HOMEGROWN

Deeply rooted in our local landscape.

Lyons Bancorp, Inc.

It's all about people.

2014

Annual Report

*Three generations of the Simmons family proudly stand amongst the fall grape harvest. From left to right: longstanding Penn Yan Advisory Board member, **Neil Simmons**, with son, **Daren**, and grandsons, **Clark** and **Parker**. Established in 1963, Simmons Vineyards sits on the shores of Keuka Lake and provides many grape varietals to winemakers across the region.*

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MISSION STATEMENT

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, provide them with the necessary systems, technology, and appropriate 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.

VISION STATEMENT

To be the employer and financial institution of choice, fostering an environment of opportunity, growth and prosperity for our employees, customers, shareholders and local communities.

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of $807 million at December 31, 2014. Lyons Bancorp, Inc. has one 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 and Geneva in Ontario County, Penn Yan in Yates County and Waterloo in Seneca County. The Lyons National Bank has one subsidiary, Lyons Realty Associates Corp.

ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 20, 2015, at the historic Ohmann Theatre in Lyons, NY.

***Ray Spies** (Left) and **James Dawley** smile for the camera at last year's annual meeting at the historic Ohmann Theatre.*

PRESIDENT'S MESSAGE

ROBERT A. SCHICK
President & Chief Executive Officer, Lyons Bancorp, Inc., and The Lyons National Bank

In his "Year In Review" column in *The Washington Post*, Dave Barry called 2014 a year of mysteries. He went on to list some of what he thought were the more baffling events of the year, including: "millions of Americans deciding to make videos of themselves having ice poured on their heads; an intruder making it over the fence and into the White House through an unlocked back door without being turned into a bullet-ridden pile of smoking carbon; and LeBron James deliberately moving to Cleveland."

Maybe 2014 was mysterious to Mr. Barry, but I'm proud to say that for Lyons Bancorp, last year was anything but enigmatic. While we had our challenges, 2014 was much like the previous 17 years, as it was the 18th consecutive year we reported record earnings. Furthermore, the reason for our prolonged success is even less cryptic: the hardworking, focused team of professionals we have at the Bank. In 2014, Lyons Bancorp, Inc. reported earnings of $4.58 per diluted share versus $4.48 in 2013. In dollars, we earned $7.2 million last year versus $7.0 million in 2013. Diana Johnson, our Chief Financial Officer, details our 2014 financial results on subsequent pages.

Like every year, we dealt with challenges in 2014. But even here, I would classify the most pressing of these challenges in the "more of the same" category. The two that warrant airtime are prolonged, historically low interest rates, and the continued onslaught of costly — in terms of dollars, time and lost opportunities — regulatory oversight.

> **"...it was the 18th consecutive year we reported record earnings."**

Addressing these in reverse order, I am mystified by the strategy of our regulatory authorities — running us through countless drills and tests to prepare us for the 2008 banking crisis. If only we had the foresight back then, we would have weathered that crisis much better. Oh wait, we didn't have any major losses during the crisis, and our string of record earnings runs all the way back into the last century. Obviously, the past couple of sentences are written "tongue in cheek." But I trust you get my point. We spend an enormous amount of time and money making assumptions about what may go wrong and then running tests to determine their outcome. We even stress test our assumptions with more assumptions. Running through these exercises might be beneficial if we were doing so with an eye towards what we thought the next financial crisis might look like. However, much of what the regulators demand focuses on preventing 2008 from happening again. French War Minister Maginot would be proud. To truly understand the full magnitude of regulatory cost, one needs to add the cost of the time and money spent on analyzing the past to the costs of the lost opportunities.

The other major challenge we faced in 2014 was the continued erosion of our net interest margin. The further we distance ourselves from 2008, and the longer interest rates stay at these historically low levels, the more our net interest margin decreases. That's because each year, a portion of our assets, (i.e., loans and investments) mature and are replaced with new assets priced at lower current interest rates. This reduces our interest income. Since we already lowered our deposit rates years ago to match the markets' miniscule levels, we created a floor under our interest expense. While European banks have actually begun charging depositors to hold their money, we don't believe that serves our customers' interests. So, as our assets re-price lower, the margin between interest expense and interest income continues to erode. Community banks, like Lyons National, earn more than 80% of their net revenue from their net interest margin.

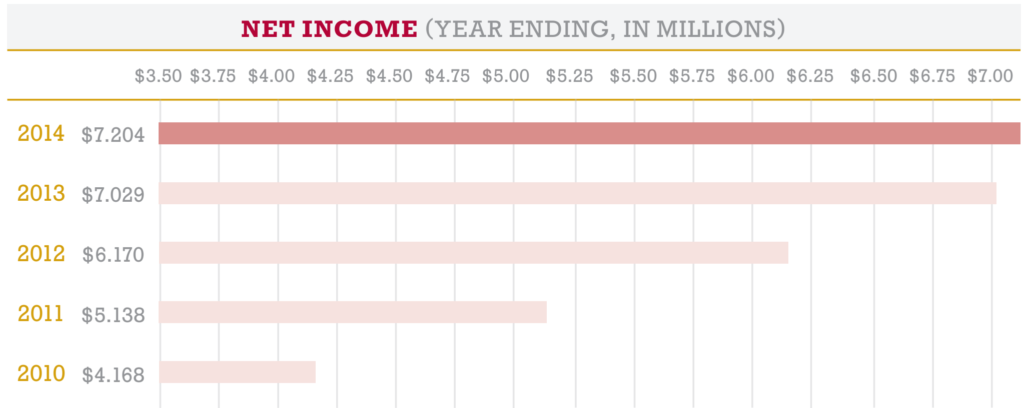
To make up for loss of net interest spread, we needed to increase the size of the Bank's balance sheet; and we did just that in 2014. We started 2014 with $733 million in assets and $628 million in deposits. We ended 2014 with $807 million in assets — an increase of 10%, year-over-year. We increased deposits 11%, ending 2014 with $698 million. Our new freestanding branch in Canandaigua was instrumental in this growth. We broke ground in May, had the opening ribbon-cutting ceremony in August and ended the year with deposits exceeding the $40 million mark. By the way, our yearend 2014 deposit goal for Canandaigua was $30 million; great effort guys and gals! While Canandaigua certainly was the main impetus behind our deposit growth, I am proud to say that all but one of our branches increased their share of the market they serve. Further, as we

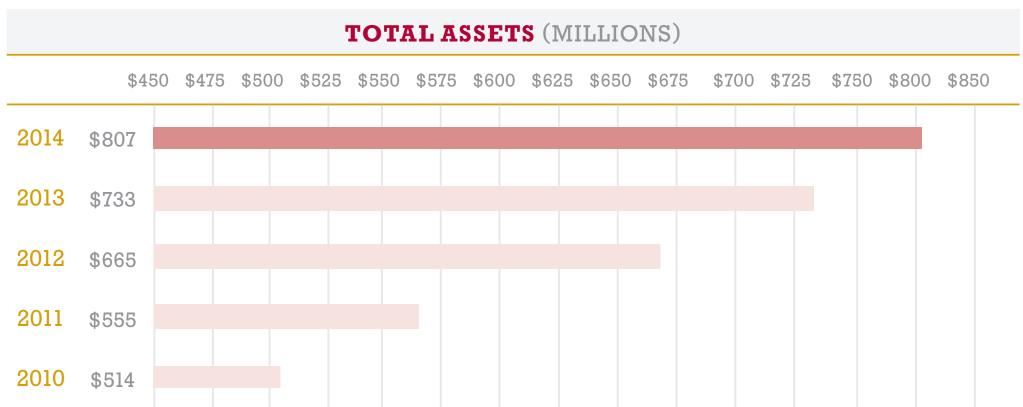
PRESIDENT'S MESSAGE CONT.

have done consistently over the past few years, we added almost 3,000 new relationships to the list of customers we serve. Kudos to the entire branch and lending staffs!

Ted Marshall retired from our board in 2011 after 17 years of distinguished service. Those of you who know Ted acknowledge him as a pillar of the northeastern Wayne County community, as well as the Weedsport/Auburn area. Last year, we recognized Ted and the Marshall Family by naming our newly built Wolcott Branch Community Room in his honor. If you are in the area, please stop by and tour the room and the many artifacts on display that relive Ted's very distinguished business career.

The Community Room is part of our expansion of the Wolcott Branch. Sherri Sheldon and her staff have done a remarkable job of building business there. We have grown to a point where there are many days our lobby cannot accommodate the crush of customers conducting their banking business. Subsequently, the building is going through a complete makeover. Construction started in mid-January and will be completed in early spring. Again, stop by to see the transformation.





Guided by Tom Kime and led by Todd Juffs, Chief Information Officer, our IT and Operations teams completed numerous technology delivery system conversions last year. These conversions were significant in scope, as the systems involved are used routinely by our customers who expect 24/7 accessibility. Plus, the systems are conduits for generating millions of dollars in fee income for the Bank. Due to the diligent preparatory work and attention to detail by Todd and his staff, the actual conversion events often went unnoticed.

We set the stage for expanding our franchise into Monroe County as Tom Kime successfully negotiated the purchase of a branch site in the Town of Perinton. The location, on the newly created intersection of NY Route 31F and O'Connor Road, will be the home of our 13th branch. We expect to break ground in mid-spring and have the ribbon-cutting ceremony in mid to late summer. As we have done in all of our more recent branch expansions, we established a branch advisory board to help us market our brand of hometown banking. The board currently consists of Don Fox, attorney with the firm of Evans and Fox; Sam DiPrima, businessman and real estate developer; Art Elting, owner of Country Rode Motowerks, and Linc Swedrock, civil engineer. We welcome these community leaders to our banking family and value their wise counsel and support.

> "...we set the stage for expanding our franchise."

Tom also successfully negotiated a move of our current Town of Ontario Branch to a larger and more visible building on the perimeter of the Tops Plaza on Route 104 and Furnace Road. We expect this move will occur about the same time we open our new Perinton Branch.

Our continued growth requires a larger Operations Center. After an extensive search and lengthy discussion, we decided to move our Center to downtown Geneva. We will double our space but keep our square-foot cost basically the same. This is another July/August move. Looks like it will be a very busy summer!

As far as 2014 being mysterious to us — no it wasn't. Were there challenges? Yes there were. Was it busy? Yes, as always. Was it successful? A resounding yes! *Stay well!*

ROBERT A. SCHICK
President & Chief Executive Officer, Lyons Bancorp, Inc., and The Lyons National Bank

MAKING AN EVERY DAY DIFFERENCE...YEAR ROUND

Connection to community resonates at LNB with each and every employee that works here. You could say, it's at the heart of everything we do. Why is it so personal? Because we live, work and play in the communities we serve. This commitment is supported by our actions 365 days a year.

LENDING A HELPING HAND

When unprecedented flooding hit the Yates County area in May, LNB quickly responded with an outstretched hand. From members of our Administration to Branch staff, employees found ways to help people affected by the flood.

Staff donned boots and grabbed rakes, mops and shovels to help with clean up. Breakfasts and lunches, courtesy of LNB, were delivered to first responders and volunteers. And, the simple gesture of donating laundry detergent and quarters from the Branch staff to the community meant so much.

A chicken barbeque fundraiser, held in the summer, had a tremendous local turnout. Hosting the event with Gale Wyn Catering in our Penn Yan office parking lot, we invited those affected by the flood to join us for a free meal.

Those not affected were asked to support our effort in any way they could. The generosity of the community shined through–raising nearly $4,000. That, combined with LNB contributions, totaled over $23,600.

In addition and most notably, LNB pledged $250,000 at 0% interest to create a flood relief loan fund with the Finger Lakes Horizon Economic Development Corporation. Finger Lakes HEDC contributed an additional $100,000 making $350,000 of funding available to those hit hardest by the disaster.

While we tend to stay under the radar regarding all of our good deeds, we felt this effort was a shining example of how committed we are to our communities. Kudos to all involved.

*Mary and Mark Munson (right) owners of Gale Wyn Catering join (left to right) Advisory Board member, **Paul Marble**, and LNB staff, **Sue Andersen** and **CJ Britt**, at the Flood Relief BBQ event.*

Penn Yann Branch Manager, Sue Andersen, takes a dinner order from a local family.

CHAMPIONING MEANINGFUL CAUSES

In 2014, employees contributed over 13,000 hours of volunteering and serving on boards of not-for-profits, service and charitable organizations.

ANNUAL DAY OF CARING

The LNB United Way team volunteered their time at the Wayne County Humane Society for the 2014 Annual Day of Caring. Employees spent the day mulching and planting flowers around the front of the building, painting the inside offices and giving the animals some special attention.

4TH ANNUAL WALK/RUN FOR HOME

Lyons Main Office staff participated in the 4th Annual Walk/Run for Home held in Lyons last September. Organized by the Wayne County Action Program, LNB was a main sponsor to help raise funds to combat local homelessness.

NATIONAL WEAR RED DAY

Branch staff in Canandaigua wear red on National Wear Red Day for the American Heart Association. Through employee donations and matching funds from LNB, a total of $1,250 was raised to support awareness for heart disease among women.

2014 FINANCIAL HIGHLIGHTS

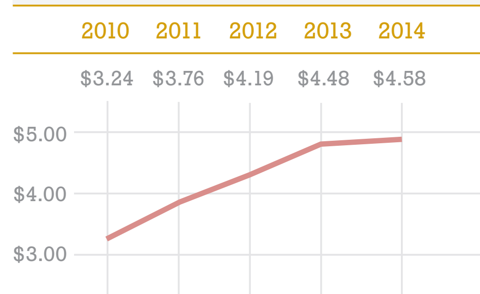
DIANA R. JOHNSON
Executive Vice President & Chief Financial Officer, Lyons Bancorp, Inc. and The Lyons National Bank

RESULTS OF OPERATIONS

For the 18th consecutive year, Lyons Bancorp, Inc. experienced earnings growth, and ended 2014 with record earnings of $7.2 million, an increase of $175,000 or 2.5% over 2013. This translates into earnings per diluted share of $4.58 or a 2% increase year over year. Return on average assets was 0.94% versus 1.01% for 2013, and return on average shareholders' equity was 13.96% versus 15.22% for 2013.

Our largest revenue source is net interest income, the difference between the interest income we earn on our interest-earning assets, primarily loans and investment securities, and the interest paid on our interest-bearing liabilities, primarily deposit accounts and borrowings. Net interest income for 2014 was $23.3 million, an increase of $1.3 million or 6% over 2013. This increase was due primarily to strong growth of our earning assets funded by steady deposit growth, as average earning assets increased $66.9 million or 10% during 2014, and average interest-bearing deposits increased $60.8 million or 12% year over year. Our tax-

DILUTED EARNINGS PER SHARE



	2014			2013		
	AVERAGE BALANCE ($)	**INTEREST INC/EXP** ($)	**AVERAGE YIELD/COST**	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST
INTEREST-EARNING ASSETS:						
Loans:						
Residential real estate	211,088	8,250	3.91%	193,851	7,651	3.95%
Commercial and agriculture real estate	167,688	7,834	4.67%	141,650	6,887	4.86%
Commercial and agriculture loans	116,296	5,216	4.49%	105,795	4,838	4.57%
Consumer installment loans	26,428	1,603	6.07%	27,928	1,758	6.29%
Total loans	**521,500**	**22,903**	**4.39%**	**469,224**	**21,134**	**4.50%**
Investments	190,620	4,860	2.55%	180,626	4,539	2.51%
Federal funds sold and other interest-earning assets	15,326	37	0.24%	10,689	27	0.25%
Total interest-earning assets	**727,446**	**27,800**	**3.82%**	**660,539**	**25,700**	**3.89%**
Non interest-earning assets	**42,323**			37,695		
Total assets	**769,769**			698,234		
INTEREST-BEARING LIABILITIES:						
Interest-bearing checking	83,668	185	0.22%	79,394	145	0.18%
Money market and savings accounts	316,288	1,608	0.51%	285,227	985	0.35%
Time deposits	160,341	1,365	0.85%	134,845	1,201	0.89%
Borrowings	11,079	84	0.76%	17,832	67	0.38%
Junior subordinated debentures	9,217	553	6.00%	9,217	554	6.01%
Total interest-bearing liabilities	**580,593**	**3,795**	**0.65%**	**526,515**	**2,952**	**0.56%**
Non interest-bearing deposits	131,897			118,025		
Other non interest-bearing liabilities	5,620			7,453		
Total liabilities	**718,110**			**651,993**		
Total equity	51,659			**46,241**		
Total liabilities and equity	**769,769**			**698,234**		
Net interest spread			3.17%			3.33%
Net interest income/margin on earning assets		24,005	3.30%		22,748	3.44%
Tax equivalent adjustment		(738)			(737)	
Net interest income per financial statements		23,267			22,011	

equivalent yield declined year over year, measuring 3.30% during 2014, compared to 3.44% in 2013, as compression on asset yields continued while funding costs associated with our newer markets increased.

Our provisions for loan losses are based upon our assessment of a variety of factors, including loan credit quality, the general economic environment and growth in our loan portfolio. In 2014, we provided $750,000 for loan losses, compared to $525,000 in 2013. The increase in the provision for 2014 is reflective of strong loan growth across most loan portfolios. At December 31, 2014, our non-performing loans totaled 0.73% of total loans, as compared to 0.82% at December 31, 2013, and compared favorably to our peer's ratio of 0.95%. Our net charge offs to average loans during 2014 totaled 0.06%, compared to 0.18% for our peers, and down 2bp from the prior year. The percent of our commercial and agriculture loan portfolio with an aggregate "pass" rating within our internal risk rating system improved to 94%, compared to 92.7% in 2013.

Noninterest income is an important revenue source for us, and consists primarily of service charges on deposit accounts, loan servicing fees, cardholder fees, financial services fees, gains and losses on the sale or impairment of securities, and gains on sale of loans. In 2014, noninterest income represented 24% of all revenue sources and totaled $7.4 million, an increase of $615,000 or 9% over 2013 levels and is reflected across most major categories of noninterest income. The increase in these revenue sources was tempered by reductions in gains on sale of investments.

Noninterest expense consists primarily of compensation and employee benefits, occupancy and equipment expenses, advertising, data processing, professional fees, FDIC insurance, and other operating expenses. In 2014, total noninterest expense was $20.0 million, an increase of $1.3 million or 7% over 2013. Increases in salaries and wages totaled $726,000 and were primarily the result of annual wage increases and a full year of expense relating to staffing at our newest branch location in Canandaigua. Pension and other benefits expense declined $230,000 or 8% in 2014, due primarily to a reduction in pension-related costs. Occupancy costs increased $171,000 or 8% year over year, due primarily to a full year of expenses relating to our Canandaigua location.

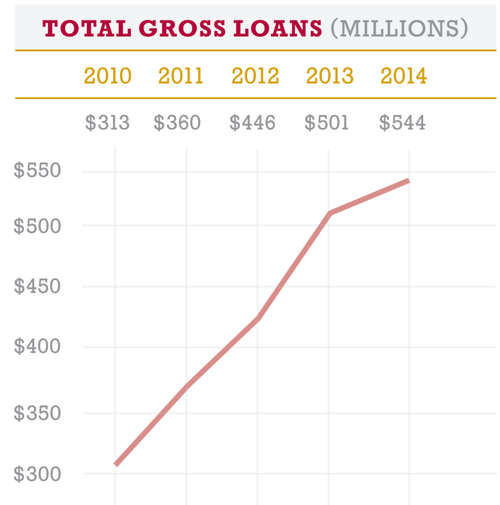
ANALYSIS OF FINANCIAL CONDITION

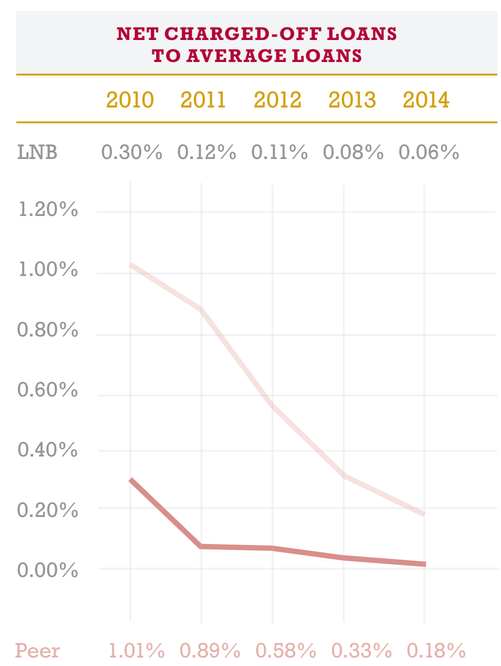
We reached another milestone in 2014, as total assets exceeded $800 million. We continued to experience solid loan and deposit growth, supported by a strong capital base. Total assets on December 31, 2014, were $806.8 million, an increase of $74.0 million or 10% over December 31, 2013. Total equity at December 31, 2014, was $52.5 million, an increase of $5.1 million or 11% over December 31, 2013.

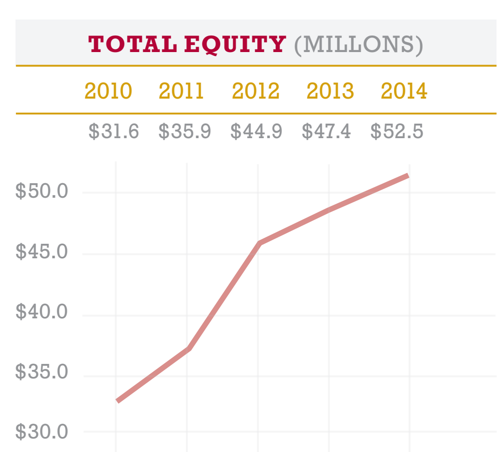
Total loans were $544.5 million at December 31, 2014, an increase of $43.6 million or 9% from December 31, 2013. We continued to support our strategy of balancing the loan portfolio between consumer and commercial loans, ending the year with 45% consumer-related loans versus 55% commercial-related loans. We are well positioned to continue prudent lending to the individuals, families and businesses here in our Upstate New York marketplace and look forward to another year of solid loan growth.

We maintain an investment portfolio to provide us with important liquidity considerations and earnings potential. Our investment portfolio consists primarily of United States Agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2014, our investment portfolio totaled $204.6 million, an increase of $27.2 million over December 31, 2013, and had an average tax-equivalent yield of 2.55% during 2014. The majority of our portfolio is classified as available for sale, and may be used for liquidity purposes as needed.

Deposits generated within our local markets are the major source of funds for our lending and investment activities. Total deposits at December





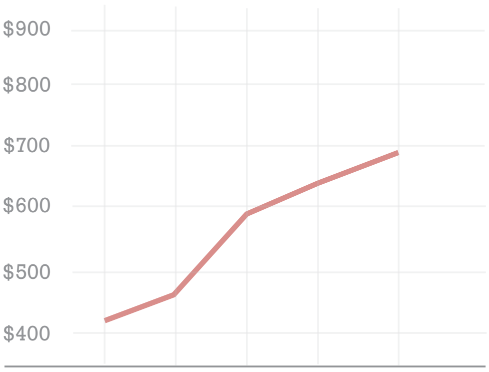


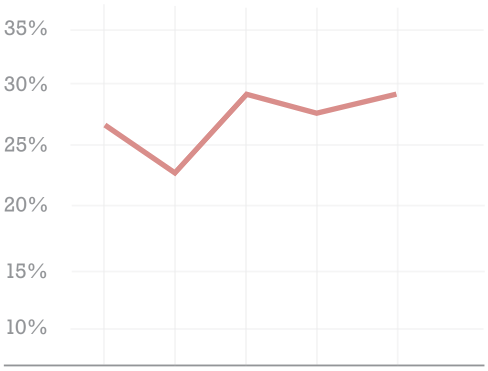
2014 FINANCIAL HIGHLIGHTS CONT.

31, 2014, were $698.2 million, an increase of $70.3 million or 11% over December 31, 2013. We continued to experience strong growth in our core retail and commercial deposit base, with most of our branches increasing their presence in the communities they serve.

Total equity was $52.5 million at December 31, 2014. Our Board of Directors is committed to providing a solid return to our shareholders and declared a total of $1.42 per share in dividends during 2014. This represents a yield of 3.12% based on our yearend market price of $45.46 per share.

Please refer to our Consolidated Financial Report as of December 31, 2014, for more information regarding our 2014 results.





SELECTED FINANCIAL DATA	YEAR ENDED DECEMBER 31				
(In thousands, except per share data (1))	2014	2013	2012	2011	2010
FINANCIAL STATEMENT HIGHLIGHTS ($)					
Assets	806,844	732,830	665,472	555,451	513,585
Loans, gross	544,464	500,884	445,906	359,951	312,629
Deposits	698,202	627,919	598,305	460,999	424,006
Other borrowings	38,791	42,000	5,000	42,058	44,491
Junior subordinated debentures	9,217	9,217	9,217	9,217	9,217
Total equity	52,506	47,410	44,884	35,894	31,567
Interest and dividend income	27,062	24,963	23,147	21,215	20,819
Interest expense	3,795	2,952	3,556	3,653	3,730
Net interest income	23,267	22,011	19,591	17,562	17,089
Provision for loan losses	750	525	450	965	2,405
Net securities gains	139	429	215	407	727
Net income	7,204	7,029	6,170	5,138	4,168
PER SHARE INFORMATION ($)					
Basic earnings per share	4.83	4.72	4.43	3.98	3.24
Cash dividends declared	1.42	1.31	1.26	0.95	0.89
Book value per share	35.24	31.77	30.16	27.78	24.48
SELECTED RATIOS					
Return on average assets	0.94%	1.01%	0.99%	0.96%	0.85%
Return on average shareholders' equity	13.96%	15.22%	14.93%	14.47%	12.99%
Leverage ratio (Bank)	8.21%	8.38%	8.26%	8.42%	8.22%
Dividend payout ratio	28.97%	20.12%	34.98%	22.75%	26.97%
OTHER SELECTED DATA (IN WHOLE NUMBERS)					
Employees (full time equivalent)	175	163	155	142	139
Banking Offices	12	12	11	11	10

(1) Per share data reflects a 3-for-2 stock split in the form of a stock dividend, effective February 29, 2012

BRINGING THE WOW!

LNB's WOW! Employee Program ranks number one on our key initiatives each and every year. That's how important positive attitudes and customer service are to our culture. Our commitment to going the extra mile is celebrated quarterly through our WOW! recognition awards and annually at our employee event. Congratulations to all of our staff for their focus on customer service and to those who received special recognitions this year. It truly is "all about people."

PRESIDENT'S CHOICE AWARD

Joseph Garritano *(left)* and Katherine Porter *(right)* stand with Robert Schick after receiving the 2014 President's Employee of the Year Award at our Annual WOW! Celebration. Both are members of our Deposit Operations department and were recognized for their consistently responsive, helpful support to our customers and staff.

QUARTERLY WOW! AWARD WINNERS

Quarterly WOW! award winners for 2014 gathered at our Annual Employee Meeting held at the Ohmann Theatre, from left, Stephanie Morse, Head Teller, Penn Yan; Matthew Trickler, Customer Service Representative, Geneva; Angela Merola, Collector & Banking Officer, Lyons; and Allison Britton, Training Assistant, Geneva. *(Absent from photo: Joseph Garritano, System Specialist, Main Office, Lyons)*

TAPPING OUR TALENT

In December, LNB's Board of Directors approved the promotions of nine exemplary employees. We are pleased to recognize their accomplishments and share their well-deserved recognition.

ANNA M. BRIDGER
Commercial Loan Officer

Promoted from Assistant Vice President to Vice President

JULIEANN B. DOWNEY
Lyons Branch Manager

Promoted from Banking Officer to Assistant Vice President

RYAN M. HALLINGS
Commercial and Agricultural Loan Officer

Promoted from Assistant Vice President to Vice President

VALORIE A. HEINZMAN
Mortgage Specialist

Promoted to Banking Officer

KAREN D. LOMBARDOZZI
Systems Administrator

Promoted to Banking Officer

RAYMOND K. SMITH
Credit Analyst

Promoted to Banking Officer

COREY A. STULPIN
Credit Analyst

Promoted to Banking Officer

TREVOR THOMAS
Operations Manager

Promoted from Assistant Vice President to Vice President

LYNNETTE M. ZELIAS
Commercial Loan Operations Supervisor

Promoted from Banking Officer to Assistant Vice President

BOARD OF DIRECTORS & EXECUTIVE STAFF

LARGE PHOTO LEFT (from left to right) ***Andrew F. Fredericksen CPA****, Senior Partner, Fredericksen & Siranni, LLP,* ***Diana R. Johnson****, Executive Vice President & Chief Financial Officer,* ***Robert A. Schick****, President & Chief Executive Officer,* ***Phillip M. McCann****, Executive Vice President & Chief Risk Officer,* ***Joseph A. Fragnoli,*** *Owner, Super Casuals. TOP RIGHT PHOTO (from left to right)* ***Stephen V. DeRaddo****, Executive Vice President & Senior Retail Lending Officer,* ***Clair J. Britt, Jr.*** *Executive Vice President & Senior Commercial Lending Officer,* ***Thomas L. Kime****, Executive Vice President & Chief Operating Officer,* ***Kaye Stone-Gansz****, President & CEO, Stone Goose Enterprises, Inc.,* ***Brad A. Person****, President & General Manager, Nuttall Golf Cars Inc. and Nuttall Golf Car Leasing, LLC,* ***Shannon Romano****, Executive Administrative Assistant.* ***Bottom*** *RIGHT PHOTO (from left to right)* ***David J. Breen, Jr.*** *General Manager, Herrema's Market Place,* ***Dale H. Hemminger****, President & General Manager, Hemdale Farms & Greenhouses,* ***James A. Homburger****, Real Estate Broker, Performance Properties,* ***Case A. Marshall****, CFO & Vice President, Marshall Companies,* ***Carol Snook****, Corporate/Executive Secretary,* ***James E. Santelli****, Retired Vice President & Co-owner, Santelli Lumber Co.*

INVESTING IN WOLCOTT'S FUTURE

It's been nearly 25 years since LNB's humble beginnings in a trailer by the local Pit Stop convenience store. Welcomed by the Wolcott community, we have grown in our New Hartford Street office and today celebrate a robust market share in the area. In response to ongoing support and resulting growth, the Branch is undergoing an exciting expansion and renovation project.

On December 17, 2014, we celebrated the completion of Phase I, the Ted Marshall Community Room, part of a new 1,500 square -foot addition equipped with Wi-Fi, HDMI technology, a kitchen area and restrooms. In the spirit of community, LNB is pleased to offer the Wolcott area this meeting space for local organizations to share ideas and help the community prosper. "I look forward to working with area residents and leaders to make this space available to them," said Sherri Sheldon, Branch Manager in Wolcott.

Marshall, a successful area businessman at the helm of the Pit Stop convenience stores, E&V and Patriot Tank Lines attended the dedication ceremony, held in his honor, with his family and recalled the original Wolcott LNB temporary office site next to the Pit Stop. "I have seen our business and the bank's business grow beyond anything I ever thought possible," he said. Phase II renovations are slated for completion in the spring of 2015. Grand Re-Opening celebrations will follow, recognizing our 25-year commitment to community banking in the Wolcott area.

LEFT PHOTO: Cutting the ceremonial ribbon for the Ted Marshall Community Room are (left to right) ***Tom Kime****, COO, LNB; NYS Assemblyman* ***Bob Oaks****; Wolcott Branch Manager,* ***Sherri Sheldon****; President & CEO, LNB,* ***Robert Schick****; honoree,* ***Ted Marshall*** *with wife,* ***Nancy****. Ted Marshall (CENTER AND RIGHT PHOTO) and wife, Nancy, are joined by their children (left to right)* ***James****,* ***Dottie*** *and* ***Case*** *for a photo at the dedication event in December.*

ADVISORY BOARDS

GENEVA

STEPHEN J. BLOWERS
Blowers Agri Service, Inc.

PETER J. D'AMICO, JR.
D'Amico Chrysler Dodge Jeep

JASON S. FEINBERG, MD
Finger Lakes Health

ROBERT S. FLOWERS
Hobart and William Smith Colleges

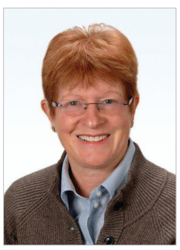
CARL W. FRIBOLIN
White Springs Winery

BERNARD G. LYNCH
Lynch Furniture

ANNE D. NENNEAU
CCN International

ROBERT TEWKSBURY
Pearl Technologies, Inc.

PENN YAN

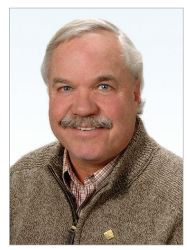


BONNIE B. CURBEAU
Curbeau Realty

JEFFREY M. KENNEDY
Morgan Marine

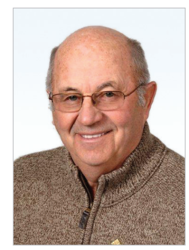
MICHAEL D. LINEHAN
Yates County Chamber of Commerce

JAMES H. LONG
Longs' Cards and Books



PAUL W. MARBLE, JR.
Marble's Automotive and Glass

STEVEN D. PERRY
Knapp & Schlappi Lumber Co., Inc.



NEIL J. SIMMONS
Simmons Vineyards

Not Pictured:

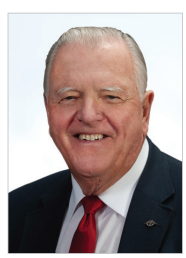
HENRY H. MARTIN
Town of Benton Dairy Farmer

SENECA COUNTY

SALVATORE N. FRANZONE
Ciccino's Pizzeria and Restaurant

KENNETH W. PADGETT, DO
Past President and Current Chancellor of NYCC

EUGENE PIERCE
Glenora Wine Cellars, Inc. and Knapp Winery



ROBERT L. SESSLER
Retired, Sessler Companies

RAYMOND A. TUURI, JR.
Finger Lakes Equipment Rental

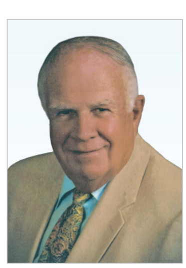
STEPHEN J. WADHAMS
Wadhams Enterprises, Inc.

CANANDAIGUA

DAVID DAMASKE
Parkview Fairways Golf Course

APRIL E. DAWSON
Constellation Brands

GAIL D. HERMAN
The Medicine Shoppe Canandaigua



EUGENE W. HERMENET
Retired, Curtice Burns Foods

JACK W. MORAN
Roseland Bowl Family Fun Center

CHARLES W. POTTER
Potter HVAC and Metal Fab, Inc.

EXECUTIVE MANAGEMENT

ROBERT A. SCHICK
President & Chief Executive Officer

DIANA R. JOHNSON
Executive Vice President & Chief Financial Officer

THOMAS L. KIME
Executive Vice President & Chief Operating Officer

STEPHEN V. DERADDO
Executive Vice President & Senior Retail Lending Officer

PHILLIP M. MCCANN
Executive Vice President & Chief Risk Officer

CLAIR J. BRITT, JR.
Executive Vice President & Senior Commercial Lending Officer

BANK OFFICERS AND SUPERVISORS

ADMINISTRATION

ROBERT A. SCHICK
President & Chief Executive Officer

THOMAS L. KIME
Executive Vice President & Chief Operating Officer

CAROL A. SNOOK
Banking Officer & Corporate/Executive Secretary

AUDIT & COMPLIANCE

RUTH M. COLUMBUS
Vice President & Director of Internal Audit

MELONIE L. TIFFANY
Banking Officer & Staff Auditor

BRANCH DIVISION

THOMAS D. MULLER
Senior Vice President & Director of Retail Sales

JEFFREY A. FRIEND
Senior Vice President & District Executive – Ontario and Seneca counties

SUSAN K. ANDERSEN
Vice President & Branch Manager – Penn Yan

JAMES S. BILOTTA
Assistant Vice President & Branch Manager – Macedon

JULIEANN B. DOWNEY
Assistant Vice President & Branch Manager – Lyons

WILLIAM L. DUNGEY
Assistant Vice President & Branch Manager – Clyde and Jordan

JAMES A. JOHNSON III
Assistant Vice President & Branch Manager – Canandaigua

JILL D. JUFFS
Assistant Vice President & Business Development Officer & Cash Manager Representative

EMILY E. QUILL
Assistant Vice President & Branch Manager – Seneca County

TARA R. RAGO
Assistant Vice President & Assistant Branch Manager – Geneva

SHERRI A. SHELDON
Assistant Vice President & Branch Manager – Wolcott

JEAN E. TSEPAS
Assistant Vice President & Branch Manager – Ontario

KATE E. DECKER
Banking Officer & Branch Manager – Geneva

CATHY J. DEMAY
Banking Officer & Assistant Branch Manager – Ontario

SUSAN L. SNYDER
Banking Officer & Assistant Branch Manager – Penn Yan

COMMERCIAL LENDING

CLAIR J. BRITT, JR.
Executive Vice President & Senior Commercial Lending Officer

DARRIN BRENTNALL
Vice President & Commercial Loan Officer

ANNA M. BRIDGER
Vice President & Commercial Loan Officer

STEPHEN V. D'ORAZIO
Vice President & Commercial Loan Officer

RYAN M. HALLINGS
Vice President & Commercial/Agricultural Loan Officer

JAMES H. KING
Vice President & Commercial Loan Officer

SCOTT A. MACKENZIE
Vice President & Agricultural/Commercial Loan Officer

GREGORY R. MACDONALD
Assistant Vice President & Agricultural/Commercial Loan Officer

CREDIT ADMINISTRATION & COMPLIANCE

PHILLIP M. MCCANN
Executive Vice President & Chief Risk Officer

PAMELA J. LEE
Vice President & Portfolio Monitoring Officer

JOYCE A. MARBLE
Assistant Vice President & Compliance/BSA Officer

JASON R. CORNWELL
Banking Officer & Senior Credit Underwriter

AMANDA M. MCDONALD
Banking Officer & Credit Analyst

RAYMOND K. SMITH
Banking Officer & Credit Analyst

COREY A. STULPIN
Banking Officer & Credit Analyst

FINANCE & HUMAN RESOURCES

DIANA R. JOHNSON
Executive Vice President & Chief Financial Officer

KIMBERLY A. KELLEY
Assistant Vice President & Director of Human Resources

BRENDA L. CORDERO
Banking Officer & Accounting Manager

CHAD J. PROPER
Banking Officer & Financial Analyst

FINANCIAL SERVICES

ROBERT T. KOCZENT
Vice President & Director of Financial Services

MARKETING

BARBARA H. TANEY
Banking Officer & Director of Marketing

OPERATIONS & IT

TODD F. JUFFS
Vice President & Chief Information Officer

TREVOR THOMAS
Vice President & Operations Manager

HOPE A. ALEXANIAN
Assistant Vice President & Retail Loan Operations Manager

CHERYL M. GRAHAM
Assistant Vice President & Deposit Operations Supervisor

LYNNETTE M. ZELIAS
Assistant Vice President & Commercial Loan Operations Supervisor

KAREN D. LOMBARDOZZI
Banking Officer & Systems Administrator

RETAIL & SMALL BUSINESS LENDING

STEPHEN V. DERADDO
Executive Vice President & Senior Retail Lending Officer

JOSHUA N. MILLER
Vice President & Mortgage Underwriter

ROBERT T. MACDONELL
Vice President & Consumer Loan Officer

THOMAS R. DAVID
Assistant Vice President & Mortgage Specialist

TIMOTHY H. LEAD
Assistant Vice President & Mortgage Underwriter

MICHAEL E. RUSINKO
Assistant Vice President & Small Business Development Officer

JOSEPH M. ARBOGAST
Banking Officer & Mortgage Specialist

VALORIE A. HEINZMAN
Banking Officer & Mortgage Specialist

ANGELA M. MEROLA
Banking Officer & Collector

JILL I. PEEK
Banking Officer & Mortgage Specialist

SECURITY & FACILITIES

MICHAEL J. COLACINO
Assistant Vice President & Securities/Facilities Manager

TRAINING

DEBORAH A. ODELL
Assistant Vice President & Director of Training

BUILDING EXCITEMENT IN MONROE COUNTY

We're ready to put shovels in the ground on our 13th branch which will be located in Perinton. The project, encompassing the development of a 1.2 acre site, will include a new 5,176 square foot building located at the north east corner of the newly realigned O'Connor Road, Fairport Road and Jefferson Avenue.

As is standard practice on our new builds, the branch will house a community room, open to the public for meeting space, and offices for staff dedicated to commercial lending, mortgage origination and financial services. The site will feature a beautiful public green space. Working in conjunction with the Fairport Partnership design committee, LNB will develop a "pocket" park that will be tied to the Perinton Park sidewalks and trails.

"As we continue to expand our form of hometown banking to new communities, we strive to provide added value to our customers and the community itself," said Tom Kime, COO. "The Perinton community has been very supportive in this development process which further reinforces our commitment to providing community banking that is centered on personal service and community development."

SUPPORTING OUR PERINTON INITIATIVE

Business members from the Monroe County community join LNB's newly-formed Perinton Advisory Board. We welcome their support and insight. (From left to right) ***Don Fox****, Partner with Evans & Fox, LLP,* ***Linc Swedrock****, P.E. with BME Associates,* ***Sam DiPrima****, real estate developer,* ***Art Elting****, (absent from photo) Owner, Country Rode Motowerks*

CANANDAIGUA BRANCH: A YEAR IN REVIEW

Our event calendar was full for the opening of our new, permanent office location in Roseland Center Plaza. The branch has had tremendous success, surpassing its yearend goal by $10 million.

(1)

(2)

(4)

(3)

(1) May 2, 2014: Branch and Bank staffs were joined by local leaders to celebrate our official Groundbreaking Event in Roseland Center Plaza.

(2) August 13, 2014: ***Senator Michael Nozzolio*** *joined* ***Robert Schick*** *at the podium to celebrate the completion of the new Canandaigua office at our Ribbon-Cutting Event.*

(3) August 16, 2014: Attendees enjoyed lunch at the new office during the public Grand Opening Event that included drawings and entertainment.

(4) November 13, 2014: In support of local merchants, winners of our Grand Opening promotion received "Bonus Bucks" for holiday shopping at participating businesses.

HOMEGROWN

Deeply rooted in our local landscape.

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

FINANCIAL REPORT
December 31, 2014

ANNUAL MEETING

The annual meeting of the stockholders will take place at 4:30 p.m. on May 20, 2015, at the historic Ohmann Theatre in Lyons, New York.

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

PROFILE

Lyons Bancorp, Inc. is a bank holding company headquartered in Lyons, New York, with assets of $805 million at December 31, 2014. Lyons Bancorp, Inc. has one 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 and Geneva in Ontario County, Penn Yan in Yates County and Waterloo in Seneca County. The Lyons National Bank has one subsidiary, Lyons Realty Associates Corp.

STOCK SYMBOL

LYBC

BOARD OF DIRECTORS

ROBERT A. SCHICK
President & Chief Executive Officer
Lyons Bancorp, Inc. & The Lyons National Bank

DAVID J. BREEN, JR.
General Manager
Herrema's Market Place

CLAIR J. BRITT, JR.
Executive Vice President & Senior Commercial Lending Officer
The Lyons National Bank

JOSEPH A. FRAGNOLI
Owner
Super Casuals

ANDREW F. FREDERICKSEN, CPA
Senior Partner
Fredericksen & Sirianni, LLP

DALE H. HEMMINGER
President & General Manager
Hemdale Farms & Greenhouses

JAMES A. HOMBURGER
Real Estate Broker
Performance Properties

THOMAS L. KIME
Executive Vice President & Chief Operating Officer
The Lyons National Bank

CASE A. MARSHALL
Chief Operating Officer & Vice President
Marshall Companies

BRAD A. PERSON
President & General Manager
Nuttall Golf Cars Inc. and Nuttall Golf Car Leasing, LLC

JAMES E. SANTELLI
Retired Vice President & Co-owner
Santelli Lumber Co.

KAYE STONE-GANSZ
President & Chief Executive Officer
Stone Goose Enterprises, Inc.

CANANDAIGUA ADVISORY BOARD

David Damaske
April E. Dawson
Gail D. Herman
Eugene W. Hermenet
Jack W. Moran
Charles W. Potter

GENEVA ADVISORY BOARD

Stephen J. Blowers
Peter J D'Amico, Jr.
Jason S. Feinberg, MD
Robert S. Flowers
Carl W. Fribolin
Bernard G. Lynch
Anne D. Nenneau
Robert Tewksbury

PENN YAN ADVISORY BOARD

Bonnie B. Curbeau
Jeffrey M. Kennedy
Michael D. Linehan
James H. Long
Paul W. Marble, Jr.
Henry H. Martin
Steven D. Perry
Neil J. Simmons

SENECA COUNTY ADVISORY BOARD

Salvatore N. Franzone
Kenneth W. Padgett, DO
Eugene Pierce
Robert L. Sessler
Raymond A. Tuuri, Jr.
Stephen J. Wadhams

MAIN OFFICE

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

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2014

Bonadio & Co., LLP
Certified Public Accountants

Table of Contents December 31, 2014 and 2013

Bonadio & Co., LLP
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

February 27, 2015

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

We have audited the accompanying consolidated balance sheets of Lyons Bancorp Inc. and subsidiary, as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014. Lyons Bancorp Inc. and subsidiary's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lyons Bancorp Inc. and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

115 Solar Street, Suite 100
Syracuse, New York 13204
p (315) 214-7575
f (315) 471-2128

www.bonadio.com

Consolidated Balance Sheets
December 31, 2014 and 2013

Assets	2014	2013
	(In thousands)	
Cash and due from banks	**$ 13,309**	$ 12,959
Interest-bearing deposits in banks	**12,524**	11,173
Cash and Cash Equivalents	**25,833**	24,132
Investment securities:		
Available for sale	**141,204**	140,174
Held to maturity	**57,231**	31,298
Restricted equity securities	**6,143**	5,906
Total Investment Securities	**204,578**	177,378
Loans	**544,464**	500,884
Less allowance for loan losses	**(7,549)**	(7,132)
Net Loans	**536,915**	493,752
Land, premises and equipment, net	**16,441**	14,992
Bank owned life insurance	**13,684**	12,696
Accrued interest receivable and other assets	**9,393**	9,880
Total Assets	**$ 806,844**	$ 732,830
Liabilities and Equity		
Liabilities		
Deposits:		
Interest-bearing	**$ 556,450**	$ 502,483
Non-interest-bearing	**141,752**	125,436
Total Deposits	**698,202**	627,919
Borrowings from Federal Home Loan Bank	**38,791**	42,000
Junior subordinated debentures	**9,217**	9,217
Accrued interest payable and other liabilities	**8,128**	6,284
Total Liabilities	**754,338**	685,420
Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Common stock	**747**	747
Paid-in capital	**12,226**	12,201
Retained earnings	**42,999**	37,911
Accumulated other comprehensive loss	**(3,308)**	(3,403)
Treasury stock, at cost	**(214)**	(102)
Total Lyons Bancorp, Inc. Stockholders' Equity	**52,450**	47,354
Noncontrolling interest	**56**	56
Total Equity	**52,506**	47,410
Total Liabilities and Equity	**$ 806,844**	$ 732,830

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended December 31, 2014 and 2013

	2014	2013
	(In thousands, except per share data)	
Interest Income		
Loans	**$ 22,903**	$ 21,134
Investment securities:		
Taxable	**2,656**	2,340
Non-taxable	**1,503**	1,489
Total Interest Income	**27,062**	24,963
Interest Expense		
Deposits	**3,158**	2,331
Borrowings	**637**	621
Total Interest Expense	**3,795**	2,952
Net Interest Income	**23,267**	22,011
Provision for Loan Losses	**750**	525
Net Interest Income after Provision for Loan Losses	**22,517**	21,486
Noninterest Income		
Service charges on deposit accounts	**2,760**	2,511
Cardholder fees	**1,324**	1,137
Financial services fees	**847**	791
Loan servicing fees	**791**	658
Net realized gains from sales/calls of available for sale securities	**139**	429
Realized gains on loans sold	**904**	873
Earnings on investment in bank owned life insurance	**388**	214
Other	**255**	180
Total Noninterest Income	**7,408**	6,793
Noninterest Expense		
Salaries and wages	**8,848**	8,122
Pensions and benefits	**2,698**	2,928
Occupancy	**2,224**	2,053
Data processing	**1,298**	1,270
Professional fees	**1,105**	1,002
FDIC and OCC assessments	**655**	473
Advertising	**560**	535
Office supplies	**400**	422
Cardholder expense	**362**	292
Other	**1,847**	1,628
Total Noninterest Expense	**19,997**	18,725
Income before Income Taxes	**9,928**	9,554
Income Tax Expense	**2,719**	2,520
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	**7,209**	7,034
Less: Net income attributable to noncontrolling interest	**5**	5
Net Income	**$ 7,204**	$ 7,029
Earnings Per Share – basic	**$ 4.83**	$ 4.72
Earnings Per Share – diluted	**$ 4.58**	$ 4.48

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

	2014	**2013**
	(In thousands)	
Net income	**$ 7,204**	$ 7,029
Other comprehensive income (loss):		
Securities available for sale:		
Net unrealized gains (losses) during the year	**2,856**	(7,243)
Reclassification adjustment for gains included in income	**(139)**	(429)
Securities held to maturity:		
Reclassification adjustment for amortization of unrealized losses included in income	**68**	-
Changes in unrealized (losses) gains during the year of restricted equity securities	**(13)**	5
Pension and postretirement benefits:		
Amortization of prior service credit	**(3)**	(3)
Amortization of net loss	**49**	267
Net actuarial (loss) gain	**(2,668)**	2,518
Cash flow hedge:		
(Losses) gains on the effective portion of cash flow hedge	**(191)**	203
Reclassification adjustment for losses included in income	**199**	196
	158	(4,486)
Tax (expense) benefit	**(63)**	1,794
Other comprehensive income (loss)	**95**	(2,692)
Comprehensive income	**$ 7,299**	$ 4,337

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2014 and 2013

(In thousands, except per share data)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interest	Total
Balance - January 1, 2013	$ 747	$ 12,181	$ 32,833	$ (711)	$ (222)	$ 56	$ 44,884
Net income attributable to noncontrolling interests and Lyons Bancorp, Inc.	-	-	7,029	-	-	5	7,034
Total other comprehensive loss, net	-	-	-	(2,692)	-	-	(2,692)
Deferred compensation shares awarded, net	-	20	-	-	120	-	140
Dividends to noncontrolling interests	-	-	-	-	-	(5)	(5)
Cash dividends declared, $1.31 per share	-	-	(1,951)	-	-	-	(1,951)
Balance – December 31, 2013	747	12,201	37,911	(3,403)	(102)	56	$ 47,410
Net income attributable to noncontrolling interests and Lyons Bancorp, Inc.	-	-	7,204	-	-	5	7,209
Total other comprehensive income, net	-	-	-	95	-	-	95
Purchase of treasury stock	-	-	-	-	(314)	-	(314)
Issuance of treasury stock	-	-	-	-	73	-	73
Deferred compensation shares awarded, net	-	25	-	-	129	-	154
Dividends to noncontrolling interests	-	-	-	-	-	(5)	(5)
Cash dividends declared, $1.42 per share	-	-	(2,116)	-	-	-	(2,116)
Balance – December 31, 2014	$ 747	$ 12,226	$ 42,999	$ (3,308)	$ (214)	$ 56	$ 52,506

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
	(In thousands)	
Cash Flows from Operating Activities		
Net income	**$ 7,204**	$ 7,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**750**	525
Earnings on investment in bank owned life insurance	**(388)**	(214)
Net realized gain from sales/calls of available for sale securities	**(139)**	(429)
Realized gains on loans sold	**(904)**	(873)
Loss on sale of real estate owned and other repossessed assets	**2**	29
Deferred compensation expense	**218**	161
Net amortization on securities	**346**	661
Depreciation and amortization	**947**	892
Deferred income tax benefit	**(203)**	(838)
Contribution to defined benefit pension plan	**(1,000)**	(750)
Decrease in accrued interest receivable and other assets	**572**	937
Increase in accrued interest payable and other liabilities	**204**	305
Loans originated for sale	**(47,692)**	(45,964)
Proceeds from sales of loans	**45,791**	50,037
Net Cash Provided by Operating Activities	**5,708**	11,508
Cash Flows from Investing Activities		
Purchases of securities available for sale	**(57,329)**	(88,260)
Proceeds from sales of securities available for sale	**44,475**	32,837
Proceeds from maturities and calls of securities available for sale	**14,275**	45,021
Purchases of held to maturity securities	**(33,101)**	(4,006)
Proceeds from maturities of securities held to maturity	**7,294**	6,471
Net increase in restricted equity securities	**(250)**	(1,977)
Proceeds from sales of commercial loans	**2,853**	-
Net increase in portfolio loans	**(43,977)**	(58,824)
Proceeds from sale of real estate owned, net and other repossessed assets	**14**	223
Purchase of bank owned life insurance	**(600)**	(4,659)
Premises and equipment purchases, net	**(2,407)**	(484)
Net Cash Used in Investing Activities	**(68,753)**	(73,658)
Cash Flows from Financing Activities		
Net increase in demand and savings deposits	**61,202**	3,721
Net increase in time deposits	**9,081**	25,893
Net (decrease) increase in overnight borrowings from Federal Home Loan Bank	**(7,400)**	37,000
Proceeds from term borrowings from Federal Home Loan Bank	**5,000**	-
Repayment of term borrowings from Federal Home Loan Bank	**(809)**	-
Purchase of treasury stock	**(314)**	-
Issuance of treasury stock	**73**	-
Dividends paid	**(2,087)**	(1,414)
Net Cash Provided by Financing Activities	**64,746**	65,200
Net Increase in Cash and Cash Equivalents	**1,701**	3,050
Cash and Cash Equivalents – Beginning	**24,132**	21,082
Cash and Cash Equivalents – Ending	**$ 25,833**	$ 24,132
Supplementary Cash Flow Information		
Interest paid	**$ 3,765**	$ 2,908
Income taxes paid, net of refund received	**$ 3,104**	$ 3,229
Non-cash Disclosure		
Transfer of loans to foreclosed real estate and other repossessed assets	**$ 16**	$ 252
Transfer of available for sale securities to held to maturity	**$ -**	$ 25,169

See notes to consolidated financial statements.

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 twelve branches located in Wayne, Onondaga, Yates, Ontario, and Seneca 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 I (Trust I), Lyons Capital Statutory Trust II (Trust II) and Lyons Statutory Trust III (Trust III). Trust I was formed in 2003, Trust II was formed in 2004, and Trust III was formed in 2009. The Trusts were each 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 sheet.

Basis of Presentation

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

Variable interest entities (VIEs) are required to be consolidated if it is determined the company is the primary beneficiary of a VIE. The primary beneficiary of a VIE is the enterprise that has both the power and ability to direct the activities of the VIE that most significantly impact the VIE's economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The Company's wholly owned subsidiaries, Trust I, Trust II, and Trust III are VIE's for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements, as discussed in Note 8.

Reclassification

Amounts in the prior years' consolidated financial statements are reclassified when necessary to conform to the current year's presentation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Recently Issued Accounting Pronouncements

ASU 2014-04, "*Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40"), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure.*" This new guidance clarifies when an in substance repossession or foreclosure occurs, and requires all creditors who obtain physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable to reclassify the collateralized mortgage loan such that the loan should be derecognized and the collateral asset recognized. This guidance is effective prospectively for the Company for annual and interim periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Investment Securities

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

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.

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Company intends to

Note 1 - Summary of Significant Accounting Policies (Continued)

Investment Securities - continued

sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Company will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write-down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying security and it is more-likely-than not that the Company would not have to sell the security prior to recovery.

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

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

Loans

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans - continued

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

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

Loans Held for Sale

Generally, loans held for sale consist of residential mortgage loans that are originated and are intended to be sold through agreements the Bank has with the Federal Home Loan Bank (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 sheet at the lower of cost or estimated fair value determined in the aggregate. Residential loans held for sale totaled $4.7 million and $1.9 million at December 31, 2014 and 2013, respectively, and are included in loans on the consolidated balance sheets.

During 2014 and 2013, the Company sold residential mortgage loans totaling $45.8 million and $50.0 million, respectively, and realized gains on these sales were $756,000 and $873,000, 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 2014 and 2013, the Company recorded mortgage-servicing assets of $373,000 and $298,000, respectively. Amortization of mortgage-servicing assets amounted to $209,000 in 2014 and $237,000 in 2013. Net mortgage-servicing assets included in the consolidated balance sheets totaled $730,000 and $566,000 net of amortization, as of December 31, 2014 and 2013, respectively.

Note 1 - Summary of Significant Accounting Policies (Continued)

Loans Held for Sale - continued

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 2014, the Bank sold $2.7 million of commercial loans backed by Small Business Administration guarantees. Gains on the sale of commercial loans totaled $148,000 in 2014. There were no sales of commercial loans in 2013. Commercial loans held for sale at December 31, 2014 were $1.1 million. There were no commercial loans held for sale at December 31, 2013.

Total loans serviced for others amounted to $200.2 million and $173.0 million at December 31, 2014 and 2013, respectively.

Allowance for Loan Losses

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

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

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

<u>General Component</u>

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan classes: residential real estate, commercial real estate, agricultural real estate, commercial and agricultural loans, and consumer installment segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. The historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or its methodology pertaining to the general component of the allowance during 2014 or 2013.

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:

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses - continued

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.

Specific Component

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses - continued

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

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

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

Unallocated Component

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

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. Loans modified in a TDR often involve temporary interest-only payments, term extensions, reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, requesting additional collateral, releasing collateral for consideration, or substituting or adding a new borrower or guarantor.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Owned Life Insurance

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

Foreclosed Real Estate

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosure. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. There was no foreclosed real estate at December 31, 2014 or 2013.

Treasury Stock

Treasury stock is recorded at cost. Shares are reissued on the average cost method on a first in, first out basis, except for issuance of deferred compensation shares, which are discussed in Note 11.

Interest Rate Swap Agreement

The Company utilizes an interest rate swap agreement as part of its management of interest rate risk to modify the repricing characteristics of its floating-rate junior subordinate debentures. For this swap agreement, amounts receivable or payable are recognized as accrued under the terms of the agreement, and the net differential is recorded as an adjustment to interest expense of the related debentures. The interest rate swap agreement is designated as a cash flow hedge. Therefore, the effective portion of the swap’s unrealized gain or loss was initially recorded as a component of other comprehensive income, net of tax. The ineffective portion of the unrealized gain or loss, if any, is immediately reported in other operating income. The Company considers its interest rate swap agreement to be fully effective and accordingly it has not recorded any gains or losses in earnings during 2014 or 2013.

Advertising Costs

Advertising costs are expensed as incurred.

Note 1 - Summary of Significant Accounting Policies (Continued)

Noncontrolling Interest

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

Income Taxes

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

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, as well as adjustments to net income for interest expense relating to convertible securities, net of tax, that would result from the assumed issuance. Treasury shares are not deemed outstanding for earnings per share calculations. See Note 12 for earnings per share calculations.

Comprehensive Income

Accounting principles generally require that 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 balance sheet, such items, along with net income, are components of comprehensive income.

Note 1 - Summary of Significant Accounting Policies (Continued)

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, federal funds sold, and interest-bearing deposits in banks with an original maturity of less than three months.

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.

Segment Reporting

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

Note 2 - Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2014 and 2013 was $9.5 million and $9.1 million, respectively.

Note 3 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2014 and 2013:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014:				
Available for Sale:				
United States agencies	**$ 51,334**	**$ 278**	**$ (731)**	**$ 50,881**
State and local governments	**65,638**	**847**	**(125)**	**66,360**
Mortgage-backed securities	**24,404**	**89**	**(530)**	**23,963**
Total Available for Sale	**$ 141,376**	**$ 1,214**	**$ (1,386)**	**$ 141,204**
Held to Maturity:				
United States agencies	**$ 2,741**	**$ 84**	**$ -**	**$ 2,825**
State and local governments	**5,975**	**53**	**-**	**6,028**
Mortgage-backed securities	**48,515**	**474**	**(133)**	**48,856**
Total Held to Maturity	**$ 57,231**	**$ 611**	**$ (133)**	**$ 57,709**
Restricted Equity Securities	**$ 6,141**	**$ 2**	**$ -**	**$ 6,143**

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013:				
Available for Sale:				
United States agencies	$ 41,855	$ 539	$ (1,255)	$ 41,139
State and local governments	62,730	774	(870)	62,634
Mortgage-backed securities	38,478	71	(2,148)	36,401
Total Available for Sale	$ 143,063	$ 1,384	$ (4,273)	$ 140,174
Held to Maturity:				
United States agencies	$ 3,707	$ -	$ -	$ 3,707
State and local governments	6,129	-	-	6,129
Mortgage-backed securities	21,462	-	-	21,462
Total Held to Maturity	$ 31,298	$ -	$ -	$ 31,298
Restricted Equity Securities	$ 5,891	$ 15	$ -	$ 5,906

Note 3 – Investments (Continued)

All of the above mortgage-backed securities are residential direct pass through securities or collateralized mortgage obligations issued or backed by U.S. government sponsored enterprises (GSEs). Restricted equity securities primarily include non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to both the Company's borrowing levels with the FHLB and commitments to sell residential mortgage loans to the FHLB. Holdings of FHLBNY stock and FRB stock totaled $5.2 million and $500,000 at December 31, 2014, respectively, and $5.0 million and $500,000 at December 31, 2013, 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 $43,000 and $56,000 at December 31, 2014 and 2013, 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.

The Company elected to transfer six available for sale (AFS) securities with an aggregate fair value of $25.2 million to a classification of held to maturity (HTM) on December 31, 2013. The transfer from AFS to HTM was recorded at the fair value of the AFS securities at the time of transfer. The net unrealized holding loss of $330,000, net of tax, at the date of transfer was retained in accumulated other comprehensive loss, with the associated pretax amount of the unrealized losses retained in the carrying amount of the HTM securities. Such amounts are being amortized to interest income over the remaining life of the securities. The fair value of the transferred AFS securities became the carrying amount of the HTM securities at December 31, 2013, with no unrealized gain or loss at this date.

Note 3 – 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:

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2014:						
United States agencies	**$ 9,984**	**$ (16)**	**$ 22,836**	**$ (715)**	**$ 32,820**	**$ (731)**
State and local governments	**12,461**	**(83)**	**2,608**	**(42)**	**15,069**	**(125)**
Mortgage-backed securities	**21,309**	**(168)**	**16,189**	**(495)**	**37,498**	**(663)**
	$ 43,754	**$ (267)**	**$ 41,633**	**$ (1,252)**	**$ 85,387**	**$ (1,519)**

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013:						
United States agencies	$ 27,282	$ (1,255)	$ -	$ -	$ 27,282	$ (1,255)
State and local governments	23,569	(799)	1,554	(71)	25,123	(870)
Mortgage-backed securities	34,053	(2,148)	-	-	34,053	(2,148)
	$ 84,904	$ (4,202)	$ 1,554	$ (71)	$ 86,458	$ (4,273)

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, (6) whether the Company intends to sell or 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 sixty securities with unrealized losses at December 31, 2014, while at December 31, 2013 there were one hundred ten securities with unrealized losses. 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

Note 3 – Investments (Continued)

obligations, all securities rated by an independent rating agency carry an investment grade rating. Financial information relating to unrated state and government obligations is reviewed for indications of adverse conditions that may indicate other-than-temporary impairment. Because the Company does not intend to sell the securities with unrealized losses and it believes it is not likely to be required to sell the securities before recovery of their amortized cost basis, which may be, and is likely to be, maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2014. In addition, there were no other-than-temporary impairment charges in 2014 and 2013.

The amortized cost and fair value of debt securities at December 31, 2014, 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	**$ 8,585**	**$ 8,673**	**$ 709**	**$ 711**
Due after one year through five years	**52,299**	**52,118**	**1,608**	**1,625**
Due after five years through ten years	**55,867**	**56,226**	**1,180**	**1,207**
Due after ten years	**221**	**224**	**5,219**	**5,310**
Securities not due at a single maturity date	**24,404**	**23,963**	**48,515**	**48,856**
	$ 141,376	**$ 141,204**	**$ 57,231**	**$ 57,709**

During 2014, the Company sold $44.5 million of available for sale securities, while in 2013 the Company sold $32.8 million of available for sale securities. Gross gains on the sales of investments in 2014 were $139,000. Gross gains on the sales of investment securities in 2013 were $429,000. Investment securities with carrying amounts of $99.7 million and $113.4 million at December 31, 2014 and 2013, respectively, were pledged to secure deposits as required or permitted by law.

Note 4 – Loans

Loans consist of the following at December 31, 2014 and 2013:

	2014	2013
	(In thousands)	
Real estate:		
Residential:		
1-4 family	**$ 147,285**	$ 138,802
Home equity	**70,681**	65,918
Commercial	**143,426**	126,807
Agriculture	**35,047**	29,373
Total mortgage loans on real estate	**396,439**	360,900
Commercial loans	**89,584**	84,127
Agriculture loans	**32,355**	29,154
Consumer installment loans:		
Direct	**14,173**	13,939
Indirect	**11,913**	12,764
Total consumer installment loans	**26,086**	26,703
Total loans	**$ 544,464**	$ 500,884

Net unamortized loan origination costs totaled $770,000 and $815,000 at December 31, 2014 and 2013, respectively and are included with their related loan class.

The Company has transferred a portion of its originated commercial, commercial real estate, agriculture and agriculture real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2014 and 2013, the Company was servicing loans for participants aggregating $11.4 million and $7.9 million, respectively.

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

Note 4 – Loans (Continued)

The following table presents past due loans by classes of the loan portfolio at December 31, 2014 and 2013:

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
December 31, 2014:					
Residential real estate:					
1-4 family	$ 146,805	$ -	$ 480	$ 147,285	$ 548
Home equity	70,526	155	-	70,681	213
Commercial real estate	143,151	51	224	143,426	3,193
Agriculture real estate	35,047	-	-	35,047	-
Commercial loans	89,529	32	23	89,584	23
Agriculture loans	32,355	-	-	32,355	-
Consumer installment loans:					
Direct	14,121	52	-	14,173	-
Indirect	11,903	10	-	11,913	-
Total	$ 543,437	$ 300	$ 727	$ 544,464	$ 3,977

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
December 31, 2013:					
Residential real estate:					
1-4 family	$ 138,620	$ 66	$ 116	$ 138,802	$ 205
Home equity	65,626	239	53	65,918	175
Commercial real estate	126,273	332	202	126,807	3,570
Agriculture real estate	29,373	-	-	29,373	41
Commercial loans	84,015	72	40	84,127	58
Agriculture loans	29,048	106	-	29,154	-
Consumer installment loans:					
Direct	13,892	47	-	13,939	-
Indirect	12,602	162	-	12,764	73
Total	$ 499,449	$ 1,024	$ 411	$ 500,884	$ 4,122

At December 31, 2014 and 2013, there were no loans that were over 90 days delinquent and still accruing interest.

Note 4 – Loans (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2014 and 2013 follows:

(In thousands)

2014	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning balance	$ 1,049	$ 2,464	$ 337	$ 295	$ 1,887	$ 511	$ 589	$ 7,132
Provisions for loan losses	485	156	43	66	145	(36)	(109)	750
Recoveries of loans previously charged off	2	-	-	-	20	47	-	69
Loans charged off	(200)	-	-	-	(65)	(137)	-	(402)
Ending balance	$ 1,336	$ 2,620	$ 380	$ 361	$ 1,987	$ 385	$ 480	$ 7,549
2013								
Beginning balance	$ 1,348	$ 2,396	$ 318	$ 238	$ 1,708	$ 385	$ 607	$ 7,000
Provisions for loan losses	(281)	68	19	57	226	454	(18)	525
Recoveries of loans previously charged off	3	-	-	-	8	74	-	85
Loans charged off	(21)	-	-	-	(55)	(402)	-	(478)
Ending balance	$ 1,049	$ 2,464	$ 337	$ 295	$ 1,887	$ 511	$ 589	$ 7,132

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2014 and 2013:

(In thousands)

December 31, 2014	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Amount of allowance for loan losses on loans individually evaluated for impairment	$ -	$ 970	$ -	$ -	$ -	$ -	$ -	$ 970
Amount of allowance for loan losses on loans collectively evaluated for impairment	1,336	1,650	380	361	1,987	385	480	6,579
Total allowance for loan losses	$ 1,336	$ 2,620	$ 380	$ 361	$ 1,987	$ 385	$ 480	$ 7,549
Loans individually evaluated for impairment	$ 23	$ 3,367	$ -	$ -	$ -	$ -	$ -	$ 3,390
Loans collectively evaluated for impairment	89,561	140,059	32,355	35,047	217,966	26,086	-	541,074
Total Loans	$ 89,584	$ 143,426	$ 32,355	$ 35,047	$217,966	$ 26,086	$ -	$544,464

Note 4 – Loans (Continued)

December 31, 2013	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Amount of allowance for loan losses on loans individually evaluated for impairment	$ -	$ 1,030	$ -	$ -	$ -	$ -	$ -	$ 1,030
Amount of allowance for loan losses on loans collectively evaluated for impairment	1,049	1,434	337	295	1,887	511	589	6,102
Total allowance for loan losses	$ 1,049	$ 2,464	$ 337	$ 295	$ 1,887	$ 511	$ 589	$ 7,132
Loans individually evaluated for impairment	$ 58	$ 3,570	$ -	$ 41	$ -	$ -	$ -	$ 3,669
Loans collectively evaluated for impairment	84,069	123,237	29,154	29,332	204,720	26,703	-	497,215
Total Loans	$ 84,127	$ 126,807	$ 29,154	$ 29,373	$204,720	$ 26,703	$ -	$500,884

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 $100,000 that are internally risk rated substandard or worse, giving consideration to payment history, debt service payment capacity, collateral support, strength of guarantors, local market trends, industry trends, and other factors relevant to the particular borrowing relationship. Through this process, management identifies impaired loans. For loans considered impaired, estimated exposure amounts are based upon collateral values or present value of expected future cash flows discounted at the original effective interest rate of each loan. For commercial loans, commercial mortgage loans, agricultural mortgages and agricultural loans not specifically reviewed, and for homogenous loan portfolios such as residential mortgage loans and consumer loans, estimated exposure amounts are assigned based upon historical net loss experience and current charge-off trends, past due status, and management's judgment of the effects of current economic conditions on portfolio performance. In determining and assigning historical loss factors to the various homogeneous portfolios, the Company calculates average net losses over a period of time and compares this average to current levels and trends to ensure that the calculated average loss factor is reasonable.

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

Note 4 – Loans (Continued)

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

The following table summarizes information regarding impaired loans by loan portfolio class as of December 31, 2014 and 2013:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2014					
With no related allowance recorded:					
Commercial loans	$ 23	$ 26	$ -	$ 32	$ 2
Commercial real estate	256	280	-	242	9
Agriculture real estate	-	-	-	27	-
With an allowance recorded:					
Commercial loans	-	-	-	6	-
Commercial real estate	3,111	3,666	970	3,160	-
Total	$ 3,390	$ 3,972	$ 970	$ 3,467	$ 11
Summary:					
Commercial	$ 3,390	$ 3,972	$ 970	$ 3,440	$ 11
Agriculture	-	-	-	27	-
Total	$ 3,390	$ 3,972	$ 970	$ 3,467	$ 11

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2013					
With no related allowance recorded:					
Commercial loans	$ 58	$ 60	$ -	$ 115	$ 3
Commercial real estate	84	93	-	164	-
Agriculture real estate	41	92	-	44	-
With an allowance recorded:					
Commercial real estate	3,486	3,883	1,030	3,481	-
Total	$ 3,669	$ 4,128	$ 1,030	$ 3,804	$ 3
Summary:					
Commercial	$ 3,628	$ 4,036	$ 1,030	$ 3,760	$ 3
Agriculture	41	92	-	44	-
Total	$ 3,669	$ 4,128	$ 1,030	$ 3,804	$ 3

Note 4 – Loans (Continued)

There were no troubled debt restructurings for the years ended December 31, 2014 or 2013.

There were no troubled debt restructurings that defaulted in the first twelve months after restructuring was granted.

Credit Quality

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

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

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

Loans rated a "9" are considered "doubtful". Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable. There were no doubtful loans at December 31, 2014 or 2013.

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, 2014 or 2013.

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.

Note 4 – Loans (Continued)

Credit Quality – continued

The following table presents the classes of the commercial and agriculture loan portfolios summarized by the aggregate pass rating and the criticized and classified ratings of special mention and substandard within the Company's internal risk rating system as of December 31, 2014 and 2013:

(In thousands)

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Total
December 31, 2014					
Grade:					
Pass	$ 82,421	$ 135,495	$ 31,535	$ 32,963	$ 282,414
Special Mention	2,228	321	-	43	2,592
Substandard	4,935	7,610	820	2,041	15,406
Total	$ 89,584	$ 143,426	$ 32,355	$ 35,047	$ 300,412
December 31, 2013					
Grade:					
Pass	$ 77,172	$ 117,441	$ 27,952	$ 27,188	$ 249,753
Special Mention	3,967	2,524	-	48	6,539
Substandard	2,988	6,842	1,202	2,137	13,169
Total	$ 84,127	$ 126,807	$ 29,154	$ 29,373	$ 269,461

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

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

Note 4 – Loans (Continued)

Credit Quality – continued

The following table presents the classes of the residential real estate and consumer loan portfolios summarized by performing or nonaccrual as of December 31, 2014 and 2013:

(In thousands)

	1-4 Family	Home Equity	Consumer - Direct	Consumer - Indirect	Total
December 31, 2014					
Performing	$ 146,737	$ 70,468	$ 14,173	$ 11,913	$ 243,291
Nonaccrual	548	213	-	-	761
Total	$ 147,285	$ 70,681	$ 14,173	$ 11,913	$ 244,052
December 31, 2013					
Performing	$ 138,597	$ 65,743	$ 13,939	$ 12,691	$ 230,970
Nonaccrual	205	175	-	73	453
Total	$ 138,802	$ 65,918	$ 13,939	$ 12,764	$ 231,423

Note 5 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2014 and 2013:

	2014	2013
	(In thousands)	
Land	**$ 2,956**	$ 2,956
Buildings	**12,736**	12,723
Furniture and equipment	**5,845**	6,804
Leasehold improvements	**2,076**	232
Construction in progress	**219**	57
	23,832	22,772
Less accumulated depreciation	**(7,391)**	(7,780)
	$ 16,441	$ 14,992

Note 5 - Land, Premises and Equipment (Continued)

Depreciation and amortization expense in 2014 and 2013 are included in noninterest expense as follows:

	2014	**2013**
	(In thousands)	
Buildings	**$ 317**	$ 320
Furniture and equipment	**587**	569
Leasehold improvements	**43**	3
	$ 947	$ 892

At December 31, 2014, the Bank leased four of its branch facilities, as well as two operations facilities under non-cancelable operating leases. Future minimum rental payments under these leases are as follows:

Years Ending December 31,	(In thousands)
2015	$ 212
2016	136
2017	142
2018	145
2019	91
Thereafter	658
	$ 1,384

Rent expense under the operating leases totaled $224,000 and $190,000 in 2014 and 2013, respectively.

At December 31, 2014, the Bank leased out space under non-cancelable operating leases. Future minimum rental payments to be received by the Company under these leases are as follows:

Years Ending December 31,	(In thousands)
2015	$ 118
2016	87
2017	74
2018	76
2019	77
Thereafter	161
	$ 593

Rent income under the operating leases totaled $132,000 and $130,000 in 2014 and 2013, respectively.

Note 6 - Deposits

Certificates of deposit in denominations of $250,000 and over were $64.9 million and $53.6 million at December 31, 2014 and 2013, respectively.

At December 31, 2014, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2015	$ 127,664
2016	22,714
2017	5,545
2018	5,225
2019	1,878
	$ 163,026

Note 7 - Borrowings

Borrowings consist of overnight advances and amortizing borrowings. At December 31, 2014 and 2013, there were $34.6 million and $42.0 million in overnight advances outstanding, respectively. The table below details additional information related to overnight advances for the years ended December 31,

	2014	**2013**
	(Dollars in thousands)	
Average outstanding balance	**$ 6,817**	$ 17,832
Interest expense	**$ 31**	$ 67
Weighted average interest rate during the year	**0.45%**	0.38%
Weighted average interest rate at end of year	**0.32%**	0.40%

Long term debt at December 31, 2014 and 2013 consists of the following FHLB advances:

	Amount		**Weighted Average Rate**	
	2014	**2013**	**2014**	**2013**
	(Dollars in thousands)			
Amortizing advance, due January 2019, requiring monthly principal and interest payments of $86,311	**$ 4,191**	$ -	**1.39%**	-

Note 7 – Borrowings (Continued)

At December 31, 2014, scheduled principal payments on amortizing advances are as follows:

Years Ending December 31,	(In thousands)
2015	$ 984
2016	998
2017	1,011
2018	1,026
2019	172
	$ 4,191

As a member of the FHLB, the Bank can use certain unencumbered mortgage-related assets to secure borrowings from the FHLB. At December 31, 2014, total unencumbered mortgage-related loans were $17 million. Additional assets may also qualify as collateral for FHLB advances.

The Company, through the Bank, can use certain unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2014, total unencumbered collateral in the form of home equity loans and other consumer loans was $46 million.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $15.0 million and $10.0 million at December 31, 2014 and 2013, respectively. There were no outstanding advances against those lines at December 31, 2014 or 2013.

Note 8 - Junior Subordinated Debentures

On June 27, 2003, the Company issued $1.035 million in junior subordinated debentures due June 27, 2033, to Trust I. The Company owns all of the $35,000 in common equity of Trust I and the debentures are the sole asset of Trust I. Trust I issued $1.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.75%. The coupon rate was 3.01% at December 31, 2014, and 2.996% at December 31, 2013. The securities are callable by the Company, subject to any required regulatory approval, at par, after June 2008.

The Company unconditionally guarantees the Trust I capital securities. The terms of the junior subordinated debentures and the common equity of Trust I mirror the terms of the trust capital securities issued by Trust I. The Company used the net proceeds from this offering to fund an additional $1.0 million capital investment in the Bank to fund its operations and future growth.

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

Note 8 - Junior Subordinated Debentures (Continued)

at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.65%. The coupon rate was 2.8829% at December 31, 2014 and 2.8876% at December 31, 2013. The securities are callable by the Company subject to any required regulatory approval, at par, after August 2009.

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.

In December 2009, the Company entered into an interest rate swap agreement (swap) with an effective date of February 23, 2011. The Company designated the swap as a cash flow hedge and it is intended to protect against the variability of cash flows associated with Trust II. The swap modifies the pricing characteristic of Trust II, wherein the Company receives interest at three-month LIBOR plus 2.65% from a counterparty and pays a fixed rate of interest of 6.80% to the same counterparty calculated on a notional amount of $5.0 million. This agreement will expire on November 23, 2019. The swap agreement was entered into with a counterparty that met the Company's credit standards, and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in this contract is not significant. At December 31, 2014, the company pledged $840,000 cash collateral to the counterparty.

At December 31, 2014 and 2013, the fair value of the swap agreement was a loss of $603,000 and $611,000, respectively, and was the amount the Company would have expected to pay to terminate the agreement. The fair value of the swap is included in other liabilities in the accompanying consolidated balance sheets. The net effect of the swap increased interest expense by $199,000 and $196,000 in 2014 and 2013, respectively.

On February 12, 2010, the Company issued $3.027 million in junior subordinated debentures due February 12, 2040, to Trust III. The Company owns all of the $95,000 in common equity of Trust III and the debentures are the sole asset of Trust III. Trust III issued $2.932 million of fixed rate convertible trust capital securities in a non-public offering. These capital securities provide for quarterly distributions at a fixed annual coupon rate of 6.00%. The securities are callable by the Company, subject to any required regulatory approval, at par, after February 2015. Holders of the trust securities may convert the securities, at any time, into shares of the Company's common stock at a conversion price of $27.78 per share, subject to adjustments for splits, stock dividends, recapitalization and the like and issuances on a pro rata basis below the current market value, in-kind dividends and tender offers above market value.

The Company unconditionally guarantees the Trust III capital securities. The terms of the junior subordinated debentures and the common equity of Trust III mirror the terms of the convertible trust capital securities issued by Trust III. The Company used the net proceeds from this offering to fund an additional $2.9 million capital investment in the Bank for its operations and future growth.

The accounts of Trust I, Trust II and Trust III are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2014 and 2013, $9.0 million in trust capital securities qualified as Tier I capital.

Note 9 - Income Taxes

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

	2014	**2013**
	(In thousands)	
Current tax provision:		
Federal	**$ 2,698**	$ 3,074
State	**224**	284
Total current tax provision	**2,922**	3,358
Deferred tax expense/(benefit):		
Federal	**(210)**	(782)
State	**7**	(56)
Total deferred tax benefit	**(203)**	(838)
	$ 2,719	$ 2,520

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

	2014	2013
Statutory federal tax rate	**34.0%**	34.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	**(5.6)**	(5.7)
Non-taxable earnings on bank-owned life insurance	**(1.3)**	(0.8)
Nondeductible expenses	**0.2**	0.2
Disallowed interest expense	**0.2**	0.2
Other, net	**(0.1)**	(1.5)
Effective tax rate	**27.4%**	26.4%

Note 9 - Income Taxes (Continued)

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

	2014	2013
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 2,920**	$ 2,693
Compensation and benefits	**3,411**	2,219
Net unrealized loss on available for sale securities	**68**	1,149
Net unrealized loss on held to maturity securities transferred from available for sale	**193**	220
Other	**702**	700
Total deferred tax assets	**$ 7,294**	$ 6,981
Deferred tax liabilities:		
Prepaid pension	**$ 994**	$ 882
Depreciation	**661**	658
Other	**650**	590
Total deferred tax liabilities	**$ 2,305**	$ 2,130
Net deferred tax assets	**$ 4,989**	$ 4,851

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

At December 31, 2014 and December 31, 2013, the Company had no unrecognized tax benefits. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

The Company conducts business within New York State, as well as Pennsylvania through its partnership with New York State Title Agency West, LLC, and therefore files Federal, New York and Pennsylvania State tax returns. As the Company does not take uncertain tax positions, it has established no liability for uncertain tax positions. The Company did not have any accrued interest or penalties associated with any unrecognized tax benefits.

In the normal course of business the Company is subject to examination by taxing authorities. The Company is no longer subject to U.S. federal or state income tax examinations for years before 2011.

Note 10 - 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. None of the shares of the authorized preferred stock have been issued. 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.

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

The common stock and treasury stock of the Company at December 31, 2014 and 2013 are as follows:

	2014	**2013**
Common stock, authorized shares, $0.50 par value	**5,000,000**	5,000,000
Issued shares	**1,493,778**	1,493,778
Less: treasury stock shares	**(5,272)**	(3,280)
Outstanding shares	**1,488,506**	1,490,498

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income are as follows for the years ended December 31, 2014 and 2013:

	2014	**2013**
	(In thousands)	
Securities available for sale:		
Net unrealized gains (losses) during the year	**$ 1,143**	$ (2,897)
Reclassification adjustment for gains included in income	**(56)**	(172)
Securities held to maturity:		
Reclassification adjustment for amortization of unrealized losses included in income	**27**	-
Changes in unrealized gains during the year of restricted equity securities	**(5)**	2
Pension and postretirement benefits:		
Amortization of prior service credit	**(1)**	(1)
Amortization of net loss	**20**	107
Net actuarial (loss) gain	**(1,067)**	1,007
Cash flow hedge		
Gains (losses) on the effective portion of cash flow hedge	**(77)**	81
Reclassification adjustment for losses included in income	**79**	79
Tax expense (benefit)	**$ 63**	$ (1,794)

Note 10 - Stockholders' Equity (Continued)

Reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2014 and 2013 are as follows:

Details About Accumulated Other Comprehensive (Loss) Income Components	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income		Affected Line Item In The Statement Where Net Income is Presented
	2014	2013	
	(In Thousands)		
Unrealized gains and losses on available for sale securities (before tax)	**$ 139**	$ 429	Net realized gains from sales/calls of available for sale securities
Tax expense	**(56)**	(172)	Income tax expense
Net of tax	**83**	257	
Amortization of unrealized losses on securities transferred to held to maturity (before tax):	**(68)**	-	Interest Income – investment securities, taxable
Tax expense	**27**	-	Income tax expense
Net of tax	**(41)**	-	
Amortization of pension and postretirement benefit plan items (before tax):			
Prior service credit	**3**	3	
Net losses	**(49)**	(267)	
	(46)	(264)	Pensions and benefits expense
Tax benefit	**19**	106	Income tax expense
Net of tax	**(27)**	(158)	
Gains and losses on cash flow hedge (before tax)	**(199)**	(196)	Interest expense - borrowings
Tax benefit	**79**	79	Income tax expense
Net of tax	**(120)**	(117)	
Total reclassification for the year, net of tax	**$ (105)**	$ (18)	

Note 10 - Stockholders' Equity (Continued)

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

(In thousands)	Unrealized gains (losses) on securities available for sale	Unrealized losses on securities transferred to held to maturity	Unrealized gains on restricted equity securities	Pension and postretirement benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2013	$ 2,540	$ -	$ 6	$ (2,650)	$ (607)	$ (711)
Other comprehensive income (loss) before reclassifications	(4,346)	-	3	1,510	123	(2,710)
Amounts reclassified from accumulated other comprehensive income	(257)	-	-	158	117	18
Other comprehensive income (loss) for 2013	(4,603)	-	3	1,668	240	(2,692)
Transfer of available for sale securities to held to maturity	330	(330)	-	-	-	-
Balance – December 31, 2013	(1,733)	(330)	9	(982)	(367)	(3,403)
Other comprehensive income (loss) before reclassifications	1,713	-	(8)	(1,601)	(114)	(10)
Amounts reclassified from accumulated other comprehensive income	(83)	41	-	27	120	105
Other comprehensive income (loss) for 2014	1,630	41	(8)	(1,574)	6	95
Balance – December 31, 2014	$ (103)	$ (289)	$ 1	$ (2,556)	$ (361)	$ (3,308)

Note 11 - 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.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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 ending December 31, 2014 and 2013:

	Pension Plan		Healthcare Plan	
	2014	**2013**	**2014**	**2013**
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 8,875**	$ 9,639	**$ 471**	$ 463
Service cost	**856**	991	**3**	3
Interest cost	**429**	364	**22**	20
Actuarial loss (gain)	**2,753**	(1,794)	**85**	16
Expected expenses	**(99)**	(78)	**-**	-
Benefits paid	**(188)**	(247)	**(36)**	(31)
Benefit obligation at end of year	**12,626**	8,875	**545**	471
Change in plan assets:				
Fair value of plan assets at beginning of year	**9,651**	7,978	**-**	-
Actual return on plan assets	**808**	1,258	**-**	-
Employer contribution	**1,000**	750	**36**	31
Actual expenses paid	**(121)**	(88)	**-**	-
Benefits paid	**(188)**	(247)	**(36)**	(31)
Fair value of plan assets at end of year	**11,150**	9,651	**-**	-
Funded status recognized	**$ (1,476)**	$ 776	**$ (545)**	$ (471)
Accumulated benefit obligation	**$ 10,351**	$ 7,345	**$ 545**	$ 471

The underfunded status of the Pension Plan as of December 31, 2014 has been recognized in other liabilities in the consolidated balance sheets, while its overfunded status as of December 31, 2013 was recognized in other assets. The unfunded status of the Healthcare Plan has been recognized in other liabilities in the consolidated balance sheets at December 31, 2014 and 2013.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The components of net periodic benefit cost and other comprehensive income are as follows:

	Pension Plan		Healthcare Plan	
	2014	**2013**	**2014**	**2013**
Components of net periodic benefit cost:		(In thousands)		
Service cost	**$ 856**	$ 991	**$ 3**	$ 3
Interest cost	**429**	364	**22**	20
Expected return on plan assets	**(616)**	(508)	**-**	-
Amortization of prior service cost (credit)	**1**	1	**(4)**	(4)
Amortization of net loss	**40**	257	**9**	10
Net periodic benefit cost	**$ 710**	$ 1,105	**$ 30**	$ 29
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	**$ 2,584**	$ (2,534)	**$ 85**	$ 16
Recognized actuarial loss	**(40)**	(257)	**(9)**	(10)
Recognized prior service (cost) credit	**(1)**	(1)	**4**	4
Recognized in other comprehensive income	**$ 2,543**	$ (2,792)	**$ 80**	$ 10
Total recognized in net periodic benefit cost and other comprehensive income	**$ 3,253**	$ (1,687)	**$ 110**	$ 39

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

	Pension Plan		Healthcare Plan	
	2014	**2013**	**2014**	**2013**
		(In thousands)		
Prior service cost (credit)	**$ 2**	$ 2	**$ (14)**	$ (17)
Net actuarial loss	**2,426**	900	**142**	97
	$ 2,428	$ 902	**$ 128**	$ 80

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2015 are as follows:

	Pension Plan	Healthcare Plan	Total
		(In thousands)	
Prior service cost (credit)	**$ 1**	**$ (4)**	**$ (3)**
Net actuarial loss	**209**	**15**	**224**
Total	**$ 210**	**$ 11**	**$ 221**

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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

	Pension Plan		Healthcare Plan	
	2014	**2013**	**2014**	**2013**
Discount rates:				
Benefit cost for Plan Year	**4.93%**	3.84%	**4.73%**	3.84%
Benefit obligation at end of Plan Year	**3.95%**	4.93%	**3.81%**	4.73%
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 benefit plan at December 31, 2014 was 4.00%. Assumed health care trend rates may have a significant effect on the amounts reported for this plan. A 1% increase in the trend rate would increase the periodic benefit cost by $4,000 and increase the accumulated postretirement benefit obligation by $71,000.

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 Society of Actuaries recently issued new mortality tables (RP-2014) and recommended the use of this new table for measurement of year end pension plan obligations. The Company made the decision to utilize RP-2014 to measure the December 31, 2014 pension plan obligation. The Company used mortality table RP-2000 to measure the pension plan obligation as of December 31, 2013. The change in mortality tables increased the projected benefit obligation by approximately $564,000.

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. While the Company has satisfied the minimum funding requirement for 2014, it expects to contribute to the Pension Plan during 2015. However, the amount of the contribution is not known at this time.

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

	Pension Plan	Healthcare Plan
Years Ending December 31,	(In thousands)	
2015	**$ 284**	**$ 37**
2016	**322**	**37**
2017	**356**	**37**
2018	**383**	**37**
2019	**414**	**36**
2020 - 2024	**2,709**	**176**
	$ 4,468	**$ 360**

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The fair value of the Company's pension plan assets at December 31, 2014 and 2013 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, 2014:				
Cash equivalents:				
Foreign currencies	$ 5	$ 5	$ -	$ -
Government issues	37	-	37	-
Short term investment funds	933	-	933	-
Total cash equivalents	975	5	970	-
Equity securities:				
Common stock	2,173	2,173	-	-
Depository receipts	27	27	-	-
Preferred stock	21	21	-	-
Commingled pension trust funds	1,593	-	1,593	-
Exchange traded funds	1,560	1,560	-	-
Total equity securities	5,374	3,781	1,593	-
Fixed income securities:				
Auto loan receivable	49	-	49	-
Collateralized mortgage obligations	100	-	100	-
Commingled pension trust funds	3,110	-	3,110	-
Corporate bonds	438	-	438	-
Federal Home Loan Mortgage Corporation	11	-	11	-
Federal National Mortgage Association	288	-	288	-
Government National Mortgage Association II	18	-	18	-
Government issues	758	-	758	-
Other asset backed securities	24	-	24	-
Other securities	5	-	5	-
Total fixed income securities	4,801	-	4,801	-
Total	$ 11,150	$ 3,786	$ 7,364	$ -

Note 11 - 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, 2013:				
Cash equivalents:				
Foreign currencies	$ 14	$ 14	$ -	$ -
Government issues	140	-	140	-
Short term investment funds	373	-	373	-
Total cash equivalents	527	14	513	-
Equity securities:				
Common stock	4,791	4,791	-	-
Depository receipts	60	46	14	-
Preferred stock	23	23	-	-
Real estate investment trust	14	14	-	-
Total equity securities	4,888	4,874	14	-
Fixed income securities:				
Auto loan receivable	35	-	35	-
Collateralized mortgage obligations	1,057	-	1,057	-
Corporate bonds	1,137	-	1,137	-
Federal Home Loan Mortgage Corporation	132	-	132	-
Federal National Mortgage Association	455	-	455	-
Government National Mortgage Association I	32	-	32	-
Government National Mortgage Association II	14	-	14	-
Government issues	1,342	-	1,342	-
Municipals	32	-	32	-
Total fixed income securities	4,236	-	4,236	-
Total	$ 9,651	$ 4,888	$ 4,763	$ -

At December 31, 2014 and 2013, the portfolio was managed by two investment firms. In addition, as of December 31, 2014 and 2013, approximately $456,000 and $120,000, respectively, of Pension Plan monies had not yet been allocated to either investment manager. At December 31, 2014, control was split at approximately 57%, 39% and 4%. At December 31, 2013, the portfolio was split at approximately 58%, 41% and 1%.

At December 31, 2014, there were two commingled pension trust funds and a short term investment fund accounting for 13%, 9% and 8% of the entire investment portfolio. At December 31, 2013, there was a 5% portfolio concentration in the State Street & Trust Co. Short Term Investment Fund.

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.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

Valuation techniques used to measure fair value 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.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Investments valued using the Net Asset Value (NAV) are classified as Level 2 if the Pension Plan can redeem its investment with the investee at the NAV at the measurement date. If the Pension Plan can never redeem the investment with the investee at the NAV, it is considered a Level 3. If the Pension Plan can redeem the investment at the NAV at a future date, the Pension Plan's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

The Pension Plan uses the Thomson Reuters Pricing Service to determine the fair value of equities excluding commingled pension trust funds, the pricing service of IDC Corporate USA to determine the fair value of fixed income securities excluding commingled pension trust funds and JP Morgan Chase Bank, N.A. to determine the fair value of commingled pension trust funds.

There were no transfers in or out of Level 3 in the years ended December 31, 2014 and 2013.

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 overall investment strategy is 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 target allocations are shown in the table below. Cash equivalents consist primarily of government issues (maturing in less than three months) and short term investment funds. Equity securities primarily include investments in common stock, commingled pension trust funds and exchange traded funds. Fixed income securities primarily include commingled pension trust funds, corporate bonds, collateralized mortgage obligations, government issues and mortgage backed securities.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The weighted average expected long-term rate of return is estimated based on current trends as well as projected future rates of return on those assets and reasonable actuarial assumptions based on the guidance provided by Actuarial Standard Of Practice No. 27 “Selection of Economic Assumptions for Measuring Pension Obligations” for long term inflation, and the real and nominal rate of investment return for a specific mix of asset classes. The following assumptions were used in determining the long-term rate of return:

Equity securities: Dividend discount model, the smoothed earnings yield model, and the equity risk premium model

Fixed income securities: Current yield-to-maturity and forecasts of future yields

The long term rate of return considers historical returns. Adjustments were made to historical returns in order to reflect expectations of future returns. These adjustments were due to factor forecasts by economists and long-term U.S. Treasury yields to forecast long-term inflation. In addition, forecasts by economists and others for long-term gross domestic product growth were factored into the development of assumptions for earnings growth and per capita income.

Investment managers are prohibited from purchasing any security greater than 5% of the portfolio at the time of purchase or greater than 8% at market value in any one issuer. The issuer of any security purchased must be located in a country in the Morgan Stanley Capital International World Index. In addition, the following investments are prohibited:

Equity securities:

- Short sales,
- Unregistered securities, and
- Margin purchases.

Fixed income securities:

- Mortgage backed derivatives that have an inverse floating rate coupon or that are interest only securities,
- Any asset backed security that is not issued by the U.S. government or its agencies or instrumentalities,
- In general, securities of less than Baa2/BBB quality,
- Securities of less than A-quality may not in the aggregate exceed 13% of the investment manager’s portfolio, and
- An investment manager’s portfolio of commercial mortgage-backed securities and asset-backed securities may not exceed 10% of the portfolio at the time of purchase.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

All other investments not prohibited by policy are permitted. At December 31, 2014 and 2013 the Pension Plan held certain investments which are no longer deemed acceptable to acquire. These positions will be liquidated when the investment managers deem that such liquidation is in the best interest of the Pension Plan.

The target allocation for 2015 and actual allocation of plan assets as of December 31, 2014 and 2013 are as follows:

		% of Plan Assets at December 31,	
Asset Category	Target Allocation 2015	2014	2013
Cash equivalents	0-20%	8.7%	5.5%
Equity securities	40-60%	48.2%	50.6%
Fixed income securities	40-60%	43.1%	43.9%
Other financial instruments	0-5%	-	-

Defined Contribution Plan

The Bank has a contributory 401(k) Plan for substantially all employees. Employees are eligible to contribute a percentage of their salary up to the maximum as determined by the Internal Revenue Service. The Bank is required to match 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed $300,000 and $267,000 under these provisions during 2014 and 2013, respectively.

Supplemental Employee Retirement Plans

The Company maintains supplemental employee retirement plans (the “SERP”) for certain executives. All benefits provided under the SERP are unfunded and, as these executives retire, the Company will make payments to plan participants. The unfunded status of the SERP at December 31, 2014 and 2013 was $3.0 million and $2.8 million, respectively, and is recorded in other liabilities in the consolidated balance sheets. Compensation expense related to the SERP was $260,000 and $250,000 for the years ended December 31, 2014 and 2013.

Deferred Compensation Plans

Prior to 2007, the Company had entered into employment agreements with key executives. These employment agreements established deferred compensation plans whereby Company stock was awarded and vested each year. In 2007, the Company terminated the employment agreements and related deferred compensation plans and established new deferred compensation plans for key executives. The new plans require a vesting period of three years from the original date the executive entered the plan. Awarded shares from both the prior plan and the current plan are restricted from being sold until employment is terminated.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

Deferred Compensation Plans - continued

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 63,186 and 59,216 at December 31, 2014 and 2013, respectively. Total shares awarded were 3,970 and 3,974 for 2014 and 2013, respectively. There were no unvested shares at December 31, 2014. 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 $133,000 and $106,000 for the years ended December 31, 2014 and 2013, respectively.

Note 12 - 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:

	2014	2013
	(in thousands, except per share data)	
Net income available to common shareholders	**$ 7,204**	$ 7,029
Adjustment for dilutive potential common shares	**106**	107
Net income available for diluted common shares	**$ 7,310**	$ 7,136
Weighted average common shares used to calculate basic EPS	**1,490,581**	1,488,950
Add: effect of common stock equivalents	**105,552**	105,552
Weighted average common shares used to calculate diluted EPS	**1,596,133**	1,594,502
Earnings per common share:		
Basic	**$ 4.83**	$ 4.72
Diluted	**$ 4.58**	$ 4.48

Note 13 - 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.

Note 13 - Related Party Transactions (Continued)

The rollforward of loans to related parties for the years ended December 31 is as follows:

	2014	2013
	(In thousands)	
Beginning balance, January 1	**$ 10,967**	$ 5,749
New loans	**2,761**	3,141
New Directors	**-**	8,150
Sold Loans	**(520)**	-
Repayments	**(1,187)**	(6,073)
Ending balance, December 31	**$ 12,021**	$ 10,967

The Bank has an operating lease with one of its directors. Under the terms of the lease, the Bank receives monthly payments of approximately $4,038 through August 2014, increasing to $4,139 through August 2015.

Note 14 - 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:

	2014	**2013**
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 53,377**	$ 48,054
Unfunded commitments under commercial lines of credit	**63,668**	52,054
Unfunded commitments under consumer lines of credit	**48,309**	44,678
Standby letters of credit	**8,739**	8,798
	$ 174,093	$ 153,584

Note 14 - Commitments and Contingent Liabilities (Continued)

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 $7.5 million at both December 31, 2014 and 2013, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2014 and 2013.

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 $6.4 million and $4.9 million at December 31, 2014 and 2013 respectively, which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's spread account. The FHLB is funding the spread account annually based on the outstanding balance of loans sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread 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 unencumbered mortgage-related assets to secure letters of credit from the FHLB. As of December 31, 2014 and 2013, the Bank had letters of credit outstanding with the FHLB of $33.1 million and $13.8 million, respectively.

Note 15 - 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 Lessor's of Nonresidential Buildings, with loans outstanding of $25.4 million or 4.67% of total loans as of December 31, 2014. 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 4 Loans" in Notes to Consolidated Financial Statements.

Note 16 - 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 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.

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).

Management believes, as of December 31, 2014, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Note 16 - Regulatory Matters (Continued)

Capital - continued

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.

The Company's and the Bank's capital amounts and ratios are also presented in the table below.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014:						
Total risk-based capital						
Consolidated	**$71,904**	**12.4 %**	**$≥46,324**	**≥8.0 %**	**$≥57,905**	**≥10.0 %**
Bank	**$72,478**	**12.5 %**	**$≥46,283**	**≥8.0 %**	**$≥57,853**	**≥10.0 %**
Tier 1 capital						
Consolidated	**$64,673**	**11.2 %**	**$≥23,162**	**≥4.0 %**	**$≥34,743**	**≥6.0 %**
Bank	**$65,247**	**11.3 %**	**$≥23,141**	**≥4.0 %**	**$≥34,712**	**≥6.0 %**
Tier 1 leverage						
Consolidated	**$64,673**	**8.1 %**	**$≥31,816**	**≥4.0 %**	**$≥39,769**	**≥ 5.0 %**
Bank	**$65,247**	**8.2 %**	**$≥31,793**	**≥4.0 %**	**$≥39,742**	**≥ 5.0 %**
December 31, 2013:						
Total risk-based capital						
Consolidated	$66,194	12.7 %	$≥41,670	≥8.0 %	$≥52,089	≥10.0 %
Bank	$66,752	12.8 %	$≥41,638	≥8.0 %	$≥52,048	≥10.0 %
Tier 1 capital						
Consolidated	$59,688	11.5 %	$≥20,835	≥4.0 %	$≥31,253	≥ 6.0 %
Bank	$60,246	11.6 %	$≥20,819	≥4.0 %	$≥31,229	≥ 6.0 %
Tier 1 leverage						
Consolidated	$59,688	8.3 %	$≥28,734	≥4.0 %	$≥35,917	≥ 5.0 %
Bank	$60,246	8.4 %	$≥28,764	≥4.0 %	$≥35,955	≥ 5.0 %

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 junior subordinated 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

Note 16 - Regulatory Matters (Continued)

Dividend Restrictions - continued

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, 2014, the Bank's retained earnings available for the payment of dividends was approximately $15.8 million.

Note 17 - 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.

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.

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

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, 2014 and 2013:

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

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

Investment Securities

The fair value of securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or pricing models (Level 2), which consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of external support on certain Level 3 investments. Management has determined that the fair value of local government securities in the held to maturity portfolio approximate their carrying value. Restricted equity securities have restrictions on their sale and are primarily carried at cost due to their limited marketability. The fair value of the Company's investment in Farmer Mac is determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1).

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 2 classification.

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Loans

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the 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.

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $3.1 million and $3.5 million, net of valuation allowances of $970,000 and $1.0 million as of December 31, 2014 and 2013, respectively.

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

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

Deposits

The fair values disclosed for demand and savings deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates on comparable instruments to a schedule of aggregated expected monthly maturities on time deposits, resulting in a Level 2 classification.

Borrowings from the Federal Home Loan Bank

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

Junior Subordinated Debentures

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

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Interest Rate Swap Agreements

The fair value of the interest rate swap derivative is calculated based on a discounted cash flow model. All future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes for various swap maturity terms, resulting in a Level 2 classification.

Off-Balance Sheet Financial Instruments

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 and 2013 are as follows:

	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2014:				
Securities available for sale:				
United States agencies	**$ 50,881**	**$ -**	**$ 50,881**	**$ -**
State and local governments	**66,360**	**-**	**66,360**	**-**
Mortgage-backed securities	**23,963**	**-**	**23,963**	**-**
Total securities available for sale	**$ 141,204**	**$ -**	**$ 141,204**	**$ -**
Restricted equity security	**$ 43**	**$ 43**	**$ -**	**$ -**
Interest rate swap agreements	**$ (603)**	**$ -**	**$ (603)**	**$ -**
December 31, 2013:				
Securities available for sale:				
United States agencies	41,139	-	41,139	-
State and local governments	62,634	-	62,634	-
Mortgage-backed securities	36,401	-	36,401	-
Total securities available for sale	$ 140,174	$ -	$ 140,174	$ -
Restricted equity security	$ 56	$ 56	$ -	$ -
Interest rate swap agreements	$ (611)	$ -	$ (611)	$ -

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)

Assets Measured at Fair Value on a Nonrecurring Basis

There were no assets measured at fair value on a nonrecurring basis at December 31, 2014 and 2013.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2014 and 2013 are as follows:

		2014		2013	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
		(In thousands)			
Financial assets:					
Cash and due from banks	1	**$ 13,309**	**$ 13,309**	$ 12,959	$ 12,959
Interest-bearing deposits in banks	1	**12,524**	**12,524**	11,173	11,173
Investment securities	1 and 2	**204,578**	**205,056**	177,378	177,378
Loans, net of allowance	3	**536,915**	**542,137**	493,752	505,829
Accrued interest receivable	1	**2,335**	**2,335**	2,430	2,430
Mortgage servicing rights	1	**730**	**730**	566	566
Financial liabilities:					
Demand and savings deposits	1	**$ 535,176**	**$ 535,176**	$ 473,974	$ 473,974
Certificates of deposit	2	**163,026**	**163,224**	153,945	154,215
Borrowings from FHLB	2	**38,791**	**38,790**	42,000	42,000
Junior subordinated debentures	2	**9,217**	**9,235**	9,217	9,373
Interest rate swap agreements	2	**603**	**603**	611	611
Accrued interest payable	1	**160**	**160**	129	129

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.

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

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

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

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

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

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

Ontario Office
Tops Plaza
6256 Furnace Road
Ontario, NY 14519
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