every relationship. With nearly 900 bank branches closing across New York State between 2020 and 2024, we understand our vital role in ensuring reliable banking services are available across our markets. In our own footprint, over 40 branches were shuttered during this period. Our strategy is clear: We are committed to maintaining our current branches and actively seeking opportunities to expand our network in order to better serve our communities. We also understand we need to grow LNB and our relationships in an efficient manner to remain a viable and successful bank.

BANK PERFORMANCE

Rather than pursuing staff reductions to drive greater efficiency, we remain focused on strategic growth and operational enhancements. In 2024, we expanded our full-time employee base, reinforcing our commitment to both our team and delivering exceptional service to our customers. With the addition of new staff and services, we have still achieved a better efficiency ratio than our national peer group and are in the top 25% of our local peer group.

We also continue to maintain a strong market presence, holding the leading deposit share in the majority of our markets. Despite increased competition for deposits over the past year, our position remains solid. In residential mortgage lending, we are the top lender in multiple markets, with our residential mortgage portfolio — comprising both sold and serviced loans — reaching nearly \$1.2 billion by year-end.

While the refinance market has slowed in recent years, our construction lending has rebounded to pre-COVID levels, and we saw a notable increase in purchased units in 2024 compared to 2023. Our commercial and agricultural lending portfolios have also shown robust growth, with LNB ranking

as the top- or second-highest volume lender in most of our markets — a trend that has persisted for several years.

Throughout 2024, the inverted yield curve presented several challenges for the banking and financial sectors. However, LNB maintained strong performance across key metrics, particularly in loan and deposit growth. Overall our real estate loans grew by 7%, with commercial and agricultural lending experiencing a strong 9% increase, underscoring our commitment to supporting businesses and communities. In total, our loan growth reached 6.5%, compared to just 2.2% for our national peer group. Additionally, we grew total deposits — excluding wholesale deposits — by approximately 8%, while the national peer group saw only a 1% growth. Among our local market peers, excluding wholesale deposits, we ranked in the top 20% for deposit growth in 2024.

We also continued to prioritize shareholder value by increasing dividends and diversifying our sources of non-interest income. Gains from residential mortgage sales, servicing income from the sold residential mortgages, cardholder income, and financial services income made significant contributions to our overall non-interest income, further enhancing our financial performance. LNB outperformed both the national peer group and approximately 90% of our local competitors in non-interest income to average assets.

HIGH-TECH, HIGH-TOUCH

Customer engagement remains strong, as evidenced by consistent teller transaction volumes over the years. This trend underscores the continued relevance of full-service branch banking, while our digital offerings — including online banking, mobile banking, peer-to-peer payments, and bill pay — enhance operational efficiency and customer utilization. While digital services continue to grow and are vital to our customer base, the continued increase in frequency of branch visits demonstrates that our customers continue to view our full-service branches as integral to their financial needs. Customers visit not only for teller transactions but also for loan inquiries and closings, as well as for consultations with our financial services team. Moreover, our focus on deepening customer relationships has driven an increase in products per customer, with nearly 3,000 new-to-LNB customers joining us over the past year. Our suite of digital, online, and cash management services is essential to our customers, contributing to both operational efficiencies and the sustained relevance of our branch network.

Building on the progress made in previous years, we made significant strides in cybersecurity, frontline employee training, and cash management services in 2024. These initiatives exemplify our proactive approach to enhancing both operational security and customer service. While many institutions offer similar services, LNB's personalized, one-

on-one assistance remains a key differentiator. In an era of rising cyber threats, we are committed to protecting our customers from risks such as check fraud, payment fraud, electronic card fraud, and ATM fraud. Our state-of-the-art fraud detection system for electronic cards minimizes the likelihood of fraudulent activity, offering real-time notifications that allow customers to approve or decline transactions instantly.

“While many institutions offer similar services, LNB's personalized, one-on-one assistance remains a key differentiator.”

As we navigate an increasingly complex operating environment, we remain focused on third-party risk management and operational resilience. Our commitment to customer support includes providing educational resources on emerging fraud tactics and offering guidance on measures to enhance financial security. Additionally, we have partnered with a specialized firm to assist both the bank and our customers with fraud mitigation as needed. For our business clients, we offer Positive Pay as an added layer of fraud protection and have hosted informational sessions led by third-party experts in cybercrime and fraud prevention.

LNB continues to implement cutting-edge technologies to safeguard accounts, services, and fraud prevention efforts. We are constantly evaluating and integrating new technologies to retain our competitive edge. Our cash management solutions leverage the latest technology for our business customers, including automated clearinghouse payments, wire transfers, remote deposit capture, lockbox services, merchant services, Positive Pay, and account reconciliation services — all of which are supported by robust security features. Additionally, with our instant-issue service, customers can receive debit cards on demand at any LNB branch. Through our mobile banking card management platform, customers gain enhanced control over their card transactions, including the ability to turn cards on and off (particularly useful if a card is lost or stolen), set spending limits, create travel plans, and track spending in real-time. These features are complemented by our dedicated staff, who are always available to provide personalized assistance and address any customer concerns.

A DYNAMIC LANDSCAPE

Upstate New York's economy has navigated a complex landscape of challenges and growth opportunities across various sectors. In 2024, employment levels remained below pre-pandemic figures, with job growth decelerating as the labor market stabilized. Significant investments in the semiconductor industry has positioned the region as a potential hub for chip manufacturing, offering a promising

A LETTER TO SHAREHOLDERS

avenue for future growth. Additionally, the renewed discussion surrounding natural gas production could offer a transformative opportunity to revitalize the region's economy, with proponents suggesting it could generate substantial revenue, create jobs, and counter economic stagnation. However, homeowners in cities have faced growing financial pressures, with many allocating more funds to property taxes and insurance than to mortgage payments. A recent study revealed that, as of September 2024, 32% of the average single-family mortgage payment was directed toward insurance and taxes — the highest proportion since 2014. Federal initiatives like the CHIPS and Science Act aim to support the semiconductor industry, hopefully bringing manufacturing jobs back to the United States. Upstate New York received significant funding, with companies such as GlobalFoundries and Micron Technology expanding their facilities, further positioning the region for potential economic growth. Overall, 2024 presented a dynamic economic landscape for Upstate New York, marked by both challenges and growth opportunities, particularly within the technology sector.

STRONG & STEADY

From a financial perspective, LNB has delivered strong results while maintaining robust liquidity management. Over the past year, we achieved steady growth in both deposits and loans,

while ensuring that our loan quality remained exceptional. Our loan loss reserves at 1.46% of loans, is significantly higher than those of both our local and national peers, providing us with a solid cushion to navigate potential economic downturns or increases in delinquency rates. However, our delinquency and nonaccrual loan levels continue to remain very low, reflecting the high quality of loans within our portfolio. In addition, our charge-offs remain at minimal levels, well below those of peers.

The professionalism and dedication demonstrated by our management team, officers, and staff, combined with the valuable input from our Board of Directors and Advisory Board members, are integral to LNB's commitment to hometown banking and sustained success. I am confident that we are well-positioned to address any challenges in the year ahead while capitalizing on the opportunities we have identify to grow. We look forward to continuing to earn our shareholders trust and to provide ongoing growth and strong returns for years to come.

Thanks to the outstanding team of professionals that I have the pleasure to work with.



CONGRATULATIONS TO OUR WOW! AWARD WINNERS

Tom Kime, President and CEO, proudly recognized these individuals for their remarkable dedication and exceptional contributions to the Bank in 2024. Along with all LNB staff, they were celebrated at the Bank's Annual WOW! Event. LNB's WOW! culture is built on a foundation of positivity, personal commitment, and a drive to deliver service that consistently exceeds the expectations of both customers and colleagues, every single time.

Employee of the Year Recipients

Stephen DeRaddo (L)
Executive Vice President &
Chief Experience Officer

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



BOARD CHAIR'S MESSAGE

Case A. Marshall

Board Chair, Lyons Bancorp, Inc.
Chief Financial Officer,
Marshall Companies



For those whom I have not yet had the pleasure of meeting, I would like to provide a brief background on the Marshall family.

Our business roots in the Finger Lakes region date back over 50 years, beginning in 1972 with the opening of the Marshall Manor Motel in Weedsport, built by my parents. Our longstanding relationship with The Lyons National Bank spans more than three decades, and we have been proud shareholders for nearly as long. Today, our family-operated businesses continue to thrive in the convenience store, home heating and trucking industries across the region. I have been honored to serve as a second-generation director of the Bank, following in the footsteps of my father, Ted, who served as a director for 17 years from 1994 to 2011.

As your chairman for the past year and a director for over a decade, I consider it a privilege to be associated with LNB, a respected institution that has consistently demonstrated a commitment to excellence. Our slogan, "It's all about

people," encapsulates the essence of our organization. From the dedicated frontline personnel who deliver outstanding service to our customers, to the executive leadership and Board shaping the Bank's strategic vision, and to you, our loyal shareholders, who entrust us with your investments—at every level, it truly is all about people.

Despite the challenges outlined by our president and CEO, Tom Kime, and chief financial officer, Chad Proper, in this report, your Bank delivered a solid performance in 2024. The Board, along with Tom and the executive team, remains committed to driving growth within our marketplace while continuing to provide exceptional service to the communities we serve. Supporting management in their efforts to deliver top-tier financial results for our shareholders, while maintaining unparalleled service, remains our primary focus.

We look forward to a successful 2025 and hope to see you at the upcoming Shareholders' Meeting on June 11.



Dream Team Award Recipients

Barbara Hennessy (L)
Senior Vice President &
Director of Marketing

Jennifer Srmack
Banking Officer &
Marketing Specialist

Exceeding Expectations Award Recipients

Shelly Koester (L)
Floating Head Teller

Susan Lockwood
Banking Officer & Branch Manager,
Wolcott

Emily Hilimire (R)
Vice President & Branch Manager,
Auburn



2024 FINANCIAL HIGHLIGHTS

Chad J. Proper

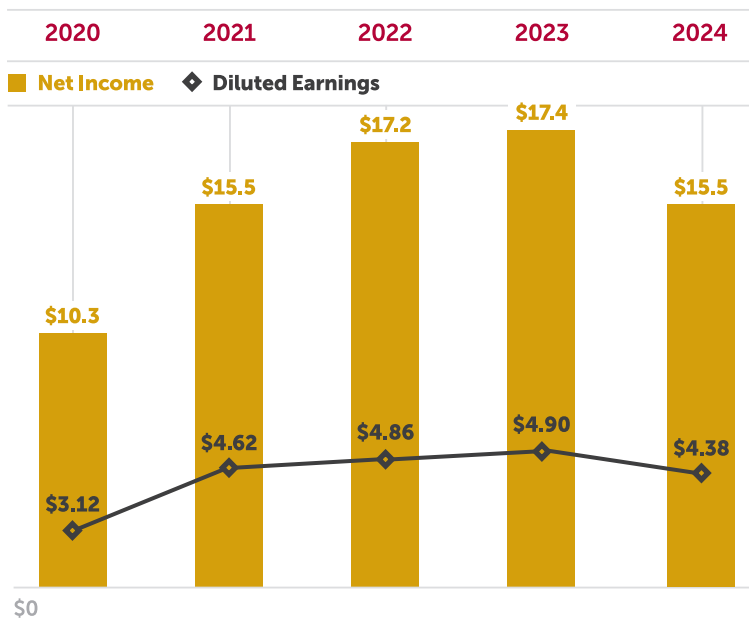
Senior Vice President & CFO
The Lyons National Bank



RESULTS OF OPERATIONS

While we remained profitable in 2024, our net income decreased from 2023. The elevated interest rate environment continued to negatively impact profitability in 2024, along with an increase in our provision for credit losses when comparing 2024 to 2023. It's worth noting that our net income has averaged \$16.4 million over the past four years compared to \$8.8 million from 2014 through 2020. Further discussion about our results of operations can be found below. We continue to have very favorable asset quality indicators. Our historically strong performance allows us to manage our assets responsibly without taking undue risks.

Net Income & Diluted Earnings Per Share



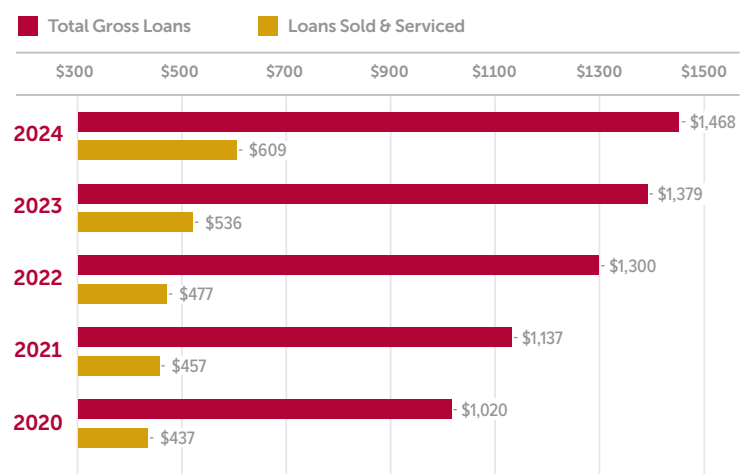
Net income in 2024 was \$15.5 million, representing a decrease of \$1.9 million, or 10.9%, from 2023. Net income in 2024 represented diluted earnings per common share of \$4.38, compared to \$4.90 in 2023; a decrease of \$0.52, or 10.6%. Basic earnings per common share of \$4.46 represented a decrease of \$0.54, or 10.8%, from \$5.00 in 2023. In 2024, net income expressed as a return on average assets was 0.80% and as a return on average shareholders' equity was 14.11%, compared to 0.95% and 18.39%, respectively, in 2023. The decreases in 2024 were the result of a decrease in net income coupled with increases in both average assets and average shareholders' equity.

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 we pay on our interest-bearing liabilities (primarily deposit accounts and borrowings) represents the fundamental measure of our operating results. Net interest income for 2024 was \$47.0 million, a decrease of \$0.9 million, or 1.8%, compared to the 2023 total of \$47.9 million. This compares to a decrease of \$3.3 million, or 6.4%, when comparing 2023 to 2022. The decrease in both years can primarily be attributed to the elevated interest rate environment mentioned earlier. The increase in interest expense due to interest rates was \$8.9 million, while the increase in interest income due to interest rates was \$6.8 million. Interest expense increased by \$5.0 million due to volume, while interest income increased by \$4.9 million. Average interest-earning assets grew from \$1.794 billion in 2023 to \$1.904 billion in 2024, an increase of \$110 million, or 6.2%. Interest-bearing liabilities grew from \$1.225 billion in 2023 to \$1.325 billion in 2024, an increase of \$100 million, or 8.2%. While the growth in average interest-earning assets and average interest-bearing liabilities was comparable, the related average cost of interest-bearing liabilities grew 91 basis points from 1.97% to 2.88%, while the average yield on interest-bearing assets only grew 47 basis points from 4.01% to 4.48%. The 2024 mismatch between the cost of our interest-bearing liabilities and the yield on interest-earning assets is a continuation from 2023 and reflects the fact that our interest-bearing liabilities repriced more frequently than our interest-bearing assets. In a rising interest rate environment such as we have now, the Bank's interest expense rises faster than its interest income.

Loan Breakdown

(\$ MILLIONS)



	2024			2023		
	AVERAGE BALANCE (\$)	INTEREST INC/EXP (\$)	AVERAGE YIELD/COST (%)	AVERAGE BALANCE (\$)	INTEREST INC/EXP (\$)	AVERAGE YIELD/COST (%)
INTEREST-EARNING ASSETS: (Thousands \$)						
<i>Residential real estate</i>	682,366	28,738	4.21%	656,452	24,849	3.79%
<i>Commercial and agricultural real estate</i>	495,313	28,126	5.68%	436,275	22,073	5.06%
<i>Commercial and agricultural loans</i>	211,208	14,458	6.85%	195,867	12,870	6.57%
<i>Consumer installment loans</i>	33,908	2,229	6.57%	37,407	2,165	5.79%
TOTAL LOANS	1,422,795	73,551	5.17%	1,326,001	61,957	4.67%
<i>Investments</i>	391,900	7,069	1.80%	400,937	6,726	1.68%
<i>Federal funds sold and other interest-earning assets</i>	89,787		5.13%	66,573	3,320	4.99%
TOTAL INTEREST-EARNING ASSETS	1,904,482	85,229	4.48%	1,793,511	72,003	4.01%
<i>Noninterest-earning assets</i>	35,814			27,778		
TOTAL ASSETS	1,940,296			1,821,289		
INTEREST-BEARING LIABILITIES: (Thousands \$)						
<i>Interest-bearing checking</i>	155,389	592	0.38	173,539	260	0.15%
<i>Money market and savings accounts</i>	601,579	11,556	1.92	590,713	6,311	1.07%
<i>Time deposits</i>	485,143	21,795	4.49	424,679	15,567	3.67%
<i>Other</i>	83,123	4,285	5.15	36,077	2,005	5.56%
TOTAL INTEREST-BEARING LIABILITIES	1,325,234	38,228	2.88	1,225,008	24,143	1.97%
<i>Noninterest-bearing deposits</i>	478,304			478,862		
<i>Other noninterest-bearing liabilities</i>	27,141			23,046		
TOTAL LIABILITIES	1,830,679			1,726,916		
<i>Total equity</i>	109,617			94,373		
TOTAL LIABILITIES AND EQUITY	1,940,296			1,821,289		
<i>Net interest spread</i>			1.60			2.04%
<i>Net interest income/margin on earning assets</i>		47,002			47,860	
<i>Tax equivalent adjustment</i>		218			260	
<i>Net interest income/margin on a tax equivalent basis</i>		47,220	2.48		48,120	2.68%

Average noninterest-bearing deposits experienced a minimal decrease of \$558,000 in 2024 compared to an increase of \$3.3 million in 2023. Strong and stable demand deposit accounts (DDAs) or noninterest-bearing deposit balances are critical, as they reduce our cost of funds thereby effectively contributing to net interest income. DDAs, or noninterest-bearing deposits, are also important in providing additional funding for our asset growth. The Bank's DDAs, or noninterest-bearing deposits, continue to compare favorably to our local and national peer groups.

Our tax-equivalent net interest margin measured 2.48% in 2024 compared to 2.68% in 2023, a downward trend that continues from 2022, when rising interest rates began to negatively impact margins.

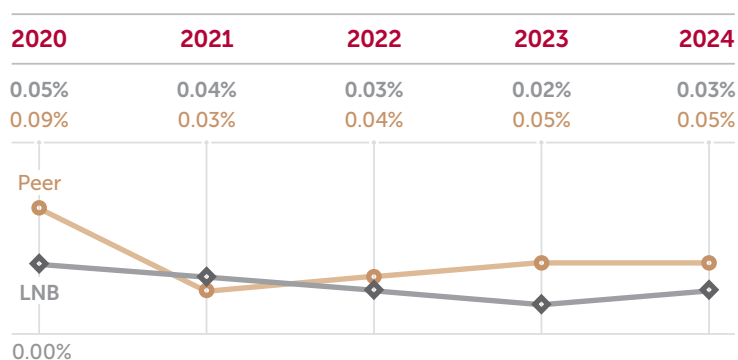
At Dec. 31, 2024, our non-performing loans totaled 0.24% of total loans, as compared to 0.25% at Dec. 31, 2023. These ratios continue to compare favorably to our peer group ratio of 0.34% at both Dec. 31, 2024, and Dec. 31, 2023. Our net

charge-offs to average loans during 2024 totaled 0.03% compared to 0.02% in 2023 and 0.03% in 2022. We are pleased with these consistently low ratios. Loans past due 30 days or more totaled \$8.6 million and \$6.5 million at Dec. 31, 2024 and 2023, respectively. Loans on non-accrual status totaled \$3.6 million and \$3.5 million at Dec. 31, 2024 and 2023, respectively. The consistently low level of delinquent and non-accrual loans noted above is an indication that our credit quality remains strong given the fact that gross loans were \$1.5 billion and \$1.4 billion at Dec. 31, 2024 and 2023, respectively. Our allowance for credit losses as a percentage of gross loans was 1.45% and 1.46% at Dec. 31, 2024 and 2023, respectively. These compare favorably to our peer group, whose ratios were 1.22% at both Dec. 31, 2024 and 2023.

Noninterest income continues to be an important revenue source for us given the downward pressure on our net interest income as a result of the interest rate environment. 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 2024, noninterest income represented 16.7% of all revenue sources and totaled \$17.1 million, an increase of \$2.2 million, or 15.1%, from the \$14.9 million recorded in 2023, which represented 17.1% of all revenue sources. The increase in noninterest income when comparing 2024 to 2023 was due primarily to increases in loan servicing income, gains on the sale of loans, and financial service income. In addition, the Bank had recognized income of \$284,000 from Bank-owned life insurance due to the unfortunate passing of an LNB commercial officer. Other components of noninterest income were relatively consistent when comparing 2024 to 2023.

Net Charged-Off Loans to Average Loans



Noninterest expense consists primarily of compensation and employee benefits, occupancy expenses, professional fees, data processing, FDIC Insurance, and other operating expenses. In 2024, total noninterest expense was \$42.2 million, an increase of \$3.1 million, or 7.7%, from \$39.1 million in 2023. All significant expense categories reflected slight increases in 2024, which included increases in professional fees along with FDIC and OCC assessments. Salaries & wages and pensions & benefits had the most significant change with a combined increase of \$1.9 million.

ANALYSIS OF FINANCIAL CONDITION

We have experienced balance sheet growth for several consecutive years with assets increasing over the last 10 years, from \$806.8 million at Dec. 31, 2014, to \$1.924 billion at Dec. 31, 2024. Total assets increased \$76.2 million, or 4.1%, from \$1.848 billion at Dec. 31, 2023, to \$1.924 billion at Dec. 31, 2024. Total stockholders' equity (nontangible) increased \$9.9 million, or 7%, to \$150.8 million at Dec. 31, 2024, from \$140.9 million at Dec. 31, 2023.

Total loans were \$1.5 billion at Dec. 31, 2024, an increase of \$89.8 million, or 6.5%, from \$1.4 billion at Dec. 31, 2023. We experienced growth in all loan types except for consumer installment loans. The largest increase, totaling \$40.3 million, was in our commercial real estate loans followed by an increase of \$17.1 million in both 1-4 family residential real estate and commercial loans. Quality growth in the loan

portfolio has always been an important objective for us but is particularly important in this high interest rate environment, as it's essential to offset increasing interest expense with interest income from loans since yields on loans is generally higher than yields on investment securities. As noted above, our net interest income continues to feel the pinch of high interest rates. We continue to support our strategy of maintaining balance within the loan portfolio with consumer-related loans representing 50% of the portfolio and agricultural- and commercial-related loans also representing 50% of the portfolio. A change from Dec. 31, 2023, when we had 52% consumer-related loans versus 48% agricultural- and commercial-related loans.

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 Dec. 31, 2024, our investment portfolio totaled \$326.3 million, a decrease of \$21.2 million from the total of \$347.5 million at Dec. 31, 2023. The balance of our investment securities portfolio continues to be suppressed by unrealized losses in our available-for-sale securities portfolio, which are carried at their fair market value. Our available-for-sale securities portfolio represented 86.6% and 86.3% of our total investment securities portfolio at Dec. 31, 2024 and 2023, respectively.

Unrealized losses in the available-for-sale securities portfolio improved by \$3.1 million to \$46.7 million at Dec. 31, 2024, compared to \$49.6 million and \$53.3 million at Dec. 31, 2023 and 2022, respectively. These unrealized losses do not impact our earnings since they are not the result of credit quality concerns with the issuers of the securities and therefore do not have to be adjusted through earnings. As a reminder, when market interest rates rise, the value of the fixed-rate securities that we own fall as the current market rates available on other securities become more attractive to would-be purchasers of those securities. Due to our strong liquidity position, we do not anticipate selling these securities before they recover their value, which may be at maturity. These unrealized losses continue to be commonplace in today's environment. However, our unrealized losses are well below our national peer group as well as most of our local peer groups.

Deposits generated within our local markets continue to be the major source of funds for our lending and investment securities activities. Total deposits at Dec. 31, 2024, were \$1.764 billion, an increase of \$137.5 million, or 8.5%, over

\$1.627 billion at Dec. 31, 2023. Core deposits (retail & commercial) represented 72% of total deposits at Dec. 31, 2024, compared to 74% at Dec. 31, 2023. Public deposit balances represented 20% of total deposits at Dec. 31, 2024, compared to 21% at Dec. 31, 2023.

Our capital levels continue to be well in excess of regulatory minimums. A strong capital position is the cornerstone of any well-run financial institution. We have been able to maintain strong capital levels while being profitable and without sacrificing asset quality for several years. As always, the Board

of Directors and management team remain committed to providing a dependable and safe return to our shareholders. We declared cash dividends of \$1.55 per share during 2024 compared to \$1.47 in 2023. The 2024 dividend represents a yield of 3.8% based on our Dec. 31, 2024, market price of \$41.00 per share. This compares to a yield of 3.5% in 2023 based on a Dec. 31, 2023, market price of \$42.00.

Please refer to our Consolidated Financial Report as of and for the year ended Dec. 31, 2024, for more information regarding our 2024 operating results and financial position.

	2024	2023	2022	2021	2020
FINANCIAL STATEMENT HIGHLIGHTS (Thousands \$)					
Assets	1,924,393	1,848,149	1,753,815	1,626,165	1,423,147
Investments w/o M-to-M	372,970	397,133	405,825	396,707	288,580
Investments with M-to-M	326,337	347,496	352,583	391,935	292,293
Unrealized Gain/(Loss)	-46,633	-49,637	-53,242	-4,772	3,713
Loans, gross	1,468,371	1,378,610	1,299,741	1,136,959	1,019,696
Deposits	1,764,625	1,627,154	1,623,204	1,470,870	1,285,967
Borrowings	0	71,000	0	0	0
Total tangible equity	115,835	103,660	87,361	109,648	95,462
Total shareholders' equity (nontangible)	150,810	140,888	127,292	113,227	92,676
Interest income	85,230	72,003	56,919	51,735	46,547
Interest expense	38,228	24,142	5,751	4,199	7,033
Net interest income	47,002	47,861	51,168	47,536	39,514
Provision for loan losses	1,884	1,040	3,498	1,340	6,258
Net interest income (after provision for loan losses)	45,118	46,821	47,670	46,196	33,256
Net income	15,463	17,355	17,204	15,524	10,268

PER-SHARE INFORMATION (\$)					
Basic earnings per share	4.46	5.00	4.96	4.71	3.16
Diluted earnings per share	4.38	4.90	4.86	4.62	3.12
Cash dividends declared	1.55	1.47	1.38	1.34	1.24
Book value per share (incl. Conv. Pref.)	32.92	29.23	24.69	30.98	28.99
Book value per share (excl. Conv. Pref.)	34.03	30.26	25.56	32.07	30.08

SELECTED RATIOS					
Return on average assets	0.80%	0.95%	1.01%	0.99%	0.78%
Return on average shareholders' equity	14.11%	18.39%	18.53%	15.62%	10.47%
Leverage ratio (Bank)	8.83%	8.90%	8.56%	8.51%	8.41%
Dividend payout ratio	35.33%	30.27%	28.65%	29.81%	40.53%
Efficiency ratio	65.66%	62.36%	61.31%	71.61%	70.58%

NURTURING TALENT: CELEBRATING STAFF 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!



David J. DeRaddo

Vice President and Financial Services Representative

Promoted from Assistant Vice President and Financial Services Representative



Jennifer C. Dunn

Assistant Vice President and Mortgage Home Equity Processor

Promoted from Banking Officer and Mortgage Home Equity Processor



Maxwell W. Harris

Banking Officer and Cash Management Specialist

Promoted from Cash Management Specialist



James H. King

Senior Vice President and Commercial Loan Officer II

Promoted from Vice President and Commercial Loan Officer II



Jenna L. Miller

Vice President and Executive Administrative Assistant

Promoted from Assistant Vice President and Executive Administrative Assistant



Meghan A. Nagel

Assistant Vice President and Operations Training Specialist

Promoted from Banking Officer and Operations Training Specialist



Jennifer L. Porten

Banking Officer and Cash Management Specialist

Promoted from Cash Management Specialist



Shannon M. Romano

Vice President and Controller

Promoted from Assistant Vice President and Senior Assistant Controller



Kraig M. vonHahmann

Vice President and Commercial Agricultural Loan Officer II

Promoted from Assistant Vice President and Commercial Agricultural Loan Officer II

EMPOWERING EXCELLENCE THROUGH COMMUNITY ENGAGEMENT

With over 8,000 volunteer hours recorded in 2024, LNB's WOW! spirit remains vibrant through the active involvement of our team members. Hundreds of community organizations and events were impacted by our staff's dedication as board members and volunteers. A heartfelt thank you to our Board of Directors and Management team for fostering this spirit of engagement and congratulations to everyone for your unwavering commitment to making a difference in your communities.

Ability Partners, Inc./Happiness House
Agri-Business Child Development
Alton Fire District
American Legion Auxiliary
Americian Red Cross
Apple Blossom Committee
ARC of Wayne County
Auburn High School Hall of Fame Committee
Auburn United Methodist Church
Bishop Sheen Ecumenical Housing Foundation
Blessings In a Backpack
Branchport United Methodist Church
Business Improvement District - Auburn
Canandaigua Rotary Club
Cayuga Community College Perkins Advisory Committee
Cayuga County Chamber Foundation
Cayuga County Chamber of Commerce
Cayuga County Development Corp.
Cayuga County Fire and EMS
Cayuga County Homesite Development Corp.
Cayuga Economic Development Agency
Cayuga Museum
Cayuga/Cortland Workforce Investment Board
Celebrate Service . . . Celebrate Yates - Keuka College
Champions For Life, Inc. (Finger Lakes Mud Run)
Child and Family Resources, Inc.
Christmas in Jordan
Clyde Fire Department
CNY TomatoFest
Daughters of the American Revolution
E. John Gavras Center
East Hill Medical Center
Elbridge Fire Department
Encounter Church NY
Fairport Canal Days
Fairport Fall Festival
Fairport Rotary Club
Fairport Soccer Club
Family Counseling Services of the Finger Lakes
Farmington Chamber of Commerce
Fight 4 Fight Fundraiser
Finger Lakes Area Chamber of Commerce
Finger Lakes Community College
Finger Lakes Conservation Club
Finger Lakes Ducks Unlimited
Finger Lakes Economic Development Center
Finger Lakes Health
Finger Lakes Health Housing Development Corp.
Finger Lakes Triathlon Club
Finger Lakes Workforce Investment Board
First Presbyterian Church of Lyons
Foodlink, Inc.
Friends of Emerson Summer Music Program
Friendship Children's Center
Genesee Valley Swim League
Geneva Boys and Girls Club
Geneva Business Improvement District
Geneva Center of Concern
Geneva Community Projects, Inc.
Geneva Junior Football League, Inc.
Geneva Knights of Columbus Council 272
Geneva Little League
Geneva Local Development Corp
Geneva Revolving Loan Fund
Geneva Rotary Club
Geneva Scholarship Associates
Geneva Family YMCA
Girl Scouts of the USA
Gorham Fire Department

Greater Newark Chamber of Commerce
Greater Rochester Chapter - 82nd Airborne Division Association
Greater Rochester Habitat for Humanity
Hall Boy Scout Troop #68
Heritage Square Museum
Humane Society of Wayne County
Humane Society of Yates County
Icing Smiles, Inc.
International Order of the Rainbow for Girls
It's a Wonderful Life 5K Run
Jake Herendeen Memorial Scholarship
Jordan Bramley Library
Jordan Community Council
Jordan Elbridge Dollars for Scholars
Jordan Fall Festival
Jordan Memorial Day Parade
Jordan Turkey Trot
Jordan Volunteer Fire Department - Chicken Barbecue Event
Keller Williams Day of Caring
Kingdom Heartbeat Ministries
Kiwanis Club of Canandaigua
Kiwanis Club of Eastern Wayne County
Kiwanis Club of Geneva
Kiwanis Club of Newark
Knights of Columbus - Auburn
Lakeshore Volunteer Ambulance
Legacy at Maiden Park
Living Word Assembly of God
Livingston County Habitat for Humanity
Lyons Community Center
Lyons Elementary School PTA
Lyons Fire Department
Lyons Fire Protection District
Lyons Main Street Program
Marcus Whitman Central School
MeatBrawl Fundraising Event
Memorial Day Parade
Merrill Hose Fire Co.
Middlesex Conservation Club, Inc
Mozaic-ARC Finance Committee
MS Walk Canandaigua
Newark Central School District
Newark Girls Varsity Swim Team
Newark High School Bowling Team
Newark Wahoos Swim Club
Newark-Wayne Community Hospital Foundation
Nick's Ride 4 Friends
North Rose-Wolcott Central School District
North Seneca Ambulance
Ontario Business Improvement District
Ontario Chamber of Commerce
Ontario Community Center
Ontario County Chamber of Commerce
Ontario County Economic Development Corporation
Ontario County Fun on the Farm
Ontario County Historical Society
Ontario County Humane Society
Ontario County Industrial Development Agency
Ontario County Visitors Connection
Ontario Recreation Soccer
Parade of Lights - The Village of Clyde
Penn Yan American Legion
Penn Yan Central School District
Penn Yan Lions Club/Leo Club
Penn Yan Rotary
Penn Yan Youth Basketball
Penn Yan Youth Lacrosse
Perinton Recreation and Parks Department
Professional Women of the Finger Lakes

PYSCD Varsity Lacrosse
Red Creek Central School
Roger Williams Memorial Scholarship
Rotary Club of Palmyra-Macedon
Rotary International
Rushville Lions Club
Savannah Chamber of Commerce
SCORE Business Mentoring
Seneca County House of Concern
Seneca Falls Rotary
Seneca Housing, Inc.
Silver Waters Community Ambulance Service
Sisters of Mercy
Soldiers and Sailors Memorial Hospital
Sonnenberg Gardens
South Farmington Friends Cemetery Association
Special Olympics
St. Mary's Church
Stanley Hall Gorham Ambulance
STEADY Work Advisory Board
The American Legion
The Arc Ontario
The Salvation Army
The Smith Center for the Arts
Thompson Health Foundation
Thompson Health Guild
Thrive to Survive
Town of Geneva Comprehensive Plan Committee
Town of Topsail Beach Clean-Up
United Way Day of Caring
United Way Mini Golf Fundraising Event
United Way of Greater Rochester and the Finger Lakes
United Way of Wayne County
Victor Community Baseball/Softball
Victor Community Church
Victor-Farmington Rotary
Vietnam Wall That Heals
Village of Clyde
Village of Newark Loan and Economic Development
Village of Newark Zoning Board
Waterloo Rotary Corp.
Waterloo Youth Football and Cheerleading Program
Wayne ARC Golf Tournament
Wayne Central School District
Wayne County Board of Approved Soccer Officials
Wayne County Board of Elections
Wayne County Boys & Girls Club - Giving Tree Program
Wayne County Business Council
Wayne County Community Endowment
Wayne County Historical Society
Wayne County IDA, EDC & CFDC
Wayne EDC Loan Review Committee
WellSpring Fellowship
Williamson Apple Blossom
Williamson Central School District - PTSA
Williamson Chamber of Commerce
Williamson Come-Unity Center
Williamson Fire Department
Wolcott Fire Department
Wolcott Food Pantry
Wolcott Presbyterian Church
Wreaths Across America
Yates Christmas Program
Yates County Chamber of Commerce
Yates County Day of Caring
Yates County Farm Land Preservation Board
Yates County Suicide Prevention Coalition
Yates County Youth Soccer League
YMCA Camp Corey

BOARD OF DIRECTORS

LEADING WITH EXPERIENCE

We draw on decades of experience in and out of the banking industry to offer our customers the financial products and services they need to succeed. With a total of 177 years of service on our Board of Directors, each member brings valuable insights to guide the Bank's growth and success. We're proud to have a dedicated group of local leaders who are committed to our customers and communities now and in the future.



Joseph P. Bartolotta, Esq.
Senior Managing Director, R&M Real Estate Group



David J. Breen, Jr.
Retired Supermarket Executive
Vice-Chairperson, Lyons Bancorp, Inc.



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



John A. Colaruotolo
President & Owner, Anco Builders, LLC



Joseph A. Fragnoli
President & Owner, Super Casuals



Dale H. Hemminger
Principal, Hemdale Farms, Inc.



Dale L. Hunt
President, Hunt Properties of New York



Teresa M. Jackson
Retired Former Owner Dudley Poultry Co.



Thomas L. Kime
President & CEO, LNB



Case A. Marshall
Chief Financial Officer, Marshall Cos./Board Chair, Lyons Bancorp, Inc.



Bradley A. Person
President & General Manager, Nuttall & Spacemaker Cos.



Carol A. Snook
Vice President & Corporate/ Executive Secretary, LNB



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

ADVISORY BOARDS

LNB's Advisory Boards are made up of community leaders who live, work and operate businesses in the areas we serve. These trusted advisors generously offer their insights on important issues facing their local communities and provide valuable feedback that helps ensure LNB remains well-aligned with the local economy and the needs of the people of our region. We are deeply grateful for their ongoing contributions and commitment to shaping the future of our communities.

CANANDAIGUA

J. David Damaske

Parkview Fairways Golf Course

Alexandra M. Farnsworth

Garber Randall Buick GMC Cadillac & Garber Randall Chevrolet

Robert E. Johnston

*B&B Builders, Inc.
Green Front Restaurant*

Kurt M. Koczent

Thompson Health

Jack W. Moran

Retired Business Owner

Charles W. Potter

J & T Properties of Canandaigua

Justin S. Sensenig

*Sensenig's Landscape Supply
Flint Creek Transportation*

CAYUGA COUNTY

Richard L. Beauchine, CPA

Waterloo Container

John F. Bouck

Bouck Real Estate

Mark A. DiVietro, OD

Silbert Optical, Inc.

Christopher J. Geherin

Builder's Choice Lumber Company

Thomas L. Hughes

Alex Lyon & Son Sales Managers & Auctioneers, Inc.

FARMINGTON

Megan Larmouth Avila

*Pioneer Millworks and New Energy Works
ArborCare Tree Management, LLC*

Nathan E. Bowerman

*Ontario County Sheriff's Office
Farm Owner*

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

Matthew D. Horn

MRB Group

Bernard G. Lynch

Lynch Furniture - Geneva

Anne D. Nenneau

CCN International

Lawrence "Bo" E. Wright

Geneva City Schools

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

*Retired Executive Director
Fairport OCED*

Howard I. Sharp

Retired Business Owner

J. Lincoln Swedrock, PE

BME Associates

RUSHVILLE

Terry L. Button

Farmer/Terry Button Trucking

Pamela F. Hobart, NP

Finger Lakes Health

David R. LeClair

Retired Rushville Mayor

John "Jay" J. Newswanger

*Seneca Pole Barn, LLC
Seneca Energy, LLC*

Jonathan S. Nolt

Valley Farm Market

Geoffrey P. Ostrander, MD

Valley View Family Practice

SENECA COUNTY

Salvatore N. Franzone

Ciccino's Pizzeria and Restaurants

Rodney D. Littlejohn, DDS, MS

Littlejohn & Barbi Orthodontics

Kenneth "Doc" W. Padgett, DC

Northeast College of Health Sciences

Erica L. Paolicelli

*Three Brothers Wineries & Estates
Synergy Social Wellness*

Eugene F. Pierce

Glenora Wine Cellars, Inc.

Raymond A. Tuuri, Jr.

Finger Lakes Equipment Rental

Stephen J. Wadhams

Wadhams Enterprises, Inc.

EXECUTIVE MANAGEMENT

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

Jeffrey A. Friend

Senior Vice President & Director of Market and
Municipal 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 Lending –
Mortgage Division

Chad J. Proper

Senior Vice President & Chief Financial Officer

Robert W. Sollenne

Senior Vice President & Chief Operating Officer

Melonie L. Tiffany

Senior Vice President & Director of Audit

Danielle M. Ayers

Vice President & Director of Human Resources

Robert S. Flowers

Vice President & Director of Compliance/Legal Counsel

BANK OFFICERS

ADMINISTRATION

Thomas D. Muller

Senior Vice President & Project
Administrator

Jenna L. Miller

Vice President & Executive
Administrative Assistant

Carol A. Snook

Vice President & Corporate/
Executive Secretary

Michael L. Warner

Assistant Vice President & Director of
Performance Assessment and Improvement

BRANCH DIVISION

Emily E. Hilimire

Vice President & Branch Manager, Auburn

Charles K. Parkhurst

Assistant Vice President & Branch Manager, Farmington

Melissa A. Lucieer

Banking Officer & Branch Manager, Ontario

Demetrius Murphy

Vice President & Business Development Officer, Cayuga County

Michele L. Waeghe

Assistant Vice President & Branch Manager, Macedon

Allison M. Verkey

Banking Officer & Branch Manager, Clyde

Tara R. Rago

Vice President & Branch Manager, Canandaigua

Angelo D. Battoglia

Banking Officer & Branch Manager, Perinton Park

Heather E. Whalen

Banking Officer & Branch Manager, Seneca County

Julieann B. Downey

Assistant Vice President & Branch Manager, Lyons

Maureen K. Conner

Banking Officer & Branch Manager, Jordan

Steven J. Hasseler

Assistant Vice President & Branch Manager, Newark

Christine M. Copper

Banking Officer & Business Development Officer, Rushville

Leah S. Hodge

Assistant Vice President & Branch Manager, Penn Yan

Susan L. Lockwood

Banking Officer & Branch Manager, Wolcott

CREDIT ADMINISTRATION & COMPLIANCE

Pamela J. Lee

Vice President & Loan Portfolio Monitoring Officer

Cristin M. Menotti

Assistant Vice President & Senior Credit Underwriter

Karen A. Luttrell

Banking Officer & Compliance/BSA & AML Officer

BANK OFFICERS CONT.

COMMERCIAL LENDING

Ryan M. Hallings

Senior Vice President & Team Leader –
Agricultural/Commercial Loan Officer

James H. King

Senior Vice President & Commercial Loan Officer

Mark J. DeBacco

Vice President & Commercial Loan Officer

Michael A. Fratto

Vice President & Commercial Loan Officer

Scott A. MacKenzie

Vice President & Team Leader –
Agricultural/Commercial Loan Officer

Kraig M. vonHahmann

Vice President & Agricultural/Commercial Loan Officer

Todd L. Borsa

Assistant Vice President & Commercial Loan Officer

Michael E. Rusinko

Assistant Vice President & Commercial Loan Officer

Wendy E. DiSanto

Banking Officer & Guaranteed Loan Coordinator

Mackenzie M. Roberts

Banking Officer & Agricultural/Commercial Loan Officer

Justin J. Sinisi

Banking Officer & Agricultural/Commercial Loan Officer

FINANCE

Shannon M. Romano

Vice President & Controller

MARKETING

Jennifer L. Srmack

Banking Officer & Marketing Specialist

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

Timothy H. Lead

Assistant Vice President & Mortgage Underwriter

Craig R. Mietz

Assistant Vice President & Mortgage Specialist

Scott W. Russell

Assistant Vice President & Mortgage Underwriter

Kari R. Bezek

Banking Officer & Mortgage Specialist

Trisha A. Mastrodonato

Banking Officer & Mortgage Specialist

Paul R. Rowan

Banking Officer & Mortgage Underwriter

HUMAN RESOURCES

Terri A. Martin

Banking Officer & Payroll/Benefits Specialist

SECURITY & FACILITIES

Michael J. Colacino

Vice President & Director of Security and Facilities

CASH MANAGEMENT

Maxwell W. Harris

Banking Officer & Cash Management Specialist

Jennifer L. Porten

Banking Officer & Cash Management Specialist

TRAINING

Daniela A. Qualdieri

Vice President & Director of Training

Meghan A. Nagel

Assistant Vice President & Training Specialist

FINANCIAL SERVICES

Robert T. Koczent

Vice President & Director of Financial Services

David J. DeRaddo

Vice President & Financial Services Representative

Kim M. Emperato

Banking Officer & Financial Services Representative

OPERATIONS & IT

Hope A. Alexanian

Vice President & Retail Loan Operations Supervisor

Lynnette M. DeChick

Vice President & Commercial Loan Operations Supervisor

Jennifer C. Dunn

Assistant Vice President & Mortgage/Home Equity Processor

Karen D. Lombardozzi

Assistant Vice President & Systems Administrator

Greg T. Noel

Assistant Vice President & Deposit Operations Supervisor

CONNECTING COMMUNITIES: OUR BRANCH LOCATIONS

AUBURN

9 Dill Street
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 of Routes 14 & 31
Lyons, NY 14489
(315) 946-4505

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

MACEDON

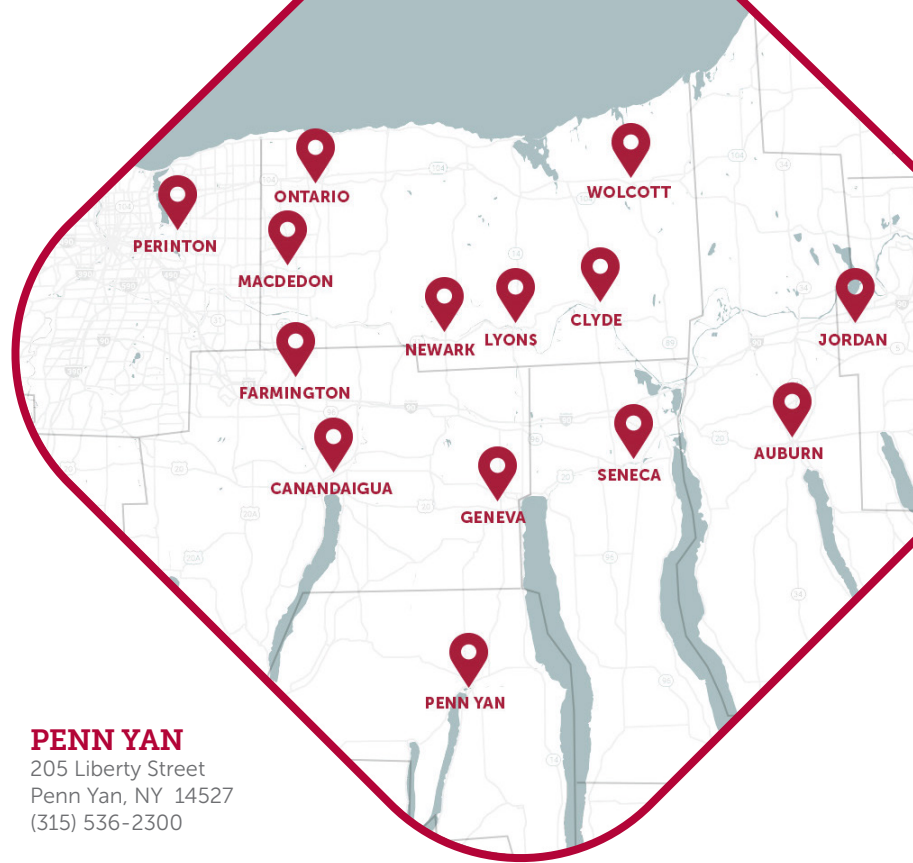
359 NYS Route 31
Macedon, NY 14502
(315) 986-9681

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

LNB NAMED TO NY HISTORIC BUSINESS PRESERVATION REGISTRY

The Lyons National Bank, a cornerstone of Wayne County's financial landscape for over 170 years, is honored by its inclusion in the New York State Historic Business Preservation Registry. This prestigious registry acknowledges businesses that have been operational for at least 50 years and have significantly contributed to their communities' history and heritage.

We thank State Sen. Pam Helming (R-54) for her nomination. LNB's inclusion in the registry not only celebrates its rich legacy but also ensures its continued prominence in New York's economic and cultural narrative.

This recognition places LNB among a distinguished group of over 200 businesses statewide that have been acknowledged for their enduring impact and contributions to New York's heritage.



Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 7, 2025

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) as of December 31, 2024 and 2023, 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, 2024 and 2023, and the results of its operations and its 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, 2024, 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 7, 2025, 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.

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

Bonadio & Co., LLP
Pittsford, New York

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 7, 2025

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") internal control over 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) as of December 31, 2024, 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, 2024, 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 ("GAAS"), 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 7, 2025, expressed an unqualified opinion.

Basis for Opinion

We conducted our audit in accordance with standards of the PCAOB and GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

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

www.bonadio.com

(Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Continued)

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with PCAOB or GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with PCAOB and GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An 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 preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions). An 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 that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, 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 assessment 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



MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

March 7, 2025

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, 2024. 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, 2024.

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,



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, 2024, 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, 2024, 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, 2024, has been audited by Bonadio Co., LLP, an independent public accounting firm, as stated in their report.

Lyons Bancorp, Inc.

A handwritten signature in black ink, appearing to read "Tom Kime", written over a horizontal line.

Thomas Kime
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Chad Proper", written over a horizontal line.

Chad Proper
Chief Financial Officer

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Consolidated Balance Sheets
December 31, 2024 and 2023

Assets	2024 (In thousands)	2023
Cash and due from banks	\$21,246	\$20,595
Interest-bearing deposits in banks	<u>46,447</u>	<u>36,678</u>
Investment securities:		
Available for sale securities, at fair value	282,516	299,920
Held to maturity securities at amortized cost, net of allowance for credit losses of \$23 in 2024 and and \$28 in 2023.	34,383	40,243
Restricted securities, at cost	<u>9,416</u>	<u>7,305</u>
Total Investment Securities	326,315	347,468
Loans	1,468,371	1,378,610
Less: allowance for credit losses on loans	<u>(20,875)</u>	<u>(19,493)</u>
Net Loans	<u>1,447,496</u>	<u>1,359,117</u>
Land, premises and equipment, net	24,033	24,804
Bank-owned life insurance	21,911	21,834
Accrued interest receivable and other assets	<u>37,431</u>	<u>38,068</u>
Total Assets	<u>\$1,924,879</u>	<u>\$1,848,564</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	\$1,283,781	\$1,164,925
Non-interest-bearing	<u>480,843</u>	<u>462,229</u>
Total Deposits	1,764,624	1,627,154
Subordinated debentures	20,940	20,927
Borrowings from Federal Reserve Bank	-	71,000
Accrued interest payable and other liabilities	<u>23,480</u>	<u>25,823</u>
Total Liabilities	<u>1,809,044</u>	<u>1,744,904</u>
Stockholders' Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Preferred stock	1	2
Common stock	1,720	1,719
Paid-in capital	28,489	28,479
Retained earnings	123,669	113,667
Accumulated other comprehensive loss	(36,576)	(39,747)
Treasury stock, at cost	<u>(1,524)</u>	<u>(516)</u>
Total Lyons Bancorp, Inc. Stockholders' Equity	115,779	103,604
Noncontrolling interest	<u>56</u>	<u>56</u>
Total Stockholders' Equity	<u>115,835</u>	<u>103,660</u>
Total Liabilities and Stockholders' Equity	<u>\$1,924,879</u>	<u>\$1,848,564</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	(In thousands, except per share data)	
Interest Income		
Loans	\$73,551	\$61,957
Investment securities:		
Taxable	10,590	8,857
Non-taxable	1,089	1,189
Total Interest Income	<u>85,230</u>	<u>72,003</u>
Interest Expense		
Deposits	33,943	22,138
Borrowings	4,285	2,005
Total Interest Expense	<u>38,228</u>	<u>24,143</u>
Net Interest Income	47,002	47,860
Provision for Credit Losses	<u>1,884</u>	<u>1,040</u>
Net Interest Income after Provision for Credit Losses	<u>45,118</u>	<u>46,820</u>
Noninterest Income		
Cardholder fees	4,425	4,409
Service charges on deposit accounts	3,328	3,175
Realized gains on loans sold	2,796	1,861
Loan servicing fees	2,525	2,192
Financial services fees	2,129	1,746
Earnings on investment in bank owned life insurance (BOLI)	467	425
BOLI death benefit	285	463
Net realized losses from sales of securities	(71)	(32)
Other	1,245	638
Total Noninterest Income	<u>17,129</u>	<u>14,877</u>
Noninterest Expense		
Salaries and wages	18,163	16,939
Pensions and benefits	5,240	4,578
Professional fees	3,881	3,564
Occupancy	3,684	3,574
Data processing	2,812	2,472
Cardholder expense	1,714	1,542
FDIC and OCC assessments	1,380	1,228
Advertising	785	886
Office supplies	246	243
Other	4,247	4,112
Total Noninterest Expense	<u>42,152</u>	<u>39,138</u>
Income before Income Tax Expense	20,095	22,559
Income Tax Expense	<u>4,626</u>	<u>5,200</u>
Net income	<u>15,469</u>	<u>17,359</u>
Net income attributable to noncontrolling interest	5	5
Net income attributable to Lyons Bancorp, Inc.	<u>15,464</u>	<u>17,354</u>
Preferred stock dividends	<u>(243)</u>	<u>(250)</u>
Net Income available to common shareholders	<u>\$15,221</u>	<u>\$17,104</u>
Earnings Per Share – basic	<u>\$4.46</u>	<u>\$5.00</u>
Earnings Per Share – diluted	<u>\$4.38</u>	<u>\$4.90</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Net Income	\$ 15,469	\$ 17,359
Other Comprehensive Income		
Securities Available for Sale:		
Net unrealized gains during the year	2,933	3,573
Reclassification adjustment for losses included in income	71	32
Pension and Postretirement Benefits:		
Amortization of net gain	96	42
Net actuarial gain (loss)	1,130	(772)
	<u>4,230</u>	<u>2,875</u>
Net Tax Expense	(1,059)	(720)
Other Comprehensive Income	<u>3,171</u>	<u>2,155</u>
Total Comprehensive Income	18,640	19,514
Comprehensive Income attributable to noncontrolling interest	<u>(5)</u>	<u>(5)</u>
Comprehensive Income attributable to Lyons Bancorp, Inc.	<u>\$ 18,635</u>	<u>\$ 19,509</u>

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2024 and 2023

(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, 2023	\$ 1,718	\$ 3	\$ 28,386	\$ 99,842	\$(41,902)	\$ (742)	\$ 56	\$ 87,361
Cumulative effect of change in accounting principle upon adoption of ASU 2016-13	-	-	-	1,702	-	-	-	1,702
Net income for 2023	-	-	-	17,354	-	-	5	17,359
Total other comprehensive income, net	-	-	-	-	2,155	-	-	2,155
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(30)	-	(30)
Deferred Comp shares issued from treasury	-	-	93	-	-	256	-	349
Conversion of trust preferred securities to common stock	1	(1)	-	-	-	-	-	-
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A \$50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-\$1.47 per share	-	-	-	(4,981)	-	-	-	(4,981)
BALANCE, December 31, 2023	\$ 1,719	\$ 2	\$ 28,479	\$ 113,667	\$(39,747)	\$ (516)	\$ 56	\$ 103,660
Net income for 2024	-	-	-	15,464	-	-	5	15,469
Total other comprehensive income, net	-	-	-	-	3,171	-	-	3,171
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(1,379)	-	(1,379)
Deferred Comp shares issued from treasury	-	-	10	-	-	371	-	381
Conversion of trust preferred securities to common stock	1	(1)	-	-	-	-	-	-
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A \$50.00 per share	-	-	-	(243)	-	-	-	(243)
Cash dividends declared-\$1.55 per share	-	-	-	(5,219)	-	-	-	(5,219)
BALANCE, December 31, 2024	\$ 1,720	\$ 1	\$ 28,489	\$ 123,669	\$(36,576)	\$ (1,524)	\$ 56	\$ 115,835

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2024 and 2023

	2024	2023
	(In thousands)	
Cash Flows from Operating Activities		
Net income	\$ 15,469	\$ 17,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,884	1,040
Earnings on investment in bank owned life insurance	(467)	(425)
BOLI Death benefit	(285)	(463)
Net realized loss from sales of securities	71	32
Realized gains on loans sold	(2,796)	(1,861)
Gain on the sale of OREO	(1)	0
Amortization of debt issuance costs	13	12
Deferred compensation expense	174	509
Net amortization on securities	146	550
Depreciation and amortization	1,284	1,318
Deferred income tax	(35)	83
Contribution to defined benefit pension plan	(2,000)	-
Increase in accrued interest receivable and other assets	(384)	(5,058)
Increase in accrued interest payable and other liabilities	474	1,834
Loans originated for sale	(127,659)	(105,971)
Proceeds from sales of loans	128,905	100,119
Net Cash Provided by Operating Activities	14,793	9,078
Cash Flows from Investing Activities		
Net change in interest bearing deposits at other financial institutions	(9,769)	(17,791)
Purchases of securities available for sale	(47,403)	(2,845)
Proceeds from sales of securities available for sale	22,364	218
Proceeds from maturities and calls of securities available for sale	45,393	14,341
Purchases of held to maturity securities	(1,813)	(6,456)
Proceeds from maturities of securities held to maturity	7,516	4,637
Net change in restricted securities	(2,111)	(1,782)
Net increase in portfolio loans	(88,648)	(71,459)
Proceeds from BOLI death benefit	675	809
Premises and equipment purchases	(513)	(234)
Net Cash Used in Investing Activities	(74,309)	(80,562)
Cash Flows from Financing Activities		
Net increase (decrease) in demand and savings deposits	14,325	(66,666)
Net increase (decrease) in time deposits	123,145	70,615
Preferred Stock Dividend	(243)	(250)
Purchase of treasury stock	(1,379)	(30)
Issuance of treasury stock	381	349
(Repayments) borrowings from Federal Reserve Bank	(71,000)	71,000
Dividends paid	(5,062)	(4,986)
Net Cash Provided by Financing Activities	60,167	70,032
	651	(1,452)
Cash and Cash Equivalents – Beginning	20,595	22,047
Cash and Cash Equivalents – Ending	\$ 21,246	\$ 20,595
Supplementary Cash Flow Information		
Interest paid	\$ 32,900	\$ 21,973
Income taxes paid	\$ 5,083	\$ 5,420
Dividends declared not yet paid	\$ 1,343	\$ 1,181

The accompanying notes are an integral part of these consolidated financial statements

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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 statements combine 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 credit losses, actuarial assumptions associated with the Company's benefit plans.

Investment Securities

Securities are classified as held to maturity (HTM) 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 (AFS) 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.

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

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.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become delinquent. A security is considered to be delinquent once it is 90 days contractually past due under the terms of the agreement. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

The Bank's investments portfolio may be exposed to some risk of loss including but not limited to market, credit, liquidity, interest rate, currency, financing, covenant, and repayment risks. Due to these risks, the profitability of the Bank may be affected and amounts ultimately realized with respect to the Bank's investments may differ from the fair values recorded. Management believes the risk of loss, if any, arising from such risk, while not quantifiable, is remote.

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
- 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans

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.

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 credit losses and any deferred fees or costs. Accrued interest receivable totaled \$7.0 million and \$6.7 million at December 31, 2024 and December 31, 2023, respectively and was reported in accrued interest receivable and other assets on the consolidated balance sheets and is excluded from the estimate of credit losses. 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 credit 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.

Non-accrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received within thirty days of the payment due date.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest is reversed and charged to interest income. Interest received on non-accrual loans, including individually analyzed loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

When future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that

Note 1 - Summary of Significant Accounting Policies (Continued)
Non-accrual and Past Due Loans (Continued)

which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to allowance for credit losses until prior charge-offs have been fully recovered.

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 \$13.1 million and \$11.6 million at December 31, 2024 and 2023, respectively, and are included in loans on the consolidated balance sheets.

During 2024 and 2023, the Company sold residential mortgage loans totaling \$128.9 million and \$100.1 million, respectively, and realized gains on these sales were \$2.8 million and \$1.9 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 2024 and 2023, the Company recorded mortgage-servicing assets of \$1.6 million and \$1 million, respectively. Amortization of mortgage-servicing assets amounted to \$651,000 in 2024 and \$652,000 in 2023. Net mortgage-servicing assets included in other assets in the consolidated balance sheets totaled \$4.4 million and \$3.4 million, net of amortization, as of December 31, 2024 and 2023, 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 2024 and 2023, the Company sold no commercial loans. There were no commercial loans held for sale at December 31, 2024 or 2023.

Total loans serviced for others and excluded from the consolidated balance sheets of the Company amounted to \$609 million and \$535.8 million at December 31, 2024 and 2023, respectively.

Allowance for Credit Losses – Loans

The allowance for credit losses (ACL) is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected over the life of the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as difference in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in employment rates, property values, or other relevant factors.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses - Loans – (Continued)

Loans are pooled based on their homogeneous risk characteristics. Once loans have been segmented into pools, a loss rate is applied to the amortized cost basis. The Bank has elected to divide the loan portfolio into portfolio segments based on Call Report Codes and apply expected loss estimation methodologies to loans where reserves have not been evaluated on an individual loan basis (collectively evaluated loans). The use of a call report code based segmentation achieved the objective of separating loans with different risk characteristics into pools of loans with similar risk characteristics and yet is broad enough to maintain statistical relevance, allowing for the consideration of a meaningful number of observations in the various segments.

The allowance for credit losses is measured on a collective (pool) basis when similar characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

The Bank utilizes the Discounted Cash Flow (DCF) method with expected losses calculated using a Probability of Default/Loss Given Default (PD/LGD) model as its method of choice for estimating expected losses. The DCF method assesses a probability of default with loss given default. The probability of default and loss given default are applied to future cash flows that are adjusted to present value and these discounted expected losses become the allowance for credit losses. The DCF model data fields required to create the contractual portion of the forward looking cash flow schedule relate to the terms of each loan and include information regarding payment amount, payment frequency, interest rate, interest type, maturity date, amortization term, etc., Contractual terms must be adjusted for prepayments to arrive at expected cash flows. The Bank modeled amortizing/installment notes with a prepayment rate, annualized to one year. For loans where principal collection is by borrower election, e.g. lines of credit, interest only, etc. and not by contractual obligation, the Bank modeled a statistical tendency to repay as a curtailment rate normalized to one year.

The Bank uses forecasts to predict how modeled economic factors will perform. The Bank currently elects to forecast economic factors over a period of four quarters for which it can produce a reliable and accurate forecast from widely accepted economic forecast resources. After the forecast period of four quarters, loss rates are reverted on a straight line basis to the economic factor's average.

The Bank found that the base model for predicting defaults is the National Unemployment Rate. With the large number of observations using peer data, the default curve is less sensitive to unusual loss events and has a much more straightforward shape. The National Unemployment Rate is an extremely strong predictor of defaults.

The reserve is calculated based on a life of loan basis. The life of loan is assumed with consideration of prepayment and contractual maturity dates. If a given loan does not have a populated maturity date, based upon historical experience, the Bank elected to amortize the loan for a length of time equal to the average life of the loan's segment before the remaining balance will balloon with the exception of commercial demand lines of credit where the Bank uses one year, reflecting the demand nature of these exposures with annual review.

The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has reasonable expectation that a loan modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Bank also selected Weighted Average Remaining Maturity (WARM) method for certain consumer loan pools whereby a DCF analysis was not deemed appropriate. This average life calculation is based on an attrition rate calculation derived from loan payoffs or exits during the historical calculation period. Having computed the average life of the segment, the Bank evenly spreads repayment of the loan segment over the previously calculated average life and applies a periodic loss

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

rate to the outstanding principal balances in the segment over that time period. The Bank utilizes the average annual loss rates calculated from peer call report losses in each segment to calculate the ACL for segments for which the remaining life methodology is utilized.

The four Call Code pools analyzed with WARM are Credit Cards, Automobile, Other Consumer and Other revolving credit plans (Ready Reserve LOCs). The WARM method was selected for these specific pools because insufficient data exists to build a relevant or statistically strong regression formula. The DCF method is used for all other loan pools.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan for individual analysis 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 individually analyzed, the amount of the credit loss 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. The change in the allowance for credit losses through a charge to the provision for loan losses. Cash receipts on individually analyzed loans are generally applied to reduce the principal balance outstanding. In considering loans for individual analysis, management generally excludes smaller balance, homogeneous loans: residential mortgage loans, home equity loans, and all consumer loans. These loans are collectively evaluated for risk of loss.

The Bank also considers Qualitative Factors (QF) that are likely to cause estimated credit losses with the Bank's existing portfolio to differ from historical loss experience, including

- 1) Effects of any changes in lending policy
- 2) Nation/Local economic trends & conditions (excluding national unemployment)
- 3) Trends in volume and terms of loans
- 4) Expertise, ability and depth of management
- 5) Levels and trends of delinquencies, non-accruals and classified loans
- 6) Quality of institutions loan review system
- 7) Collateral value for collateral dependent loans
- 8) Concentrations of credit
- 9) Competition, legal & regulatory requirements on level of estimated credit losses

The Bank will periodically assess if qualitative adjustments to the ACL are necessary based on an assessment of current expected credit losses. The range for the QF in a specific pool represents the difference, in basis points between the portfolio segment loss explained by the regression analysis (r-squared factor) and the total loss for the period.

Excluded from the pooled analysis are loans to be individually evaluated due to the assets not maintaining similar risk characteristics to those in the designated segments. These loans are generally considered to be collateral dependent and therefore an analysis of the collateral position versus the pooled loan discounted cash flow approach better reflects the

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Credit Losses-Loans- (Continued)

potential loss. Individually evaluated accounts include loans over 90 days past due, loans marked as restructured, and loans placed on nonaccrual status.

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.

All collateral-dependent 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 individually analyzed. 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.

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Total ACL for off-balance sheet credit exposures amounted to \$487,000 and \$415,000 as of December 31, 2024 and 2023, respectively and is included in accrued interest payable and other liabilities on the accompanying consolidated balance sheets. The provision for credit losses related to off-balance sheet credit exposures recorded during the years ended December 31, 2024 and 2023 totaled \$72,000 and \$20,000, respectively and is included as a component of the provision for credit losses.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled \$118,000 and \$195,000 at December 31, 2024 and 2023, respectively and is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Bank's HTM debt securities are also required to utilize the current expected credit losses approach to estimate expected credit losses. HTM debt securities included securities that are issued by U S government agencies or U S government sponsored enterprises. These securities carry the explicit and/or implicit guaranty of the U S government, are widely recognized as "risk free," and have a long history of zero credit losses. The Bank also carries a portfolio of HTM municipal bonds. The estimate is based on historical credit losses, if any, adjusted for current conditions and reasonable and supportable forecasts. The Bank considers the nature of the collateral, potential future changes in collateral values and available loss information.

Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale debt securities in an unrealized loss position the Company first assess whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses – Available-for-Sale Securities (Continued)

For AFS securities in an unrealized loss position, the Bank first assesses whether, (i) it intends to sell or (ii) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors.

In making this assessment, management considers the extent to which the fair value is less than amortizing cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Adjustments to the allowance are reported on the accompanying income statement as a component of provisions for credit losses. AFS securities are charged off against the allowance or written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or required to sell is met.

Loan Modifications for Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of loans receivable to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. In some cases, the Company will modify a certain loan by providing multiple types of concessions.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. 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.

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.

Leases

Management determines if an arrangement is a lease at inception. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease

Note 1 - Summary of Significant Accounting Policies (Continued)
Leases (Continued)

payments over the lease term. The lease may include renewal and termination options, which are included in the lease term when the Company is reasonably certain to exercise these options.

For all underlying classes of assets, management has elected to not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes fixed short-term lease cost on a straight-line basis over the lease term and variable lease cost, which could consist of maintenance, taxes, and insurance, in the period in which the obligation is incurred.

Management elects to use the risk-free rate as the discount rate if the implicit rate in the lease contract is not readily determinable.

Management elects for all classes of underlying assets to not separate the lease and non-lease components of a contract and to account for such as a single lease component.

In evaluating contracts to determine if they qualify as a lease, management considers factors such as if the Company obtained substantially all of the rights to the underlying asset through exclusivity if it can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgement.

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 accrued interest receivable and other assets on the accompanying consolidated balance sheets 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 credit 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, 2024 and 2023 was \$2.5 million and \$1.1 million respectively. There was \$162,000 in foreclosed real estate at December 31, 2024 and none in 2023.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 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 increase 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 \$2.5 million and \$2.2 million for the years ended December 31, 2024 and 2023. Late fees and ancillary fees related to loan servicing are not material. For the years ended December 31, 2024 and 2023, 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 credit 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,

Note 1 - Summary of Significant Accounting Policies (Continued)
Income Taxes (Continued)

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.

Generally, income tax returns are subject to possible audit by taxing authorities for up to three year.

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 available for sale, changes in the funded status of the pension plan and health care plan.

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's reportable segments are determined by the Chief Executive Officer, who is designated as the chief operating decision maker ("CODM"), based on information provided about the Company's products and services offered. The Company's operations are primarily in the community banking industry and includes retail and commercial banking services. A segment is also distinguished by the level of information provided to the CODM, who uses information to review performance of various components of the business. The CODM will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segments and in the determination of allocating resources. The CODM uses consolidated net

Note 1 - Summary of Significant Accounting Policies (Continued)
Segment Reporting (Continued)

income to benchmark the Company against its competitors. The benchmarking analysis along with monitoring budget to actual results are used in assessing performance. The financial information used for performance assessment by the CODM is the same as the financial information included in the accompanying consolidated balance sheets and consolidated statements of income.

Note 2 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2024 and 2023:

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2 – Investments (Continued)

(In Thousands)	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2024:				
Available for Sale:				
United State Agencies	\$ 157,046	\$ 12	\$ (23,314)	\$ 133,744
State and local governments	70,602	-	(7,052)	63,550
Corporate	17,800	-	(1,520)	16,280
Mortgage-backed securities	<u>83,701</u>	<u>-</u>	<u>(14,759)</u>	<u>68,942</u>
Total Available for Sale	<u>\$ 329,149</u>	<u>\$ 12</u>	<u>\$ (46,645)</u>	<u>\$ 282,516</u>
Held to Maturity:				
United State Agencies	\$ 20,360	\$ -	\$ (1,619)	\$ 18,741
State and local governments	4,703	1	-	4,704
Mortgage-backed securities	<u>9,343</u>	<u>-</u>	<u>(1,077)</u>	<u>8,266</u>
Total Held to Maturity	<u>\$ 34,406</u>	<u>\$ 1</u>	<u>\$ (2,696)</u>	<u>\$ 31,711</u>
Restricted Securities:	<u>\$ 9,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,416</u>
December 31, 2023:				
Available for Sale:				
United State Agencies	\$ 156,817	\$ 13	\$ (25,298)	\$ 131,532
State and local governments	85,658	20	(6,874)	78,804
Corporate	17,799	-	(2,292)	15,507
Mortgage-backed securities	<u>89,283</u>	<u>-</u>	<u>(15,206)</u>	<u>74,077</u>
Total Available for Sale	<u>\$ 349,557</u>	<u>\$ 33</u>	<u>\$ (49,670)</u>	<u>\$ 299,920</u>
Held to Maturity:				
United State Agencies	\$ 20,257	\$ -	\$ (2,064)	\$ 18,193
State and local governments	10,627	-	-	10,627
Mortgage-backed securities	<u>9,387</u>	<u>-</u>	<u>(1,353)</u>	<u>8,035</u>
Total Held to Maturity	<u>\$ 40,271</u>	<u>\$ -</u>	<u>\$ (3,417)</u>	<u>\$ 36,855</u>
Restricted Securities:	<u>\$ 7,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,305</u>

Note 2 – Investments (Continued)

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, 2024 and 2023, 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 (FHLB NY) 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 FHLB NY 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 FHLB NY stock and FRB stock totaled \$7.3 million and \$1.4 million at December 31, 2024, respectively, and \$5.3 million and \$1.4 million at December 31, 2023, 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 \$378,000 and \$343,000 at December 31, 2024 and 2023, 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.

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2 – Investments (Continued)

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:

(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2024						
Available for Sale:						
United States agencies	\$ -	\$ -	\$ 131,732	\$ (23,314)	\$ 131,732	\$ (23,314)
State and Local Governments	3,069	(51)	60,481	(7,001)	63,550	(7,052)
Corporate	-	-	16,280	(1,520)	16,280	(1,520)
Mortgage-backed securities	2,216	(18)	66,726	(14,741)	68,942	(14,759)
	<u>\$ 5,285</u>	<u>\$ (69)</u>	<u>\$ 275,219</u>	<u>\$ (46,576)</u>	<u>\$ 280,504</u>	<u>\$ (46,645)</u>
(In thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023						
Available for Sale:						
United States agencies	\$ -	\$ -	\$ 129,519	\$ (25,298)	\$ 129,519	\$ (25,298)
State and Local Governments	2,006	(16)	73,462	(6,858)	75,468	(6,874)
Corporate	414	(87)	12,094	(2,205)	12,508	(2,292)
Mortgage-backed securities	-	-	74,077	(15,206)	74,077	(15,206)
	<u>\$ 2,420</u>	<u>\$ (103)</u>	<u>\$ 289,152</u>	<u>\$ (49,567)</u>	<u>\$ 291,572</u>	<u>\$ (49,670)</u>

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 a credit loss 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 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 23 securities with unrealized losses at December 31, 2024, with a fair value of \$5.2 million that were less than 12 months. There were 457 securities with unrealized losses at December 31, 2024, with a fair value of \$272.1 million that were 12 months or longer. There were 14 securities with unrealized losses at December 31, 2023, with a fair value of \$2.4 million that were less than 12 months. There were 496 securities with unrealized losses at December 31, 2023, with a fair

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 2 – Investments (Continued)

value of \$289.2 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 credit loss impairment. The Company did not consider these investment securities to have a credit loss impairment at December 31, 2024 and 2023.

The amortized cost and fair value of debt securities at December 31, 2024, 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	\$ 9,141	\$ 9,000	\$ 2,326	\$ 2,303
Due after one year through five years	118,309	107,002	19,041	17,802
Due after five years through ten years	90,963	74,708	3,647	3,290
Due after ten years	9,235	6,586	48	48
Securities not due at a single maturity date	101,501	85,220	9,344	8,268
	<u>\$ 329,149</u>	<u>\$ 282,516</u>	<u>\$ 34,406</u>	<u>\$ 31,711</u>

During 2024, there were nine sales of available for sale securities, and in 2023, there was one sale of available for sale securities. Realized loss on the sale of the securities in 2024 was \$71,000 and in 2023 was \$32,000. Investment securities with carrying amounts of \$228.7 million and \$290.6 million at December 31, 2024 and 2023, respectively, were pledged to secure deposits as required or permitted by law.

At December 31, 2024 and 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

The allowance for credit loss on held to maturity investments at December 31, 2024 and 2023 was \$23,000 and \$28,000, respectively.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses

Loans consisted of the following at December 31:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Real estate:		
Residential:		
1-4 family	\$561,237	\$544,051
Home equity	145,514	134,047
Commercial	411,863	371,559
Agriculture	98,766	93,057
Total mortgage loans on real estate	<u>1,217,380</u>	<u>1,142,714</u>
Commercial loans	176,149	159,030
Agriculture loans	45,459	42,177
Consumer installment loans:		
Direct	26,425	30,871
Indirect	2,958	3,818
Total consumer installment loans	<u>29,383</u>	<u>34,689</u>
Total loans	<u>1,468,371</u>	<u>1,378,610</u>
Allowance for credit losses/loan losses	<u>(20,875)</u>	<u>(19,493)</u>
Loans, net	<u>\$1,447,496</u>	<u>\$1,359,117</u>

Net unamortized loan origination costs totaled \$1.4 million at December 31, 2024 and \$1.1 million at December 31, 2023, respectively and are included with their related loan class.

Accrued interest receivable totaled \$7.0 million at December 31, 2024 and \$6.7 million at December 31, 2023.

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, 2024 and 2023, the Company was servicing loans for participants aggregating \$9.8 million and \$11.4 million, respectively.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses – (Continued)

The following table presents past due status by classes of the loan portfolio at December 31, 2024 and 2023:

(In thousands)	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Greater</u>	<u>Total Loans</u>	<u>Loans on Nonaccrual</u>
2024:					
Commercial loans	\$174,395	\$1,188	\$566	\$176,149	\$1,323
Commercial real estate	410,019	870	974	411,863	974
Agriculture loans	44,891	20	548	45,459	634
Agriculture real estate	98,467	-	299	98,766	364
Residential real estate:					
1-4 family	557,827	3,354	56	561,237	186
Home equity	144,845	652	17	145,514	95
Consumer installment loans:					
Direct	26,405	20	-	26,425	-
Indirect	<u>2,902</u>	<u>56</u>	<u>-</u>	<u>2,958</u>	<u>-</u>
Total	<u>\$1,459,751</u>	<u>\$6,160</u>	<u>\$2,460</u>	<u>\$1,468,371</u>	<u>\$3,576</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses – (Continued)

(In thousands)	<u>Current</u>	<u>30-89 Days Past Due</u>	<u>90 Days and Greater</u>	<u>Total Loans</u>	<u>Loans on Nonaccrual</u>
2023:					
Commercial loans	\$157,383	\$573	\$1,074	\$159,030	\$1,420
Commercial real estate	370,365	512	682	371,559	746
Agriculture loans	41,681	-	496	42,177	496
Agriculture real estate	92,753	-	304	93,057	390
Residential real estate:					
1-4 family	541,658	2,067	326	544,051	326
Home equity	133,583	358	106	134,047	106
Consumer installment loans:					
Direct	30,849	22	-	30,871	-
Indirect	3,798	20	-	3,818	14
Total	<u>\$1,372,070</u>	<u>\$3,552</u>	<u>\$2,988</u>	<u>\$1,378,610</u>	<u>\$3,498</u>

At December 31, 2024 and 2023, there were no loans over 90 days' delinquent and still accruing interest.

Activity in the allowance for credit losses for the year ended December 31, 2024 is as follows:

2024	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Agriculture</u>	<u>Agriculture Real Estate</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for credit losses:							
Beginning balance	\$2,711	\$5,690	\$454	\$315	\$9,849	\$474	\$19,493
Provision for credit losses	445	516	(46)	(32)	851	85	1,819
Recoveries of loans previously charged off	21	38	-	-	14	53	126
Loans charged off	(212)	(30)	-	-	(110)	(211)	(563)
Ending balance	<u>\$2,965</u>	<u>\$6,214</u>	<u>\$408</u>	<u>\$283</u>	<u>\$10,604</u>	<u>\$401</u>	<u>\$20,875</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

Activity in the allowance for credit losses for the year ended December 31, 2023 is as follows:

(In thousands)

2023	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Total
Allowance for credit losses:							
Beginning balance, prior to adoption of ASC 326	\$4,532	\$6,847	\$1,191	\$1,464	\$6,896	\$568	\$21,498
Impact of adopting ASC 326	(574)	(867)	(151)	(185)	(873)	(75)	(2,725)
Provision for credit losses	(1,047)	(323)	(595)	(964)	3,856	93	1,020
Recoveries of loans previously charged off	61	33	9	-	3	74	180
Loans charged off	(261)	-	-	-	(33)	(186)	(480)
Ending balance	<u>\$2,711</u>	<u>\$5,690</u>	<u>\$454</u>	<u>\$315</u>	<u>\$9,849</u>	<u>\$474</u>	<u>\$19,493</u>

Non-accrual loans, segregated by class of loan, were as follows at December 31, 2024:

2024:

(In thousands)

	<u>Non-Accrual Loans</u>	<u>Non-Accrual Loans with No Allowance for Credit Loss</u>	<u>Interest Income Recognized on Non- Accrual Loans</u>
Residential mortgage loans:			
1 - 4 family first-lien residential mortgages	\$ 186	\$ 186	-
	<u>186</u>	<u>186</u>	<u>-</u>
Commercial loans:			
Commercial real estate	974	974	-
Commercial	1,323	1,067	-
Agriculture real estate	364	364	-
Agriculture	634	634	-
	<u>3,295</u>	<u>3,039</u>	<u>-</u>
Consumer loans:			
Home equity lines of credit	95	95	-
	<u>95</u>	<u>95</u>	<u>-</u>
Total non-accrual loans	<u>\$ 3,576</u>	<u>\$ 3,320</u>	<u>\$ -</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

2023:

(In thousands)	<u>Non-Accrual Loans</u>	<u>Non-Accrual Loans with No Allowance for Credit Loss</u>	<u>Interest Income Recognized on Non- Accrual Loans</u>
Residential mortgage loans:			
1 - 4 family first-lien residential mortgages	\$ 326	\$ 326	-
Construction	326	326	-
Commercial loans:			
Commercial real estate	746	746	-
Commercial and industrial	1,420	1,208	-
Agriculture real estate	390	390	-
Agriculture	496	430	-
	<u>3,052</u>	<u>2,774</u>	<u>-</u>
Consumer loans:			
Home equity lines of credit	106	106	-
Other consumer	14	14	-
	<u>120</u>	<u>120</u>	<u>-</u>
Total non-accrual loans	<u>\$ 3,498</u>	<u>\$ 3,220</u>	<u>\$ -</u>

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 individually analyzed loans. For individually analyzed loans, 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

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 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 allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

A loan is considered collateral-dependent when the loan is individually analyzed and repayment of the loan is expected to be provided substantially through the operation or sale of the collateral. Loans considered collateral-dependent, and their related collateral type, are as follows at December 31, 2024 and 2023:

December 31, 2024	Amortized cost	Collateral type
(in thousands)		
Real estate:		
Agriculture	\$ 30	Agriculture real estate property
Commercial	576	Commercial real estate property
Total real estate	606	
Agriculture	423	Business assets
Commercial	737	Business assets
Total	\$ 1,766	

December 31, 2023	Amortized cost	Collateral type
(in thousands)		
Real estate:		
Agriculture	\$ 31	Agriculture real estate property
Commercial	569	Commercial real estate property
Total real estate	600	
Agriculture	497	Business assets
Commercial	691	Business assets
Total	\$ 1,788	

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

As of December 31, 2024, the Company has a recorded investment in modified loans with borrowers experiencing financial difficulty of \$4.4 million. As of December 31, 2023, the Company has a recorded investment in modified loans with borrowers experiencing financial difficulty of \$5.3 million. The Company has allocated \$256,000 and \$279,000 of specific allowance for those loans at December 31, 2024 and 2023 respectively.

There was one modification of loans with borrowers experiencing financial difficulty during the year ended December 31, 2024. The payment status of the modified loan is current at December 31, 2024. There were no loan modifications with borrowers experiencing financial difficulty during the year ended December 31, 2023.

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

The following table presents the amortized cost basis of the loan at December 31, 2024 that was both experiencing financial difficulty and modified during the year ended December 31, 2024. The percentage of amortized cost basis of the loan that was modified as compared to the amortized cost basis of the class of financing receivable is also presented below.

(In thousands)	<u>Principal Forgiveness</u>	<u>Payment Delay</u>	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Combination Term Extension and Principal Forgiveness</u>	<u>Combination Term Extension and Interest Rate Reduction</u>	<u>Total Class of Financing Receivable</u>
2024:							
Commercial loans	\$0	\$0	\$68	\$0	\$0	\$0	0.04%
Commercial real estate	-	-	-	-	-	-	-
Agriculture loans	-	-	-	-	-	-	-
Agriculture real estate	-	-	-	-	-	-	-
Residential real estate:							
1-4 family	-	-	-	-	-	-	-
Home equity	-	-	-	-	-	-	-
Consumer installment loans:							
Direct	-	-	-	-	-	-	-
Indirect	-	-	-	-	-	-	-
Total	<u>\$0</u>	<u>\$0</u>	<u>\$68</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.04%</u>

Note 3 – Loans and Allowance for Credit Losses (Continued)

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 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, 2024 or 2023.

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 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, 2024 or 2023.

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 tables present the loans to customers as of December 31, 2024 and 2023, based on year of origination within each credit quality indicator:

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

(In thousands)

	<u>At December 31, 2024</u>						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior			
Total Loans:									
Residential Mortgage Loans:									
Pass	\$ 51,712	42,136	96,966	121,135	103,791	75,925	22,299	-	513,964
3 Good	-	-	-	-	-	57	-	-	57
4 Average	-	-	-	-	-	628	-	-	628
5 Acceptable	6,823	2,881	8,315	14,621	6,523	8,154	690	-	48,007
6 Management Attention Watch	-	-	-	-	-	57	-	-	57
8 Substandard	-	-	131	190	-	-	56	-	377
	<u>\$ 58,535</u>	<u>45,017</u>	<u>105,412</u>	<u>135,946</u>	<u>110,314</u>	<u>84,821</u>	<u>23,045</u>	-	<u>563,090</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	110	-	110
Home Equity Loans:									
Pass	\$ 10,032	8,229	13,279	5,628	5,840	17,981	81,821	-	142,810
8 Substandard	-	-	-	-	17	-	78	-	95
	<u>\$ 10,032</u>	<u>8,229</u>	<u>13,279</u>	<u>5,628</u>	<u>5,857</u>	<u>17,981</u>	<u>81,899</u>	-	<u>142,905</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-
Commercial Real Estate Loans:									
2 Strong	\$ -	-	469	887	627	774	-	-	2,757
3 Good	1,401	639	3,193	1,529	529	1,184	-	-	8,475
4 Average	10,228	8,560	19,697	6,743	7,038	21,760	4,142	12,852	91,020
5 Acceptable	46,569	29,829	30,149	38,328	19,418	38,564	18,333	30,135	251,325
6 Management Attention Watch	1,098	2,195	12,027	3,420	3,392	10,204	4,901	6,985	44,222
7 Special Mention	122	172	1,063	343	2,831	851	1,017	424	6,823
8 Substandard	-	-	319	3,182	-	1,655	-	1,946	7,102
	<u>\$ 59,418</u>	<u>41,395</u>	<u>66,917</u>	<u>54,432</u>	<u>33,835</u>	<u>74,992</u>	<u>28,393</u>	<u>52,342</u>	<u>411,724</u>
Current period gross charge-offs	\$ -	-	30	-	-	-	-	-	30
Agriculture Real Estate Loans:									
2 Strong	\$ 869	918	406	-	931	6,620	-	92	9,836
3 Good	488	733	1,232	-	621	2,631	-	1,725	7,430
4 Average	1,349	2,761	3,610	2,412	3,013	8,876	-	3,124	25,145
5 Acceptable	8,154	5,491	12,822	4,454	2,674	10,115	1,710	3,459	48,879
6 Management Attention Watch	2,744	966	170	292	230	2,066	-	-	6,468
7 Special Mention	-	-	13	-	-	780	-	-	793
8 Substandard	-	-	-	-	-	95	-	-	95
	<u>\$ 13,604</u>	<u>10,869</u>	<u>18,253</u>	<u>7,158</u>	<u>7,469</u>	<u>31,183</u>	<u>1,710</u>	<u>8,400</u>	<u>98,646</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

(In thousands)

	<u>At December 31, 2024</u>						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2024	2023	2022	2021	2020	Prior			
Commercial Loans:									
Performing	\$ -	-	-	-	-	-	1,627	-	1,627
1 Superior	-	368	1,313	-	-	-	139	-	1,820
2 Strong	793	491	525	144	-	1,339	53	-	3,345
3 Good	870	3,577	1,094	1,486	181	467	2,767	-	10,442
4 Average	10,266	3,037	2,096	1,410	483	399	16,572	1,125	35,388
5 Acceptable	15,051	4,538	9,168	5,052	4,961	2,169	39,139	9,942	90,020
6 Management Attention Watch	687	9,696	1,089	1,123	247	1,576	10,505	3,859	28,782
7 Special Mention	141	140	233	1	56	394	1,594	1,114	3,673
8 Substandard	-	12	241	-	19	94	1,494	493	2,353
	<u>\$ 27,808</u>	<u>21,859</u>	<u>15,759</u>	<u>9,216</u>	<u>5,947</u>	<u>6,438</u>	<u>73,890</u>	<u>16,533</u>	<u>177,450</u>
Current period gross charge-offs	\$ -	-	-	14	-	-	198	-	212
Agriculture Loans:									
1 Superior	\$ -	-	-	-	-	-	-	-	-
2 Strong	-	-	134	-	91	211	860	-	1,296
3 Good	394	21	759	330	773	221	2,653	-	5,151
4 Average	1,328	805	1,111	562	258	516	7,874	502	12,956
5 Acceptable	2,670	1,607	1,257	616	416	408	12,425	351	19,750
6 Management Attention Watch	643	186	270	26	-	15	3,682	-	4,822
7 Special Mention	130	116	-	-	-	122	397	16	781
8 Substandard	-	-	-	-	-	423	211	-	634
	<u>\$ 5,165</u>	<u>2,735</u>	<u>3,531</u>	<u>1,534</u>	<u>1,538</u>	<u>1,916</u>	<u>28,102</u>	<u>869</u>	<u>45,388</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-
Consumer Direct Loans:									
Pass	\$ 5,519	4,783	6,354	2,840	709	617	3,907	-	24,729
Current period gross charge-offs	\$ -	26	8	6	-	-	65	-	105
Consumer Indirect Loans:									
Pass	\$ 216	104	97	240	370	1,929	-	-	2,958
8 Substandard	-	-	-	-	-	-	-	-	-
	<u>\$ 216</u>	<u>104</u>	<u>97</u>	<u>240</u>	<u>370</u>	<u>1,929</u>	<u>-</u>	<u>-</u>	<u>2,958</u>
Current period gross charge-offs	\$ -	-	-	-	12	12	-	-	24

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

(In thousands)

	<u>At December 31, 2023</u>						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	2023	2022	2021	2020	2019	Prior			
Total Loans:									
Residential Mortgage Loans:									
Pass	\$ 55,114	101,685	126,856	113,474	21,510	61,931	18,887	-	499,457
3 Good	-	-	-	-	-	62	-	-	62
4 Average	-	-	-	-	-	800	-	-	800
5 Acceptable	3,098	9,038	15,648	7,109	2,940	6,671	782	-	45,284
6 Management Attention Watch	-	-	-	-	-	61	-	-	61
8 Substandard	-	173	195	129	-	24	-	-	520
	<u>\$ 58,212</u>	<u>110,895</u>	<u>142,698</u>	<u>120,712</u>	<u>24,449</u>	<u>69,549</u>	<u>19,668</u>	<u>-</u>	<u>546,184</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-
Home Equity Loans:									
Pass	\$ 8,649	14,920	6,411	7,124	3,947	17,413	72,895	-	131,359
8 Substandard	-	-	-	-	-	9	97	-	106
	<u>\$ 8,649</u>	<u>14,920</u>	<u>6,411</u>	<u>7,124</u>	<u>3,947</u>	<u>17,422</u>	<u>72,992</u>	<u>-</u>	<u>131,465</u>
Current period gross charge-offs	\$ -	-	-	-	-	33	-	-	33
Commercial Real Estate Loans:									
2 Strong	\$ 700	483	922	658	-	819	-	2,465	6,048
3 Good	3,787	1,296	1,600	553	254	406	-	-	7,895
4 Average	5,181	19,503	7,632	10,340	9,365	22,466	3,432	5,378	83,296
5 Acceptable	33,269	38,665	41,590	18,288	7,563	32,847	19,763	31,234	223,220
6 Management Attention Watch	1,958	10,252	2,279	6,173	3,254	7,649	1,636	8,202	41,403
7 Special Mention	-	-	-	171	310	1,324	-	440	2,245
8 Substandard	-	351	3,447	-	113	1,359	-	2,029	7,300
	<u>\$ 44,895</u>	<u>70,551</u>	<u>57,470</u>	<u>36,183</u>	<u>20,859</u>	<u>66,870</u>	<u>24,830</u>	<u>49,748</u>	<u>371,407</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-
Agriculture Real Estate Loans:									
2 Strong	\$ 933	420	-	964	-	8,279	-	98	10,695
3 Good	751	1,329	-	663	716	2,035	-	1,889	7,384
4 Average	2,833	2,876	2,831	3,227	3,150	7,149	-	3,268	25,334
5 Acceptable	5,513	14,067	4,595	3,124	3,803	8,271	1,469	2,783	43,624
6 Management Attention Watch	1,218	253	1,359	291	1,210	616	-	-	4,947
7 Special Mention	-	14	-	-	-	813	-	-	827
8 Substandard	-	-	-	-	-	116	-	-	116
	<u>\$ 11,249</u>	<u>18,960</u>	<u>8,785</u>	<u>8,268</u>	<u>8,879</u>	<u>27,280</u>	<u>1,469</u>	<u>8,038</u>	<u>92,928</u>
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 3 – Loans and Allowance for Credit Losses (Continued)

(In thousands)

	<u>At December 31, 2023</u>									
	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total	
Commercial Loans:										
Performing	\$ -	-	-	-	-	-	1,801	-	1,801	
1 Superior	450	-	-	-	-	-	269	-	719	
2 Strong	528	1,904	157	-	-	1,420	2,538	-	6,548	
3 Good	4,767	397	1,948	257	11	848	1,903	-	10,133	
4 Average	2,950	3,430	2,613	457	543	295	11,335	2,074	23,695	
5 Acceptable	15,807	13,020	6,772	7,258	1,364	1,690	35,819	7,179	88,908	
6 Management Attention Watch	1,022	1,821	1,302	627	1,175	1,617	7,850	7,780	23,195	
7 Special Mention	144	335	224	-	-	1,137	2,615	26	4,481	
8 Substandard	-	-	-	27	76	-	778	164	1,045	
	<u>\$ 25,667</u>	<u>20,908</u>	<u>13,016</u>	<u>8,626</u>	<u>3,169</u>	<u>7,007</u>	<u>64,907</u>	<u>17,224</u>	<u>160,525</u>	
Current period gross charge-offs	\$ -	43	-	-	-	-	198	20	261	
Agriculture Loans:										
1 Superior	\$ -	-	-	-	-	-	-	-	-	
2 Strong	-	177	-	133	-	349	375	-	1,035	
3 Good	333	1,168	295	988	24	194	3,090	-	6,092	
4 Average	1,045	1,449	1,028	660	498	408	6,872	557	12,517	
5 Acceptable	2,067	1,689	1,284	672	429	289	11,096	318	17,844	
6 Management Attention Watch	215	249	176	65	7	62	2,433	179	3,386	
7 Special Mention	135	-	-	-	11	142	422	24	735	
8 Substandard	-	-	-	-	-	497	-	-	497	
	<u>\$ 3,795</u>	<u>4,732</u>	<u>2,783</u>	<u>2,518</u>	<u>969</u>	<u>1,942</u>	<u>24,287</u>	<u>1,079</u>	<u>42,106</u>	
Current period gross charge-offs	\$ -	-	-	-	-	-	-	-	-	
Consumer Direct Loans:										
Pass	\$ 7,733	9,798	5,278	1,575	477	567	3,595	-	29,024	
Current period gross charge-offs	\$ 3	6	9	-	2	-	64	-	84	
Consumer Indirect Loans:										
Pass	\$ 134	129	304	518	584	2,134	-	-	3,804	
8 Substandard	-	-	-	-	-	14	-	-	14	
	<u>\$ 134</u>	<u>129</u>	<u>304</u>	<u>518</u>	<u>584</u>	<u>2,148</u>	<u>-</u>	<u>-</u>	<u>3,818</u>	
Current period gross charge-offs	\$ -	-	-	19	2	-	-	-	21	

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 4 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Land	\$ 5,875	\$ 5,875
Building	22,901	22,901
Furniture and equipment	10,659	10,416
Land Improvements	81	41
Leasehold improvements	3,055	3,055
Construction in progress	237	7
	<u>42,808</u>	<u>42,295</u>
Less: Accumulated depreciation	<u>(18,775)</u>	<u>(17,491)</u>
	<u>\$ 24,033</u>	<u>\$ 24,804</u>

Depreciation and amortization expense in 2024 and 2023 are included in occupancy in noninterest expense on the accompanying consolidated statements of income as follows:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Building	\$ 571	\$ 571
Furniture and equipment	591	627
Leasehold improvements	118	118
Land improvements	4	2
	<u>\$ 1,284</u>	<u>\$ 1,318</u>

Prior to December 31, 2024, the Bank leased out office space under non-cancelable operating lease agreements. At December 31, 2024, the Bank no longer leased out office space.

Rental income under the operating leases totaled \$7,500 and \$15,000 in 2024 and 2023, respectively.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 5 - Deposits

Certificates of deposit in denominations of \$250,000 and over were \$160.8 million and \$140.5 million at December 31, 2024 and 2023, respectively.

At December 31, 2024, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2025	\$ 415,986
2026	107,253
2027	7,348
2028	14,522
2029	279
	<u>\$ 545,388</u>

Included within certificates of deposits at December 31, 2024 and 2023 were \$136.7 million and \$79.8 million, respectively, in brokered certificates of deposits.

Note 6 – Borrowings

FHLB Borrowings

These borrowings consist of overnight advances with the Federal Home Loan Bank “FHLB”. At December 31, 2024 and 2023, there were no overnight advances outstanding. The table below details additional information related to overnight advances for the years ended December 31, 2024 and 2023:

	2023	2022
	(Dollars in thousands)	
Maximum outstanding balance during the year	\$ 6,000	\$ 73,000
Average daily outstanding balance	\$ 49	\$ 22,040
Interest expense	\$ 2	\$ 568
Weighted average interest rate during the year	4.54%	2.60%
Weighted average interest rate at end of year	0.00%	0.00%

There were no advances outstanding at December 31, 2024 and 2023.

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, 2024, total unencumbered mortgage-related loans were \$150.1 million. At December 31, 2023, total unencumbered mortgage-related loans were \$189.0 million. Additional assets may also qualify as collateral for FHLB advances.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 6 – Borrowings (Continued)

FRB Borrowings

The Bank participated in the Bank Term Funding Program, authorized by the Board of Governors of the Federal Reserve System. In order to participate, the Bank secured all borrowings with “Eligible Collateral”. The Bank was allowed to borrow up to the par value. The table below details the FRB Borrowings as of and for the year ended December 31, 2024:

Original Date	Advance Amount	Rate
12/31/2023	\$ 71,000,000	4.81%
11/12/2024	<u>\$ (71,000,000)</u>	
12/31/2024	<u>\$ -</u>	

The Company, through the Bank, can use certain otherwise unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2024, total unencumbered collateral in the form of home equity loans and other consumer loans was \$166.2 million. At December 31, 2023, total otherwise unencumbered collateral in the form of home equity loans and other consumer loans was \$157.7 million.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent Banks permitting borrowings to a maximum of \$139.0 million at December 31, 2024 and \$127.0 million at December 31, 2023. There were no outstanding advances against those lines at December 31, 2024 or 2023.

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 CME term SOFR plus 2.65%. The coupon rate was 7.43% at December 31, 2024 and 8.29% at December 31, 2023. The securities are callable by the Company subject to any required regulatory approval, at par. The SOFR rate is determined by the treasury repurchase market and the change is said to have the biggest effect on the derivatives market.

Note 7 - Subordinated Debentures (Continued)

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. The accounts of Trust II are not included in the consolidated financial statements of the Company.

Subordinated Debenture Offering

In October 28, 2020, the Company successfully completed the sale of approximately \$16.0 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 used the proceeds from the sale of the Notes for general corporate purposes, and to provide capital to support organic growth of the Bank. 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 both December 31, 2024 and December 31, 2023, \$15.8 million in subordinated promissory notes capital securities qualified as Tier I capital.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 8 - Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Current tax provision		
Federal	\$ 4,135	\$ 4,254
State	526	863
Total current tax provision	<u>4,661</u>	<u>5,117</u>
Deferred tax provision (benefit)		
Federal	(14)	86
State	(21)	(3)
Total deferred tax provision (benefit)	<u>(35)</u>	<u>83</u>
	<u>\$ 4,626</u>	<u>\$ 5,200</u>

Income tax expense differed from the statutory federal income tax rate of 21.0% for the years ended December 31, 2024 and 2023 as follows:

	<u>2024</u>	<u>2023</u>
Statutory federal tax rate	21.0%	21.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	(1.2)	(1.1)
Non-taxable earnings on bank-owned life insurance	(0.5)	(0.4)
Disallowed interest expense	0.3	0.2
State taxes	2.0	3.5
Other, net	1.4	(0.2)
Effective tax rate	<u>23.0%</u>	<u>23.0%</u>

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, 2024 and 2023 included in accrued interest receivable and other assets on the accompanying consolidated balance sheets, are as follows:

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 8 - Income Taxes (Continued)

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Deferred tax assets		
Allowance for credit losses on loans	\$ 5,591	\$ 5,202
Net unrealized gain on available for sale securities	11,658	12,409
Compensation and benefits	1,992	2,160
Prepaid pension	231	690
Other	2,774	2,628
Total deferred tax assets	<u>\$ 22,246</u>	<u>\$ 23,089</u>
Deferred tax liabilities:		
Depreciation	\$ 695	\$ 772
Other	2,460	2,205
Total deferred tax liabilities	<u>\$ 3,155</u>	<u>\$ 2,977</u>
Net deferred tax assets	<u>\$ 19,091</u>	<u>\$ 20,112</u>

Management believes it is more likely than not that all of the deferred tax assets will be realized and has not recorded any valuation allowance at December 31, 2024 or 2023. 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, 2024, 4,805 shares, par value \$0.50 per share, of the authorized preferred stock have been issued and are outstanding. In 2024 and in 2023, there were 125 shares and 70 shares, respectively, of preferred stock that were converted to common stock. As of December 31, 2023, 4,930 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

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 9 - Stockholders' Equity – (Continued)

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.

The common stock and treasury stock of the Company at December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Common stock, authorized shares, \$0.50 par value	<u>15,000,000</u>	<u>15,000,000</u>
Issued shares	3,437,214	3,437,614
Less: treasury stock shares	<u>(33,584)</u>	<u>(11,778)</u>
Outstanding shares	<u>3,403,630</u>	<u>3,425,836</u>

Accumulated Other Comprehensive Loss

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Securities available for sale:	(in thousands)	(in thousands)
Net unrealized gains during the year	\$ 734	\$ 893
Reclassification adjustment for losses included in income	18	9
Pension and Postretirement benefit:		
Amortization of net loss	24	10
Net Actuarial gain (loss)	<u>283</u>	<u>(192)</u>
Tax expense	<u>\$ 1,059</u>	<u>\$ 720</u>

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 9 - Stockholders' Equity – (Continued)

Reclassifications out of accumulated other comprehensive income for the years ended December 31, 2024 and 2023 are as follows:

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from	Amount Reclassified	Affected Line Item In The Statement Where Net Income is Presented
	Accumulated Other Comprehensive Income	from Accumulated Other Comprehensive Income	
	2024	2023	
	(in thousands)	(in thousands)	
Unrealized Losses on available for sale securities	\$ (71)	\$ (32)	Net realized gain/(loss) from sales of securities
Tax Benefit	18	9	Income tax expense
Net of Tax	(53)	(23)	
Amortization of Pension and postretirement benefit plan items			
Net Losses	(96)	(42)	
Tax Benefit	24	10	Income tax expense
Net of Tax	(72)	(32)	
Total Reclassification for the year, net of tax	\$ (125)	\$ (55)	

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

(In thousands)	Unrealized losses on securities available for sale		Pension and postretirement benefits		Total
Balance – January 1, 2023	\$ (39,932)	\$ (1,970)	\$ (41,902)		
Other comprehensive income (loss) before reclassifications	2,680	(580)	2,100		
Amounts reclassified from accumulated other comprehensive income	23	32	55		
Other comprehensive income (loss) for 2023	2,703	(548)	2,155		
Balance – December 31, 2023	\$ (37,229)	\$ (2,518)	\$ (39,747)		
Other comprehensive income before reclassifications	\$ 2,201	\$ 845	\$ 3,046		
Amounts reclassified from accumulated other comprehensive income	53	72	125		
Other comprehensive income for 2024	2,254	917	3,171		
Balance – December 31, 2024	\$ (34,975)	\$ (1,601)	\$ (36,576)		

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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.

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 ended December 31, 2024 and 2023:

	Pension Plan		Healthcare Plan	
	2024	2023	2024	2023
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 23,619	\$ 21,120	\$ 514	\$ 501
Service cost	1,340	1,229	-	5
Interest cost	1,199	1,126	28	30
Actuarial (gain) loss	(1,956)	855	12	8
Expected expenses	(259)	(178)	-	-
Benefits paid "expected"	(779)	(533)	(31)	(30)
Benefit obligation at end of year	<u>23,164</u>	<u>23,619</u>	<u>523</u>	<u>514</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 20,840	\$ 20,400	-	-
Actual return on plan assets	555	1,283	-	-
Employer contribution	2,000	-	31	30
Actual expenses paid	(299)	(211)	-	-
Benefits paid	(898)	(632)	(31)	(30)
Fair value of plan assets at end of year	<u>22,198</u>	<u>20,840</u>	<u>-</u>	<u>-</u>
Unfunded status recognized	<u>\$ (966)</u>	<u>\$ (2,779)</u>	<u>\$ (523)</u>	<u>\$ (514)</u>
Accumulated benefit obligation	<u>\$ 20,186</u>	<u>\$ 20,145</u>	<u>\$ (680)</u>	<u>\$ (598)</u>

The significant actuarial gain in 2024 is attributable to a change in discount rate and demographic experience.

The unfunded status of the Pension and Healthcare Plans as of December 31, 2024 and 2023 is included as a component of accrued interest payable and other liabilities on the consolidated balance sheets.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The components of net periodic benefit cost and other comprehensive income (loss) for the years ended December 31, 2024 and 2023 are as follows:

	Pension Plan		Healthcare Plan	
	2024	2023	2024	2023
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	\$ 1,340	\$ 1,229	-	\$ 5
Interest cost	1,199	1,126	28	30
Expected return on plan assets	(1,201)	(1,053)	-	-
Amortization of net loss	84	34	12	8
Net periodic benefit cost	\$ 1,422	\$ 1,336	\$ 40	\$ 43
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	\$ (1,149)	\$ 757	\$ 19	\$ 15
Recognized actuarial loss	(84)	(34)	(12)	(8)
Recognized in other comprehensive income	(1,233)	723	7	7
Total recognized in net periodic benefit cost and other comprehensive income	\$ 189	\$ 2,058	\$ 47	\$ 50

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

	Pension Plan		Healthcare Plan	
	2024	2023	2024	2023
	(In thousands)			
Other	\$ -	\$ -	\$ 42	\$ 88
Net actuarial loss	1,442	2,367	117	63
	\$ 1,442	\$ 2,367	\$ 159	\$ 151

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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 2025 are as follows:

	<u>Pension Plan</u>	<u>Healthcare Plan</u>	<u>Total</u>
		(In thousands)	
Net actuarial loss	\$ -	\$ 7	\$ 7
Total	\$ -	\$ 7	\$ 7

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

	<u>Pension Plan</u>		<u>Healthcare Plan</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Discount rates:				
Benefit cost for Plan Year	5.68%	5.41%	4.80%	4.99%
Benefit obligation at end of Plan Year	5.15%	5.15%	5.50%	4.80%
Expected long-term return on plan assets	6.50%	6.50%	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, 2024 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 \$3,900 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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 \$2.0 million pension plan contribution in 2024, but did not make a pension plan contribution in 2023.

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

Years Ending December 31,	<u>Pension Plan</u>	<u>Healthcare Plan</u>
	(In thousands)	
2025	\$ 817	\$ 54
2026	887	53
2027	975	52
2028	1,126	51
2029	1,186	50
2030-2034	7,538	238
Total	\$ 12,529	\$ 498

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The fair value of the Company's pension plan assets at December 31, 2024 and 2023 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, 2024				
Cash equivalent:				
Foreign currencies	\$ -	\$ -	\$ -	\$ -
Short term investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securities:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securities				
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	22,198			
Total	\$ 22,198			

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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, 2023				
Cash equivalent:				
Foreign currencies	\$ -	\$ -	\$ -	\$ -
Short term investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securities:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securities				
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	<u>20,840</u>			
Total	<u>\$ 20,840</u>			

At December 31, 2024 and 2023, the portfolio was substantially managed by one investment firm who controlled approximately 96% and 98%, respectively, of the System's assets. In addition, as of December 31, 2024 and 2023, approximately \$939,000 and \$308,000, respectively, of Pension Plan monies had not yet been allocated to an investment manager.

At December 31, 2024 and 2023, the System had an investment concentration of approximately 96% and 98% 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 Pension Plan 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, 2024 and 2023.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

During the years ended December 31, 2024 and 2023, 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The target allocation for 2024 and actual allocation of plan assets as of December 31, 2024 and 2023 are as follows:

Asset Category	Target Allocation	% of Plan Assets at December 31,	
	2024	2024	2023
Cash equivalents	0%	0.0%	0.1%
Equity securities	30%	32.5%	31.5%
Fixed income securities	15%	19.0%	36.1%
Other financial instruments	55%	48.5%	32.2%

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 matches 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed \$665,000 and \$604,000 under these provisions during 2024 and 2023, 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 both December 31, 2024 and 2023, was \$6.9 million respectively, and is recorded as a component of accrued interest payable and other liabilities on the consolidated balance sheets. Compensation credit related to the SERP was \$0 and \$335,000 for the years ended December 31, 2024 and 2023, respectively.

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 145,178 and 149,844 at December 31, 2024 and 2023 respectively. Total shares awarded were 9,334 and 6,770 for 2024 and 2023, 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 \$208,000 and \$193,000 for the years ended December 31, 2024 and 2023, respectively.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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:

	<u>2024</u>	<u>2023</u>
	(In thousands, except per share data)	
Net Income attributable to Lyons Bancorp, Inc.	\$ 15,464	\$ 17,354
Adjustments for dilutive potential common shares	-	-
Less: Preferred stock dividends	(243)	(250)
Net income available for diluted common shares	<u>\$ 15,221</u>	<u>\$ 17,104</u>
Weighted average common shares used to calculate basic EPS	3,414,739	3,421,460
Add: effect of common stock equivalents ¹	115,320	120,000
Weighted average common shares used to calculate diluted EPS	<u>3,530,059</u>	<u>3,541,460</u>
Earnings per common share:		
Basic	<u>\$ 4.46</u>	<u>\$ 5.00</u>
Diluted	<u>\$ 4.38</u>	<u>\$ 4.90</u>

(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 as of, and for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
	(In thousands)	(In thousands)
Beginning Balance	\$ 17,085	\$ 16,419
New Loans	4,153	2,839
Change in Related Party Status	(290)	95
Sold Loans	(1,760)	(839)
Repayments	(2,937)	(1,429)
Ending Balance	<u>\$ 16,251</u>	<u>\$ 17,085</u>

Deposits from principal officers, directors, and their affiliates at both December 31, 2024 and 2023 were \$12.0 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:

	<u>2024</u>	<u>2023</u>
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	\$ 190,454	\$ 185,361
Unfunded commitments under commercial lines of credit	179,774	171,432
Unfunded commitments under consumer lines of credit	147,891	142,478
Standby letters of credit	<u>11,493</u>	<u>12,105</u>
	<u>\$ 529,612</u>	<u>\$ 511,376</u>

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 \$10.9 million and \$10.7 million at December 31, 2024 and 2023, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2024 and 2023.

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 \$4.8 million at both December 31, 2024 and 2023, 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

Note 13 - Commitments and Contingent Liabilities (Continued)

sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread 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, 2024, the Bank had letters of credit outstanding with FHLB of \$149.4 million and as of December 31, 2023, the Bank had letters of credit outstanding with the FHLB of \$97.3 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 \$115.5 million or 7.86% of total loans as of December 31, 2024. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of \$97.5 million or 7.07% of total loans as of December 31, 2023. 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 is 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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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, 2024:								
Total risk-based capital								
Consolidated	\$ 170,606	12.1%	\$ 112,810	≥8.0%	\$ 141,013	≥10.0%	\$ 148,063	≥10.5%
Bank	\$ 191,408	13.6%	\$ 112,902	≥8.0%	\$ 141,128	≥10.0%	\$ 148,184	≥10.5%
Tier 1 capital								
Consolidated	\$ 152,877	10.8%	\$ 84,608	≥6.0%	\$ 112,810	≥8.0%	\$ 119,861	≥8.5%
Bank	\$ 173,665	12.3%	\$ 84,677	≥6.0%	\$ 112,902	≥8.0%	\$ 119,959	≥8.5%
Tier 1 leverage								
Consolidated	\$ 152,877	7.8%	\$ 78,724	≥4.0%	\$ 98,405	≥ 5.0%	\$ 98,405	≥ 6.5%
Bank	\$ 173,665	8.8%	\$ 78,705	≥4.0%	\$ 98,382	≥ 5.0%	\$ 98,382	≥ 6.5%
Common Equity Tier 1								
Consolidated	\$ 116,300	8.2%	\$ 63,456	≥4.5%	\$ 91,658	≥ 6.5%	\$ 98,709	≥ 7.0%
Bank	\$ 137,089	9.7%	\$ 63,507	≥4.5%	\$ 91,733	≥ 6.5%	\$ 98,789	≥ 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, 2023:								
Total risk-based capital								
Consolidated	\$ 158,865	12.0%	\$ 106,269	≥8.0%	\$ 132,836	≥10.0%	\$ 139,478	≥10.5%
Bank	\$ 181,016	13.6%	\$ 106,221	≥8.0%	\$ 132,776	≥10.0%	\$ 139,415	≥10.5%
Tier 1 capital								
Consolidated	\$ 142,164	10.7%	\$ 79,702	≥6.0%	\$ 106,269	≥8.0%	\$ 112,911	≥8.5%
Bank	\$ 164,322	12.4%	\$ 79,666	≥6.0%	\$ 106,221	≥8.0%	\$ 112,860	≥8.5%
Tier 1 leverage								
Consolidated	\$ 142,164	7.7%	\$ 73,811	≥4.0%	\$ 92,264	≥ 5.0%	\$ 92,264	≥ 6.5%
Bank	\$ 164,322	8.9%	\$ 73,837	≥4.0%	\$ 92,297	≥ 5.0%	\$ 92,297	≥ 6.5%
Common Equity Tier 1								
Consolidated	\$ 102,416	7.7%	\$ 59,776	≥4.5%	\$ 86,344	≥ 6.5%	\$ 92,985	≥ 7.0%
Bank	\$ 124,575	9.4%	\$ 59,749	≥4.5%	\$ 86,305	≥ 6.5%	\$ 92,943	≥ 7.0%

Note 15 - Regulatory Matters (Continued)

Management believes, as of December 31, 2024 and 2023, 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, 2024 and 2023, the Bank's retained earnings available for the payment of dividends were approximately \$33.9 million and \$35.5 million, respectively.

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, 2024 and 2023:

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

The carrying amounts reported on 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.

Individually Analyzed Loans

The fair value of loans individually analyzed 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 \$3.3 million and \$3.1 million, net of allowance for credit loss of \$256,000 and \$279,000 as of December 31, 2024 and 2023, respectively.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates fair value.

Accrued Interest Payable

The carrying amount of 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 and Federal Reserve Bank

Fair values of borrowings from the FHLB and FRB are estimated using discounted cash flow analysis, based on quoted prices for new borrowings from the FHLB and FRB 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.

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

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.

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.

Accrued Interest Payable

The carrying value of accrued interest payable approximates fair value.

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, 2024 and 2023 are as follows:

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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

	<u>Fair Value</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>
	(In thousands)			
December 31, 2024:				
Securities available for sale:				
United States agencies	\$ 133,744	\$ -	\$ 133,744	\$ -
State and local governments	63,550	-	63,550	-
Mortgage-backed securities	68,942	-	68,942	-
Corporate securities	<u>16,280</u>	<u>-</u>	<u>16,280</u>	<u>-</u>
Total securities available for sale	<u>\$ 282,516</u>	<u>\$ -</u>	<u>\$ 282,516</u>	<u>\$ -</u>
Restricted equity security	<u>\$ 378</u>	<u>\$ 378</u>	<u>\$ -</u>	<u>\$ -</u>
 December 31, 2023:				
Securities available for sale:				
United States agencies	\$ 131,532	\$ -	\$ 131,532	\$ -
State and local governments	78,804	-	78,804	-
Mortgage-backed securities	74,077	-	74,077	-
Corporate securities	<u>15,507</u>	<u>-</u>	<u>15,507</u>	<u>-</u>
Total securities available for sale	<u>\$ 299,920</u>	<u>\$ -</u>	<u>\$ 299,920</u>	<u>\$ -</u>
Restricted equity security	<u>\$ 343</u>	<u>\$ 343</u>	<u>\$ -</u>	<u>\$ -</u>

Assets Measured at Fair Value on a Nonrecurring Basis

Individually analyzed 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, 2024 and 2023.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2024 and 2023 are as follows:

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

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

	Fair Value Hierarchy	2024		2023	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)					
Financial assets:					
Cash and due from banks	1	\$21,246	\$21,246	\$20,595	\$20,595
Interest-bearing deposits in banks	1	46,447	46,447	36,678	36,678
Investment securities	1 and 2	326,315	323,642	347,468	344,080
Loans, net of allowance	3	1,447,496	1,337,819	1,359,117	1,192,687
Accrued interest receivable	1	7,000	7,000	6,663	6,663
Mortgage servicing rights	2	4,379	4,379	3,392	3,392
Financial liabilities:					
Demand and savings deposits	1	\$1,219,232	\$1,219,232	\$1,205,573	\$1,205,573
Certificates of deposit	2	545,392	541,394	421,581	419,851
Borrowings from FRB	2	0	0	71,000	71,000
Junior subordinated debentures	2	5,155	5,102	5,155	5,107
Subordinated debt offering	2	15,785	15,785	15,772	15,772
Accrued interest payable	1	1,794	1,794	750	750

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 ASC 606, including revenue generated from financial instruments, such as loans and investment securities which are presented in the 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.

The following table presents revenues subject to ASC 606 for the years ended December 31, 2024 and 2023, respectively. Items outside the scope of ASC 606 are noted as such.

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 17 – Revenue Recognition (Continued)

	For the years ended December 31, (In thousands)	
	2024	2023
Service charges on deposit accounts		
Insufficient funds fees	\$ 1,764	\$ 1,683
Deposit related fees	496	504
ATM/point of sale fees	1,068	988
	<u>3,328</u>	<u>3,175</u>
Cardholder fees		
Debit card interchange fees	3,564	3,561
Other cardholder fees	861	848
	<u>4,425</u>	<u>4,409</u>
Loan servicing fees and realized gain on sales of loans		
Loan Servicing Fees*	2,525	2,192
Realized gain on sale of loans*	2,796	1,861
	<u>5,321</u>	<u>4,053</u>
Financial services fees	2,129	1,746
Other miscellaneous income*	1,926	1,494
	<u>\$ 17,129</u>	<u>\$ 14,877</u>

*Not within scope of ASC 606.

Service Charges on Deposit Accounts: 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.

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.

Lyons Bancorp, Inc.

Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 17 – Revenue Recognition (Continued)

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.

Other Miscellaneous Income: The Company earns revenue from sources other than those listed above. Other income is mainly generated through the Bank-Owned Life Insurance (BOLI) death benefit as well as residential mortgage servicing rights.

Note 18 – Leases

In the normal course of business, the Company leases five of its branch locations and its back-office operations center.

The Company's leases have remaining terms that vary from less than 5 years up to 21 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.

Lease Cost

For the years ended December 31, 2024 and 2023 are as follows:

<u>(In thousands)</u>	<u>2024</u>	<u>2023</u>
Operating lease cost	<u>\$389</u>	<u>\$381</u>

Supplemental cash flow information related to leases for the years ended December 31, 2024 and 2023 are as follows:

<u>(In thousands)</u>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Cash paid for amount included in the measurement of operating lease liabilities:		
Operating cash used for operating leases	<u>\$389</u>	<u>\$381</u>

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Notes to Consolidated Financial Statements

December 31, 2024 and 2023

Note 18 – Leases (Continued)

Supplemental consolidated balance sheet information related to leases as of December 31, 2024 and 2023 was as follows:

<i>(In thousands, except lease term and discount rate)</i>	Balance Sheet Classification	December 31, 2024	December 31, 2023
Operating Leases			
Operating lease right-of-use assets	Accrued interest receivable and other assets	\$3,371	\$3,766
Operating lease liabilities	Accrued interest payable and other liabilities	\$3,758	\$4,141
Weighted Average Remaining Lease Term			
Operating Leases		15.3 years	15.9 years
Weighted Average Discount Rate			
Operating Leases		3.63%	3.61%

Future maturities of operating lease liabilities as of December 31, 2024 were as follows:

Year Ending December 31,	
<i>(In thousands)</i>	
2025	\$236
2026	\$252
2027	\$262
2028	\$271
2029	\$283
Thereafter	\$2,454
Total minimum lease payments	\$3,758

Note 19 – Subsequent Events

Management has evaluated subsequent events through March 7, 2025, the date in which these consolidated financial statements were available to be issued.