IT'S ALL ABOUT PEOPLE.

Lyons Bancorp, Inc.

2020 ANNUAL REPORT

Mission

The Lyons National Bank is an independent, hometown, community bank with an expanding geographic market. Our mission is to safely and profitably serve all of our customers and communities with the most professional service available. We will accomplish this by making a commitment to our most valuable assets—our employees—to treat them with integrity, compensate them appropriately and provide them with the necessary systems, technology, and 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

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

Profile

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.42 billion as of December 31, 2020. Lyons Bancorp, Inc. has a banking subsidiary, The Lyons National Bank. The Lyons National Bank is a community bank with offices in Clyde, Lyons, Macedon, Newark, Ontario, and Wolcott in Wayne County, Jordan in Onondaga County, Canandaigua, Farmington and Geneva in Ontario County, Penn Yan in Yates County, Waterloo in Seneca County, Fairport in Monroe County, and Auburn in Cayuga County. The Lyons National Bank has a subsidiary, Lyons Realty Associates Corp.

Our Culture—WOW!

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

Twelve deserving team members were the recipients of the 2020 Excellence in Service Team Award. Our annual WOW! employee recognition typically honors one individual but was modified in 2020, and it signifies our team members' commitment to going the extra mile. We celebrate their spirit and the WOW! culture that makes LNB stand out from the rest!

What makes LNB different from our competition? Quite simply: our WOW! culture. It's our number one strategic initiative every year. And during a unique year of challenges, our WOW! enthusiasm shined even brighter—so much so that our annual Employee of the Year title was awarded to a dozen deserving employees in 2020. Kudos to them and to ALL of our team members for their commitment to WOW! our customers and each other every day.

L to R: **Elke Hall**, *Custodian;* **Melonie Tiffany**, *Director of Internal Audit;* **Devin Cobb**, *Auditor Data Analytics Specialist*

Going Above and Beyond

All hands on deck! 2020 was a year full of staff collaboration and workplace generosity. Nowhere was this more notable than advising applicants of the CARES Act. With over $116 million in loans processed during first-round lending, LNB employees worked tirelessly to ensure that business owners were treated with the personalized service we are known for and that their applications were processed quickly and accurately.

L to R: **Daniela Qualdieri**, *Perinton Branch Manager;* **Connie Shedrick**, *Farmington Customer Service Representative;* **Erica Smith**, *Wolcott Assistant Branch Manager*

Caring for Customers

Our number one priority during the past year: maintain the health of our customers and staff while keeping service at the forefront of every decision. During the short time our lobbies were closed, our frontline workers continued to provide personalized service through our drive-up windows and by reaching out by phone. As the last to close and the first to open in our communities, branches were retrofitted quickly, exceeding CDC guidelines, and reopened to grateful customers who appreciated LNB's personal, hometown-style of staying connected with customers. In 2020, our staff processed double the mortgage volume in a low-rate environment, and we recorded our second best year for account openings.

Being Community-Minded

Supporting local businesses and organizations is always an important way that LNB stays connected to our communities. Never has it been more important than in a year hit by a once-in-a-century pandemic. LNB continued to sponsor not-for-profit entities as they struggled to raise funds under extreme circumstances. Our LNB Loves Local campaign encouraged communities to support our neighborhood service-oriented and retail businesses. And our board of directors and advisory board members appreciated our donations, given in their names, to their favorite community organizations.

L to R: **Jenn Pasqualicchio**, *Mortgage and Commercial Loan Processor;* **Callie Miller**, *Auburn Grant Ave. Customer Service Representative*

Enthusiasm

WOW! culture thrives in an environment rich with enthusiasm, great attitudes, and pride in the jobs we do. Across our 16-branch network and in our operations offices, this commitment was alive and well during a stressful year. Even though our annual WOW! Employee Event was held virtually this year, our leadership did a great job of showing their appreciation for everyone's efforts.

L to R: **Jennifer Smith**, *Mortgage and Home Equity Processor;* **Ashley Miner**, *Geneva Customer Service Representative;* **Amanda McDonald**, *Senior Credit Underwriter;* **Wendy DiSanto**, *Guaranteed Loan Coordinator*

CHAIRMAN'S UPDATE

In Washington Irving's 1819 short story *Rip Van Winkle*, Rip, a farmer from upstate New York, one day takes a walk in the nearby Catskill Mountains where he comes upon a troupe of mythological men (not Irving's description of the men but today a more politically correct description of the group) playing ninepins. They offer him an alcoholic drink, and he falls asleep for 20 years. When Rip wakes up and returns to his home and village, he is astonished by how much the world has changed while he slept. It may be a stretch to compare the shock experienced by Irving's primary character in his fictional story to what the world has experienced with COVID-19, but the world has been in somewhat of a stupor for the past year. And while our experience with COVID has not been twenty years in the making, thank God, it will leave many indelibly marked changes as well.

As the new decade of the '20s was dawning, most economic signals flashed green, suggesting a strong and possibly record earnings year for Lyons Bancorp. The economic mood of the country was good. The local economy was growing, spurring loan demand. Unemployment was at an all-time low. Our biggest concern at the time was finding the qualified individuals we needed to sustain our planned growth. This was a concern echoed over and over by our large and small business customers alike. As winter was drawing to a close, however, the severity of COVID-19 and the speed with which it was spreading made us realize that 2020 was going to be anything but a normal year in oh-so-many ways. We had survived the disastrous financial meltdown of 2008 pretty much unscathed because we deliberately shunned as irresponsible the liberal mortgage loan underwriting practices in vogue at the time by the larger banks and mortgage brokers. Those practices decimated housing values in many cities and their suburbs. Rural areas were less affected. The effects of the spreading COVID pandemic, however, were different. The disease wasn't isolated to larger metropolitan centers. It was spreading everywhere, impacting small-town America and Main Street businesses, the folks who are our customers, and ourselves. As a result, we almost instantaneously changed our game plan from our proven pro-growth strategy to one focused first on the safety of and concern for our employees and customers. Then, we doubled down and increased the loan reserves of the Bank to a heightened level. We meticulously reviewed our loan portfolios, focusing on those industries we felt were more susceptible to a prolonged economic turndown. Nobody could have predicted the depth and duration of the pandemic, so we took aggressive action by adding generously—almost $6 million—to our loan reserves. Because of this, our long-running 23-year streak of record earnings came to an end. We are not bemoaning this fact. It simply is what it is, and we are confident our response was the right one. While our earnings fell from our all-time high of $3.33 per share in 2019, the $3.13 per share we did make in 2020 was our second best year ever. Now, the country and world appears to be inching their way out of the pandemic. Maybe we were a bit too conservative. But to quote the great philosopher, Yogi Berra, "It ain't over till it's over." We'll let history be the judge of our strategy.

Robert A. Schick

Board Chairman and President, Lyons Bancorp, Inc.

We did set a record for growth in 2020: +22% year over year. While much of our loan growth was attributed to our active participation in the SBA's Paycheck Protection Program (PPP), we did experience relatively good commercial and agricultural loan growth as well. In addition, historically low interest rates propelled our residential mortgage originations and closings to all-time highs. On the other side of the balance sheet, deposits increased almost 25%. Again, deposits associated with the PPP loan program were a key catalyst for the growth. Consumer deposits gained as well, both because of government checks that were credited to their accounts and because of limited spending options due to uncertainty, social distancing, and lockdowns. To support our strong growth (and hopefully additional future growth), we successfully marketed $16 million of holding company subordinated promissory notes. When the proceeds of the sale were injected into the Bank, it acted as supporting capital.

In September, we opened our much-anticipated Farmington, NY branch office. We received regulatory approval to open the branch in October of 2019, but the COVID shutdown delayed the formal opening almost a year. It was worth the wait, as the branch promises to be a great success. As I write, total deposits have already topped $26 million. For a complete analysis of our 2020 financial highlights, please see Chad Proper's write-up on subsequent pages.

On a very sad note, in October, our director and dearest friend, Andy Fredericksen, suffered a massive stroke from which he never recovered. Andy passed on Christmas Eve, leaving a large hole in all of our hearts.

While we feel comfortable that our defensive approach toward the ravages of COVID will carry us forward, the immediate post-COVID era will present us and the banking industry with many challenges. One such challenge we have faced before and now face again is dealing with historically low interest rates that accompany a huge economic downturn. Just as in the 2008 financial crisis, the Federal Reserve Bank flushed billions of dollars into the banking system to maintain liquidity and stability, and Congress passed legislation that provided billions of dollars in fiscal stimulus and bailouts. Today, those billions have turned into trillions. Even with such gallant efforts in 2008, it took almost a decade before the economy grew strong enough to begin pushing interest rates to higher levels. As we have discussed in the past, when bank interest rate spreads are compressed, bank earnings remain under pressure. That's because most community banks earn 70% or more of their total income from the spread between the interest rates they charge for loans and the interest they pay on various deposits. One of the ways we overcame that pressure in '08 was to maintain our long-term growth strategy. While growing may again be a viable strategy to follow, not all of the elements of today's COVID crisis are the same as those we faced after the 2008 financial meltdown. 2008 was an American financial crisis caused by the greed and carelessness of a few mega banks. Yes, they were big enough to threaten our entire economy, but quick action by then-Chairman of the Federal Reserve Board Ben Bernanke prevented that from happening. We all paid dearly for the actions of a few, but away from select areas of the country, life quickly returned to normal for most Americans. The COVID crisis is different. It is a worldwide pandemic. In addition to the loss of jobs due to businesses being shuttered and stay-at-home orders, the general mindset of folks today is to be more cautious in the ways in which they interact with others. They dine out less; they make fewer trips to shopping malls. Yes, online sales are at an all-time high, but those auxiliary side stops when going to a mall don't happen now. Simply put, long-standing routines have been greatly altered, at least for the immediate future. How this change in habits will affect the economy in the long run is yet to be totally determined. But, without stronger and sustained economic participation on the part of the consumer—65% of the GNP is consumer-driven—businesses will remain cautious and spend less money on inventory and possible expansion. This could stymie loan growth and keep interest rates relatively low as they were in the decade following the 2008 debacle. The combination of tighter spreads and less economic activity will force banks to recalibrate the ways they make money. Making loans will continue to be a mainstay but to a lesser degree. Successful banks will need to generate fee income by expanding their menus of traditional, as well as nontraditional, bank products and services. Note that these fees will not come in the form of punitive charges, such as late and overdraft fees. That ship has sailed. Today, there are plenty of nontraditional competitors offering loan and checking account products to consumers and NOT charging those types of fees. Rather, progressive banks will expand their lines of business.

Banks will need to be more cost-effective. Careful analysis of both sides of the income statement is already taking place. CFOs have sharpened their pencils—and axes! Even an expanded product menu and effective cost control may not be enough. Many banking analysts are predicting that the next big wave in bank mergers and acquisitions is coming. Critical mass will matter. Through February there were already 14 mergers and acquisitions deals announced. One of the deals involved two large regional banks which created the 11th largest bank in the country. Consolidation is back.

If given a choice, most of us probably would have elected to sleep through the nightmare of 2020, much like Rip is alleged to have done 200 years ago. But having lived through it, we learned many valuable lessons in all aspects of life. For example, in medicine and health care, we learned we could profit from the combination of advanced technology and fewer self-imposed regulatory hurdles in developing an effective COVID vaccine. What if we applied that same determination and urgency to finding cures for other devastating diseases? We learned that the simple task of diligently washing our hands not only helped stop the spread of COVID, it also made the 2020 influenza season a non-event. (Mother was right after all!) From our business perspective, we affirmed that building a strong two-way relationship with our customers makes it much easier to discuss and work through difficult and unusual financial issues in times of stress. And as a bank, we confirmed our belief that forming a caring bond with our employees, our most valued asset, brings out the best in them when times are the toughest. Facing a prolonged strained environment, not only at work but also at home, our gang kept our WOW! service standards at the high level our customers have come to expect in good times. The Board and management cannot be prouder of their efforts. Our appreciation and heartfelt thanks go out to each and every one of them—thank you!

Stay safe and stay healthy!

Robert A. Schick

A MESSAGE FROM OUR CEO

Having been a part of the successful Lyons National Bank team for 17 years, the last four as president, I now have the privilege of starting 2021 as president and CEO.

Over this past year of COVID-19-induced challenges, Bob Schick's original phrase and LNB's tagline, "It's All About People," has never been more true or impactful in aiding us not just to meet the serious needs of our customers and co-workers, but to do so in a manner that exceeds expectations.

Considering the impact of the coronavirus on our customers, our community, and our staff, I would say that LNB and our outstanding team actually delivered its best performance ever in 2020. I have so much respect for LNB's management team and the 240 banking professionals that I have the pleasure to work with every day in providing LNB's superb WOW! service to our customers, communities, and shareholders. I also have a sincere appreciation of and commitment to our shareholders, board members, and advisory board members who have invested their time and capital in support of LNB's mission and our successful growth. It is not just one person but the entire collective group that is responsible for the success of this Bank that is now 168 years strong and well-positioned to remain a successful and growing organization.

In support and recognition of the LNB team and our culture, each year we consider and select an individual to be LNB's Employee of the Year. However, given the dynamics of the year 2020, the many challenges that were overcome, and the extraordinary attention our staff gave to our customers who were looking to us for advice and assistance, we decided to change our format from selecting a single employee of the year to identifying and considering multiple winners from across the Bank. There were so many examples of exceptional LNB staff members going above and beyond expectations to meet the needs of others that we had a hard time selecting only 12 people for what appropriately became our "Excellence in Service Team Award" for 2020. Nominations came from many departments — from Audit to Branch, from Facilities to Credit, as well as from the Back Office, to name just a few.

Our people were handling record volumes in their own areas. Others were volunteering to work overtime in multiple areas of the Bank. Some were assisting in completely new fields and demonstrating talents that we may not have known about, and others showed an ability to learn quickly and to be flexible — truthfully, all attributes that will help them and LNB. The skills that will continue to be the most important are having a positive can-do attitude and a desire to provide LNB's superior service to our customers and to each other. Our staff distinguishes themselves and LNB every day by doing just that. The 12 employees selected and highlighted in this year's annual report are phenomenal examples of this and what can be accomplished by professional and positive people who sincerely want to help others.

I would encourage you to take a minute and view the special section of this year's annual report that highlights our WOW! culture. As you view this section, you will see a group of people who radiate a friendly and helpful approach in their work at the Bank. You can see it in their faces, with or without their masks on, and even more so you feel their genuine sincerity in everything they do. It is this approach that they and the whole LNB team put forth every day that differentiates LNB and is responsible for our success.

An example of this success: at the beginning of the pandemic, LNB was able to continue to provide services with its lobbies closed, put in place an environment and structure to operate safely, and then we were one of the first banks to fully re-open. In the interim and still today, we kept all staff on deck, and we reached out to our customers to see how we could help them — in person as well as with technology. We also helped new customers who were looking for personal service and financial advice. The result was that we had the second best year that LNB has ever had for attracting new customers to the bank.

Lyons Bancorp has grown from \$212.8 million in assets and \$1.6 million in net income as of December 31, 2003, to \$1.4 billion in assets and

Thomas L. Kime

President and CEO,
The Lyons National Bank

an annual net income of $10.3 million for year-end December 31, 2020. We were able to achieve these results even after conservatively building our reserve allowance for potential loan losses to $17.3 million during 2020, up from $11.5 million at year-end 2019, respectively a reserve of 1.70% of loans at year-end, up from a reserve of 1.30% of loans.

This positions LNB well with a reserve level exceeding our peer group despite LNB having a strong and diversified loan portfolio with delinquency statistics and a charge-off history better than our peer group. Our management team and our board have consistently taken a conservative approach to being prepared for the long term and felt that this was a prudent action given the unprecedented times.

> "Lyons Bancorp has grown from $212.8 million in assets and $1.6 million in net income as of December 31, 2003, to $1.4 billion in assets and an annual income of $10.3 million for year-end December 31, 2020."
>
> — Thomas L. Kime

A portion of our new customers were reflected in our growth in residential mortgage closings which more than doubled in 2020 to $305 million. This type of performance has resulted in LNB being the number one residential mortgage lender in four of our five core counties and increased our gain on sale of mortgages 186% to $5.6 million. And it built our annual loan mortgage servicing income to over $1.0 million in 2020 with total annual loan servicing revenue to $2.8 million.

LNB's goal of increasing our noninterest income has been effective, doubling from $8.2 million in 2015 to $16.4 million in 2020, with $3.3 million being cardholder interchange/fees, an area we are continuing to grow. Although we are all very liquid with deposits, growing our core customer base remains a priority in expanding other relationship-based services. Even our customer deposit base is 43% DDA and Now checking accounts, growing from 35% over the last five years.

One needs to acknowledge and remain cognizant of the dynamic changes in the banking/financial industry today which have only intensified in the last year. Even our local market has seen changes in the players who provide services, how they provide those services, and at what level. I am sure things will continue to change. Some of these changes will be due to challenges we face ourselves. Some of these changes will create opportunities for us in the way we offer the excellent personal service that our customers have come to expect and that our new customers are looking for.

We believe and find that our customers want and deserve the most up-to-date technology offerings available. LNB spends over a million dollars each year just on enhancements to our technology services such as cybersecurity, personally managed real-time alerts and notification systems, enhanced mobile and online banking services, online applications, and P2P to ensure that we provide the best-in-class technology. At the same time, our customers also want and deserve the best-in-class personal service that we provide by the people such as those highlighted in this report.

Our goal is and will always be to exceed the expectations of our customers and the communities we serve every time, and when we do so, we will appropriately meet the high expectations of ourselves and our board, and accordingly, our shareholders will be rewarded for the long-term benefit of all.

The year 2020 will be remembered as a time when Lyons National Bank continued to make an extraordinary commitment to our tagline. As we have known all along: "It's all about people."

Tom

Thomas L. Kime

Leadership Transition

Thomas L. Kime became President and CEO of The Lyons National Bank effective January 1, 2021. This appointment represents the culmination of a succession plan long in the works. Tom became bank president three years ago and has been with LNB since 2004. Through strategic expansion the Bank has grown from 26 employees in 1994 to 239 in 2020 and now serves seven counties in 16 locations. Tom will continue to work closely with Bob as Schick assumes the role of Board Chairman and President of Lyons Bancorp, Inc.

BOARD OF DIRECTORS

Joseph P. Bartolotta, Esq.
Senior Managing Director, R&M Associates, LLC

David J. Breen, Jr.
Supermarket Executive, Retired

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

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

Joseph A. Fragnoli
President, Super Casuals

Dale H. Hemminger
Principal, Hemdale Farms, Inc.

James A. Homburger
Real Estate Broker/Investor

Teresa M. Jackson
Owner, Dudley Poultry Company

Thomas L. Kime
President & CEO, LNB

Case A. Marshall
Vice President & Chief Financial Officer, Marshall Companies

Bradley A. Person
President & General Manager, Nuttall and Spacemaker Companies

Robert A. Schick
Chairman of the Board & President, Lyons Bancorp, Inc.

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

Kaye E. Stone-Gansz
President & CEO, Stone Goose Enterprises, Inc., President, LaGasse Machine & Fabrication, Inc., Owner, Keg Rag Cellar LLC.

Fondly Remembering Andrew Fredericksen

In December, we unexpectedly lost, Andrew Fredericksen, our dear friend and trusted advisor from our Board of Directors. Andy had been a director since 2003. He was a certified public accountant and the senior partner in his firm of Fredericksen and Sirianni until he sold it in 2015 and joined the firm of Petrella and Phillips as a consulting partner.

Andy was a master with numbers. At meetings, he would lean back in his chair with his arms folded across his chest, listening intently. If what he heard made sense to him, he would simply nod and smile. If it did not, the questions came in rapid-fire order. He kept our pencils and minds sharp.

We miss him tremendously. Rest in peace, dear friend.

EXCEEDING EXPECTATIONS. EVERY CUSTOMER, EVERY TIME.

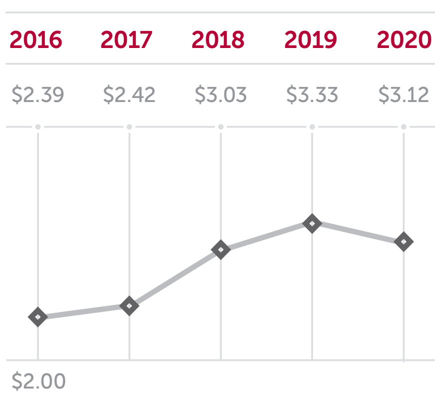
Thank you to LNB's essential workers for their contributions and the effort put forth to keep our lobbies open throughout 2020. Our dedicated team provided loans to businesses and future homeowners, maintained safe banking environments for customers and staff, and consistently provided the personalized customer service LNB is known for!

2020 FINANCIAL HIGHLIGHTS

RESULTS OF OPERATIONS

The past 12 months represented one of the most difficult periods our country has ever seen and presented challenges for nearly every person and every business. We were no exception. For the first time in over 20 years, net income dipped slightly year over year, from $11 million in 2019 to $10.3 million in 2020, or a decrease of 6.4%. Had it not been for the impact of the pandemic, we would have enjoyed our 24th consecutive year with an increase in net income. Net income in 2020 represented diluted earnings per common share of $3.12, compared to $3.33 in 2019. Basic earnings per common share of $3.16 represented a decrease from $3.38 in 2019.

DILUTED EARNINGS PER SHARE



The negative impacts of the pandemic manifested themselves primarily in our provision for loan losses, which we increased from $2.3 million in 2019 to $6.3 million in 2020. While the increase in the provision was not related to current credit issues stemming from the pandemic, the increase in our provision for loan losses of $4 million resulted in a decrease in diluted earnings per share of $1.00.

The pandemic also provided us with revenue in 2020. Included in 2020 interest income was $2.3 million from the CARES Act Paycheck Protection Program (PPP). Net income expressed as a return on average assets was 0.78% and a return on average shareholders' equity of 10.47% in 2020, compared to 0.98% and 12.99%, respectively, in 2019.

As is the case with nearly all community banks like ours, our largest source of income 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 2020 was $39.5 million, an increase of $3.1 million or 8.5% over the 2019 total of $36.4 million. As in previous years, this increase was due primarily to the strong growth of our earning assets funded by deposit growth. In order for the Bank to continue the overall trend of profitability, the growth of high-quality assets is imperative, as the interest rate environment has remained depressed for an extended period. The amortized cost basis (excludes mark-to-market adjustments) of average earning assets increased $185.1 million or 17.4% during 2020 compared to an increase of $72 million or 7.2% in 2019. Average interest-bearing deposits increased $89.7 million or 11.7% in 2020 compared to $51 million or 7.1% in 2019. Average noninterest-bearing deposits increased $81.8 million in 2020. While not directly contributing to net interest income, noninterest-bearing deposits are critical in providing additional funding for our balance sheet funding needs.

Our tax-equivalent margin decreased year over year, measuring 3.18% during 2020, compared to 3.44% in 2019, as the decrease in asset yields outpaced the decrease in overall funding costs.

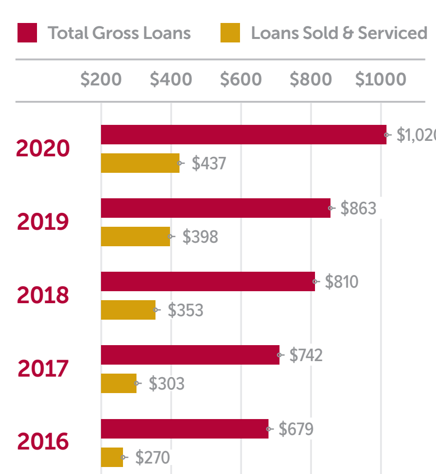
Our provision for loan losses was based upon our assessment of a variety of factors, such as the general economic environment and growth in our loan portfolio. As discussed above, 2020 presented previously unseen challenges to what is already a material and complex estimate in the form of our allowance for loan losses and related provision for loan losses. In 2020, we provided $6.3 million for loan losses, compared to $2.3 million in 2019. At December 31, 2020, our non-performing loans totaled 0.33% of total loans, as compared to 0.60% at December 31, 2019, and

Chad J. Proper

Senior Vice President and Chief Financial Officer, The Lyons National Bank

compared favorably to our peer group's ratio of 0.65%. Our net charge-offs to average loans during 2020 totaled 0.05%, down slightly from the prior year amount of 0.10%, while the loan-related asset quality metrics discussed here reflect improved loan quality year over year. The significant economic uncertainties that existed at December 31, 2020, which may take some time to surface, coupled with our continued loan growth, necessitated a significant increase in our provision for loan losses.

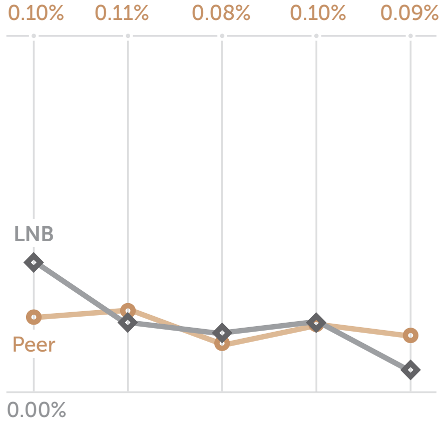
LOAN BREAKDOWN
($ MILLIONS)



	2020			2019		
	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)
INTEREST-EARNING ASSETS: (Thousands $)						
Residential real estate	375,542	13,887	3.70%	334,853	13,672	4.08%
Commercial and agricultural real estate	305,260	14,943	4.89%	275,214	14,239	5.17%
Commercial and agricultural loans	236,821	10,636	4.49%	173,976	9,310	5.35%
Consumer installment loans	36,348	2,111	5.81%	32,926	1,953	5.93%
TOTAL LOANS	**953,971**	**41,577**	**4.36%**	**816,969**	**39,173**	**4.79%**
Investments	224,342	4,817	2.15%	211,309	4,945	2.34%
Federal funds sold & other interest-earning assets	72,897	153	0.21%	37,832	861	2.28%
TOTAL INTEREST-EARNING ASSETS	**1,251,210**	**46,547**	**3.72%**	**1,066,109**	**44,985**	**4.22%**
Noninterest-earning assets	67,800			60,514		
TOTAL ASSETS	**1,319,010**			**1,126,623**		
INTEREST-BEARING LIABILITIES: (Thousands $)						
Interest-bearing checking	143,888	375	0.26%	118,366	423	0.36%
Money market and savings accounts	452,012	1,768	0.39%	389,508	2,091	0.54%
Time deposits	260,304	4,379	1.68%	258,679	5,414	2.09%
Borrowings	7,598	141	1.85%	7,118	220	3.09%
Junior subordinated debentures	8,727	370	4.24%	6,190	423	6.83%
TOTAL INTEREST-BEARING LIABILITIES	**872,529**	**7,033**	**0.81%**	**779,861**	**8,570**	**1.10%**
Noninterest-bearing deposits	331,311			223,381		
Other noninterest-bearing liabilities	17,036			12,573		
TOTAL LIABILITIES	**1,220,876**			**1,041,926**		
Total equity	98,134			84,697		
TOTAL LIABILITIES AND EQUITY	**1,319,010**			**1,126,623**		
Net interest income		39,514			36,414	
Tax equivalent adjustment		237			241	
Net interest income		39,751			36,655	
Net interest margin, tax equivalent			3.18%			3.44%

NET CHARGED-OFF LOANS TO AVERAGE LOANS

2016	2017	2018	2019	2020
0.24%	0.10%	0.09%	0.10%	0.05%
0.10%	0.11%	0.08%	0.10%	0.09%



Noninterest income is an important revenue source for us, and it consists of loan servicing income, cardholder income, service charges, financial services revenue, and gains on the sale of loans. In 2020, noninterest income represented 24% of all revenue sources and totaled $16.4 million, an increase of $3 million or 22.4% over the $13.4 million reflected in 2019. A significant driver of the increase in noninterest income in 2020 was the gain on the sale of loans, which totaled $5.6 million, an increase of $3.6 million from 2019. In 2019, we had recognized income of $1.2 million from Bank-Owned Life Insurance due to the untimely passing of our Chief Risk Officer.

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 2020, total noninterest expense was $37.2 million, an increase of $3.2 million or 9.4% over the total in 2019 of $34 million. Increases in salaries and wages totaled $1.9 million and were primarily the result of annual wage and merit increases, as well as a mid-year performance/appreciation payment to employees. Pension and benefits totaled $5.4 million, resulting in a slight decrease from the prior year, as the Bank continues funding for retirement benefits.

2020 FINANCIAL HIGHLIGHTS CONT.

ANALYSIS OF FINANCIAL CONDITION

During 2020, we continued to experience solid loan and deposit growth, resulting in an increase in shareholders' equity of $95.5 million at December 31, 2020, an increase of $8.7 million or 10.0% over December 31, 2019. We continued to have capital levels far in excess of regulatory minimums. In October 2020, the Bank Holding Company completed the sale of approximately $16 million of subordinated promissory notes to accredited investors. The Bank intends to use the proceeds from the sale of the notes for general corporate purposes, to provide capital to support organic growth of the Bank, and to fund potential future initiatives. Total assets on December 31, 2020, were $1.423 billion, an increase of $259 million or 22.2% over $1.164 billion at December 31, 2019.

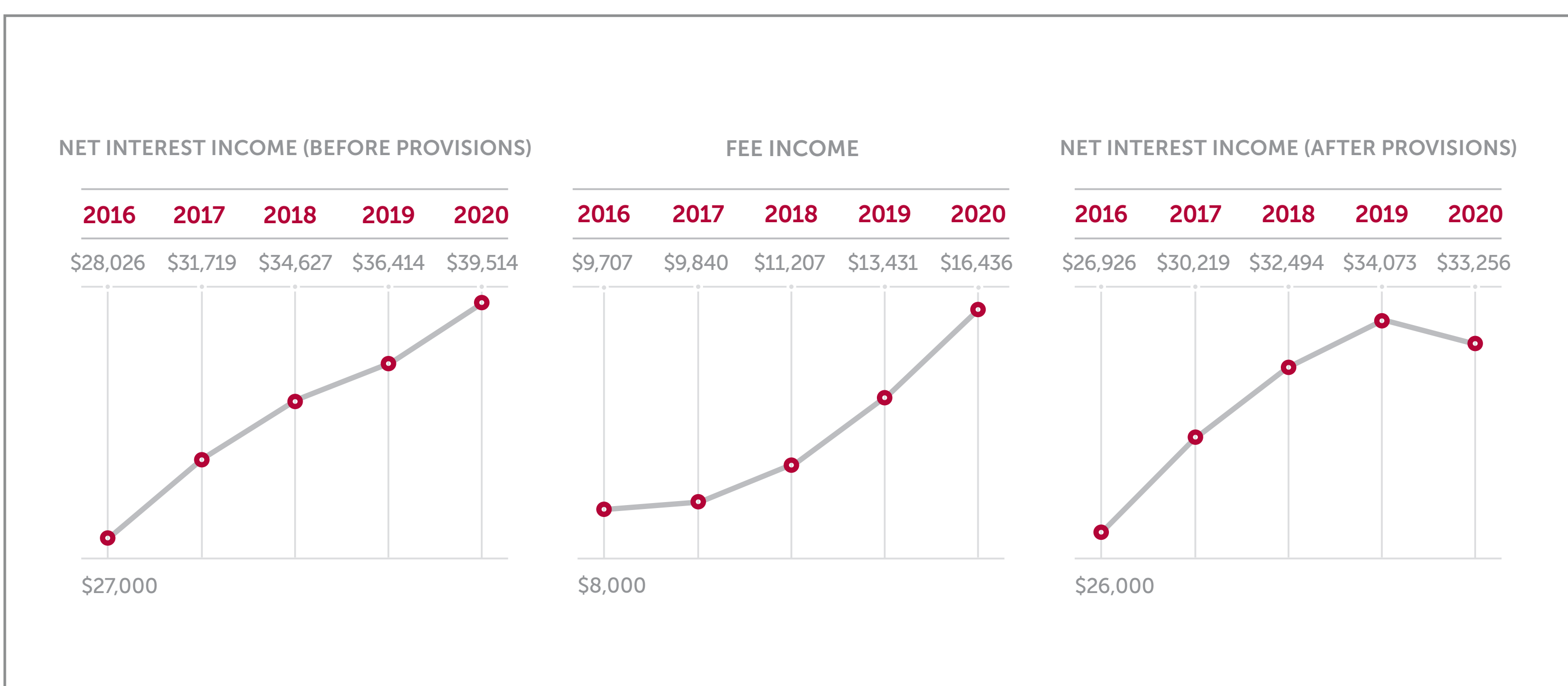
Total loans were $1.020 billion at December 31, 2020, an increase of $157.2 million or 18.2% from $862.5 million at December 31, 2019. The increase in loans was attributed to organic growth, as well as, to growth from the PPP program mentioned above. Of the $116 million of PPP loans, $60 million of PPP loans were forgiven under the CARES Act, resulting in $56 million of PPP loans remaining on the balance sheet at year-end. We continued to support our strategy of maintaining balance within the loan portfolio between consumer and commercial loans, ending the year with 46% consumer-related loans versus 54% commercial-related loans, essentially a slight change from last year. 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, while not sacrificing quality and creating undue risk. Our investment portfolio consists primarily of United States Agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2020, our investment portfolio totaled $292.3 million, an increase of $77.9 million over December 31, 2019, or 36.4% and had an average tax-equivalent yield of 1.75% during 2020. Our securities portfolio classifications are available for sale, which may be sold to satisfy liquidity purposes as needed and held-to-maturity securities.

Deposits generated within our local markets are the major source of funds for our lending and investment activities. Total deposits at December 31, 2020, were $1.286 billion, an increase of $257 million or 25% over $1.029 billion at December 31, 2019. We continued to experience strong growth in our core retail and commercial deposit bases within most of our branches. The increase in deposits in 2020 more than fully funded our lending activity.

Total equity was $95.5 million at December 31, 2020. Our Board of Directors remains committed to providing a safe and meaningful return to our shareholders despite these difficult and uncertain times. We declared cash dividends of $1.24 per share during 2020 compared to $1.22 in 2019. The 2020 dividend represents a yield of 3.1% based on our year-end market price of $40.00 per share. This compares to a yield of 3.07% in 2019 based on our year-end market price of $39.75.

Please refer to our Consolidated Financial Report for the year ended December 31, 2020, for more information regarding our 2020 results and financial position.



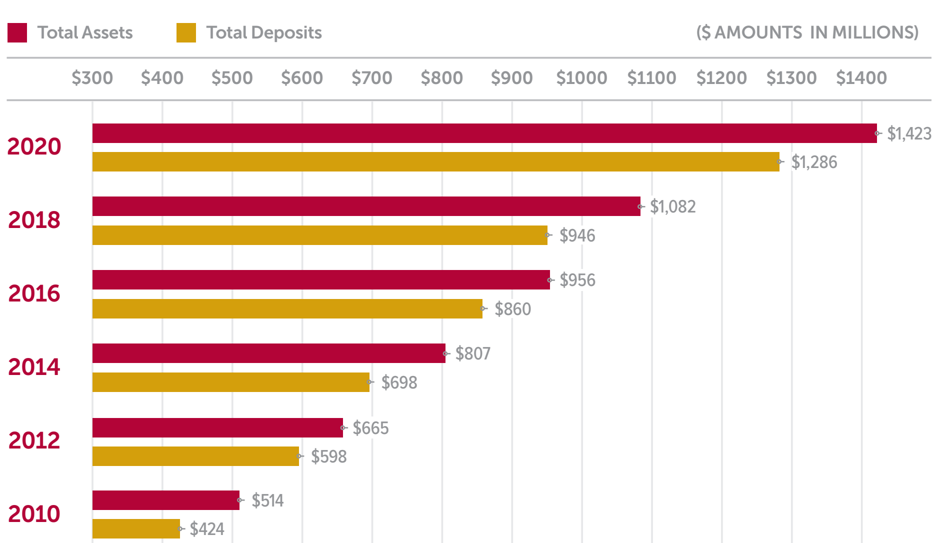
Selected Financial Data

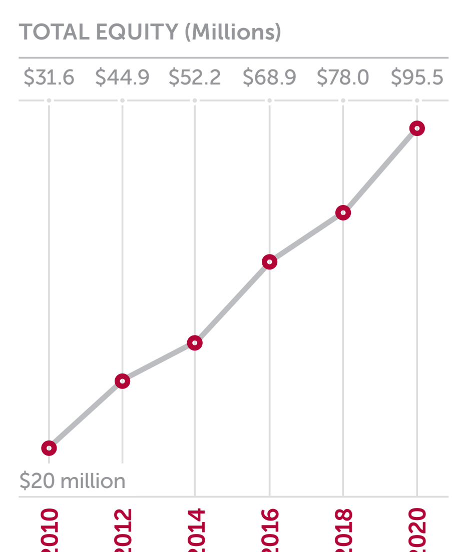
	Year Ended December 31				
	2020	**2019**	**2018**	**2017**	**2016**
FINANCIAL STATEMENT HIGHLIGHTS (Thousands $)					
Assets	**1,423,147**	1,163,683	1,081,697	1,031,844	956,132
Loans, gross	**1,109,696**	862,509	810,136	741,860	678,691
Deposits	**1,285,967**	1,029,485	945,837	893,256	860,073
Other borrowings	**0**	25,000	42,000	50,000	18,000
Junior subordinated debentures	**5,155**	6,190	6,190	6,190	6,190
Subordinated debt offering	**15,736**				
Total equity	**95,462**	86,792	78,009	73,842	68,854
Interest and dividend income	**46,547**	44,985	40,589	35,700	32,239
Interest expense	**7,033**	8,571	5,962	3,981	4,213
Net interest income	**39,514**	36,414	34,627	31,719	28,026
Provision for loan losses	**6,258**	2,341	2,133	1,500	1,100
Net securities gains	**217**	(222)	(35)	(17)	470
Net income	**10,268**	11,005	9,992	8,009	7,596
PER SHARE INFORMATION ($)					
Basic earnings per share	**3.16**	3.38	3.06	2.43	2.42
Cash dividends declared	**1.24**	1.22	1.14	1.05	0.95
Book value per share (incl. Conv. Pref.)	**28.99**	26.38	23.61	22.31	21.59
Book value per share (excl. Conv. Pref.)	**28.53**	25.82	22.95	21.60	

Ratios presented throughout the Annual Report narrative use net income attributable to Lyons Bancorp, Inc.

	2020	2019	2018	2017	2016
SELECTED RATIOS					
Return on average assets	**0.78%**	0.98%	0.95%	0.80%	0.85%
Return on average shareholders' equity	**10.47%**	12.99%	13.37%	10.99%	10.70%
Leverage ratio (Bank)	**8.41%**	8.44%	8.50%	8.33%	8.47%
Dividend payout ratio	**40.53%**	37.43%	38.69%	44.95%	41.84%
OTHER SELECTED DATA (Whole Numbers)					
Employees (full-time equivalent)	**226**	217	215	213	197
Banking offices	**16**	15	15	14	13

A DECADE OF GROWTH





ADVISORY BOARDS

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

Our Advisory Board members appreciate the value of hometown banking, which is why they choose not only to bank with LNB, but also to serve on our Advisory Boards.

Thank you to each of our Advisory Board members. We appreciate your service and guidance!

CANANDAIGUA

J. David Damaske
Parkview Fairways Golf Course

Alexandra M. Farnsworth
Randall Farnsworth Auto Group

Gail D. Herman
The Medicine Shoppe Pharmacy, Canandaigua

Kurt M. Koczent
Thompson Health

Jack W. Moran
Roseland Bowl Family Fun Center

Charles W. Potter
J&T Properties of Canandaigua

CAYUGA COUNTY

Richard L. Beauchine, CPA
Waterloo Container

John F. Bouck
Bouck Real Estate

Keith R. Cuttler
East Hill Medical Center

Mark A. DiVietro, O.D.
Silbert Optical

Christopher J. Geherin
Builder's Choice Lumber Company

Wendy C. LaDuca
Reflections Medical and Cosmetic Dermatology

FARMINGTON

Megan Larmouth Avila
Pioneer Millworks and New Energy Works

Barbara J. Cole
Town of Victor

Thomas G. Ewing
Ewing Graphics, Inc.

John E. Garvey
Retired Ontario County Administrator

Dale L. Hunt
Hunt Properties

Tyler W. Wolk
Rochester Insulated Glass

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

Matthew D. Horn
MRB Group

Bernard G. Lynch
Lynch Furniture

Anne D. Nenneau
CCN International

PENN YAN

Bonnie B. Curbeau
Curbeau Realty

Ryan T. Kennedy
Morgan Marine

James H. Long
Longs' Cards and Books

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

Henry H. Martin
Town of Benton Dairy Farmer

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

Neil J. Simmons
Simmons Vineyards

PERINTON PARK

James W. Diem
Alliance Insurance Group

Arthur S. Elting
Retired Former Owner, Country Rode Werks

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

Martha M. Malone
Fairport OCED

Terrence A. O'Neil
Green Lantern

Howard I. Sharp
RV & E Bike and Skate

J. Lincoln Swedrock, P.E.
BME Associates

SENECA COUNTY

Salvatore N. Franzone
Ciccino's Pizzeria and Restaurant

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

Kenneth W. Padgett, DO
New York Chiropractic College

Erica L. Paolicelli
Three Brothers Wineries & Estates

Eugene F. Pierce
Glenora Wine Cellars, Inc., and Knapp Winery

Raymond A. Tuuri, Jr.
Finger Lakes Equipment Rental

Stephen J. Wadhams
Wadhams Enterprises, Inc.

LNB LOCAL

LNB LOVES LOCAL

As a hometown bank, we care about the people, businesses, and organizations that make the communities we serve so great. LNB has long been committed to shopping, dining, and supporting locally-owned and -operated businesses who now, more than ever, need our support.

In 2020, LNB invested in promoting the support of our local businesses. Learn more at **BankwithLNB.com/LoveLocal**.

EXECUTIVE MANAGEMENT

SEATED (L to R):

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

Thomas L. Kime
President & Chief Executive Officer

STANDING (L to R):

Todd F. Juffs
Executive Vice President & Chief Technology Officer

Stephen V. DeRaddo
Executive Vice President & Chief Credit Officer

Chad J. Proper
Senior Vice President & Chief Financial Officer

BANK OFFICERS AND SUPERVISORS

ADMINISTRATION

Carol A. Snook
Assistant Vice President & Corporate/Executive Secretary

Jenna L. DeBrock
Banking Officer & Executive Administrative Assistant

AUDIT

Melonie L. Tiffany
Vice President & Director of Internal Audit

BRANCH DIVISION

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

Thomas D. Muller
Senior Vice President

Robert W. Sollenne
Senior Vice President & Director of Performance Improvement

Demetrius Murphy
Vice President & Branch Manager, Auburn

Tara R. Rago
Vice President & Branch Manager, Canandaigua

Thomas R. David
Assistant Vice President & Cash Management E-Business Solutions Officer

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

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

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

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

Jessica L. Mullins
Assistant Vice President & Branch Manager, Penn Yan

Greg T. Noel
Assistant Vice President & Branch Operations Manager

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

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

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

Kelsey L. Journell
Banking Officer & Branch Manager, Geneva

Susan L. Lockwood
Banking Officer & Branch Manager, Wolcott

Allison M. Verkey
Banking Officer & Branch Manager, Clyde

Carrie A. Vincent
Banking Officer & Branch Manager, Jordan

Cathy J. DeMay
Banking Officer & Assistant Branch Manager, Ontario

Susan L. Snyder
Banking Officer & Assistant Branch Manager, Penn Yan

BANK OFFICERS AND SUPERVISORS CONT.

COMMERCIAL LENDING

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

Anna M. Bridger
Vice President & Commercial Loan Officer

Mark J. DeBacco
Vice President & Commercial Loan Officer

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

Michael A. Fratto
Vice President & Commercial Loan Officer

James H. King
Vice President & Commercial Loan Officer

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

Michael E. Rusinko
Assistant Vice President & Commercial Loan Officer

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

Wendy E. DiSanto
Banking Officer & Guaranteed Loan Coordinator

CREDIT ADMINISTRATION & COMPLIANCE

Pamela J. Lee
Vice President & Portfolio Monitoring Officer

Amanda M. McDonald
Vice President & Senior Credit Underwriter

Joyce A. Marble
Assistant Vice President & Compliance/BSA Officer

Cristin M. Menotti
Banking Officer & Credit Underwriter

TRAINING

Deborah A. Odell
Vice President & Director of Training

Sahra D. Tilton
Banking Officer & Learning and Development Specialist

MARKETING

Barbara L. Hennessy
Vice President & Director of Marketing

HUMAN RESOURCES

Kimberly A. Kelley
Senior Vice President & Director of Human Resources

Danielle M. Ayers
Banking Officer & Human Resources Specialist

SECURITY/FACILITIES

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

FINANCE

Shannon M. Romano
Assistant Vice President & Senior Assistant Controller

RETAIL & RESIDENTIAL MORTGAGE LENDING

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

Angela M. Merola
Vice President & Senior Collector

Craig A. Schojan
Vice President & Senior Mortgage Underwriter

James M. Allison
Assistant Vice President & Mortgage Originator

Joseph M. Arbogast
Assistant Vice President & Mortgage Originator

Valorie A. Heinzman
Assistant Vice President & Mortgage Originator

Timothy H. Lead
Assistant Vice President & Mortgage Underwriter

Craig R. Mietz
Assistant Vice President & Mortgage Originator

Kari R. Bezek
Banking Officer & Mortgage Originator

Heidi E. King
Banking Officer & Mortgage Originator

Trisha A. Mastrodonato
Banking Officer & Mortgage Originator

Scott W. Russell
Banking Officer & Mortgage Underwriter

OPERATIONS & IT

Hope A. Alexanian
Vice President & Retail Loan Operations Supervisor

Cheryl M. Graham
Vice President & Deposit Operations Supervisor

Lynnette M. Zelias
Vice President & Commercial Loan Operations Supervisor

Karen D. Lombardozzi
Assistant Vice President & Systems Administrator

Jennifer L. Goatseay
Banking Officer & Item Processing Specialist

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

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial and Insurance Services

David J. DeRaddo
Assistant Vice President & Financial Services Representative

Kim M. Emperato
Banking Officer & Financial Services Representative

Donna J. Johnson
Banking Officer & Financial Services Representative

Cultivating From Within

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

Ryan M. Hallings
Senior Vice President and Agricultural/Commercial Loan Officer

Promoted from Vice President and Agricultural/Commercial Loan Officer

Kimberly A. Kelley
Senior Vice President and Director of Human Resources

Promoted from Vice President and Director of Human Resources

Angela M. Merola
Vice President and Senior Collector

Promoted from Assistant Vice President and Senior Collector

Melonie L. Tiffany
Vice President and Director of Internal Audit

Promoted from Assistant Vice President and Director of Internal Audit

Danielle M. Ayers
Banking Officer and Human Resources Specialist

Promoted from Human Resources Specialist

Kari R. Bezek
Banking Officer and Mortgage Originator

Promoted from Mortgage Originator

Wendy E. DiSanto
Banking Officer and Guaranteed Loan Coordinator

Promoted from Guaranteed Loan Coordinator

Kim M. Emperato
Banking Officer and Financial Services Representative

Promoted from Financial Services Representative

Scott W. Russell
Banking Officer and Mortgage Underwriter

Promoted from Mortgage Underwriter

LNB Farmington is Open and Proudly Serving the Local Community

2020 marked the opening of LNB's Farmington office, the Bank's sixteenth location, third in Ontario County. The full-service office, featuring an on-site mortgage center, is connected to the historic Hathaway House, a landmark dating back to the 1790s.

"This office is a sign of LNB's commitment to and appreciation of this great community and its history," said Tom Kime, President and CEO of LNB. "The development was truly a collaborative effort that would not have been possible without the support of local businesses and craftspeople, the local historian, town officials, and of course, our staff and dedicated Farmington Advisory Board members."

For more information on LNB's Farmington office, visit **BankwithLNB.com/Farmington**.

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2020

Banking.
It's all about people.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

February 23, 2021

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

Statement of Management's Responsibilities

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

Management's Assessment of Compliance With Designated Laws and Regulations

The management of the Institution has assessed the Institution's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the year that ended on December 31, 2020. Based upon its assessment, management has concluded that the Institution complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control Over Financial Reporting

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

Banking.
It's all about people.

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

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

Management assessed the effectiveness of the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2020, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013).

Based upon its assessment, management has concluded that, as of December 31, 2020, the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, is effective based on the criteria established in Internal Control-Integrated Framework (2013) set forth by COSO.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2020, has been audited by Bonadio Co., LLP, an independent public accounting firm, as stated in their report dated February 23, 2021.

Lyons Bancorp, Inc.

Robert Schick
Chairman of the Board & President
Lyons Bancorp, Inc.

Chad Proper
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Bonadio & Co., LLP
Certified Public Accountants

February 23, 2021

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lyons Bancorp Inc. and subsidiary as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2021, expressed an unqualified opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Lyons Bancorp Inc. and subsidiary in accordance with the relevant ethical requirements relating to our audits, and the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

432 North Franklin Street, #60
Syracuse, New York 13204
p (315) 476-4004
f (315) 254-2384

www.bonadio.com

(Continued)

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

Allowance for Loan Losses
The Company's loan portfolio totaled $1.02 billion as of December 31, 2020, and the associated allowance for loan losses (allowance) was $17 million. As discussed in Note 1 and 4 of the consolidated financial statements, the allowance represents management's estimate of incurred credit losses inherent in the loan portfolio at the consolidated balance sheet date. Management estimates the allowance by applying expected loss rates derived from a statistical analysis of historical default and loss severity experience to existing loans with similar characteristics. The allowance also considers adjustments to reflect management's assessment of qualitative factors that may not be measured in the statistical analysis of expected losses, including external factors, along with Company and portfolio specific factors.

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

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

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

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

Bonadio & Co., LLP

Bonadio & Co., LLP
Syracuse, New York

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Bonadio & Co., LLP
Certified Public Accountants

February 23, 2021

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

Opinion on Internal Control over Financial Reporting

We have audited Lyons Bancorp Inc.'s (the Company's) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of the Company, and our report dated February 23, 2021, expressed an unqualified opinion.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

432 North Franklin Street, #60
Syracuse, New York 13204
p (315) 476-4004
f (315) 254-2384

www.bonadio.com

(Continued)

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

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

Bonadio & Co., LLP

Bonadio & Co., LLP
Syracuse, New York

Table of Contents December 31, 2020 and 2019

	Page
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

Consolidated Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets	(In thousands)	
Cash and due from banks	**$17,777**	$15,900
Interest-bearing deposits in banks	**43,446**	21,456
Investment securities:		
Available for sale	**278,672**	205,390
Held to maturity	**8,794**	2,071
Restricted equity securities	**4,827**	6,880
Total Investment Securities	**292,293**	214,341
Loans	**1,019,696**	862,509
Less allowance for loan losses	**(17,382)**	(11,555)
Net Loans	**1,002,314**	850,954
Land, premises and equipment, net	**27,704**	24,322
Bank-owned life insurance	**19,062**	18,666
Accrued interest receivable and other assets	**20,551**	18,044
Total Assets	**$1,423,147**	$1,163,683
Liabilities and Equity		
Liabilities		
Deposits:		
Interest-bearing	**$915,050**	$770,625
Non-interest-bearing	**370,917**	258,860
Total Deposits	**1,285,967**	1,029,485
Borrowings from Federal Home Loan Bank	-	25,000
Junior subordinated debentures	**5,155**	6,190
Subordinated debt offering	**15,736**	-
Accrued interest payable and other liabilities	**20,827**	16,216
Total Liabilities	**1,327,685**	1,076,891
Stockholders' Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Preferred stock	**3**	3
Common stock	**1,599**	1,599
Paid-in capital	**19,374**	19,385
Retained earnings	**76,665**	70,558
Accumulated other comprehensive loss	**(1,275)**	(3,709)
Treasury stock, at cost	**(960)**	(1,100)
Total Lyons Bancorp, Inc. Stockholders' Equity	**95,406**	86,736
Noncontrolling interest	**56**	56
Total Equity	**95,462**	86,792
Total Liabilities and Equity	**$1,423,147**	$1,163,683

See notes to consolidated financial statements.

Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

	2020	2019
	(In thousands, except per share data)	
Interest Income		
Loans	**$41,577**	$39,173
Investment securities:		
Taxable	**4,025**	4,833
Non-taxable	**945**	979
Total Interest Income	**46,547**	44,985
Interest Expense		
Deposits	**6,522**	7,928
Borrowings	**511**	643
Total Interest Expense	**7,033**	8,571
Net Interest Income	**39,514**	36,414
Provision for Loan Losses	**6,258**	2,341
Net Interest Income after Provision for Loan Losses	**33,256**	34,073
Noninterest Income		
Realized gains on loans sold	**5,576**	2,021
Cardholder fees	**3,337**	2,867
Loan servicing fees	**2,797**	1,966
Service charges on deposit accounts	**2,478**	3,247
Financial services fees	**1,400**	1,263
Earnings on investment in bank owned life insurance (BOLI)	**396**	369
Net realized gains(losses) from sales of securities	**217**	(222)
Gain from BOLI death benefit	**-**	1,227
Other	**235**	693
Total Noninterest Income	**16,436**	13,431
Noninterest Expense		
Salaries and wages	**16,164**	14,216
Pensions and benefits	**5,438**	5,537
Occupancy	**3,408**	3,145
Professional fees	**2,468**	2,378
Data processing	**2,312**	1,877
Cardholder expense	**1,441**	1,298
FDIC and OCC assessments	**788**	335
Advertising	**775**	1,044
Office supplies	**317**	232
Other	**4,096**	3,948
Total Noninterest Expense	**37,207**	34,010
Income before Income Taxes	**12,485**	13,494
Income Tax Expense	**2,212**	2,484
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	**10,273**	11,010
Net income attributable to noncontrolling interest	**5**	5
Net income attributable to Lyons Bancorp, Inc.	**10,268**	11,005
Preferred stock dividends	**250**	250
Net Income available to common shareholders	**$10,018**	$10,755
Earnings Per Share – basic	**$3.16**	$3.38
Earnings Per Share – diluted	**$3.12**	$3.33

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

	2020	2019
	(in thousands)	
Net Income	$ 10,273	$ 11,010
Other Comprehensive Income (loss)		
Securities Avaliable for Sale:		
Net unrealized gains during the year	4,257	4,834
Reclassification adjustment for (gains) losses included in income	(217)	222
Pension and Postretirement Benefits:		
Amortization of prior service credit	(4)	(4)
Amortization of net loss	263	152
Net actuarial loss	(1,176)	(1,625)
Cash Flow Hedge:		
Gains (losses) on the effective portion of cashflow hedge	85	(117)
Reclassification adjustment for losses included in income	37	113
	3,245	3,575
Net Tax Expense	**(811)**	**(894)**
Other Comprehensive Income	2,434	2,681
Comprehensive Income attributable to noncontrolling interest	$ 12,707	$ 13,691
Noncontrolling Interest Expense	$ (5)	$ (5)
Comprehensive Income attributable to Lyons Bancorp, Inc.	**$ 12,702**	**$ 13,686**

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020 and 2019

(In thousands, except per share data)

	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Treasury Stock	Noncontrolling Interest	Total
BALANCE, January 1, 2019	$ 1,599	$ 3	$ 19,342	$ 63,949	$ (6,404)	$ (536)	$ 56	$ 78,009
Net income for 2019	-	-	-	11,005	-	-	5	11,010
Total other comprehensive loss, Net	-	-	-	-	2,681	-	-	2,681
Reclassification of lease ASU 2016-02 (2)	-	-	-	(262)	-	-	-	(262)
Reclassification of stranded tax effect (1)	-	-	-	(14)	14	-	-	-
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(858)	-	(858)
Deferred Comp shares issued from treasury	-	-	43	-	-	294	-	337
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.22 per share	-	-	-	(3,870)	-	-	-	(3,870)
BALANCE, December 31, 2019	$ 1,599	$ 3	$ 19,385	$ 70,558	$ (3,709)	$ (1,100)	$ 56	$ 86,792
Net income for 2020	-	-	-	10,268	-	-	5	10,273
Total other comprehensive loss, Net	-	-	-	-	2,434	-	-	2,434
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(209)	-	(209)
Deferred Comp shares issued from treasury	-	-	(11)	-	-	349	-	338
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.24 per share	-	-	-	(3,911)	-	-	-	(3,911)
BALANCE, December 31, 2020	$ 1,599	$ 3	$ 19,374	$ 76,665	$ (1,275)	$ (960)	$ 56	$ 95,462

(1) Reclassification adjustment from accumulated other comprehensive loss to retained earnings for stranded tax effects resulting from the change in the Federal corporate income tax rate in accordance with the early adoption of ASU 2018-02.
(2) Cumulative effect adjustment to retained earnings based on the adoption of ASU 2016-02 Leases (Topic 842).

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
	(In thousands)	
Cash Flows from Operating Activities		
Net income	**10,273**	11,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**6,258**	2,341
Earnings on investment in bank owned life insurance	**(396)**	(369)
Gain on bank owned life insurance death benefit	**-**	(1,227)
Net realized loss (gain) from sales of securities	**(217)**	222
Realized gain on loans sold	**(5,555)**	(1,948)
Gain on sale of real estate owned and other repossessed assets	**(21)**	(72)
Deferred compensation expense	**1,350**	1,786
Net amortization on securities	**450**	188
Depreciation and amortization	**1,330**	1,237
Deferred income tax expense (benefit)	**(2,653)**	(274)
Contribution to defined benefit pension plan	**-**	(1,500)
Decrease in accrued interest receivable and other assets	**(983)**	(1,540)
Increase in accrued interest payable and other liabilities	**2,747**	806
Impaiment of Mortgage Serving Rights	**391**	-
Loans originated for sale	**(147,180)**	(92,469)
Proceeds from sales of loans	**154,847**	89,322
Net Cash Provided by Operating Activities	**20,641**	7,513
Cash Flows from Investing Activities		
Net change in Interest Bearing Deposits at other Financial Institutions	**(21,990)**	(4,019)
Purchases of securities available for sale	**(176,802)**	(121,655)
Proceeds from sales of securities available for sale	**22,967**	38,870
Proceeds from maturities and calls of securities available for sale	**80,333**	66,704
Purchases of held to maturity securities	**(6,500)**	(2,071)
Proceeds from maturities and calls of held to maturity securities	**3,804**	-
Net decrease in restricted equity securities	**2,053**	374
Net increase in portfolio loans	**(159,730)**	(48,099)
Purchase of bank owned life insurance	**-**	(2,700)
Proceeds from bank owned life insurance death benefit	**-**	2,007
Premises and equipment purchases	**(4,712)**	(1,423)
Net Cash Used in Investing Activities	**(260,577)**	(72,012)
Cash Flows from Financing Activities		
Net increase in demand and savings deposits	**288,002**	34,699
Net increase (decrease) in time deposits	**(31,520)**	48,949
Net decrease in overnight borrowings from Federal Home Loan Bank	**(25,000)**	(17,000)
Preferred stock dividend	**(250)**	(250)
Issuance of subordinated debt, net of debt issuance costs	**15,736**	-
Net decrease in trust preferred	**(1,035)**	-
Purchase of treasury stock	**(209)**	(858)
Dividends paid	**(3,911)**	(3,837)
Net Cash Provided by Financing Activities	**241,813**	61,703
	1,877	(2,796)
Cash and Cash Equivalents – Beginning	**15,900**	18,696
Cash and Cash Equivalents – Ending	**17,777**	15,900
Supplementary Cash Flow Information		
Interest paid	**7,103**	8,478
Income taxes paid, net of refund received	**2,556**	3,085
Transfer of available for sale securities to held to maturity	**3,806**	-

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 sixteen branches located in Wayne, Onondaga, Yates, Ontario, Monroe, Seneca and Cayuga Counties, New York. The Company and the Bank are subject to the regulations of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Company owns all of the voting common shares of Lyons Capital Statutory Trust II (Trust II) and Lyons Statutory Trust IV (Trust IV). Trust II was formed in 2004 and Trust IV was formed in 2016. 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 sheets.

Basis of Presentation

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

Reclassification

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

Use of Estimates

The preparation of consolidated financial statements in 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.

Coronavirus Pandemic

In December 2019, an outbreak of coronavirus (COVID-19) began in China and has since spread to numerous other countries including the U.S. Due to the spread of the virus throughout the world, the World Health Organization declared the outbreak as a global pandemic on March 11, 2020. In the U.S. as the virus began to spread, multiple Federal and State jurisdictions, including New York, made emergency declarations and issued executive orders to limit the spread of the virus. Some of these orders included travel restrictions, business operation restrictions, limitations on public gatherings, school closures, shelter in place orders and closing non-essential businesses to the public. Since that time, some of the restrictions

Note 1 - Summary of Significant Accounting Policies (Continued)

have been lifted and/or modified. As a result of the virus and restrictions that were placed, there have been significant adverse effects on numerous businesses including layoffs, reduced hours and furloughs of employees in the Company's market areas. Numerous business customers and consumer customers' ability to repay their debt obligations have been impacted. The Company experienced disruptions and/or restrictions on employees ability to work, increased demand for residential mortgages, lower demand for commercial loans, impacts on interest income and an increase in the provision for loan losses.

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) and subsequent relief, in addition to providing financial assistance to both businesses and consumers, creates a forbearance program for federally-backed mortgage loans, protects borrowers from negative credit reporting due to loan accommodations related to the national emergency and provides financial institutions the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings for a limited period of time to account for the effects of COVID-19. Guidance from the Federal and New York State banking and regulatory agencies, concurrence of the Financial Accounting Standards Board and provisions of the CARES Act allow modifications made on a good faith basis in response to COVID-19 to borrowers who were generally current with their payments prior to any relief, to not be treated as troubled debt restructurings. The Company has worked with its customers affected by COVID-19 and accommodated a number of modifications across its loan portfolios.

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

At this point, the extent to which COVID-19 may impact our future financial condition or results of operations is uncertain and not currently estimable, however the impact could be material.

Investment Securities

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

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

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security

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

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

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

- The length of time and the extent to which the fair value has been less than the amortized cost basis;

- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, excess spreads, overcollateralization, protective triggers;

- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

- The level of excess cash flow generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- 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, Monroe, Yates, Onondaga, Seneca and Cayuga Counties. The Company's loan portfolio includes residential real estate, commercial real estate, agricultural real estate, commercial and agricultural loans, and consumer installment classes. Residential real estate loans include classes for 1-4 family and home equity loans. Consumer installment loans include classes for direct and indirect loans.

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

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In

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

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 sheets at the lower of cost or estimated fair value determined in the aggregate. Residential loans held for sale totaled $7.5 million and $9.6 million at December 31, 2020 and 2019, respectively, and are included in loans on the consolidated balance sheets.

During 2020 and 2019, the Company sold residential mortgage loans totaling $154.8 million and $89.3 million, respectively, and realized gains on these sales were $5.6 million and $2.0 million, respectively. These residential real estate loans are generally sold without recourse in accordance with standard secondary market loan sale agreements. When residential mortgage loans are sold, the Company typically retains all servicing rights, which provides the Company with a source of fee income. In connection with the sales in 2020 and 2019, the Company recorded mortgage-servicing assets of $1.4 million and $942,000, respectively. Amortization of mortgage-servicing assets amounted to $1.3 million in 2020 and $447,000 in 2019. Net mortgage-servicing assets included in the consolidated balance sheets totaled $2.7 million and $2.6 million, net of amortization, as of December 31, 2020 and 2019, respectively.

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

During 2020 and 2019, the Company sold no commercial loans. There were no commercial loans held for sale at December 31, 2020 or 2019.

Total loans serviced for others and excluded from the consolidated balance sheet of the Company amounted to $437.0 million and $398.0 million at December 31, 2020 and 2019, respectively.

Note 1 - Summary of Significant Accounting Policies (Continued)
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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

General Component

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan classes: 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. As a result of the COVID-19 pandemic, during the year ended December 31, 2020, the Company increased certain qualitative loan portfolio risk factors in relation to current local and national economic conditions. Based on our analysis by loan portfolio segmentation, we deemed there to be a heightened risk present in the current year as a result of the pandemic and therefore increased our provisioning in the current year in an effort to mitigate this risk. There were no changes in the Company's policies or its methodology pertaining to the general component of the allowance during 2019.

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

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

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

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

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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)
Troubled Debt Restructurings

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

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

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

Land, Premises and Equipment

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

Bank Owned Life Insurance

Bank owned life insurance (BOLI) was purchased by the Bank as a financing tool for employee benefits and to fund 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.

Due to the passing of an executive officer in September 2019, we recognized a gain on BOLI in the amount of $1,227,000.

Foreclosed Real Estate

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cash basis. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if

Note 1 - Summary of Significant Accounting Policies (Continued)
Foreclosed Real Estate – (Continued)

necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The recorded investment in residential real estate in process of foreclosure at December 31, 2020 and 2019 was $418,000 and $892,000, respectively. There was no foreclosed real estate at December 31, 2020 or 2019.

Mortgage Servicing Rights

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

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

Servicing fee income, which is reported on the income statement as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $2,797,000 and $1,966,000 for the years ended December 31, 2020 and 2019. Late fees and ancillary fees related to loan servicing are not material. For the year ended December 31, 2020, the Company recognized $391,000 of impairment on mortgage servicing rights.

Restricted Equity Securities

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

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

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.

Note 1 - Summary of Significant Accounting Policies (Continued)
Interest Rate Swap Agreements

The Company utilizes interest rate swap agreements as part of its management of interest rate risk to modify the repricing characteristics of its floating-rate junior subordinate debentures and to hedge fixed rate assets on the consolidated balance sheets that are funded by short-term and variable liabilities. For these swap agreements, 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 hedged item. The interest rate swap agreements are 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's interest rate swap agreement matured in 2020 and it did not recorded any gains or losses in earnings during 2020 or 2019.

Advertising Costs

Advertising costs are expensed as incurred.

Noncontrolling Interest

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

Income Taxes

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

Transfers of Financial Assets

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

Earnings Per Share

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Treasury shares are not deemed outstanding for earnings per share calculations. See Note 12 for earnings per share calculations.

Note 1 - Summary of Significant Accounting Policies (Continued)
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 consolidated balance sheets, such items, along with net income, are components of comprehensive income. Other comprehensive includes unrealized gains and losses on securities held for sale, changes in the funded status of the pension plan and unrealized gains and losses on cash flow hedges.

Statements of Cash Flows

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

Off-Balance-Sheet Financial Instruments

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

Segment Reporting

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

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued an Update (ASU 2020-04), Reference Rate Reform (Topic 848). The amendments in this Update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The following optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: (1) Modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. (2) Modifications of contracts within the scope of Topics 840, Leases, and 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (for example, the incremental borrowing rate) or remeasurements of lease payments that otherwise would be required under those Topics for modifications not accounted for as separate contracts. (3) Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging— Embedded Derivatives. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to

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

be issued. Once elected for a Topic or an Industry Subtopic, the amendments in this Update must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. An entity may elect to apply the amendments in this Update to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company is in the early stages of evaluation of the guidance.

In June 2016, the FASB issued an Update (ASU 2016-13) to its guidance on "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the adoption date is for fiscal years beginning after December 2020. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which aligns the implementation date for nonpublic entities' annual financial statements with the implementation date for their interim financial statements and clarifies the scope of the guidance in the amendments in ASU 2016-13. The Company will adopt ASU 2016-13 January 1, 2023. The Company is currently evaluating the potential impact on our consolidated results of operations or financial position. The initial adjustment will not be reported in earnings and therefore will not have any material impact on our consolidated results of operations, but it is expected that it will have an impact on our consolidated financial position at the date of adoption of this Update. At this time, we have not calculated the estimated impact that this Update will have on our Allowance for Loan Losses, however, we anticipate it will have a minimal impact on the methodology process we utilize to calculate the allowance. A vendor has been selected and alternative methodologies are currently being considered. Data requirements and integrity are being reviewed and enhancements incorporated into standard processes. The Company is in the early stages of evaluation and implementation of the guidance.

In August 2018, the FASB has issued an Update (ASU No. 2018-14), "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans", that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The following disclosure requirements were removed from Subtopic 715-20: (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; (2) the amount and timing of plan assets expected to be returned to the employer; (3) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; related party disclosures about the amount of future annual

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

benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; (4) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets; and (5) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements were added to Subtopic 715-20: (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: (1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; and (2) the benefit accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020 for public business entities and for fiscal years ending after December 15, 2021 for all other entities. Early adoption is permitted for all entities. The adoption of this guidance is not expected to have a material impact on the Company's consolidated results of operations or financial position.

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. There was no reserve required at December 31, 2020. The required reserve at December 31, 2019 was $21.1 million.

Note 3 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2020 and 2019:

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020:				
Available for Sale:				
United State Agencies	$ 122,209	$ 474	$ (305)	$ 122,378
State and local governments	71,447	1,309	(102)	72,654
Corporate	7,750	35	(8)	7,777
Mortgage-backed securities	73,553	2,321	(11)	75,863
Total Available for Sale	$ 274,959	$ 4,139	$ (426)	$ 278,672
Held to Maturity:				
State and local governments	$ 8,794	$ -	$ -	$ 8,794
	$ 8,794	$ -	$ -	$ 8,794
Restricted Equity Securities:	$ 4,827	$ -	$ -	$ 4,827

Note 3 – Investments (Continued)

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019:				
Available for Sale:				
Treasuries	$ 9,946	$ 41	$ -	$ 9,987
United State Agencies	82,286	242	(900)	81,628
State and local governments	39,176	629	-	39,805
Corporate	9,000	-	(93)	8,907
Mortgage-backed securities	65,309	287	(533)	65,063
Total Available for Sale	$ 205,717	$ 1,199	$ (1,526)	$ 205,390
Held to Maturity:				
State and local governments	$ 2,071	$ -	$ -	$ 2,071
Restricted Equity Securities:	$ 6,880	$ -	$ -	$ 6,880

The Company reassessed classification of certain investments and effective July 22, 2020, the Company transferred $3.8 million of tax exempt state and local governments and $2.0 million in corporate securities from available-for-sale to held-to-maturity securities. The transferred occurred at fair value. There was no unrealized gain. No gain or loss was recorded at the time of transfer.

The Company's current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations including subordinated debt of banks and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations issued by these entities. At December 31, 2020, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were in the securities portfolio. The Company's investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are primarily supported by state aid. Primarily, these investments are issued by municipalities within New York State. Restricted equity securities primarily include non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to both the Company's borrowing levels with the FHLB and commitments to sell residential mortgage loans to the FHLB. Holdings of FHLBNY stock and FRB stock totaled $3.6 million and $648,000 at December 31, 2020, respectively, and $5.7 million and $648,000 at December 31, 2019, 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 $148,000 and $168,000 at December 31, 2020 and 2019, respectively, in order to participate in certain lending activities with Farmer Mac. The stock is actively traded on the NYSE, pays a dividend, and is reflective of current market value. Restricted equity securities also include miscellaneous investments carried at par, which is also cost.

Note 3 – Investments (Continued)

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

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

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unreailzed Losses	Fair Value	Unrealized Losses
December 31,2020:						
United States agencies	$ 34,035	$ (305)	$ -	$ -	$ 34,035	$ (305)
State and Local Governments	12,177	(102)	-	-	12,177	(102)
Corporate	3,492	(8)	-	-	3,492	(8)
Mortgage-backed securities	5,367	(11)	-	-	5,367	(11)
	$ 55,071	$ (426)	$ -	$ -	$ 55,071	$ (426)

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31,2019:						
United States agencies	$ 47,072	$ (895)	$ 1,266	$ (5)	$ 48,338	$ (900)
Corporate	8,907	(93)	-	-	8,907	(93)
Mortgage-backed securities	16,430	(120)	26,415	(413)	42,845	(533)
	$ 72,409	$ (1,108)	$ 27,681	$ (418)	$ 100,090	$ (1,526)

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.

Note 3 – Investments (Continued)

There were 34 securities with unrealized losses at December 31, 2020, all of those securities with a value of $55.1 million, that were less than 12 months. On December 31, 2019 there were 60 securities with unrealized losses, 48 securities with a value of $72.4 million were less than 12 months and 12 securities with a value of $27.7 million were greater than 12 months. Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. Except for certain state and local government obligations, all securities rated by an independent rating agency carry an investment grade rating. Financial information relating to unrated state and government obligations is reviewed for indications of adverse conditions that may indicate other-than-temporary impairment. The Company did not consider these investment securities to be other than temporarily impaired at December 31, 2020 and 2019.

The amortized cost and fair value of debt securities at December 31, 2020, 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	$ 13,101	$ 13,201	$ 4,766	$ 4,766
Due after one year through five years	12,738	13,187	1,926	1,926
Due after five years through ten years	117,266	118,127	1,483	1,483
Due after ten years	50,551	50,518	619	619
Securities not due at a single maturity date	81,303	83,639	-	-
	$ 274,959	$ 278,672	$ 8,794	$ 8,794

During 2020, the Company sold $23.0 million of securities available for sale, while in 2019 the Company sold $38.9 million. Gross gains on the sale of investments in 2020 was $217,000. Gross losses on the sale of investment securities in 2019 was $222,000. Investment securities with carrying amounts of $130.2 million and $88.2 million at December 31, 2020 and 2019, respectively, were pledged to secure deposits as required or permitted by law.

Note 4 – Loans

Loans consisted of the following at December 31:

	2020	2019
	(In thousands)	
Real estate:		
Residential:		
1-4 family	**$329,452**	$238,761
Home equity	**111,417**	121,089
Commercial	**252,314**	212,947
Agriculture	**77,609**	73,894
Total mortgage loans on real estate	**770,792**	646,691
Commercial loans	**179,515**	134,769
Agriculture loans	**38,974**	47,370
Consumer installment loans:		
Direct	**22,017**	23,382
Indirect	**8,398**	10,297
Total consumer installment loans	**30,415** `	33,679
Total loans	**$1,019,696**	$862,509

Net unamortized loan origination (fees) costs totaled $(435,000) at December 31, 2020 and $2.0 million December 31, 2019, 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, 2020 and 2019, the Company was servicing loans for participants aggregating $13.2 million and $15.4 million, respectively.

Under the PPP, small businesses may, subject to certain regulatory requirements, obtain low interest (1%), government-guaranteed SBA loans. These loans may be forgiven if the funds are used for designated expenses and meet certain designated requirements. If our borrowers fail to qualify for PPP loan forgiveness, or if the PPP loans are not fully guaranteed by the US government or if the SBA determines that there is a deficiency in the manner in which we originated, funded or serviced the PPP loans, we risk holding loans with unfavorable terms and may experience loss related to our PPP loans. The Company originated 1,177 loans in the amount of $116.3 million. These loans are recorded as commercial loans on the balance sheet. As of December 31, 2020, the Company has received forgiveness for 669 loans in the amount of $60.4 million. The Company has 635 loans in the amount of $55.9 million remaining on its balance sheet as of December 31, 2020. As of December 31, 2020, the Company has recorded $2.4 million of deferred fees as a yield adjustment to loans interest income and processing fees with a remaining fees of $2.2 million to be recorded.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days or

Note 4 – Loans (Continued)

more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements.

The following table presents past due loans by classes of the loan portfolio at December 31, 2020 and 2019:

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
December 31, 2020:					
Commercial loans	$178,834	$360	$321	$179,515	$554
Commercial real estate	251,128	1,111	75	252,314	75
Agriculture loans	38,251	-	723	38,974	842
Agriculture real estate	77,074	535	-	77,609	735
Residential real estate:					
1-4 family	328,086	939	427	329,452	824
Home equity	111,094	83	240	111,417	233
Consumer installment loans:					
Direct	21,988	29	-	22,017	-
Indirect	8,352	46	-	8,398	65
Total	$1,014,807	$3,103	$1,786	$1,019,696	$3,328

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
December 31, 2019:					
Commercial loans	$132,346	$879	$1,544	$134,769	$1,643
Commercial real estate	212,148	678	121	212,947	218
Agriculture loans	46,202	43	1,125	47,370	1,148
Agriculture real estate	73,063	396	435	73,894	588
Residential real estate:					
1-4 family	236,659	1,590	512	238,761	1,133
Home equity	120,782	124	183	121,089	325
Consumer installment loans:					
Direct	23,327	55	-	23,382	76
Indirect	10,181	116	-	10,297	13
Total	$854,708	$3,881	$3,920	$862,509	$5,144

Note 4 – Loans (Continued)

At December 31, 2020, there was one home equity loan in the amount of $108,000 over 90 days' delinquent and still accruing interest. At December 31, 2019, there were no loans that were over 90 days' delinquent and still accruing interest.

Activity in the allowance for loan losses for the years ended December 31, 2020 and 2019 follows:

2020	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Beginning balance	$2,773	$3,630	$943	$565	$2,206	$555	$883	$11,555
Provisions for loan losses	2,138	1,966	258	405	2,185	189	(883)	6,258
Recoveries of loans previously charged off	64	-	-	-	12	63	-	139
Loans charged off	(127)	(25)	-	-	(128)	(290)	-	(570)
Ending balance	$4,848	$5,571	$1,201	$970	$4,275	$517	$ -	$17,382
2019								
Beginning balance	$3,030	$2,274	$715	$599	$2,058	$394	$965	$10,035
Provisions for loan losses	(74)	1,649	268	(34)	171	443	(82)	2,341
Recoveries of loans previously charged off	143	5	-	-	4	59	-	211
Loans charged off	(326)	(298)	(40)	-	(27)	(341)	-	(1,032)
Ending balance	$2,773	$3,630	$943	$565	$2,206	$555	$883	$11,555

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2020 and 2019:

(In thousands)

December 31, 2020	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	$300	$ -	$350	$25	$ -	$ -	$ -	$675
Amount of allowance for loan losses on loans collectively evaluated for impairment	4,548	5,571	851	945	4,275	517	-	16,707
Total allowance for loan losses	$4,848	$5,571	$1,201	$970	$4,275	$517	$ -	$17,382
Loans individually evaluated for impairment	$553	$75	$841	$736	$ -	$ -	$ -	$2,205
Loans collectively evaluated for impairment	178,962	252,239	38,133	76,873	440,869	30,415	-	1,017,491
Total Loans	$179,515	$252,314	$38,974	$77,609	$440,869	$30,415	$ -	$1,019,696

December 31, 2019	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	$423	$ -	$300	$52	$ -	$ -	$ -	$775
Amount of allowance for loan losses on loans collectively evaluated for impairment	2,350	3,630	643	513	2,206	555	883	10,780
Total allowance for loan losses	$2,773	$3,630	$943	$565	$2,206	$555	$883	$11,555
Loans individually evaluated for impairment	$1,642	$218	$731	$1,005	$ -	$ -	$ -	$3,596
Loans collectively evaluated for impairment	133,127	212,729	46,639	72,889	359,850	33,679	-	858,913
Total Loans	$134,769	$212,947	$47,370	$73,894	$359,850	$33,679	$ -	$862,509

Note 4 – Loans (Continued)

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.

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, 2020 and 2019:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Income Recognized
December 31, 2020					
With no related allowance recorded:					
Commercial loans	$196	$240	$ -	$468	$ -
Commercial real estate	75	75	-	72	-
Agricultural loans	118	121	-	129	-
Agricultural real estate	225	234	-	291	-
Total	$614	$670	$ -	$960	$ -
With an allowance recorded:					
Commercial Loans	$358	$841	$300	$646	$ -
Commercial real estate	-	-	-	42	-
Agricultural loans	723	738	350	723	-
Agricultural real estate	510	583	25	390	-
Total	$1,591	$2,162	$675	$1,801	$ -
Summary:					
Commercial loans	$553	$1,081	$300	$1,114	$ -
Commercial real estate	75	75	-	114	-
Agricultural loans	841	859	350	852	-
Agricultural real estate	736	817	25	681	-
Total	$2,205	$2,832	$675	$2,761	$ -

Note 4 – Loans (Continued)

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Cash Basis Income Recognized
December 31, 2019					
With no related allowance recorded:					
Commercial loans	$274	$305	$ -	$490	$ -
Commercial real estate	97	99	-	34	-
Agricultural loans	-	-	-	334	-
Agricultural real estate	-	-	-	349	-
Total	$371	$404	$ -	$1,207	$ -
With an allowance recorded:					
Commercial loans	$1,368	$1,676	$423	$1,487	$ -
Commercial real estate	121	121	-	136	-
Agricultural loans	731	743	300	750	-
Agricultural real estate	1,005	1,017	52	298	-
Total	$3,225	$3,557	$775	$2,671	$ -
Summary:					
Commercial loans	$1,642	$1,981	$423	$1,977	$ -
Commercial real estate	218	220	-	170	-
Agricultural loans	731	743	300	1,084	-
Agricultural real estate	1,005	1,017	52	647	-
Total	$3,596	$3,961	$775	$3,878	$ -

As of December 31, 2020 and 2019, the Company has a recorded investment in troubled debt restructurings of $2.1 million and $500,000, respectively. The Company has allocated $650,000 and $300,000 of specific allowance for those loans at December31, 2020 and 2019 respectively.

The modification of the terms of such commercial loans, agriculture loan and commercial real estate loan performed during the year ended December 31, 2020 included an extension of the maturity date. The modification of the terms of such agriculture loan performed during December 31, 2019 included a reduction in interest rate.

December 31, 2020 (in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	4	$ 1,038	$ 1,038
Agriculture	1	500	496
Commercial Real Estate	1	602	602
Total	6	$ 2,140	$ 2,136

Note 4 – Loans (Continued)

The troubled debt restructurings described above did not increase the allowance for loan losses and did not result in charge-offs during the year ended December 31, 2020.

December 31, 2019 (in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Agriculture	1	$ 500	$ 500
Total	1	$ 500	$ 500

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in charge-offs during the year ended December 31, 2019.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within the first twelve months following the modification during the year ended December 31, 2020 and 2019:

Troubled Deb Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
December 31, 2020		
Agriculture:	1	$ 496
Total	1	$ 496

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in additional charge-offs during the year ended December 31, 2020.

Troubled Deb Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
December 31, 2019		
Agriculture:	1	$ 500
Total	1	$ 500

The troubled debt restructuring described above did not increase the allowance for loan losses and did not result in additional charge-offs during the year ended December 31, 2019.

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

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section

Note 4 – Loans (Continued)

4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2020, the Company has remaining loan modifications of 9 commercial loans with outstanding balances of $3.2 million, no agriculture loans, 6 residential mortgage loans with outstanding balances of $713,000 and 3 consumer loans with outstanding balances of $21,000.

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, 2020 or 2019.

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, 2020 or 2019.

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, 2020 and 2019:

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Total
December 31, 2020					
Grade:					
Pass	$173,340	$246,207	$38,088	$75,628	$533,263
Special Mention	690	2,441	783	320	4,234
Substandard	5,485	3,666	103	1,661	10,915
Total	$179,515	$252,314	$38,974	$77,609	$548,412
December 31, 2019					
Grade:					
Pass	$131,116	$208,849	$43,467	$70,053	$453,485
Special Mention	1,191	1,961	1,450	1,402	6,004
Substandard	2,462	2,137	2,453	2,439	9,491
Total	$134,769	$212,947	$47,370	$73,894	$468,980

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.

The following table presents the classes of the residential real estate and consumer loan portfolios summarized by performing or nonaccrual as of December 31, 2020 and 2019:

(In thousands)

	1-4 Family	Home Equity	Consumer - Direct	Consumer - Indirect	Total
December 31, 2020					
Performing	$328,628	$111,184	$22,017	$8,333	$470,162
Nonaccrual	824	233	-	65	1,122
Total	$329,452	$111,417	$22,017	$8,398	$471,284
December 31, 2019					
Performing	$237,628	$120,764	$23,369	$10,221	$391,982
Nonaccrual	1,133	325	13	76	1,547
Total	$238,761	$121,089	$23,382	$10,297	$393,529

Note 5 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2020 and 2019:

	2020	2019
	(In thousands)	
Land	**$ 5,875**	$ 5,240
Building	**23,139**	18,933
Furniture and equipment	**9,092**	8,414
Leasehold improvements	**3,055**	3,055
Construction in progress	**-**	807
	41,161	36,449
Less: Accumulated depreciation	**(13,457)**	(12,127)
	$ 27,704	$ 24,322

Depreciation and amortization expense in 2020 and 2019 are included in noninterest expense as follows:

	2020	2019
	(In thousands)	
Building	**$ 508**	**$ 482**
Furniture and equipment	**676**	**607**
Leasehold improvements	**146**	**148**
	$ 1,330	**$ 1,237**

At December 31, 2020, 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)
2021	**$ 81**
2022	**14**
2023	**-**
2024	**-**
2025	**-**
Thereafter	**-**
	$ 95

Rent income under the operating leases totaled $94,000 and $98,000 in 2020 and 2019, respectively.

Note 6 - Deposits

Certificates of deposit in denominations of $250,000 and over were $81.8 million and $88.0 million at December 31, 2020 and 2019, respectively.

At December 31, 2020, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2021	**$ 224,968**
2022	**9,281**
2023	**7,268**
2024	**2,162**
2025	**406**
	$ 244,085

Included within certificates of deposits in December 31, 2020 and 2019 were $10.0 million and $4.9 million in brokered certificates of deposits.

Note 7 - Borrowings

Borrowings consist of overnight advances with the Federal Home Loan Bank. At December 31, 2020 and 2019, there were $0.0 million and $25.0 million in overnight advances outstanding, respectively. The table below details additional information related to overnight advances for the years ended December 31, 2020 and 2019:

	2020	**2019**
	(Dollars in thousands)	
Maximum outstanding balance	**$ 25,000**	$ 42,000
Average outstanding balance	**$ 4,005**	$ 7,118
Interest expense	**$ 35**	$ 156
Weighted average interest rate during the year	**1.75%**	2.21%
Weighted average interest rate at end of year	**0.00%**	1.81%

There was no long term debt at December 31, 2020 and 2019.

As a member of the FHLB, the Bank can use certain otherwise unencumbered mortgage-related assets to secure borrowings from the FHLB. At December 31, 2020, total unencumbered mortgage-related loans were $162.9 million. At December 31, 2019, total unencumbered mortgage-related loans were $100.2 million. Additional assets may also qualify as collateral for FHLB advances.

The Company, through the Bank, can use certain otherwise unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2020, total unencumbered collateral in the form of home equity loans and other consumer loans was $42.3 million. At December 31, 2019, total otherwise unencumbered collateral in the form of home equity loans and other consumer loans was $64.1 million.

Note 7 – Borrowings (Continued)

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $40.0 million at December 31, 2020 and December 31, 2019. There were no outstanding advances against those lines at December 31, 2020 or 2019.

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

In May 2018, the Bank entered into an interest rate swap agreement with a counterparty under which the Bank pays a fixed rate of 2.765% and receives a variable rate (which resets quarterly) equal to 3-month LIBOR Flat. The derivative and hedging accounting guidance requires the Bank recognize all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheets. In accordance with this guidance, the Bank designates this interest rate swap as a cash flow hedge. If certain hedging criteria specified in derivatives and hedge accounting guidance are met, including testing for hedge effectiveness, hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships. The Bank determined that the entire amount of the interest rate swap contract described above was an effective cash flow hedging instrument.

The agreement has a notional amount of $10,000,000. This interest rate swap matured on May 14, 2020.

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%. In October 2020, Trust I was dissolved and the $1.0 million of floating-rate trust capital securities were exchanged for $1.0 million of the Lyons Bancorp subordinate debt offering (see Note 20).

On August 23, 2004, the Company issued $5.155 million in junior subordinated debentures due August 23, 2034, to Trust II. The Company owns all of the $155,000 in common equity of Trust II and the debentures are the sole asset of Trust II. Trust II issued $5.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.65%. The coupon rate was 2.86% at December 31, 2020 and 4.56% at December 31, 2019. The securities are callable by the Company subject to any required regulatory approval, at par.

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 expired on November 23, 2019 and any pledged collateral was returned to the Company.

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

Note 8 – Junior Subordinated Debentures (Continued)

net proceeds from this offering to fund an additional $5.0 million capital investment in the Bank to fund its operations and future growth.

The accounts of Trust I and Trust II are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2020 and 2019, $5.0 million and $6.0 million in trust capital securities qualified as Tier I capital, respectively.

Note 9 - Income Taxes

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

	2020	2019
	(In thousands)	
Current Tax Provision		
Federal	**$ 4,279**	$ 2,527
State	**586**	231
Total current tax provision	**4,865**	2,758
Deferred tax (benefit)		
Federal	**(2,161)**	(233)
State	**(492)**	(41)
Total deferred tax (benefit)	**(2,653)**	(274)
	$ 2,212	**$ 2,484**

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

	2020	2019
Statutory federal tax rate	**21.0%**	21.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	**(1.6)**	(1.6)
Non-taxable earnings on bank-owned life insurance	**(0.6)**	(2.5)
Disallowed interest expense	**0.1**	0.1
State taxes	**(0.2)**	1.1
Other, net	**(0.9)**	0.3
Effective tax rate	**17.8%**	18.4%

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:

Note 9 - Income Taxes (Continued)

	2020	2019
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	**$ 4,455**	$ 2,956
Compensation and benefits	**2,374**	2,020
Net unrealized loss on available for sale securities	**-**	82
Prepaid pension	**795**	234
Other	**542**	620
Total deferred tax assets	**$ 8,166**	$ 5,912
Deferred tax liabilities:		
Net unrealized gain on available for sale securities	**$ 928**	-
Depreciation	**769**	595
Other	**628**	1,323
Total deferred tax liabilities	**$ 2,325**	$ 1,918
Net deferred tax assets	**$ 5,841**	$ 3,994

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.

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. 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.

On November 15, 2016, the Company offered a private placement of 5,000 shares, par value of $0.50 per share, Series A Non-Cumulative Convertible Preferred Stock at $1,000 per share. The preferred stock is convertible, at any time, into shares of common stock, par value $0.50 per share, at the option of the holder.

Upon a deemed liquidation event of Lyons Bancorp, the holders of the preferred shares are entitled to receive a liquidation distribution of $1,000 per share plus any declared and unpaid dividends, before any distribution of assets to holders of common stock. Dividends will be paid quarterly, if declared by the board of directors, at a rate per annum equal to 5%. As of December 31, 2020 and 2019, all 5,000 shares, par value $0.50 per share, of the authorized preferred stock have been issued and are outstanding.

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

Note 10 - Stockholders' Equity (Continued)

The common stock and treasury stock of the Company at December 31, 2020 and 2019 are as follows:

	2020	2019
Common stock, authorized shares, $0.50 par value	**7,500,000**	7,500,000
Issued shares	**3,198,660**	3,198,660
Less: treasury stock shares	**(25,322)**	(28,412)
Outstanding shares	**3,173,338**	3,170,248

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income (loss) are as follows for the Years Ended December 31, 2020 and 2019:

	2020	2019
	(in thousands)	
Securities available for sale:		
Net unrealized (losses) during the year	$ 1,064	$ 1,208
Reclassification adjustment for losses (gains) included in income	(54)	56
Pension and Postretirement benefit:		
Amortization of Prior service credit	(1)	(1)
Amortization of net loss	65	38
Net Actuarial loss	(351)	(406)
Cash Flow Hedge:		
Gains (losses) on the effective portion of cash flow hedge	79	(29)
Reclassification adjustment for losses included in income	9	28
Tax expense	**$ 811**	$ 894

Note 10 - Stockholders' Equity (Continued)

Reclassifications out of accumulated other comprehensive (loss) income for the years ended December 31, 2020 and 2019 are as follows:

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss 2020	2019	Affected Line Item In The Statement Where Net Income is Presented
	(in thousands)		
Unrealized Gains and Losses on avaliable for sale securities (before tax)	$ 217	$ (222)	Net realized gain/(loss) from sales of securities
Tax (Expense) Benefit	(54)	56	Income tax expense
Net of Tax	**163**	(166)	
Amortization of Pension and postretirement benefit plan items			
Prior service credit	4	4	
Net Losses	(263)	(152)	
	(259)	(148)	Pensions and benefits expense
Tax Benefit	65	37	Income tax expense
Net of Tax	**(194)**	(111)	
Gains and losses on Cash flow hedge (before tax)	(37)	(113)	Interest expense - borrowings
Tax Benefit	9	28	Income tax expense
Net of Tax	**(28)**	(85)	
Total Reclassification for the year, net of tax	**$ (59)**	$ (362)	

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 and restricted equity securities	Pension and postretire-ment benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2019	$ (4,038)	$ (2,303)	$ (63)	$ (6,404)
Other comprehensive income (loss) before reclassifications	3,626	(1,219)	(88)	2,319
Amounts reclassified from accumulated other comprehensive income	166	111	85	362
Other comprehensive income (loss) for 2019	3,792	(1,108)	(3)	2,681
Cumulative effect of change in measurement of equity securities	-	-	14	14
Balance – December 31, 2019	$ (246)	$ (3,411)	$ (52)	$ (3,709)
Other comprehensive income (loss) before reclassifications	$ 3,193	$ (824)	$ 6	$ 2,375
Amounts reclassified from accumulated other comprehensive income	(163)	194	28	59
Other comprehensive income (loss) for 2020	3,030	(630)	34	2,434
Balance – December 31, 2020	$ 2,784	$ (4,041)	$ (18)	$ (1,275)

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.

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, 2020 and 2019:

	Pension Plan		Healthcare Plan	
	2020	2019	2020	2019
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 20,612	$ 15,396	$ 407	$ 396
Service cost	1,567	1,193	7	5
Interest cost	725	681	21	24
Actuarial (gain) loss	4,059	3,905	25	15
Expected expenses	(141)	(141)	-	-
Benefits paid "expected"	(422)	(422)	(34)	(33)
Benefit obligation at end of year	26,400	20,612	426	407
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 19,599	$ 15,396	-	-
Actual return on plan assets	4,163	3,253	-	-
Employer contribution	-	1,500	34	33
Actual expenses paid	(148)	(138)	-	-
Benefits paid	(443)	(412)	(34)	(33)
Fair value of plan assets at end of year	23,171	19,599	-	-
(Unfunded) Funded status recognized	$ (3,229)	$ (1,013)	$ (426)	$ (407)
Accumulated benefit obligation	$ 21,557	$ 17,009	$ (712)	$ (634)

The unfunded status of the Pension and Healthcare Plans as of December 31, 2020 and 2019 has been recognized in other liabilities in the consolidated balance sheets.

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	
	2020	2019	2020	2019
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	**$ 1,567**	$ 1,193	**$ 7**	$ 5
Interest cost	**725**	681	**21**	24
Expected return on plan assets	**(1,158)**	(979)	**-**	-
Amortization of prior service cost (credits)	**-**	-	**(4)**	(4)
Amortization of net loss	**234**	133	**29**	19
Net periodic benefit cost	**$ 1,368**	**$ 1,028**	**$ 53**	**$ 44**
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	**$ 1,081**	$ 1,618	**$ 95**	$ 37
Recognized actuarial loss	**(234)**	(133)	**$ (29)**	$ (19)
Recognized prior service (cost) credit	**-**	-	**4**	4
Recognized in other comprehensive income	**847**	1,485	**70**	**22**
Total recognized in net periodic benefit cost and other comprehensive income	**$ 2,215**	**$ 2,513**	**$ 123**	**$ 66**

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

	Pension Plan		Healthcare Plan	
	2020	2019	2020	2019
	(In thousands)			
Prior service cost (credit)	**$ -**	$ -	**$ (1)**	$ (4)
Other	**-**	-	**(64)**	(15)
Net actuarial loss	**3,891**	3,255	**215**	175
	$ 3,891	**$ 3,255**	**$ 150**	**$ 156**

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2021 are as follows:

	Pension Plan	Healthcare Plan	Total
		(In thousands)	
Prior service cost (credit)	$ -	$ (4)	$ (4)
Net actuarial loss	261	44	305
Total	$ 261	$ 40	$ 301

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

	Pension Plan		Healthcare Plan	
	2020	2019	2020	2019
Discount rates:				
Benefit cost for Plan Year	**3.57%**	4.52%	**3.13%**	4.14%
Benefit obligation at end of Plan Year	**2.82%**	3.57%	**2.39%**	3.13%
Expected long-term return on plan assets	**5.25%**	6.50%	**N/A**	N/A
Rate of compensation increase:				
Benefit cost for Plan Year	**3.00%**	3.00%	**N/A**	N/A
Benefit obligation at end of Plan Year	**3.00%**	3.00%	**N/A**	N/A

The assumed health care cost trend rate used in the postretirement health care plan at December 31, 2020 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 $100,000.

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

The Company utilizes Total Data Set Employee/Retiree Sex-distinct Mortality Tables with Contingent Survivor Tables for current beneficiaries (Pri-2012), with full generational projection using Scale MP-2020. The change in projection scale from MP-2019 to MP-2020 decreased the projected benefit obligation by $129,000.

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. The Company made no contribution in 2020 and a contribution of $1,500,000 in 2019.

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

Note 11 - Pension and Postretirement Benefit Plans (Continued)

	Pension Plan	Healthcare Plan
Years Ending December 31,	(In thousands)	
2021	$ 496	$ 34
2022	$ 538	$ 34
2023	$ 591	$ 34
2024	$ 639	$ 34
2025	$ 764	$ 42
2026-2030	$ 5,198	$ 207
Total	$ 8,226	$ 385

The fair value of the Company's pension plan assets at December 31, 2020 and 2019 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, 2020				
Cash equivalent:				
Foreign currencies	$ 1	$ 1	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	1	1	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	1	-	1	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	1	-	1	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	2	1	1	-
Investment valued using Net Asset Value	23,169			
Total	$ 23,171			

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, 2019				
Cash equivalent:				
Foreign currencies	$ 4	$ 4	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	4	4	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	1	-	1	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	1	-	1	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	5	4	1	-
Investment valued using Net Asset Value	19,594			
Total	$ 19,599			

At December 31, 2020 and 2019, the portfolio was substantially managed by one investment firm who controlled approximately 99% and 98%, respectively, of the System's assets. In addition, as of December 31, 2020 and 2019, approximately $284,000 and $425,000, respectively, of Pension Plan monies had not yet been allocated to an investment manager.

At December 31, 2020 and 2019, the System had an investment concentration of approximately 99% and 98% respectively, of its total portfolio in the JPMCD LDI Diversified Balanced Fund, a commingled pension trust fund.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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

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

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

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

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

The Fund is valued utilizing the valuation policies set forth by a JP Morgan's asset management committee. Underlying investments for which market quotations are readily available are valued at their market value. Underlying investments for which market quotations are not readily available are fair valued by approved affiliated and/or unaffiliated pricing vendors, third-party broker-deals or methodologies as approved by the asset management committee. Fixed income instruments are valued based on prices received from approved affiliated and unaffiliated pricing vendors or third party broker-dealers (collectively referred to as "Pricing Services"). The Pricing Services use multiple valuation techniques to determine the valuation of fixed income instruments. In instances where sufficient market activity exists, the Pricing services may utilize a market-based approach through which trades or quotes from market makers are used to determine the valuation of these instruments. In instances where sufficient market activity may not exist, the Pricing Services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining fair value and/or market characteristics in order to estimate the relevant cash flows, which are then discounted to calculate the fair values. Equities and other exchange-traded instruments are valued at the last sales price or official market closing price on the primary exchange on which the instrument is traded before the net asset values ("NAV") of the Funds are calculated on a valuation date. Futures contracts are generally valued on the basis of available market quotations. Forward foreign currency exchange contracts are valued utilizing market quotations from approved Pricing Services. The Fund invests in the Commingled Pension Trust Fund ("Strategic Property Fund") of JPMorgan Chase Bank, N.A. (the "SPF"), which holds significant amounts of investments which have been fair valued at December 31, 2020 and 2019.

The following is a table of the pricing methodology and unobservable inputs at December 31, 2020 and 2019 used by JPMorgan in pricing commingled pension trust funds:

Commingled Pension Trust Funds (CPTF) - Other	Principal Valuation Technique(s) Used	Unobservable Inputs
CPTF (Strategic Property) of JPMorgan Chase Bank, N.A.	Market, Income Approach, Debt Service and Sales Comparison	Credit Spreads, Discount Rate, Loan to Value Ratio, Terminal Capitalization Rate and Value per Square Foot

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The following table sets forth a summary of the changes in Level 3 assets for the years ended December 31, 2020 and 2019:

January 1, 2019	$ 593
Transfer of assets now measured	-
at net asset value per share	(593)
Balances, December 31, 2019	$ -
No change	-
Balances, December 31, 2020	$ -

There were no transfers in or out of Level 3 in the Years Ended December 31, 2020 and 2019.

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

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

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

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The target allocation for 2020 and actual allocation of plan assets as of December 31, 2020 and 2019 are as follows:

		% of Plan Assets at December 31,	
Asset Category	Target Allocation 2020	2020	2019
Cash equivalents	0%	0.0%	0.0%
Equity securities	28%	31.6%	31.8%
Fixed income securities	60%	62.6%	57.7%
Other financial instruments	12%	5.8%	3.9%

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 $558,000 and $491,000 under these provisions during 2020 and 2019, 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, 2020 and 2019 was $6.6 million and $5.4 million, respectively, and is recorded in other liabilities in the consolidated balance sheets. Compensation expense related to the SERP was $1,136,000 and $1,717,000 for the years ended December 31, 2020 and 2019.

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.

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 159,830 and 150,842 at December 31, 2020 and 2019 respectively. Total shares awarded were 8,712 and 8,182 for 2020 and 2019, respectively. Compensation expense is recognized over the vesting period, and is based upon the total amount of the value of the shares awarded to each executive. Compensation expense related to the plan was approximately $228,000 and $226,000 for the years ended December 31, 2020 and 2019, 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:

	2020	2019
	(In thousands, except per share data)	
Net Income	$ 10,268	$ 11,005
Adjustments for dilutive potential common shares	-	-
Preferred stock dividends	250	250
Net income available for diluted common shares	$ 10,018	$ 10,755
Weighted average common shares used to calculate basic EPS	3,171,206	3,182,515
Add: effect of common stock equivalents[1]	120,000	120,000
Weighted average common shares used to calculate diluted EPS	3,291,206	3,302,515
Earnings per common share:		
Basic	$ 3.16	$ 3.38
Diluted	$ 3.12	$ 3.33

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

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.

The roll-forward of loans to related parties for the years ended December 31, 2020 and December 31, 2019 is as follows:

	2020	2019
	(In Thousand's)	
Beginning Balance	$ 16,752	$ 14,852
New Loans	3,874	4,933
Change in Related Party Status	-	331
Sold Loans	(312)	(988)
Repayments	(5,124)	(2,376)
Ending Balance	$ 15,190	$ 16,752

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:

	2020	2019
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 153,252**	$ 59,263
Unfunded commitments under commercial lines of credit	**138,289**	106,722
Unfunded commitments under consumer lines of credit	**103,365**	91,075
Standby letters of credit	**9,513**	9,389
	$ 404,419	$ 266,449

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 $8.2 million and $8.2 million at December 31, 2020 and 2019, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2020 and 2019.

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 $6.2 million and $5.8 million at December 31, 2020 and 2019 respectively, which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's spread account. The FHLB is funding the spread account annually based on the outstanding balance of loans sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread

Note 14 - Commitments and Contingent Liabilities (Continued)

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

In addition to pledging investment securities to secure deposits, the Bank has entered into an agreement with the FHLB whereby the FHLB agrees to issue letters of credit for the benefit of securing deposits. In the event the FHLB makes a payment under this agreement, such payment will constitute an advance to the Bank and shall be immediately due and payable. The Bank has pledged otherwise unencumbered mortgage-related assets to secure letters of credit from the FHLB. As of December 31, 2020 the Bank had letters of credit outstanding with FHLB of $63.8 million and as of December 31, 2019 the Bank had letters of credit outstanding with the FHLB of $70.7 million.

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 Lessors of Residential Buildings and Dwellings, with loans outstanding of $63.3 million or 6.21% of total loans as of December 31, 2020. The largest concentration of credit by industry is Lessors of Nonresidential Buildings and Dwellings, with loans outstanding of $63.5 million or 7.37% of total loans as of December 31, 2019. 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 16 - Regulatory Matters (Continued)
Capital (Continued)

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

In July 2013, the Federal Reserve approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the current U.S risk-based capital rules. The Basel III Capital Rules define the components of capital, and address risk weights and other issues affecting the denominator in the banking institutions' regulatory capital ratios. It also replaces the existing risk-weighting approach, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords and implements the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings utilized in the federal banking agencies' rules.

The Basel III Capital Rules were effective for the Company and the Bank on January 1, 2015 (subject to a phase-in period).

As required under Dodd-Frank, a new capital ratio, "common equity tier 1 capital ratio" (CET1) was established. This ratio allows only common equity to qualify as tier 1 capital. The new CET1 ratio also will include most elements of accumulated other comprehensive income, including unrealized securities gains and losses, as part of both total regulatory capital (numerator) and total assets (denominator).

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

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

The final rules eliminated the proposed phase-out over 10 years or Trust Preferred Securities, or "TRUPs" as tier 1 capital for bank holding companies and banks, such as the Company and the Bank, that have less than $15 billion in total assets. Under the final rule, grandfathered TRUPs continue to qualify as tier 1 capital until they mature or are redeemed, up to a limit of 25% of tier 1 capital (for grandfathered TRUPs and other grandfathered tier 1 capital components).

Note 16 - Regulatory Matters (Continued)

	Actual			For Capital Adequacy Purposes			To be Well Capitalized under Prompt Corrective Action Provisions			Minimum for Capital Adequacy with Buffer, Fully Phased in 2020		
		Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2020:												
Total risk-based capital												
Consolidated	$	109,685	11.5%	$	76,427	≥8.0%	$	95,534	≥10.0%	$	100,311	≥10.5%
Bank	$	130,173	13.6%	$	76,399	≥8.0%	$	95,499	≥10.0%	$	100,274	≥10.5%
Tier 1 capital												
Consolidated	$	97,620	10.2%	$	57,321	≥6.0%	$	76,427	≥8.0%	$	81,204	≥8.5%
Bank	$	118,112	12.4%	$	57,300	≥6.0%	$	76,399	≥8.0%	$	81,174	≥8.5%
Tier 1 leverage												
Consolidated	$	97,620	6.9%	$	56,196	≥4.0%	$	70,245	≥ 5.0%	$	70,245	≥ 5.0%
Bank	$	118,112	8.4%	$	56,187	≥4.0%	$	70,234	≥ 5.0%	$	70,234	≥ 5.0%
Common Equity Tier 1												
Consolidated	$	96,363	10.1%	$	42,990	≥4.5%	$	62,097	≥ 6.5%	$	66,874	≥ 7.0%
Bank	$	116,855	12.2%	$	42,975	≥4.5%	$	62,074	≥ 6.5%	$	66,849	≥ 7.0%

	Actual			For Capital Adequacy Purposes			To be Well Capitalized under Prompt Corrective Action Provisions			Minimum for Capital Adequacy with Buffer, Fully Phased in 2019		
		Amount	Ratio		Amount	Ratio		Amount	Ratio		Amount	Ratio
December 31, 2019:												
Total risk-based capital												
Consolidated	$	101,559	11.5%	$	70,478	≥8.0%	$	88,098	≥10.0%	$	92,503	≥10.5%
Bank	$	108,211	12.3%	$	70,457	≥8.0%	$	88,072	≥10.0%	$	92,475	≥10.5%
Tier 1 capital												
Consolidated	$	90,491	10.3%	$	52,859	≥6.0%	$	70,478	≥8.0%	$	74,883	≥8.5%
Bank	$	97,146	11.0%	$	52,843	≥6.0%	$	70,457	≥8.0%	$	74,861	≥8.5%
Tier 1 leverage												
Consolidated	$	90,491	7.8%	$	46,068	≥4.0%	$	57,585	≥ 5.0%	$	57,585	≥ 5.0%
Bank	$	97,146	8.4%	$	46,064	≥4.0%	$	57,580	≥ 5.0%	$	57,580	≥ 5.0%
Common Equity Tier 1												
Consolidated	$	86,834	9.9%	$	39,644	≥4.5%	$	57,264	≥ 6.5%	$	61,669	≥ 7.0%
Bank	$	93,490	10.6%	$	39,632	≥4.5%	$	57,246	≥ 6.5%	$	61,650	≥ 7.0%

Note 16 - Regulatory Matters (Continued)

Management believes, as of December 31, 2020, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

Dividend Restrictions

In the ordinary course of business, the Company is dependent upon dividends from the Bank to provide funds for the payment of interest expense on the 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 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, 2020, the Bank's retained earnings available for the payment of dividends were approximately $19.0 million. At December 31, 2019, the Bank's retained earnings available for the payment of dividends were approximately $16.6 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.

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

Fair Value Hierarchy

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

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

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

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

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2020 and 2019:

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

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

Investment Securities

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

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

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

Loans Held for Sale

The fair value of loans held for sale is determined using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan, resulting in a Level 2 classification.

Loans

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

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $2.2 million and $3.6 million, net of valuation allowances of $675,000 and $775,000 as of December 31, 2020 and 2019, respectively.

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

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

Deposits

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

Borrowings from the Federal Home Loan Bank

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

Junior Subordinated Debentures

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

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

Subordinated Debt Offering

The fair values of the subordinated debt offering are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity. Carrying value approximates fair value.

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 and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 are as follows:

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

	Carrying Value	(Level 1) Quoted Prices in Active Markets for	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2020:				
Securities available for sale:				
United States agencies	**$122,378**	**$ -**	**$122,378**	**$ -**
State and local governments	**72,654**	**-**	**72,654**	**-**
Mortgage-backed securities	**75,863**	**-**	**75,863**	**-**
Corporate securities	**7,777**	**-**	**7,777**	**-**
Total securities available for sale	**$278,672**	**$ -**	**$278,672**	**$ -**
Restricted equity security	**$148**	**$148**	**$ -**	**$ -**
December 31, 2019:				
Securities available for sale:				
United States agencies	$81,628	$ -	$81,628	$ -
State and local governments	39,806	-	39,806	-
Mortgage-backed securities	65,063	-	65,063	-
Treasuries	9,986		9,986	
Corporate securities	8,907	-	8,907	-
Total securities available for sale	$205,390	$ -	$205,390	$ -
Restricted equity security	$168	$168	$ -	$ -
Interest rate swap agreements	($46)	$ -	($46)	$ -

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)
Assets Measured at Fair Value on a Nonrecurring Basis

Impaired loans (level 3), mortgage servicing rights (level 2) and loans held for sale (level 2) are measured at fair value on a nonrecurring basis at December 31, 2020 and 2019.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2020 and 2019 are as follows:

		2020		2019	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:			(In thousands)		
Cash and due from banks	1	$17,777	$17,777	$15,900	$15,900
Interest-bearing deposits in banks	1	43,446	43,446	21,456	21,456
Investment securities	1 and 2	292,293	278,840	214,341	205,550
Loans, net of allowance	2 and 3	1,002,314	1,023,835	850,954	857,297
Accrued interest receivable	1	4,783	4,783	4,148	4,148
Mortgage servicing rights	2	2,708	2,708	2,606	2,606
Financial liabilities:					
Demand and savings deposits	1	$1,041,883	$1,041,883	$755,842	$755,842
Certificates of deposit	2	244,084	244,948	273,894	274,202
Borrowings from FHLB	2	-	-	25,000	25,000
Junior subordinated debentures	2	5,155	5,155	6,190	6,190
Subordinated debt offering	2	15,736	15,736	-	-
Interest rate swap agreements	2	-	-	46	46
Accrued interest payable	1	354	354	423	423

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

Note 18 – Revenue Recognition

The majority of the Company's revenue-generating transactions are not subject to Accounting Standards Codification ASC Topic 606, including revenue generated from financial instruments, such as loans and investment securities which are presented in our consolidated income statements as components of net interest income. All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income, with the exception of net gains and losses from sales of foreclosed real estate, which is recognized within non-interest expense when applicable. The following table presents revenues subject to ASC 606 for the years ended December 31, 2020 and 2019, respectively.

Note 18 – Revenue Recognition (Continued)

	For the years ended December 31, *(In thousands)* 2020	2019
Service charges on deposit accounts		
Insufficient funds fees	$ 1,314	$ 1,856
Deposit related fees	402	442
ATM/point of sale fees	762	949
	2,478	3,247
Cardholder fees		
Debit card interchange fees	2,793	2,502
Other cardholder fees	544	365
	3,337	2,867
Loan servicing fees and realized gain on sales of loans		
Loan Servicing Fees	2,797	1,966
Realized gain on sale of loans	5,576	2,021
	8,373	3,987
Financial services fees	1,400	1,263
Other miscellaneous income	848	2,067
	$ 16,436	$ 13,431

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

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

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

Financial Services Fees: The Company earns commissions from investment brokerage services provided to its customers by a third-party service provider. The Company receives fees from the third-party service provider on a monthly basis based

Note 18 – Revenue Recognition (Continued)

upon customer activity for the month. The Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does control the selection of services but does not control the services rendered to the customers. Investment brokerage fees are presented net of related costs.

Note 19 – Leases

The Company enters into leases in the normal course of business for five of its branch locations and its back-office operations center. During the year ended December 31, 2020, the Company had a lease agreement expire at one of its branch locations and subsequently entered into a new lease agreement for that branch location.

The Company's leases have remaining terms that vary from less than one year up to 26 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when the Company believes it is reasonably certain that the renewal options will be exercised.

The components of the lease expense are as follows:

(In thousands)	For the year ended December 31, 2020	For the year ended December 31, 2019
Operating lease cost	$383	$384
Total	$383	$384

Supplemental cash flow information related to leases was as follows:

(In thousands)	For the year ended December 31, 2020	For the year ended December 31, 2019
Cash paid for amount included in the measurement of operating lease liabilities:		
Operating cash flows from operating leases	$383	$384

Note 19 – Leases (Continued)

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

(In thousands, except lease term and discount rate)	Balance Sheet Classification	December 31, 2020	December 31, 2019
Operating Leases			
Operating lease right-of-use assets	Other assets	$4,194	$3,793
Operating lease liabilities	Other liabilities	$4,478	$4,050
Weighted Average Remaining Lease Term			
Operating Leases		18.6 years	20.7 years
Weighted Average Discount Rate			
Operating Leases		3.66%	3.75%

Maturities of operating lease liabilities were as follows:

Year Ending December 31, *(In thousands)*	
2021	$199
2022	198
2023	206
2024	217
2025	241
Thereafter	3,417
Total minimum lease payments	$4,478

Note 20 – Subordinated Debentures

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

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

For regulatory purposes, the subordinated promissory notes capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation

Note 20 – Subordinated Debentures (Continued)

qualifies as Tier II capital. At December 31, 2020, $14.7 million in subordinated promissory notes capital securities qualified as Tier I capital.

Note 21 – Subsequent Events

The Small Business Administration (SBA), in consultation with the U.S. Treasury Department, reopened the Paycheck Protection Program (PPP) for First Draw PPP loans the week of January 11, 2021. The SBA began accepting applications for Second Draw PPP loans on January 13, 2021. At least $25 billion is being set aside for Second Draw PPP loans to eligible borrowers with a maximum of 10 employee or for loans of $250,000 or less to eligible borrowers in low or moderate-income neighborhoods. The PPP now allows certain eligible borrowers that previously received a PPP loan to apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. Second Draw PPP loans can be used to help fund payroll costs, including benefits. Funds can also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. For most borrowers, the maximum loan amount of a Second Draw PPP Loan is 2.5x average monthly 2019 or 2020 payroll costs up to $2 million. For borrowers in the Accommodation and Food Services sector, the maximum loan amount for a Second Draw PPP Loan is 3.5x average monthly 2019 or 2020 payroll costs up to $2 million. A borrower is generally eligible for a Second Draw PPP loan if the borrower:

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

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

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

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

As of February 12, 2021, the Company originated 170 loans in the amount of $19.3 million. These loans are recorded as commercial loans on the balance sheet. The Company has yet to determine the amount of fee income it will record for this round of PPP loans.

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

PROFILE

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.42 billion at December 31, 2020. 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, Farmington, and Geneva in Ontario County, Penn Yan in Yates County, Waterloo in Seneca County, Fairport in Monroe County, and Auburn in Cayuga County. The Lyons National Bank has one subsidiary, Lyons Realty Associates Corp.

STOCK SYMBOL

LYBC

BOARD OF DIRECTORS

MAIN OFFICE

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

AUBURN

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

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

CANANDAIGUA

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

CLYDE

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

FARMINGTON

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

GENEVA

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

JORDAN

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

LYONS

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

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

MACEDON

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

NEWARK

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

ONTARIO

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

PENN YAN

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

PERINTON PARK

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

SENECA COUNTY

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

WOLCOTT

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

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

BankwithLNB.com