Lyons Bancorp, Inc.

ANNUAL REPORT 2023

A LETTER TO SHAREHOLDERS

Robert A. Schick

Board Chairman & President
Lyons Bancorp, Inc.

Being a transitional month between winter and spring, March is associated with many weather-related proverbs such as *If March comes in like a lion, it will go out like a lamb* or *A dry March and a wet May fills barns and bays with corn and hay.* While folksy and feel-good in nature, their credibility is debatable and differs from person-to-person.

There is no debate about what caused the March 2023 financial crisis that put the nation's economy at risk and had us holding our collective breaths over the extent of the issue. Once again, it proved to be the blatant mismanagement of a few large banks that took us to the edge. Note my words "again" and "large" in the last sentence. Whether it was for greed or ego, the bank executives ignored basic safety and soundness principles in their pursuit of growth. For a while, their strategy worked. But when it turned bad, it went extremely bad, with customers lining up, in person and online, to withdraw their deposits.

To their credit, and to stem the bank runs, the Federal Deposit Insurance Corporation guaranteed all the deposits of the banks in question. And to their credit, the bank regulators closed two banks — Silicon Valley Bank and Signature Bank — and assisted in the merger of a third bank, First Republic, with a larger bank. Because of these quick actions, the victims of the mismanagement were limited to the shareholders and employees of the banks involved.

The executive management and boards of the banks involved should be punished. But I fear the punitive net will, yet again, be cast far and wide, as it was after the financial meltdown of 2008. The entire banking industry, including small community banks like us, will pay some price for the actions of our larger brethren. Without the critical mass of the larger banks to absorb more monetary and regulatory costs, community banking faces an even more challenging future. Events like those of March 2023 are happening all too often. Penalize the guilty and make it sting. But leave it at that.

On a brighter note, 2023 was another record-setting year financially for us at Lyons Bancorp. While our earnings for 2023 were only slightly better than the prior year, they were still up. Our core capital, the pillar of our balance sheet, grew along with our earnings. The credit quality of our loan portfolios remains stellar. Our ratios that measure loans charged off and those not performing to contract are both among the best in the industry. In addition to our regular quarterly dividend, we paid our shareholders a special dividend at yearend. These are all good things.

After tax, we made $17.4 million in 2023, as compared to $17.2 million in 2022. On a fully diluted per-share basis, that equates to $4.90 in 2023, up from $4.86 in 2022.

Our asset growth in 2023 was more modest than in years past. We ended 2023 at $1.85 billion, as compared to $1.75 billion on Dec. 31, 2022.

Driven by commercial and agricultural credits, our loans grew by almost $80 million.

Although higher interest rates reduced the overall demand for residential mortgages, we remained active in this market. Because the Federal Reserve Bank continued on their path of increasing short-term interest rates to quell inflation, especially in the first half of the year, we sold almost all the mortgages we originated. From a balance-sheet management perspective, we did not want to increase fixed-rate, longer-term assets while the Fed continued its rate-raising crusade. Although we sold more mortgages than usual, we retained the servicing of the loans, allowing us to receive a monthly servicing fee. More importantly, we remain the primary contact for our customers. They can continue to turn to us for help on any issue they have with their loan, and through the trust we build, we can generate even more business.

Gathering new deposits was very challenging in 2023. Other banks were much more aggressive in the pricing of their deposits, but many saw their balances decline. We are proud that our strong relationships helped us increase deposits even in the face of strong rate competition.

For a more detailed analysis of our 2023 financial results, please read the report of our CFO, Chad Proper.

At last year's annual meeting, I announced that, effective at this year's annual meeting, I was fully retiring from the Bank and Holding Company. I've had a great 30-year run here at LNB. When I first arrived, I'll admit I felt more than a little trepidation for a number of reasons. But all those reasons soon dissipated, and they did so because of the warmth and friendliness bestowed upon me and my family.

I'm proud of what the Bank has accomplished, but I'll only take credit for hiring great people. I have a note taped to the inside of my desk drawer that says: *Hire the best; clearly paint the vision for the future; motivate others to buy into the vision, then get the hell out of their way!* The strategy worked. You have experienced and benefited from what they have accomplished.

I thank the Board for giving me the opportunity to be part of the Bank team, and I thank you for your support and financial commitment. Because of that commitment, the Bank has grown many times over, our employees have thrived, and the many communities the Bank serves have prospered. Not bad for a small community bank in Upstate New York.

As I sign off for the last time, I'm reminded of how the legendary newscaster Walter Cronkite would end his nightly broadcast. So, with deep love and affection, God Bless you all, "and that's the way it is."

Robert A. Schick

PRESIDENT'S MESSAGE

Thomas L. Kime

President & CEO
The Lyons National Bank

As another year has come to a close, we can look back in appreciation of the many accomplishments of the LNB team. Despite the Federal Reserve making 11 rate hikes in less than 18 months, we still showed growth in loans and deposits and achieved another record year of earnings in 2023, while maintaining our conservative approach to income recognition and maintaining sound reserves. Considering some of the potential economic challenges, and global instability, the Management Team and Board felt it prudent to continue to do so. Regardless of the aforementioned challenges, our diverse marketplace, our customer base, and LNB remain very stable.

In combination with our signature personal service profile, our investment in new technologies and enhanced programs helped our customers and LNB achieve an outstanding year in a challenging environment. Without the dedication and determination of our staff, these accomplishments would not have been possible. We remain committed to our goal of being a well-performing community bank by taking exceptional care of our customers' and communities' varied financial needs. To do this, we must continue to invest in our most important asset – our employees, who share this same commitment. Despite increasing margin compression due to rising rates, we realized an increase in earnings over our record earnings level in 2022, all while investing in new technologies and employees and focusing on prudent growth as we increased loans and deposits. CFO Chad Proper will discuss our financials in detail (pgs. 6-9), so I will not repeat them here. Rather, I will discuss what the bank experienced and accomplished in 2023, the successes of our staff, and what the ever-changing future may look like for LNB.

Despite increasing margin compression due to rising rates, we realized an increase in earnings over our record earnings level in 2022, all while investing in new technologies and employees and focusing on prudent growth as we increased loans and deposits.

Also, I would be remiss if I didn't acknowledge Bob Schick and his outstanding 30-year career at LNB. It was 20 years ago this month when Bob and I sat on my porch on Seneca Lake and discussed LNB, its future, and potentially mine. There have been many changes in banking and LNB in that timeframe, and I appreciate the opportunity to be part of this great LNB Team and the conversation we had that day.

Now, let's talk about 2023 and my thoughts on LNB's position and our path going forward. To start, we have invested in a multitude of technology upgrades and enhancements for customer-facing systems and services, as well as internal operations. Investing in new technology to help meet the growing needs of our customers while creating new efficiencies for our staff and LNB is of the highest importance. Instant-issue debit cards became available throughout our branch network during 2023. The opportunity for a new customer to leave the bank with their debit card in hand gives them the peace of mind in knowing they have instant access to the funds in their new account. Instant issue is also a great option for customers that misplaced their debit card, as they no longer have to wait to receive their new card by mail. To continue to protect customer and bank information security systems, we continue to perform cybersecurity enhancements throughout the year. As fraud attempts continue to increase for individuals as well as businesses, securing our customers' personal information remains top of mind. Data center upgrades are performed throughout the year to enhance secure-customer-transaction processing. The Bank underwent a credit card platform migration during the second half of 2023; this was a large undertaking that required multiple departments working together to successfully complete the process with no interruption. This new platform offers a more modern look and feel along with increased functionality for our customers.

We have made many additional enhancements to benefit our employees, which will, in turn, benefit our customers. Our internal training department has been re-imagined and includes our new Director of Training and other staffing plans as well as enhanced internal and external sales training initiatives. Our new approach to front-line employee training will enable our staff to be more knowledgeable of our products, technology, and operational efficiencies. This enables us to best meet the needs of our customers in an efficient manner. We want to expand the services to our customer base and become more attuned to their needs, both immediate and future. We have expanded our Cash Management department, which offers products tailored to our business and municipal customers. This expanded department is dedicated to helping businesses with online banking, remote deposit capture (RDC), ACH payments, wire transfers, and positive pay for both checks and ACH to provide yet another level of security for our business customers, lockbox services, workplace banking, and merchant services to name a few. We not only offer these services, our cash management specialists help our businesses to assess how best to take advantage of these enhanced cash services offerings, which are consistent with our high-touch and high-tech approach to banking.

As I stated above, our employees are indeed our greatest asset, and we are very lucky to have such talented and dedicated staff. With this in mind, we have elevated our WOW! Program at LNB to better recognize and reward those who go above and beyond in helping our customers and one another. Staff, management, and our Board are all involved in this ongoing initiative. Please see this year's WOW! Award recipients (pg. 5), plus the LNB employees who received well-deserved promotions (pg. 11) in 2023. We continue to prioritize training and promoting from within our staff who have done great work at LNB and know our culture.

As we continue to grow the Bank in this new economic and market "norm," we face a number of challenges. With each comes the opportunity to excel and take advantage of change and disruption in our growing marketplace. One of LNB's strengths over the years has been our residential mortgage program. Although rising and inconsistent rates have reduced the refinance side of the business, our building and loan program, along with the home purchase side, has shown only a marginal decrease since the prior year. A decline in residential mortgage rates would be a benefit to those looking to purchase or build a home since the cost of building materials and home prices has increased meaningfully. We, however, feel the demand for homes and the limited supply in our market have kept and will continue to keep home valuations stable in our markets. Our Residential Mortgage department and the quality of our loans have continued to perform well under this wide range of market conditions. We are the top residential mortgage lender in three out of five of our core markets. To continue to expand in this area of the Bank, we have recently added additional originators. We also offer educational sessions geared toward first-time homebuyers. These programs allow for a diverse group of people to realize their dream of owning their own home. In what has been a challenging home buyers' market, our model of success is offering a 24/7 digital entry point and personal one-on-one meetings with a mortgage professional at almost any time. This model continues to expand our standing across our marketplace.

Like our residential mortgage program, small business and Ag lending are additional key arenas for LNB. According to recent market data, in the seven counties where we have branch locations, we are the #1 small business and farm lender in four counties and #2 in another county. We moved up in market position in three of our counties since the prior year. We can attribute these results to programs tailored to focus on these types of business and our lenders' emphasis on how to best meet the banking needs of their customers.

Similar to having products and services tailored to small business and AG loans, we have lending staff and products available to meet the needs for larger commercial and agricultural loans and mortgages. A diverse loan portfolio is important to avoid concentration risk. The Bank's commercial loan portfolio is not only diverse, but the loan quality is among the best of our peers, with a net loss as a percent of loans at 0.02%, which is well below local and national peer groups. Our non-owner-occupied commercial real estate portfolio not only consists of quality loans, it is well below the guideline percentage of these loans as a percent of risk-based capital. This segment of the loan portfolio has been vulnerable lately with offices closing, as well as restaurants and other businesses closing due to financial constraints. These challenges are beginning to cause an increase in delinquencies and charge-offs for many banks. However, our levels of past-due loans remain extremely low and are well below any peer group. In addition, our Loan Loss reserves at 1.45% of total gross loans are funded well above the levels of these same peer groups, placing us in a position to be well-equipped to handle any downturns in credit quality or delinquencies. In addition to having a strong commercial portfolio, we have a strong and diverse quality agricultural portfolio. We are here to work with our agricultural businesses, in good times and challenging times, if that may be the case. We have expert agricultural lenders that specialize in agricultural lending who can meet with our local farmers to discuss their needs and how best to meet them.

The Bank's commercial loan portfolio is not only diverse, but the loan quality is among the best of our peers.

Per June 2023 deposit market share data, we have increased deposit market share in nearly all the counties we are in as well as many of our individual markets. LNB is ranked in the top 3 for deposit market share in 12 of our 14 markets and ranked 1st in nine of those markets. Inflation, leading to higher prices on many of the items that individuals and businesses use every day, makes it more difficult for many to stretch their hard-earned dollars. Economic factors, non-bank entities that operate with a different set of rules and requirements, and other factors have created a challenge for banks to gain deposits. Competition for deposits has been largely influenced by entities' need to maintain liquidity or the ability for select non-bank entities to be allowed to move local deposits out of the area and even out of the state, where economic demand for funds are higher. As a local community bank, we cannot do this in the same manner and should not regardless, as it only depletes the funds that are the lifeblood of our local economy, supporting local businesses, agriculture, local bonds, homeowners, etc. Despite these and other challenges, we gained over 3,100 new customers in 2023. Current bank customers also opened over 5,400 additional new accounts during 2023.

Per June 2023 deposit market share data, we have increased deposit market share in nearly all the counties we are in as well as many of our individual markets.

Our full-service branches continue to remain busy with customers. Our tellers averaged just shy of 5,500 transactions per month, which has remained consistent throughout the past few years. Customers enjoy the convenience of walking into our branches and being able to speak with branch, retail, and commercial lending professionals as well as investment representatives and others, usually with no appointment necessary. While banks in general experienced challenges in growing deposits – and our markets were not immune to these challenges – over half of our branches ended the year with more deposits than the previous year. Our newest bank, in Farmington, has experienced steady growth in the few years it has been open and is ranked 2nd in deposit market share. Our original Lyons market, along with most of our legacy markets, showed strong growth during the past year.

The LNB staff is committed not only to meeting the needs our customers and our communities with our WOW! Service, they are also committed to the needs of our local communities. Many of our employees donate time to volunteer at events, and some serve on boards, including in executive positions, in and around their communities. In 2023, our employees contributed thousands of hours to help a wide variety of organizations. And LNB is pleased to note we have 10 members of our Board of Directors and 48 members of our Advisory Boards who also are community-oriented and are themselves involved in numerous community organizations.

As banks in our area continue to close branches, pursuing strategies that are appropriate for their circumstances, LNB continues to be a pillar in each of our communities with staff striving to best serve these communities, building upon our customer base and expanding our relationships. Our commitment to our employees, local communities, and surrounding markets continues to grow stronger. I am confident that despite the challenges we will see in 2024, and I believe in 2025, LNB is appropriately positioned in markets where we can continue to grow and has a quality and diverse loan portfolio that is and will remain strong and a balance sheet with more than adequate reserves to operate in a potentially challenging environment. Our drive to serve our customers – demonstrated during the pandemic by our staff, management, and boards – allowed us to come out of that incredibly difficult time with a stronger market position, more customers, and in position to continue as an even more successful and viable community bank. Our goal is to continue to do so.

In closing, I want to thank the entire LNB Team, our Advisory Boards and Board members that I am fortunate to work with, our customers that choose LNB as their bank, and our LNB shareholders for your relationship with and investment in LNB.

Tom

Thomas L. Kime

As banks in our area continue to close branches, pursuing strategies that are appropriate for their circumstances, LNB continues to be a pillar in each of our communities with staff striving to best serve these communities, building upon our customer base and expanding our relationships.

RBJ RECOGNIZES KIME ON 2023 POWER LIST

President and CEO Tom Kime was among 30 financial leaders recognized by the Rochester Business Journal for their leadership during an environment of ever-changing financial circumstances in the communities they serve. The individuals noted on RBJ's 2023 list have helped their institutions navigate COVID-related uncertainty, significant supply change and labor disruptions, increases in interest and inflation rates, and unpredictable economic conditions. They have kept their customers apprised of new rules and regulations, financing options, investment opportunities, and more.

Congratulations, Tom, for this well-deserved recognition.

THE POWER30
ROCHESTER BUSINESS JOURNAL
BANKING & FINANCE

MEET

CASE MARSHALL

Case A. Marshall

Chief Financial Officer
Marshall Companies

On June 12, 2024, at Lyons Bancorp's Annual Shareholder Meeting, Case A. Marshall will assume the role of chair of the board of Lyons Bancorp, Inc. A member of LNB's Board of Directors for the last 10 years, Case has longstanding ties to LNB that date back to his father's early commitment to community banking and The Lyons National Bank.

The Ted Marshall Community Room, located in LNB's Wolcott office, provides local businesses and nonprofit organizations access to a boardroom-style meeting space. The Wolcott Community Room, one of many across the LNB network, pays tribute to the 20-plus years Ted Marshall served on the LNB Board.

Case is CFO of Marshall Companies, a family-owned business headquartered in Weedsport, N.Y., that encompasses businesses across New York state, including 16 Pit Stop convenience stores, 10 E&V Energy divisions, and the Patriot Tank Lines trucking company.

On Jan. 23, 2024, Case was appointed vice chair of the board at LNB. He sits on numerous Bank committees, including Audit, Credit Risk, Enterprise Risk, Governance and Technology, providing him with comprehensive insight of LNB and, equally important, an understanding of community banking.

"Case's leadership and business acumen have already contributed to the Bank's success during his tenure on the Board," says Tom Kime, president and CEO of LNB. "I look forward to working with Case in this new capacity as we continue our mission to provide best-in-class banking products and services to the communities we serve."

Case lives in Weedsport with his wife, Mindy, and the couple has two adult children, Zachary and Paige.

CONGRATULATIONS TO OUR WOW! AWARD WINNERS

President and CEO Tom Kime recognized the following individuals for demonstrating exceptional performance and dedication to the Bank in 2023. These employees, along with all LNB staff, were celebrated at the Bank's Annual WOW! Event. LNB's WOW! culture is centered on positive attitudes and personal conviction to provide customers and fellow employees with a level of service that exceeds their expectations during each and every encounter.

(Left to right)

James H. King
Vice President &
Commercial Loan Officer

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

Hope A. Alexanian
Vice President & Retail Loan
Operations Supervisor

Maureen K. Conner
Banking Officer & Branch
Manager, Jordan

Melonie L. Tiffany
Senior Vice President &
Director of Audit

2023 FINANCIAL HIGHLIGHTS

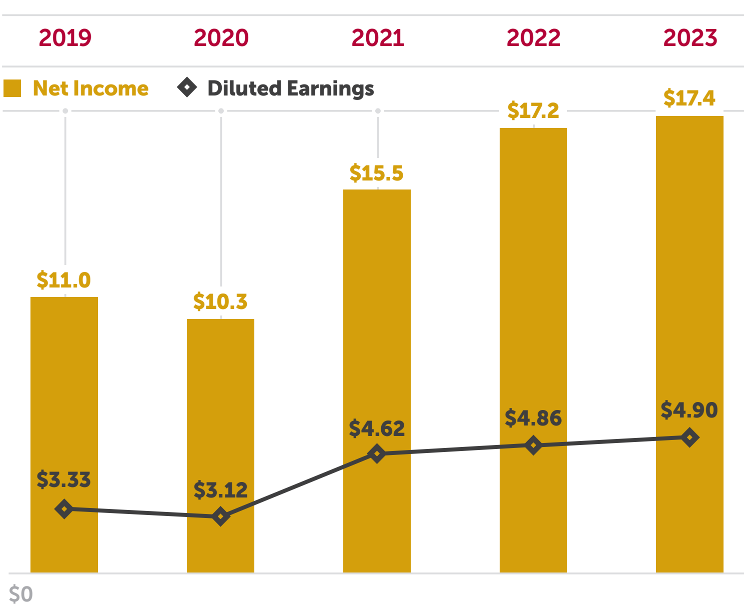
Chad J. Proper

Senior Vice President & CFO
The Lyons National Bank

RESULTS OF OPERATIONS

Once again, I am happy to tell you that in 2023 we saw another profitable year. Once again, it was a year with challenges. Most notably, the continuing rising interest rate environment. A policy that was designed to cool the economy certainly had an impact on us. As I communicated in my message to you last year, our profitability has not come at the sacrifice of asset quality or responsible management. Net income in 2023 was $17.4 million, representing an increase of $0.2 million, or 0.1%. Net income in 2023 represented diluted earnings per common share of $4.90, compared to $4.86 in 2022; an increase of $0.04, or 0.1%. Basic earnings per common share of $5.00 represented an increase from $4.96 in 2022; also an increase of $0.04 and 0.1%. Net income expressed as a return on average assets was 0.95% and as a return on average shareholders' equity was 18.39% in 2023, compared to 1.01% and 18.53%, respectively, in 2022.

Net Income & Diluted Earnings Per Share

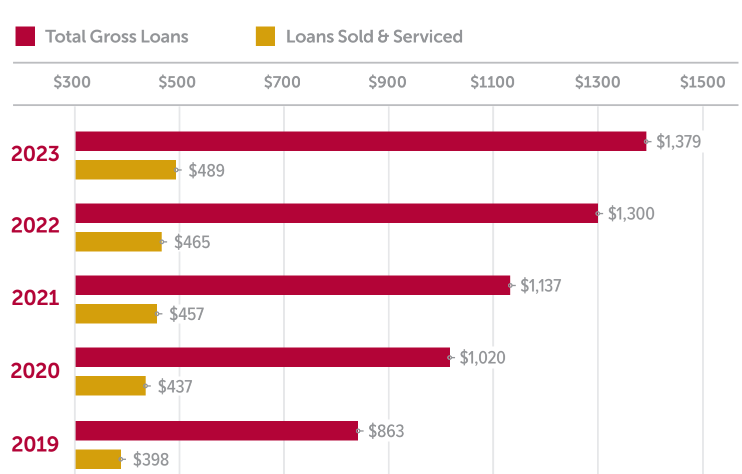


Net interest income, which is the difference between the interest income we earn on our interest-earning assets (primarily loans and investment securities) and the interest paid on our interest-bearing liabilities (primarily deposit accounts and borrowings), represents the fundamental measure of our operating results. Net interest income for 2023 was $47.9 million, a decrease of $3.3 million, or 6.4%, compared to the 2022 total of $51.2 million. This compares to an increase of $3.7 million, or 7.8%, when comparing 2022 to 2021. The 2023 decrease was due primarily to the interest rate environment, as a result of interest-bearing deposit rates increasing at a much faster pace than interest-earning assts. Average interest-earning assets grew from $1.658 million in 2022 to $1.794 million in 2023, an increase of $136 million, or 8.2%. Interest-bearing liabilities grew from $1.105 million in 2022 to $1.225 million in 2023, an increase of $120 million or 10.9%. While the growth in average interest-earning assets and average interest-bearing liabilities was comparable, the related average cost of interest- bearing liabilities grew 145 basis points from .52% to 1.97%, while the average yield on interest-bearing assets only grew 58 basis points from 3.43% to 4.01%. This reflects the fact that our interest-bearing liabilities reprice more frequently than our interest-bearing assets. In a rising interest rate environment such as we have now, the Bank's interest expense rises much faster than its interest income.

The average balance of our earning-assets continues to be suppressed by unrealized losses in our available-for-sale securities portfolio that are also a result of continued elevated interest rates. Available-for-sale securities are carried at their market value. These unrealized losses improved by $3.6 million to $49.7 million at Dec. 31, 2023, compared to $53.3 million at Dec. 31, 2022. These unrealized losses do not impact our earnings since they are not the result of credit quality concerns with the issuers of the securities and therefore do not have to be adjusted through earnings. As a reminder, when market interest rates rise, the value of the fixed-rate securities that we own falls as the current market rates available on other securities become more attractive to would-be purchasers of those securities. Due to our strong liquidity position, we do not anticipate selling these securities before they recover their value, which may be at maturity. These unrealized losses continue to be commonplace in today's environment. However, our unrealized losses are well below our national peer group as well as most of our local peer groups.

Loan Breakdown

($ MILLIONS)



	2023			2022		
	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)
INTEREST-EARNING ASSETS: (Thousands $)						
Residential real estate	656,452	24,849	3.79%	609,306	20,814	3.42%
Commercial and agricultural real estate	436,275	22,073	5.06%	391,582	17,816	4.55%
Commercial and agricultural loans	195,867	12,870	6.57%	184,006	9,382	5.10%
Consumer installment loans	37,407	2,165	5.79%	38,203	1,975	5.17%
TOTAL LOANS	**1,326,001**	**61,957**	**4.67%**	**1,223,097**	**49,987**	**4.09%**
Investments	400,937	6,726	1.68%	408,956	6,479	1.58%
Federal funds sold and other interest-earning assets	66,573	3,320	4.99%	25,904	453	1.75%
TOTAL INTEREST-EARNING ASSETS	**1,793,511**	**72,003**	**4.01%**	**1,657,957**	**56,919**	**3.43%**
Noninterest-earning assets	27,778			40,718		
TOTAL ASSETS	**1,821,289**			**1,698,675**		
INTEREST-BEARING LIABILITIES: (Thousands $)						
Interest-bearing checking	173,539	260	0.15%	187,082	160	0.09%
Money market and savings accounts	590,713	6,311	1.07%	672,200	1,970	0.29%
Time deposits	424,679	15,567	3.67%	202,278	2,061	1.02%
Other	36,077	2,005	5.56%	42,948	1,560	3.63%
TOTAL INTEREST-BEARING LIABILITIES	**1,225,008**	**24,143**	**1.97%**	**1,104,508**	**5,751**	**0.52%**
Noninterest-bearing deposits	478,862			475,573		
Other noninterest-bearing liabilities	23,046			25,772		
TOTAL LIABILITIES	**1,726,916**			**1,605,853**		
Total equity	94,373			92,822		
TOTAL LIABILITIES AND EQUITY	**1,821,289**			**1,698,675**		
Net interest spread			2.04%			2.91%
Net interest income/margin on earning assets		47,860			51,168	
Tax equivalent adjustment		260			260	
Net interest income/margin on a tax equivalent basis		48,120	2.68%		51,428	3.10%

Average noninterest-bearing deposits continued to grow with increases of $3.3 million in 2023 and $45.5 million in 2022. Strong and stable demand deposit accounts (DDAs) or noninterest-bearing deposit balances are critical as they reduce our cost of funds, thereby effectively contributing to net interest income. DDAs or noninterest-bearing deposits are also important in providing additional funding for our asset growth.

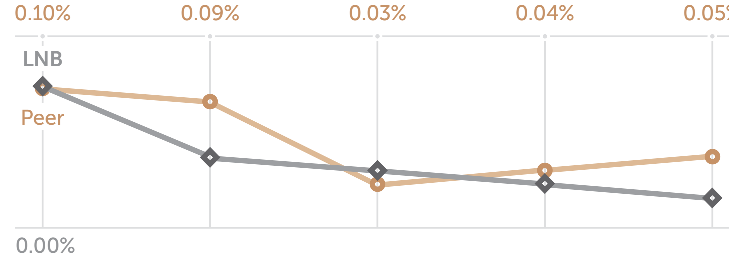
Our tax-equivalent net interest margin measured 2.68% in 2023 compared to 3.10% in 2022, as the rising rate environment continues to put a squeeze on our margins.

At Dec. 31, 2023, our non-performing loans totaled 0.25% of total loans, as compared to 0.27% at Dec. 31, 2022. These ratios continue to compare favorably to our peer group ratio of 0.34% at Dec. 31, 2023, and 0.33% at Dec. 31, 2022. Our net charge-offs to average loans during 2023 totaled 0.02%, down slightly from 0.03% in 2022 and 0.04% in 2021. Loans past due 30 days or more totaled $6.5 million and $5.1 million at Dec. 31, 2023 and 2022, respectively. Loans on non-accrual status totaled $3.5 million and $3.8 million at Dec. 31, 2023 and 2022, respectively. Impaired loans, those loans not paying in accordance with their contractual terms, totaled $2.8 million at Dec. 31, 2022. In accordance with CECL, the concept of impaired loans no longer exists, so there is no such measure at Dec. 31, 2023. The consistently low level of delinquent and non-accrual loans noted above is an indication that our credit quality remains strong given the fact that gross loans were $1.4 billion and $1.3 billion at Dec. 31, 2023 and 2022, respectively.

Noninterest income has become an increasingly important revenue source for us given the interest rate environment, which continues to suppress our net interest margin. Noninterest income includes, but is not limited to, loan servicing fees, cardholder fees, service charges, financial services fees, and gains (losses) on sales of loans and securities. In 2023, noninterest income represented 17.1% of all revenue sources and totaled $14.9 million, an increase of $1.5 million, or 11.2%, from the $13.4 million recorded in 2022,

Net Charged-Off Loans to Average Loans

2019	2020	2021	2022	2023
0.10%	0.05%	0.04%	0.03%	0.02%
0.10%	0.09%	0.03%	0.04%	0.05%



which represented 19% of all revenue sources. The increase in noninterest income in 2023 was due to a $680,000 increase in the gain on sale of loans, as again this year we held more loans in our portfolio versus selling them in the secondary market. In addition, the Bank had recognized income of $463,000 from Bank-owned life insurance due to the unfortunate passing of an LNB commercial loan officer. Other components of noninterest income were fairly consistent when comparing 2023 to 2022.

Noninterest expense consists primarily of compensation and employee benefits, occupancy expenses, professional fees, data processing, FDIC Insurance, and other operating expenses. In 2023, total noninterest expense was $39.1 million, a slight decrease from the $39.2 million recorded in 2022. Reductions in pension and benefits and other expenses was offset by increases in professional fees along with FDIC and OCC assessments. Other expense categories had insignificant fluctuations.

ANALYSIS OF FINANCIAL CONDITION

Balance sheet growth continued in 2023 with total assets increasing 5.4% from $1.754 billion at Dec. 31, 2022, to $1.848 billion at Dec. 31, 2023. Total stockholders' equity (nontangible) increased $13.6 million, or 10.7%, to $140.9 million at Dec. 31, 2023, from $127.3 million at Dec. 31, 2022.

Total loans were $1.4 billion at Dec. 31, 2023, an increase of $78.9 million, or 6.1%, from $1.3 billion at Dec. 31, 2022. We experienced growth in most of our loan types. The largest increase, totaling $37.2 million, was in our commercial real estate loans, followed by an increase of $17.9 million in 1-4 family residential real estate loans. Quality growth in the loan portfolio is an important objective for us in this high-interest-rate environment, as it's essential to offset increasing interest expense with interest income from loans since yields on loans are generally higher than yields on investment securities. We continue to support our strategy of maintaining balance within the loan portfolio between consumer, agricultural and commercial loans, ending 2023 with 52% consumer-related loans versus 48% agricultural and commercial-related loans. This is a change from Dec. 31, 2022, when we had 53% consumer-related loans versus 47% agricultural and commercial-related loans.

Our securities portfolio classifications are available for sale, which may be sold to satisfy liquidity purposes as needed, held-to-maturity, and restricted equity securities. We maintain the investment portfolio to provide us with a critical liquidity source and to generate earnings while not sacrificing asset quality and creating undue risk. Our investment portfolio consists primarily of U.S. 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, 2023, our investment portfolio totaled $347.5 million, a decrease of $5.1 million from the total of $352.6 million at December 31, 2022. As previously discussed, market interest rate conditions continue to suppress the value of our available sale securities portfolio, which represented 86.3% of our total investment securities portfolio. It's important to point out again that these unrealized losses, which do not impact our earnings, are a function of rising interest rates and not related to quality issues with the securities we own.

Deposits generated within our local markets continue to be the major source of funds for our lending and investment securities activities. Total deposits at Dec. 31, 2023, were $1.627 billion, an increase of $3.9 million, or 0.2%, over $1.623 billion at Dec. 31, 2022. Core deposits (retail and commercial) represented 74% of total deposits at Dec. 31, 2023, unchanged from the prior year. Public deposit balances represented 21% of total deposits at Dec. 31, 2023, compared to 18% at Dec. 31, 2022.

Balance sheet growth continued in 2023 with total assets increasing 5.4% from $1.754 billion at Dec. 31, 2022, to $1.848 billion at Dec. 31, 2023.

Total stockholders' equity (nontangible) increased $13.6 million or 10.7% to $140.9 million at Dec. 31, 2023, from $127.3 million at Dec. 31, 2022.

As we have for several years, we have capital levels well in excess of regulatory minimums. As always, the Board of Directors and Management Team remain committed to providing a dependable and safe return to our shareholders. We declared cash dividends of $1.47 per share during 2023, compared to $1.38 in 2022. The 2023 dividend represents a yield of 3.5% based on our Dec. 31, 2023, market price of $42.00 per share. This compares to a yield of 2.5% in 2022 based on a Dec. 31, 2022, market price of $55.00.

Please refer to our Consolidated Financial Report for the year ended Dec. 31, 2023, for more information regarding our 2023 operating results and financial position.

SELECTED FINANCIAL DATA   YEAR ENDED DEC. 31

	2023	2022	2021	2020	2019
FINANCIAL STATEMENT HIGHLIGHTS (Thousands $)					
Assets	**1,848,149**	1,753,815	1,626,165	1,423,147	1,163,683
Investments w/o M-to-M	**397,133**	405,825	396,707	288,580	214,668
Investments with M-to-M	**347,496**	352,583	391,935	292,293	214,341
Unrealized Gain/(Loss)	**-49,637**	-53,242	-4,772	3,713	-327
Loans, gross	**1,378,610**	1,299,741	1,136,959	1,109,696	862,509
Deposits	**1,627,154**	1,623,204	1,470,870	1,285,967	1,029,485
Borrowings	**71,000**	0	0	0	25,000
Total tangible equity	**103,660**	87,361	109,648	95,462	86,792
Total shareholders' equity (nontangible)	**140,888**	127,292	113,227	92,676	87,037
Interest income	**72,003**	56,919	51,735	46,547	44,985
Interest expense	**24,142**	5,751	4,199	7,033	8,571
Net interest income	**47,861**	51,168	47,536	39,514	36,414
Provision for loan losses	**1,040**	3,498	1,340	6,258	2,341
Net interest income (after provision for loan losses)	**46,821**	47,670	46,196	33,256	34,073
Net income	**17,355**	17,204	15,524	10,268	11,005
PER-SHARE INFORMATION ($)					
Basic earnings per share	**5.00**	4.96	4.71	3.16	3.38
Diluted earnings per share	**4.90**	4.86	4.62	3.12	3.33
Cash dividends declared	**1.47**	1.38	1.34	1.24	1.22
Book value per share (incl. Conv. Pref.)	**29.25**	24.69	30.98	28.99	26.38
Book value per share (excl. Conv. Pref.)	**28.82**	24.12	30.63	28.53	25.82
SELECTED RATIOS					
Return on average assets	**0.95%**	1.01%	0.99%	0.78%	0.98%
Return on average shareholders' equity	**18.39%**	18.53%	15.62%	10.47%	12.99%
Leverage ratio (Bank)	**8.90%**	8.56%	8.51%	8.41%	8.44%
Dividend payout ratio	**30.27%**	28.65%	29.81%	40.53%	37.43%
Efficiency ratio	**62.36%**	61.31%	71.61%	70.58%	67.94%
OTHER SELECTED DATA (Whole Numbers)					
Banking offices	**16**	16	16	16	15

COMMUNITY COMMITMENT MAKES US EXTRAORDINARY

WOW! SPIRIT SHINED AT THESE COMMUNITY-MINDED EVENTS IN 2023.

(top) Team LNB participated in the annual Thrive to Survive 5K event to raise money to support individuals fighting cancer; (middle) LNB joined forces with Hobart and William Smith Colleges to host a blood drive to address a critical shortage in the summer; (bottom) LNB staff rolled up their sleeves to help the Lyons Community Center and other local organizations during the United Way's Annual Day of Caring.

BRAVO TEAM

LNB team members played supporting roles in over 250 diverse organizations — all of them important to the vibrancy and vitality of our communities.

CULTIVATING FROM WITHIN

PROMOTIONS

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

Emily E. Hilimire
Vice President and Branch Manager
Promoted from Assistant Vice President and Branch Manager

Terri A. Martin
Banking Officer and Payroll and Benefits Specialist
Promoted from Payroll and Benefits Specialist

Cristin M. Menotti
Assistant Vice President and Senior Credit Underwriter
Promoted from Banking Officer and Senior Credit Underwriter

Daniela A. Qualdieri
Vice President and Director of Training
Promoted from Assistant Vice President and Branch Manager

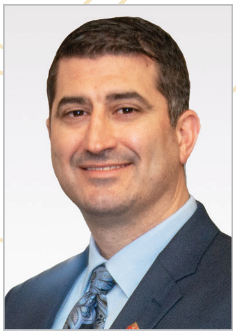
Scott W. Russell
Assistant Vice President and Mortgage Underwriter
Promoted from Banking Officer and Mortgage Underwriter

Justin J. Sinisi
Banking Officer and Agricultural/ Commercial Loan Officer
Promoted from Agricultural/Commercial Loan Representative

Jennifer L. Srmack
Banking Officer and Marketing Specialist
Promoted from Marketing Specialist

Michael L. Warner
Assistant Vice President and Director of Performance Assessment and Improvement
Promoted from Banking Officer and Business Data Analyst

BOARD OF DIRECTORS



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

David J. Breen, Jr.
Retired Supermarket Executive

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

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

Joseph A. Fragnoli
President & Owner, Super Casuals

Dale H. Hemminger
Principal, Hemdale Farms, Inc.

Dale L. Hunt
President, Hunt Properties

Teresa M. Jackson
Owner, Dudley Poultry Co.

Thomas L. Kime
President & CEO, LNB

Case A. Marshall
Chief Financial Officer, Marshall Cos.

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

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

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

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

ADVISORY BOARDS

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

CANANDAIGUA

J. David Damaske
Parkview Fairways Golf Course

Alexandra M. Farnsworth
Garber Randall Buick GMC Cadillac and Garber Randall Chevrolet

Robert E. Johnston
B&B Builders, Inc. and Co-Owner Green Front Restaurant

Kurt M. Koczent
Thompson Health

Jack W. Moran
Retired Business Owner

Charles W. Potter
J&T Properties of Canandaigua

Justin S. Sensenig
Sensenig's Landscape Supply and Flint Creek Transportation

CAYUGA COUNTY

Richard L. Beauchine, CPA
Waterloo Container

John F. Bouck
Bouck Real Estate

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

Christopher J. Geherin
Builder's Choice Lumber Co.

Thomas L. Hughes
Alex Lyon & Son Sales Managers & Auctioneers, Inc.

FARMINGTON

Megan Larmouth Avila
Pioneer Millworks and New Energy Works

Nathan E. Bowerman
Ontario County Sheriff's Office and Farm Owner

Thomas G. Ewing
Ewing Graphics, Inc.

John E. Garvey
Retired Ontario County Administrator

Kyle W. Johnson
Leonard's Express, Inc.

Tyler W. Wolk
Rochester Insulated Glass

GENEVA

Stephen J. Blowers
Blowers Agri Service, Inc.

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

Jason S. Feinberg, MD
Finger Lakes Health

Matthew D. Horn
MRB Group

Bernard G. Lynch
Lynch Furniture - Geneva

Anne D. Nenneau
CCN International

Lawrence "Bo" E. Wright
Geneva City Schools

PENN YAN

Bonnie B. Curbeau
Curbeau Realty

Ryan T. Kennedy
Morgan Marine

James H. Long
Longs' Cards and Books

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

Henry H. Martin
Town of Benton Dairy Farmer

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

Neil J. Simmons
Simmons Vineyards

PERINTON PARK

James W. Diem
Alliance Insurance Group

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

Martha M. Malone
Fairport OCED

Terrence A. O'Neil
Retired Business Owner

Howard I. Sharp
Retired Business Owner

J. Lincoln Swedrock, P.E.
BME Associates

RUSHVILLE

Terry L. Button
Farmer/Terry Button Trucking

David R. LeClair
Retired, Rushville Mayor

John "Jay" J. Newswanger
Seneca Pole Barn, LLC

SENECA COUNTY

Salvatore N. Franzone
Ciccino's Pizzeria and Restaurant

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

Kenneth "Doc" W. Padgett, DC
Northeast College of Health Sciences

Erica L. Paolicelli
Three Brothers Wineries & Estates

Eugene F. Pierce
Glenora Wine Cellars, Inc.

Raymond A. Tuuri, Jr.
Finger Lakes Equipment Rental

Stephen J. Wadhams
Wadhams Enterprises, Inc.

EXECUTIVE MANAGEMENT

Thomas L. Kime
President & Chief Executive Officer

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

Stephen V. DeRaddo
Executive Vice President & Chief Experience Officer

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

Chad J. Proper
Senior Vice President & Chief Financial Officer

Robert W. Sollenne
Senior Vice President & Chief Operating Officer

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

Barbara L. Hennessy
Senior Vice President & Director of Marketing

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

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

Melonie L. Tiffany
Senior Vice President & Director of Audit

Danielle M. Ayers
Vice President & Director of Human Resources

Robert S. Flowers
Vice President & Director of Compliance/Legal Counsel

BANK OFFICERS

ADMINISTRATION

Thomas D. Muller
Senior Vice President & Project Administrator

Carol A. Snook
Vice President & Corporate/Executive Secretary

Jenna L. DeBrock
Assistant Vice President & Executive Administrative Assistant

Michael L. Warner
Assistant Vice President & Director of Performance Assessment and Improvement

BRANCH DIVISION

Emily E. Hilimire
Vice President & Branch Manager, Auburn

Demetrius Murphy
Vice President & Business Development Officer, Cayuga County

Tara R. Rago
Vice President & Branch Manager, Canandaigua

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

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

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

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

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

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

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

Angelo D. Battoglia
Banking Officer & Branch Manager, Perinton Park

Maureen K. Conner
Banking Officer & Branch Manager, Jordan

Susan L. Lockwood
Banking Officer & Branch Manager, Wolcott

Molly C. Telarico
Banking Officer & Branch Manager, Seneca County

Allison M. Verkey
Banking Officer & Branch Manager, Clyde

Heather E. Whalen
Banking Officer & Branch Manager, Geneva

COMMERCIAL LENDING

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

Mark J. DeBacco
Vice President & Commercial Loan Officer

Michael A. Fratto
Vice President & Commercial Loan Officer

James H. King
Vice President & Commercial Loan Officer

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

Todd L. Borsa
Assistant Vice President & Commercial Loan Officer

Michael E. Rusinko
Assistant Vice President & Commercial Loan Officer

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

Wendy E. DiSanto
Banking Officer & Guaranteed Loan Officer

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

Justin J. Sinisi
Banking Officer & Agricultural/Commercial Loan Officer

BANK OFFICERS CONT.

CREDIT ADMINISTRATION & COMPLIANCE

Pamela J. Lee
Vice President & Loan Portfolio Monitoring Officer

Karen A. Luttrell
Banking Officer & Compliance/BSA & AML Officer

Cristin M. Menotti
Assistant Vice President & Senior Credit Underwriter

RETAIL & RESIDENTIAL MORTGAGE LENDING

Angela M. Merola
Vice President & Collections Manager

Craig A. Schojan
Vice President & Senior Mortgage Underwriter

James M. Allison
Assistant Vice President & Mortgage Specialist

Joseph M. Arbogast
Assistant Vice President & Mortgage Specialist

Valorie A. Heinzman
Assistant Vice President & Mortgage Specialist

Timothy H. Lead
Assistant Vice President & Mortgage Underwriter

Craig R. Mietz
Assistant Vice President & Mortgage Specialist

Scott W. Russell
Assistant Vice President & Mortgage Underwriter

Kari R. Bezek
Banking Officer & Mortgage Specialist

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

Trisha A. Mastrodonato
Banking Officer & Mortgage Specialist

Paul R. Rowan
Banking Officer & Mortgage Underwriter

FINANCE

Shannon M. Romano
Assistant Vice President & Senior Assistant Controller

HUMAN RESOURCES

Terri A. Martin
Banking Officer & Payroll and Benefits Specialist

MARKETING

Jennifer L. Srmack
Banking Officer & Marketing Specialist

SECURITY & FACILITIES

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

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial Services

David J. DeRaddo
Assistant Vice President & Financial Services Representative

Kim M. Emperato
Banking Officer & Financial Services Representative

OPERATIONS & IT

Hope A. Alexanian
Vice President & Retail Loan Operations Supervisor

Lynnette M. DeChick
Vice President & Commercial Loan Operations Supervisor

Karen D. Lombardozzi
Assistant Vice President & Systems Administrator

Greg T. Noel
Assistant Vice President & Deposit Operations Supervisor

TRAINING

Daniela A. Qualdieri
Vice President & Director of Training

Meghan A. Nagel
Banking Officer & Training Specialist

IN MEMORIAM

In January 2024, our colleague and friend, **Stephen V. D'Orazio**, passed away unexpectedly from health complications.

Steve's banking career spanned more than 40 years, joining LNB's ranks in 2011 as vice president and commercial loan officer serving our customers in western Wayne and eastern Monroe counties. Steve was the consummate personal banker with an effortless strength of building lasting relationships. He did this by listening intently to his customers' requests and responding promptly to them. His customers appreciated his sincerity and even-tempered personality.

Steve eagerly gave back to his community, serving in leadership positions on numerous charitable organizations and professional boards. Above all, Steve was the embodiment of a gentleman. He is greatly missed at LNB, and we enjoy a richer life for having known him.

16 FULL-SERVICE LOCATIONS ACROSS SEVEN COUNTIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Profile

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, N.Y., with assets of $1.85 billion as of Dec. 31, 2023. Lyons Bancorp, Inc. has a banking subsidiary, The Lyons National Bank. The Lyons National Bank is a community bank with offices in Clyde, Lyons, Macedon, Newark, Ontario, and Wolcott in Wayne County; Jordan in Onondaga County; Canandaigua, Farmington and Geneva in Ontario County; Penn Yan in Yates County; Waterloo in Seneca County; Fairport in Monroe County; and Auburn in Cayuga County. The Lyons National Bank has a subsidiary, Lyons Realty Associates Corp.

Vision

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

Mission

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

Our Culture – WOW!

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

Lyons Bancorp, Inc.

FINANCIAL REPORT 2023

Profile

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.85 billion as of December 31, 2023. 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.

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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.

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.

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2023

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 8, 2024

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

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Lyons Bancorp, Inc. (a New York State corporation) and subsidiaries as of December 31, 2023 and 2022, 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, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2024, expressed an unqualified opinion.

Change in Accounting Principle
As discussed in Note 1, on January 1, 2023, the Company adopted Accounting Standard Update (ASU) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, and held to maturity debt securities. Our opinion is not modified with respect to this matter.

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

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

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

www.bonadio.com

(Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

Basis for Opinion (Continued)
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.

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

Allowance for Credit Losses – Loans
The Company's loan portfolio totaled $1.38 billion as of December 31, 2023, and the allowance for credit losses totaled $19.49 million. For purposes of determining the level of the allowance for credit losses, management evaluates the Company's loan portfolio by type. Management utilizes statistically developed models to project principal balances over the remaining contractual lives of the loan portfolios and to determine estimated credit losses through a reasonable and supportable forecast period. Model forecasts may be adjusted for inherent limitations or biases that have been identified through independent validation and back-testing of model performance to actual realized results. Management also considered the impact of portfolio concentrations, changes in underwriting practices, product expansions into new markets, imprecision in its economic forecasts, geopolitical conditions and other risk factors that might influence the loss estimation process.

The principal considerations for our determination that performing procedures relating to the allowance for credit losses, specifically certain adjustments to model forecasts, is a critical audit matter are (i) the significant judgment by management in determining the adjustments to model forecasts, (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and in evaluating audit evidence related to management's determination of these adjustments to model forecasts, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the Company's allowance for credit losses estimation process, including controls over adjustments to model forecasts. These procedures also included, among others, testing management's process for determining the allowance for credit losses and adjustments to model forecasts, including evaluating the appropriateness of management's methodology, testing the data utilized by management and evaluating the reasonableness of significant assumptions relating to the adjustments to model forecasts. Evaluating significant assumptions relating to adjustments to model forecasts involved evaluating portfolio composition and concentration, as well as relevant market data.

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

Bonadio & Co., LLP
Pittsford, New York

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 8, 2024

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, 2023, 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, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of the Company, and our report dated March 8, 2024, expressed an unqualified opinion.

Basis for Opinion

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

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

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(Continued)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

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

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

Bonadio & Co., LLP
Pittsford, New York

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

March 8, 2024

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, 2023. 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, 2023.

Management's Assessment of Internal Control Over Financial Reporting

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

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

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

Management assessed the effectiveness of the Institution's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2023, 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, 2023, 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, 2023, has been audited by Bonadio Co., LLP, an independent public accounting firm, as stated in their report dated March 8, 2024.

Lyons Bancorp, Inc.

Thomas Kime
President and Chief Executive Officer

Chad Proper
Chief Financial Officer

Table of Contents December 31, 2023 and 2022

Consolidated Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets	(In thousands)	
Cash and due from banks	**$20,595**	$22,047
Interest-bearing deposits in banks	**36,678**	18,887
Investment securities:		
Available for sale securities, at fair value	**299,920**	308,632
Held to maturity securities at amortized cost, net of allowance for credit losses of $28 in 2023, (fair value 2023 $37, fair value 2022 $34)	**40,243**	38,429
Restricted securities, at cost	**7,305**	5,523
Total Investment Securities	**347,468**	352,584
Loans	**1,378,610**	1,299,741
Less: allowance for credit losses on loans	**(19,493)**	(21,498)
Net Loans	**1,359,117**	1,278,243
Land, premises and equipment, net	**24,804**	25,888
Bank-owned life insurance	**21,834**	21,755
Accrued interest receivable and other assets	**38,068**	34,411
Total Assets	**$1,848,564**	$1,753,815
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	**$1,164,925**	$1,149,101
Non-interest-bearing	**462,229**	474,103
Total Deposits	**1,627,154**	1,623,204
Subordinated debentures	**20,927**	20,915
Borrowings from Federal Reserve Bank	**71,000**	-
Accrued interest payable and other liabilities	**25,823**	22,335
Total Liabilities	**1,744,904**	1,666,454
Stockholders' Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Preferred stock	**2**	3
Common stock	**1,719**	1,718
Paid-in capital	**28,479**	28,386
Retained earnings	**113,667**	99,842
Accumulated other comprehensive loss	**(39,747)**	(41,902)
Treasury stock, at cost	**(516)**	(742)
Total Lyons Bancorp, Inc. Stockholders' Equity	**103,604**	87,305
Noncontrolling interest	**56**	56
Total Stockholders' Equity	**103,660**	87,361
Total Liabilities and Stockholders' Equity	**$1,848,564**	$1,753,815

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
	(In thousands, except per share data)	
Interest Income		
Loans	**$61,957**	$49,987
Investment securities:		
Taxable	**8,857**	5,899
Non-taxable	**1,189**	1,033
Total Interest Income	**72,003**	56,919
Interest Expense		
Deposits	**22,138**	4,192
Borrowings	**2,005**	1559
Total Interest Expense	**24,143**	5,751
Net Interest Income	**47,860**	51,168
Provision for Credit Losses	**1,040**	3,498
Net Interest Income after Provision for Credit Losses	**46,820**	47,670
Noninterest Income		
Cardholder fees	**4,409**	4,284
Service charges on deposit accounts	**3,175**	3,082
Loan servicing fees	**2,192**	2,321
Realized gains on loans sold	**1,861**	1,219
Financial services fees	**1,746**	1,725
Earnings on investment in bank owned life insurance (BOLI)	**425**	428
Net realized losses from sales of securities	**(32)**	-
BOLI death benefit	**463**	-
Other	**638**	299
Total Noninterest Income	**14,877**	13,358
Noninterest Expense		
Salaries and wages	**16,939**	16,759
Pensions and benefits	**4,578**	5,245
Occupancy	**3,574**	3,619
Professional fees	**3,564**	3,059
Data processing	**2,472**	2,357
Cardholder expense	**1,542**	1,450
FDIC and OCC assessments	**1,228**	894
Advertising	**886**	851
Office supplies	**243**	273
Other	**4,112**	4,667
Total Noninterest Expense	**39,138**	39,174
Income before Income Tax Expense	**22,559**	21,854
Income Tax Expense	**5,200**	4,645
Net income	**17,359**	17,209
Net income attributable to noncontrolling interest	**5**	5
Net income attributable to Lyons Bancorp, Inc.	**17,354**	17,204
Preferred stock dividends	**(250)**	**(250)**
Net Income available to common shareholders	**$17,104**	$16,954
Earnings Per Share – basic	**$5.00**	$4.96
Earnings Per Share – diluted	**$4.90**	$4.86

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	2023	2022
	(in thousands)	
Net Income	**$ 17,359**	$ 17,209
Other Comprehensive Income (loss)		
Securities Available for Sale:		
Net unrealized gains (losses) during the year	**3,573**	(48,470)
Reclassification adjustment for losses included in income	**32**	-
Pension and Postretirement Benefits:		
Amortization of net gain	**42**	255
Net actuarial (loss) gain	**(772)**	2,226
Cash Flow Hedge:		
Reclassification adjustment for losses included in income	**-**	7
	2,875	(45,982)
Net Tax (Expense) Benefit	**(720)**	11,496
Other Comprehensive Income (Loss)	**2,155**	(34,486)
Total Comprehensive Income (Loss)	**19,514**	(17,277)
Comprehensive Income attributable to noncontrolling interest	**(5)**	(5)
Comprehensive Income (Loss) attributable to Lyons Bancorp, Inc.	**$ 19,509**	$ (17,282)

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2023 and 2022

(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, 2022	$ 1,718	$ 3	$ 28,344	$ 87,568	$ (7,416)	$ (624)	$ 56	$ 109,649
Net income for 2022	-	-	-	17,204	-	-	5	17,209
Total other comprehensive loss, net	-	-	-	-	(34,486)	-	-	(34,486)
Purchase of treasurey stock, net of purchase fee	-	-	-	-	-	(334)		(334)
Deferred Comp shares issued from treasury	-	-	42	-	-	216	-	258
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.38 per share	-	-	-	(4,680)	-	-	-	(4,680)
BALANCE, December 31, 2022	$ 1,718	$ 3	$ 28,386	$ 99,842	$ (41,902)	$ (742)	$ 56	$ 87,361
Cumulative effect of change in accounting principle upon adoption of ASU 2016-13	$ -	$ -	$ -	$ 1,702	$ -	$ -	$ -	$ 1,702
Net income for 2023	-	-	-	17,354	-	-	5	17,359
Total other comprehensive income, net	-	-	-	-	2,155	-	-	2,155
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(30)	-	(30)
Deferred Comp shares issued from treasury	-	-	93	-	-	256	-	349
Conversion of trust preferred securities to common stock	1	(1)	-	-	-	-	-	-
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.40 per share	-	-	-	(4,981)	-	-	-	(4,981)
BALANCE, December 31, 2023	$ 1,719	$ 2	$ 28,479	$ 113,667	$ (39,747)	$ (516)	$ 56	$ 103,660

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
	(In thousands)	
Cash Flows from Operating Activities		
Net income	**$ 17,359**	$ 17,209
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,040**	3,498
Earnings on investment in bank owned life insurance	**(425)**	(428)
BOLI Death benefit	**(463)**	-
Net realized loss from sales of securities	**32**	-
Realized gains on loans sold	**(1,861)**	(1,219)
Amortization of debt issuance costs	**12**	12
Deferred compensation expense	**509**	171
Net amortization on securities	**550**	581
Depreciation and amortization	**1,318**	1,416
Deferred income tax	**83**	(742)
Contribution to defined benefit pension plan	**-**	(3,530)
(Increase) decrease in accrued interest receivable and other assets	**(5,058)**	980
Increase in accrued interest payable and other liabilities	**1,834**	817
Loans originated for sale	**(105,971)**	(72,459)
Proceeds from sales of loans	**100,119**	73,156
Net Cash Provided by Operating Activities	**9,078**	19,462
Cash Flows from Investing Activities		
Net change in interest bearing deposits at other financial institutions	**(17,791)**	12,419
Purchases of securities available for sale	**(2,845)**	(25,145)
Proceeds from sales of securities available for sale	**218**	-
Proceeds from maturities and calls of securities available for sale	**14,341**	22,321
Purchases of held to maturity securities	**(6,456)**	(9,484)
Proceeds from maturities of securities held to maturity	**4,637**	3,244
Net change in restricted securities	**(1,782)**	(635)
Net increase in portfolio loans	**(71,459)**	(162,604)
Proceeds from BOLI death benefit	**809**	-
Premises and equipment purchases	**(234)**	(605)
Net Cash Used in Investing Activities	**(80,562)**	(160,489)
Cash Flows from Financing Activities		
Net decrease in demand and savings deposits	**(66,666)**	(7,607)
Net increase (decrease) in time deposits	**70,615**	159,941
Preferred Stock Dividend	**(250)**	(250)
Purchase of treasury stock	**(30)**	(334)
Issuance of treasury stock	**349**	258
Borrowings from Federal Reserve Bank	**71,000**	-
Dividends paid	**(4,986)**	(4,552)
Net Cash Provided by Financing Activities	**70,032**	147,456
	(1,452)	6,429
Cash and Cash Equivalents – Beginning	**22,047**	15,618
Cash and Cash Equivalents – Ending	**$ 20,595**	$ 22,047
Supplementary Cash Flow Information		
Interest paid	**$ 21,973**	$ 3,716
Income taxes paid	**$ 5,420**	$ 3,509
Dividends declared not yet paid	**$ 1,181**	$ 1,179

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Basis of Presentation

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

Reclassification

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

Use of Estimates

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

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.

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

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

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

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

Prior to January 1, 2023, the Company performed an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. A security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, the Company then assesses whether the unrealized loss is other-than-temporary. The assessment considers (i) whether the Company intends to sell the security prior to recovery and/or maturity, (ii) whether it is more likely than not that the Company will have to sell the security prior to recovery and/or maturity and (iii) if the present value of the expected cash flows is not sufficient to recover the entire amortized cost basis. If a debt security is deemed to be other-than-temporarily impaired, the credit loss component of an other-than-temporary impairment write-down is recorded in earnings while the remaining portion of the impairment loss is recognized, net of tax, in other comprehensive income provided that the Company does not intend to sell the underlying security and it is more likely than not that the Company would not have to sell the security prior to recovery.

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

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

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

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

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

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Accrued interest receivable totaled $38.1 million at December 31, 2023 and was reported in accrued interest receivable and other assets on the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

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

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 credit 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. These loans are collectively evaluated for risk of loss.

Note 1 - Summary of Significant Accounting Policies (Continued)
Loans Held for Sale

Generally, loans held for sale consist of residential mortgage loans that are originated and are intended to be sold through agreements the Bank has with the FHLB and the Federal Home Loan Mortgage Corporation (Freddie Mac). Realized gains and losses on sales are computed using the specific identification method. These loans are carried on the consolidated balance sheets at the lower of cost or estimated fair value determined in the aggregate. Residential loans held for sale totaled $11.6 million and $3.9 million at December 31, 2023 and 2022, respectively, and are included in loans on the consolidated balance sheets.

During 2023 and 2022, the Company sold residential mortgage loans totaling $100.1 million and $73.2 million, respectively, and realized gains on these sales were $1.9 million and $1.2 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 2023 and 2022, the Company recorded mortgage-servicing assets of $1 million and $589,000, respectively. Amortization of mortgage-servicing assets amounted to $652,000 in 2023 and $404,000 in 2022. Net mortgage-servicing assets included in other assets in the consolidated balance sheets totaled $3.4 million and $3.1 million, net of amortization, as of December 31, 2023 and 2022, 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 2023 and 2022, the Company sold no commercial loans. There were no commercial loans held for sale at December 31, 2023 or 2022.

Total loans serviced for others and excluded from the consolidated balance sheets of the Company amounted to $535.8 million and $477.1 million at December 31, 2023 and 2022, respectively.

Allowance for Credit Losses – Loans

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

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

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

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

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

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

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

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

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

The Bank also selected Weighted Average Remaining Maturity (WARM) method for certain consumer loan pools whereby a full blown DCF analysis did not yield successful results. This average life calculation is based on an attrition rate calculation derived from loan payoffs or exits during the historical calculation period. Having computed the average life of the segment, the bank evenly spreads repayment of the loan segment over the previously calculated average life and applies a periodic loss rate to the outstanding principal balances in the segment over that time period. The Bank utilizes the average annual loss rates calculated from peer call report losses in each segment to calculate the ACL for segments for which the remaining life methodology is utilized.

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

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

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

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate, The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has reasonable expectation that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

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

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

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

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

Excluded from the pooled analysis are loans to be individually evaluated due to the assets not maintaining similar risk characteristics to those in the designated segments. These loans are generally considered to be collateral dependent and therefore an analysis of the collateral position versus the pooled loan discounted cash flow approach better reflects the potential loss. Individually evaluated accounts include loans over 90 days past due, loans marked as restructured, and loans placed on nonaccrual status.

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

Prior to the adoption of ASC Topic 326, the allowance consists of general, specific and unallocated components as further described below.

General Component

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan classes: commercial real estate, agricultural real estate, commercial and agricultural loans, residential real estate and consumer loan segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan class. The historical loss factor is adjusted for the following qualitative factors: levels and trends of delinquencies, non-accruals and classified loans; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; national and local economic trends and conditions; collateral value for collateral dependent loans; concentrations of credit; and legal and regulatory environment.

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

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

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

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

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

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

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

Specific Component

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

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

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

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

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

Unallocated Component

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

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled $195,000 and $131,000 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

The Bank's HTM debt securities are also required to utilize the current expected credit losses approach to estimate expected credit losses. HTM debt securities included securities that are issued by U S government agencies or U S government sponsored enterprises. These securities carry the explicit and/or implicit guaranty of the U S government, are widely recognized as "risk free," and have a long history of zero credit losses. The bank also carries a portfolio of HTM municipal

Note 1 - Summary of Significant Accounting Policies (Continued)
Allowance for Credit Losses – Held-to-Maturity Securities

bond. The bank measures it allowance for credit losses on HTM debt securities on a collective basis by major security type. The estimate is based on historical credit losses, if any, adjusted for current conditions and reasonable and supportable forecasts. The bank considers the nature of the collateral, potential future changes in collateral values and available loss information.

Allowance for Credit Losses – Available-for-Sale Securities

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

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

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

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

Non-accrual and Past Due Loans

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

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan may be currently performing. A loan may remain on accrual status if it is in the process of collection

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

and is either guaranteed or well secured. When a loan is placed on non-accrual status, unpaid interest is reversed and charged to interest income. Interest received on non-accrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

When future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan had been partially charged off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Cash interest receipts in excess of that amount are recorded as recoveries to allowance for loan losses until prior charge-offs have been fully recovered.

Modifications for Debtors Experiencing Financial Difficulty

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)
Modifications for Debtors Experiencing Financial Difficulty – (Continued)

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. Nonaccrual loans that are restructured remain on nonaccrual status, but may move to accrual status after they have performed according to the restructured terms for a period of time of at least six months.

Troubled Debt Restructurings

Prior to Adoption of Topic ASC 326, 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 permitted the suspension of ASC 310-40 for loan modifications that were made by financial institutions in response to the COVID-19 pandemic if (1) the borrower was not more than 30 days past due as of December 31, 2019, and (2) the modifications are related to arrangements that deferred or delayed the payment of principal or interest, or changed the interest rate on the loan. Such modifications were not considered a troubled debt restructuring and were excluded from being reported as a troubled debt restructuring.

Land, Premises and Equipment

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

Bank Owned Life Insurance

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

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

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cash basis. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The recorded investment in residential real estate in process of foreclosure at both December 31, 2023 and 2022 was $1.1 million. There was no foreclosed real estate at December 31, 2023 or 2022.

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 consolidated statements of income as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled $2.2 million and $2.3 million for the years ended December 31, 2023 and 2022. Late fees and ancillary fees related to loan servicing are not material. For the years ended December 31, 2023 and 2022, the Company did not recognize any impairment on mortgage servicing rights.

Treasury Stock

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

Advertising Costs

Advertising costs are expensed as incurred.

Note 1 - Summary of Significant Accounting Policies (Continued)

Noncontrolling Interest

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

Income Taxes

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

Transfers of Financial Assets

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

Earnings per Share

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

Comprehensive Income

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

Statements of Cash Flows

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Off-Balance-Sheet Financial Instruments

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

Segment Reporting

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

Recently Issued Accounting Pronouncements

On January 1, 2023 Lyons Bancorp, Inc. adopted Accounting Standard Update (ASU 2016-13) *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASU 2016-13 using the modified retrospective approach. Results for the periods beginning after January 1, 2023 are presented under Accounting Standards Codification (“ASC”) 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net increase of retained earnings of $1.7 million upon adoption. The transition adjustment includes a decrease in credit-related reserves of $2.7 million, an increase of $27,000, and an increase of $395,000 for loans, held to maturity investment securities and unfunded commitments, respectively, net of the corresponding decrease in deferred tax assets of $599,000.

On January 1, 2023 Lyons Bancorp, Inc. adopted Accounting Standard Update (ASU 2022-02) Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. This update eliminates the recognition and measurement guidance for troubled debt restructurings (“TDR’s”) by creditors in ASC 310-40. This update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or continuation of an existing loan. Additionally, the amendments in the ASU require a public business entity to disclose current-period gross write-offs by year of origination for refinancing receivables and net investments in leases in the existing vintage disclosures. The amendments in this update are effective for entities that have adopted amendments in update 2016-13 for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For entities that have not yet adopted the amendments in update 2016-13, the effective date for the amendments in this update are the same as the effective dates in update 2016-13. Early adoption is permitted in any interim period if an entity has adopted ASU 2016-13 and such election may be made individually to adopt the guidance related to TDR’s, including related disclosures, and the presentation of gross write-offs

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

in the vintage disclosure. This update requires prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty and the presentation of gross write-offs in the vintage disclosures. The guidance related to the recognition and measurement of TDR's may be adopted on a prospective or modified retrospective transition method. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

Note 2 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2023 and 2022:

Note 2 – Investments (Continued)

(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023:				
Available for Sale:				
United State Agencies	**$ 156,817**	**$ 13**	**$ (25,298)**	**$ 131,532**
State and local governments	**85,658**	**20**	**(6,874)**	**78,804**
Corporate	**17,799**	**-**	**(2,292)**	**15,507**
Mortgage-backed securities	**89,283**	**-**	**(15,206)**	**74,077**
Total Available for Sale	**$ 349,557**	**$ 33**	**$ (49,670)**	**$ 299,920**
Held to Maturity:				
United State Agencies	**$ 20,257**	**$ -**	**$ (2,064)**	**$ 18,193**
State and local governments	**10,627**	**-**	**-**	**10,627**
Mortgage-backed securities	**9,387**	**-**	**(1,353)**	**8,035**
Total Held to Maturity	**$ 40,271**	**$ -**	**$ (3,417)**	**$ 36,855**
Restricted Securities:	**$ 7,305**	**$ -**	**$ -**	**$ 7,305**

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

Note 2 – Investments (Continued)

The Company's current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations including subordinated debt of banks and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and Government National Mortgage Association (GNMA), and collateralized mortgage obligations issued by these entities. At December 31, 2023 and 2022, 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 $5.3 million and $1.4 million at December 31, 2023, respectively, and $3.6 million and $1.4 million at December 31, 2022, 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 $343,000 and $223,000 at December 31, 2023 and 2022, respectively, in order to participate in certain lending activities with Farmer Mac. The stock is actively traded on the NYSE, pays a dividend, and is reflective of current market value. Restricted equity securities also include miscellaneous investments carried at par, which is also cost.

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

Note 2 – Investments (Continued)

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

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unreailzed Losses	Fair Value	Unrealized Losses
2023						
Available for Sale:						
United States agencies	$ -	$ -	$ 129,519	$ (25,298)	$ 129,519	$ (25,298)
State and Local Governments	2,006	(16)	73,462	(6,858)	75,468	(6,874)
Corporate	414	(87)	12,094	(2,205)	12,508	(2,292)
Mortgage-backed securities	-	-	74,077	(15,206)	74,077	(15,206)
	$ 2,420	$ (103)	$ 289,152	$ (49,567)	$ 291,572	$ (49,670)

	Less than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
Available for Sale:						
United States agencies	$ 8,731	$ (1,224)	$ 117,111	$ (27,525)	$ 125,842	$ (28,749)
State and Local Governments	33,888	(2,171)	47,567	(6,597)	81,455	(8,768)
Corporate	8,792	(958)	4,074	(476)	12,866	(1,434)
Mortgage-backed securities	37,632	(4,796)	43,881	(9,557)	81,513	(14,353)
	$ 89,043	$ (9,149)	$ 212,633	$ (44,155)	$ 301,676	$ (53,304)
Held to Maturity:						
United States agencies	$ 3,873	$ (615)	$ 13,752	$ (1,916)	$ 17,625	$ (2,531)
State and Local Governments	-	-	-	-	-	-
Corporate	-	-	-	-	-	-
Mortgage-backed securities	-	-	7,948	(1,467)	7,948	(1,467)
	$ 3,873	$ (615)	$ 21,700	$ (3,383)	$ 25,573	$ (3,998)

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 2 – Investments (Continued)

There were 14 securities with unrealized losses at December 31, 2023, with a fair value of $2.4 million that were less than 12 months. There were 496 securities with unrealized losses at December 31, 2023, with a fair value of $315.4 million that were 12 months or longer. There were 215 securities with unrealized losses at December 31, 2022, with a fair value of $92.9 million that were less than 12 months. There were 320 securities with unrealized losses at December 31, 2022, with a fair value of $234.3 million that were 12 months or longer. 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, 2023 and 2022.

The amortized cost and fair value of debt securities at December 31, 2023, 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	$ 12,323	$ 12,162	$ 6,795	$ 6,795
Due after one year through five years	107,227	96,889	20,066	18,363
Due after five years through ten years	111,959	93,332	3,924	3,563
Due after ten years	10,966	7,953	99	99
Securities not due at a single maturity date	107,082	89,584	9,387	8,035
	$ 349,557	$ 299,920	$ 40,271	$ 36,855

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

During 2023, there was one sale of available for sale securities, while in 2022, there were no sales of available for sale securities. Gross loss on the sale of the amount in 2023 was $32,000. Investment securities with carrying amounts of $290.6 million and $225.9 million at December 31, 2023 and 2022, respectively, were pledged to secure deposits as required or permitted by law.

At year-end 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

The allowance for held to maturity investments at December 31, 2023 is $28,400 and it was $0 at December 31, 2022.

Note 3 – Loans and Allowance for Credit Losses

Loans consisted of the following at December 31:

	2023	2022
Real estate:	(In thousands)	
Residential:		
1-4 family	**$544,051**	$526,191
Home equity	**134,047**	123,991
Commercial	**371,559**	334,341
Agriculture	**93,057**	86,910
Total mortgage loans on real estate	**1,142,714**	1,071,433
Commercial loans	**159,030**	148,462
Agriculture loans	**42,177**	41,801
Consumer installment loans:		
Direct	**30,871**	33,053
Indirect	**3,818**	4,992
Total consumer installment loans	**34,689**	38,045
Total loans	**1,378,610**	1,299,741
Allowance for credit losses/loan losses	**(19,493)**	(21,498)
Loans, net	**$1,359,117**	$1,278,243

Net unamortized loan origination costs totaled $1.1 million at December 31, 2023 and $971,000 at December 31, 2022, respectively and are included with their related loan class.

Accrued interest receivable totaled $6.7 million at December 31, 2023 and $5.5 million at December 31, 2022.

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, 2023 and 2022, the Company was servicing loans for participants aggregating $11.4 million and $12.7 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

Note 3 – Loans (Continued)

loans. These loans are recorded as commercial loans on the consolidated balance sheets. During 2023, the Company did not have any remaining loans eligible to be forgiven. As of December 31, 2022, the Company had received forgiveness for 1,827 PPP loans in the amount of $166.9 million.

During 2023, the Company did not record deferred fees as a yield adjustment to interest income on loans and processing fees and has no remaining fees to be recorded. During 2022, the Company had recorded $530,000 of deferred fees as a yield adjustment to interest income on loans and processing fees with no remaining fees to be recorded. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days or more past due and/or management deems the collectability of the principal and/or interest to be in question, as well as when required by regulatory requirements.

The following table presents past due loans by classes of the loan portfolio at December 31, 2023 and 2022:

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

Note 3 – Loans (Continued)

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
2022:					
Commercial loans	$147,960	$183	$319	$148,462	$1,030
Commercial real estate	332,519	357	1465	334,341	1166
Agriculture loans	41,223	-	578	41,801	578
Agriculture real estate	86,567	-	343	86,910	448
Residential real estate:					
1-4 family	524,902	987	302	526,191	453
Home equity	123,525	420	46	123,991	46
Consumer installment loans:					
Direct	33,044	9	-	33,053	-
Indirect	4,916	76	-	4,992	60
Total	$1,294,656	$2,032	$3,053	$1,299,741	$3,781

At December 31, 2023 and 2022, there were no loans over 90 days' delinquent and still accruing interest.

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

(In thousands)

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

Note 3 – Loans (Continued)

Activity in the allowance for loan losses for the year ended December 31, 2022:
(In thousands)

2022	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Residential Real Estate	Consumer	Total
Beginning balance	$4,288	$5,364	$1,554	$1,171	$5,433	$534	$18,344
Provisions for loan losses	266	1,731	(363)	293	1,466	105	3,498
Recoveries of loans previously charged off	54	-	-	-	3	75	132
Loans charged off	(76)	(248)	-	-	(6)	(146)	(476)
Ending balance	$4,532	$6,847	$1,191	$1,464	$6,896	$568	$21,498

Non-accrual loans, segregated by class of loan, were as follows at December 31, 2023:

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

Note 3 – Loans (Continued)

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2022:

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

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

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

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the operation or sale of the collateral. Loans considered collateral-dependent are as follows at December 31, 2023:

Note 3 – Loans (Continued)

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

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

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

Note 3 – Loans (Continued)

As of December 31, 2023, the Company has a recorded investment in modified loans of $5.3 million. As of December 31, 2022, the Company has a recorded investment in troubled debt restructurings of $5.6 million. The Company has allocated $279,000 and $170,000 of specific allowance for those loans at December 31, 2023 and 2022 respectively.

There were no modifications of loans during the year ended December 31, 2023. The modifications of the terms of such commercial loans, agriculture loans, commercial real estate loans and residential real estate loans performed during the year ended December 31, 2022 included an extension of the maturity date, interest rate reduction, payment deferrals, loan increase and additional collateral.

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

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

There were no loans modified during the year ended December 31, 2023. 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, 2022:

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

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

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

Note 3 – Loans (Continued)

Credit Quality

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

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

Loans rated an “8” are considered “substandard”. Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. Substandard loans have a high probability of payment default or they have other well-defined weaknesses. They require more intensive supervision by 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, 2023 or 2022.

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, 2023 or 2022.

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

The following table presents the loans to customers as of December 31, 2023, based on year of origination within each credit quality indicator:

Note 3 – Loans (Continued)

At December 31, 2023

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Total Loans:									
Residential Mortgage Loans:									
Pass	$ 55,114,453	101,684,523	126,855,596	113,474,164	21,509,893	61,931,468	18,886,806	-	499,456,903
3 Good	-	-	-	-	-	62,439	-	-	62,439
4 Average	-	-	-	-	-	799,744	-	-	799,744
5 Acceptable	3,097,603	9,038,380	15,647,695	7,108,919	2,939,561	6,670,648	781,604	-	45,284,410
6 Management Attention Watch	-	-	-	-	-	60,707	-	-	60,707
8 Substandard	-	172,508	194,549	129,275	-	23,732	-	-	520,064
	$ 58,212,056	110,895,411	142,697,840	120,712,358	24,449,454	69,548,738	19,668,410	-	546,184,266
Current period gross write-offs	$ -	-	-	-	-	238	-	-	238
Home Equity Loans:									
Pass	$ 8,649,099	14,919,693	6,410,747	7,124,022	3,947,012	17,413,093	72,895,223	-	131,358,888
8 Substandard	-	-	-	-	-	9,194	96,702	-	105,896
	$ 8,649,099	14,919,693	6,410,747	7,124,022	3,947,012	17,422,287	72,991,925	-	131,464,784
Current period gross write-offs	$ -	-	-	-	-	33,153	-	-	33,153
Commercial Real Estate Loans:									
2 Strong	$ 700,000	483,462	921,975	658,418		818,936	-	2,465,299	6,048,090
3 Good	3,786,737	1,296,062	1,600,030	552,640	253,615	405,639	-	-	7,894,722
4 Average	5,180,878	19,502,855	7,631,672	10,339,665	9,365,359	22,465,616	3,432,101	5,377,567	83,295,712
5 Acceptable	33,269,304	38,665,351	41,589,807	18,288,272	7,563,433	32,847,431	19,762,746	31,234,072	223,220,415
6 Management Attention Watch	1,957,778	10,251,908	2,279,070	6,173,109	3,254,070	7,649,246	1,635,642	8,201,766	41,402,588
7 Special Mention	-	-	-	171,330	309,614	1,324,041	-	440,234	2,245,219
8 Substandard	-	351,413	3,447,484	-	112,602	1,359,031	-	2,029,259	7,299,788
	$ 44,894,697	70,551,051	57,470,037	36,183,434	20,858,692	66,869,939	24,830,488	49,748,196	371,406,535
Current period gross write-offs	$ -	-	-	-	-	-	-	-	-
Agriculture Real Estate Loans:									
2 Strong	$ 933,414	420,319	-	964,103	-	8,279,435	-	97,736	10,695,007
3 Good	751,337	1,329,081	-	662,931	716,166	2,035,498	-	1,889,318	7,384,332
4 Average	2,832,984	2,876,204	2,830,767	3,227,220	3,149,637	7,148,750	-	3,268,194	25,333,755
5 Acceptable	5,513,204	14,067,411	4,594,896	3,123,567	3,802,884	8,270,749	1,468,634	2,783,074	43,624,418
6 Management Attention Watch	1,218,457	253,335	1,358,858	290,631	1,210,253	615,668	-	-	4,947,202
7 Special Mention	-	13,725	-	-	-	813,372	-	-	827,097
8 Substandard	-	-	-	-	-	116,218	-	-	116,218
	$ 11,249,396	18,960,076	8,784,521	8,268,452	8,878,940	27,279,690	1,468,634	8,038,322	92,928,030
Current period gross write-offs	$ -	-	-	-	-	-	-	-	-

Note 3 – Loans (Continued)

At December 31, 2023

	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Commercial Loans:									
Performing	$ -	-	-	-	-	-	1,800,663	-	1,800,663
1 Superior	450,255	-	-	-	-	-	268,896	-	719,151
2 Strong	528,449	1,904,258	156,781	-	-	1,420,089	2,538,250	-	6,547,827
3 Good	4,766,597	397,484	1,948,416	257,296	11,483	848,351	1,903,041	-	10,132,668
4 Average	2,949,548	3,429,893	2,612,520	457,445	542,650	294,869	11,334,564	2,073,979	23,695,468
5 Acceptable	15,806,540	13,020,397	6,771,868	7,258,191	1,363,837	1,689,581	35,818,521	7,179,209	88,908,146
6 Management Attention Watch	1,022,137	1,821,482	1,302,243	626,700	1,175,463	1,616,849	7,849,772	7,780,109	23,194,754
7 Special Mention	143,950	334,858	223,701	-	-	1,137,148	2,615,162	26,437	4,481,256
8 Substandard	-	-	-	26,610	75,604	-	778,444	164,433	1,045,091
	$ 25,667,476	20,908,373	13,015,529	8,626,242	3,169,038	7,006,887	64,907,314	17,224,167	160,525,025
Current period gross write-offs	$ -	43,314	-	-	-	-	197,983	20,582	261,879
Agriculture Loans:									
1 Superior	$ -	-	-	-	-	-	121	-	121
2 Strong	-	176,895	-	133,445	-	349,463	375,000	-	1,034,802
3 Good	333,026	1,168,090	295,113	988,366	24,352	193,663	3,089,683	-	6,092,292
4 Average	1,044,540	1,449,112	1,027,747	660,204	498,102	408,337	6,871,769	557,420	12,517,232
5 Acceptable	2,067,011	1,689,073	1,283,826	671,727	428,662	289,257	11,096,185	318,277	17,844,018
6 Management Attention Watch	215,000	249,049	176,181	64,584	7,054	62,476	2,432,590	179,474	3,386,410
7 Special Mention	135,000	-	-	-	11,226	142,284	421,774	24,318	734,601
8 Substandard	-	-	-	-	-	496,512	-	-	496,512
	$ 3,794,577	4,732,219	2,782,868	2,518,327	969,396	1,941,992	24,287,122	1,079,488	42,105,989
Current period gross write-offs	$ -	-	-	-	-	-	-	-	-
Consumer Direct Loans:									
Pass	$ 7,732,828	9,797,522	5,278,104	1,575,485	477,223	567,445	3,595,165	-	29,023,772
Current period gross write-offs	$ 3,000	6,226	9,212	-	1,779	-	63,855	-	84,071
Consumer Indirect Loans:									
Pass	$ 134,496	129,417	304,231	518,099	583,770	2,134,439	-	-	3,804,452
8 Substandard	-	-	-	-	-	13,672	-	-	13,672
	$ 134,496	129,417	304,231	518,099	583,770	2,148,111	-	-	3,818,124
Current period gross write-offs	$ -	-	-	19,102	1,529	-	-	-	20,631

Note 3 – Loans (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, 2022:

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Total
December 31, 2022					
Grade:					
Pass	$144,616	$324,043	$41,212	$85,775	$595,646
Special Mention	3,668	3,923	587	1,030	9,208
Substandard	178	6,375	2	105	6,660
Total	$148,462	$334,341	$41,801	$86,910	$611,514

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, 2022:

(In thousands)	1-4 Family	Home Equity	Consumer - Direct	Consumer - Indirect	Total
December 31, 2022					
Performing	$525,738	$123,945	$33,053	$4,932	$687,668
Nonaccrual	453	46	-	60	559
Total	$526,191	$123,991	$33,053	$4,992	$688,227

Note 4 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2023 and 2022:

	2023	2022
	(In thousands)	
Land	**$ 5,875**	$ 5,875
Building	**22,901**	22,901
Furniture and equipment	**10,416**	10,291
Land improvements	**41**	-
Leasehold improvements	**3,055**	3,055
Construction in progress	**7**	-
	42,295	42,122
Less: Accumulated depreciation	**(17,491)**	(16,234)
	$ 24,804	$ 25,888

Depreciation and amortization expense in 2023 and 2022 are included in occupancy in noninterest expense on the accompanying consolidated statements of income as follows:

	2023	2022
	(In thousands)	
Building	**$ 571**	$ 571
Furniture and equipment	**627**	727
Leasehold improvements	**118**	118
	$ 1,316	$ 1,416

At December 31, 2023, the Bank leased out office space under non-cancelable operating leases. There are no future minimum rental payments to be received by the Company.

Rental income under the operating leases totaled $15,000 and $71,000 in 2023 and 2022, respectively.

Note 5 - Deposits

Certificates of deposit in denominations of $250,000 and over were $140.5 million and $75.8 million at December 31, 2023 and 2022, respectively.

At December 31, 2023, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2024	**$ 323,105**
2025	**75,863**
2026	**21,891**
2027	**403**
2028	**320**
	$ 421,582

Included within certificates of deposits at December 31, 2023 and 2022 were $79.8 million and $123.0 million, respectively, in brokered certificates of deposits.

Note 6 – Borrowings

FHLB Borrowings

Borrowings consist of overnight advances with the Federal Home Loan Bank “FHLB”. At December 31, 2023 and 2022, there were no overnight advances outstanding. The table below details additional information related to overnight advances for the years ended December 31, 2023 and 2022:

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

There was no long term debt at December 31, 2023 and 2022.

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, 2023, total unencumbered mortgage-related loans were $189.0 million. At December 31, 2022, total unencumbered mortgage-related loans were $270.0 million. Additional assets may also qualify as collateral for FHLB advances.

Note 6 – Borrowings (Continued)

FRB Borrowings

The Bank is participating in the Bank Term Funding Program, authorized by the Board of Governors of the Federal Reserve System. In order to participate, the Bank secures all borrowings with "Eligible Collateral". The present borrowings are secured by investments and the collateral value is equal to the par value of $71.0 million. The bank is allowed to borrow up to the par value. The table below details additional information related to FRB Term Fund Borrowing as of December 31, 2023:

Borrowing Date	Advance Amount	Maturity Date	Rate
12/20/2023	$ 51,000,000	12/19/2024	4.91%
12/20/2023	$ 20,000,000	12/19/2024	4.91%
Total Advances	$ 71,000,000		

The Company, through the Bank, can use certain otherwise unencumbered collateral to secure borrowings at the Federal Reserve Bank. At December 31, 2023, total unencumbered collateral in the form of home equity loans and other consumer loans was $157.7 million. At December 31, 2022, total otherwise unencumbered collateral in the form of home equity loans and other consumer loans was $47.2 million.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $127.0 million at December 31, 2023 and 2022. There were no outstanding advances against those lines at December 31, 2023 or 2022.

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

Note 7 - Subordinated Debentures

Junior Subordinated Debentures

On August 23, 2004, the Company issued $5.155 million in junior subordinated debentures due August 23, 2034, to Trust II. The Company owns all of the $155,000 in common equity of Trust II and the debentures are the sole asset of Trust II. Trust II issued $5.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month CME term SOFR plus 2.65%. The coupon rate was 8.29% at December 31, 2023 and 7.34% at December 31, 2022. The securities are callable by the Company subject to any required regulatory approval, at par. As of June 30, 2023 the Federal Reserve made the decision to replace LIBOR with SOFR (Secured Overnight Financing Rate). The reasoning behind this change was due to the way that it could be manipulated or fragile. According to the Adjustable Interest Rate (LIBOR) Act, the one, three, six, and twelve month LIBOR in contracts will be subjected to this change. The SOFR rate is determined by the treasury repurchase market and the change is said to the biggest effect on the derivatives market.

Note 7 - Subordinated Debentures (Continued)

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

The accounts of Trust II are not included in the consolidated financial statements of the Company. 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, 2023 and 2022, $5.0 million in trust capital securities qualified as Tier I capital, respectively.

Subordinated Debenture Offering

In October 28, 2020, Lyons Bancorp, Inc. successfully completed the sale of approximately $16.0 million of subordinated promissory notes (the "Notes") to accredited investors. The Notes are dated October 23, 2020, and mature on December 31, 2027. The interest rate on the Notes is fixed at 4.25% for the first five years, increases to 4.75% in the sixth year and increases again to 5.25% in the seventh year. The Company retains the right to redeem the Notes, in whole or in part, any time on or after December 31, 2025. The Company intends to use the proceeds from the sale of the Notes for general corporate purposes, to provide capital to support organic growth of the Bank, and to fund possible acquisitions. The net proceeds of the sale, after deducting estimated offering expenses, were $15.7 million.

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

For regulatory purposes, the subordinated promissory notes capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At both December 31, 2023 and December 31, 2022, $15.8 million in subordinated promissory notes capital securities qualified as Tier I capital.

Note 8 - Income Taxes

The provision for income taxes consists of the following for the years ended December 31, 2023 and 2022:

	2023	2022
	(In thousands)	
Current Tax Provision		
Federal	**$ 4,254**	$ 4,632
State	**863**	755
Total current tax provision	**5,117**	5,387
Deferred tax Provision (benefit)		
Federal	**86**	(664)
State	**(3)**	(78)
Total deferred tax provision (benefit)	**83**	(742)
	$ 5,200	$ 4,645

Note 8 - Income Taxes (Continued)

Income tax expense differed from the statutory federal income tax rate for the years ended December 31, 2023 and 2022 as follows:

	2023	2022
Statutory federal tax rate	**21.0%**	21.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	**(1.1)**	(1.0)
Non-taxable earnings on bank-owned life insurance	**(0.4)**	(0.4)
Disallowed interest expense	**0.2**	0.1
State taxes	**3.5**	2.4
Other, net	**(0.2)**	(0.8)
Effective tax rate	**23.0%**	21.3%

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, 2023 and 2022 included in accrued interest receivable and other assets on the accompanying consolidated balance sheets, are as follows:

	2023	2022
	(In thousands)	
Deferred tax assets		
Allowance for credit losses on loans	**$ 5,202**	$ 5,596
Net unrealized gain on available for sale securities	**12,409**	13,310
Compensation and benefits	**2,160**	2,685
Prepaid pension	**690**	162
Other	**2,628**	1,621
Total deferred tax assets	**$ 23,089**	$ 23,375
Deferred tax liabilities:		
Depreciation	**$ 772**	$ 765
Other	**2,205**	1,098
Total deferred tax liabilities	**$ 2,977**	$ 1,862
Net deferred tax (liabilities) assets	**$ 20,112**	$ 21,512

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

Note 9 - Stockholders' Equity

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

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

Upon a deemed liquidation event of Lyons Bancorp, the holders of the preferred shares are entitled to receive a liquidation distribution of $1,000 per share plus any declared and unpaid dividends, before any distribution of assets to holders of common stock. Dividends will be paid quarterly, if declared by the board of directors, at a rate per annum equal to 5%. As of December 31, 2023, 4,930 shares, par value $0.50 per share, of the authorized preferred stock have been issued and are outstanding. In 2023, there were 70 shares of preferred stock that were converted to common stock. As of December 31, 2022, all 5,000 shares, par value $0.50 per share, of the authorized preferred stock have been issued and are outstanding.

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

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

On June 15, 2022, Lyons Bancorp, Inc. updated its certificate of incorporation to amend its authorized number of shares of the corporation from 7,500,000 common shares, having a par value of $0.50 per share, to 15,000,000 common shares, having a par value of $0.50 per share.

The common stock and treasury stock of the Company at December 31, 2023 and 2022 are as follows:

	2023	2022
Common stock, authorized shares, $0.50 par value	**15,000,000**	15,000,000
Issued shares	**3,437,614**	3,435,934
Less: treasury stock shares	**(11,778)**	(17,998)
Outstanding shares	**3,425,836**	3,417,936

Note 9 - Stockholders' Equity – (Continued)
Accumulated Other Comprehensive Income

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, 2023 and 2022:

	2023	2022
	(in thousands)	(in thousands)
Securities available for sale:		
Net unrealized gain (losses) during the year	**$ 893**	$ (12,118)
Reclassification adjustment for losses included in income	**9**	-
Pension and Postretirement benefit:		
Amortization of net loss	**10**	64
Net Actuarial gain (loss)	**(192)**	558
Cash Flow Hedge:	**-**	-
Tax expense (benefit)	**$ 720**	$ (11,496)

Reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2023 and 2022 are as follows:

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss 2023 (in thousands)	Amount Reclassified from Accumulated Other Comprehensive Loss 2022 (in thousands)	Affected Line Item In The Statement Where Net Income is Presented
Unrealized Gains and Losses on avaliable for sale securities (before tax)	**$ (32)**	$ -	Net realized gain/(loss) from sales of securities
Tax (Expense) Benefit	**9**	-	Income tax expense
Net of Tax	**(23)**	-	
Amortization of Pension and postretirement benefit plan items			
Prior service credit	**-**	-	
Net Losses	**(42)**	(255)	
	(42)	(255)	Pensions and benefits expense
Tax Benefit	**10**	64	Income tax expense
Net of Tax	**(32)**	(191)	
Gains and losses on Cash flow hedge (before tax)	**-**	(7)	Interest expense - borrowings
Tax Benefit	**-**	2	Income tax expense
Net of Tax	**-**	(5)	
Total Reclassification for the year, net of tax	**$ (55)**	$ (197)	

Note 9 - Stockholders' Equity – (Continued)

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

(In thousands)	Unrealized gains (losses) on securities available for sale	Pension and postretirement benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2022	$ (3,580)	$ (3,829)	$ (7)	$ (7,416)
Other comprehensive income (loss) before reclassifications	(36,352)	1,668	-	(34,684)
Amounts reclassified from accumulated other comprehensive income	-	191	7	198
Other comprehensive income (loss) for 2021	(36,352)	1,859	7	(34,486)
Balance – December 31, 2022	$ (39,932)	$ (1,970)	$ -	$ (41,902)
Other comprehensive income (loss) before reclassifications	**$ 2,680**	**$ (580)**	**$ -**	**$ 2,100**
Amounts reclassified from accumulated other comprehensive income	**23**	**32**	**-**	**55**
Other comprehensive income (loss) for 2022	**2,703**	**(548)**	**-**	**2,155**
Balance – December 31, 2023	**$ (37,229)**	**$ (2,518)**	**$ -**	**$ (39,747)**

Note 10 - Pension and Postretirement Benefit Plans

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

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

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

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The following table provides a reconciliation of the changes in the Pension Plan's benefit obligations and fair value of assets and the accumulated benefit obligation for the Healthcare Plan for the years ended December 31, 2023 and 2022:

	Pension Plan		Healthcare Plan	
	2023	2022	**2023**	2022
		(In thousands)		
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 21,120**	$ 28,521	**$ 501**	$ 458
Service cost	**1,229**	1,946	**5**	11
Interest cost	**1,126**	856	**30**	21
Actuarial (gain) loss	**855**	(9,540)	**8**	41
Expected expenses	**(178)**	(166)	-	-
Benefits paid "expected"	**(533)**	(497)	**(30)**	(30)
Benefit obligation at end of year	**23,619**	21,120	**514**	501
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 20,400**	$ 23,768	-	-
Actual return on plan assets	**1,283**	(6,053)	-	-
Employer contribution	**-**	3,500	**30**	30
Actual expenses paid	**(211)**	(204)	-	-
Benefits paid	**(632)**	(611)	**(30)**	(30)
Fair value of plan assets at end of year	**20,840**	20,400	-	-
Unfunded status recognized	**$ (2,779)**	$ (720)	**$ (514)**	$ (501)
Accumulated benefit obligation	**$ 20,145**	$ 17,648	**$ (598)**	$ (583)

The unfunded status of the Pension and Healthcare Plans as of December 31, 2023 and 2022 is included in accrued interest payable and other liabilities on the consolidated balance sheets.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The components of net periodic benefit cost and other comprehensive income for the years ended December 31, 2023 and 2022 are as follows:

	Pension Plan		Healthcare Plan	
	2023	**2022**	**2023**	**2022**
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	**$ 1,229**	$ 1,946	**$ 5**	$ 11
Interest cost	**1,126**	856	**30**	21
Expected return on plan assets	**(1,053)**	(1,070)	-	-
Amortization of prior service cost (credits)	-	-	-	-
Amortization of net loss	**34**	214	**8**	41
Net periodic benefit cost	**$ 1,335**	$ 1,946	**$ 43**	$ 73
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	**$ 757**	$ (2,265)	**$ 15**	$ 39
Recognized actuarial loss	**(34)**	(214)	**(8)**	(41)
Recognized in other comprehensive income	**723**	(2,479)	**7**	(2)
Total recognized in net periodic benefit cost and other comprehensive income	**$ 2,059**	$ (533)	**$ 50**	$ 71

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

	Pension Plan		Healthcare Plan	
	2023	**2022**	**2023**	**2022**
	(In thousands)			
Other	**$ -**	$ -	**$ 88**	$ 84
Net actuarial loss	**2,367**	1,824	**63**	62
	$ 2,367	$ 1,824	**$ 151**	$ 146

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The estimated costs that will be amortized from accumulated other comprehensive loss into net periodic cost during 2024 are as follows:

	Pension Plan	Healthcare Plan	Total
		(In thousands)	
Net actuarial loss	$ 84	$ 12	$ 96
Total	**$ 84**	**$ 12**	**$ 96**

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

	Pension Plan		Healthcare Plan	
	2023	**2022**	**2023**	**2022**
Discount rates:				
Benefit cost for Plan Year	**5.41%**	3.03%	**4.99%**	2.74%
Benefit obligation at end of Plan Year	**5.15%**	5.41%	**4.80%**	4.99%
Expected long-term return on plan assets	**6.50%**	6.00%	**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, 2023 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 $4,200 and increase the accumulated postretirement benefit obligation by $69,000.

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

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

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The Company's funding policy is to contribute, at a minimum, an actuarially determined amount that will satisfy the minimum funding requirements determined under the appropriate sections of the Internal Revenue Code. The Company did not make a contribution in 2023, but made a $3.5 million pension plan contribution in 2022.

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

	Pension Plan	Healthcare Plan
Years Ending December 31,	(In thousands)	
2024	$ 685	$ 35
2025	822	45
2026	896	44
2027	963	44
2028	1,143	44
2029-2033	6,848	214
Total	**$ 11,357**	**$ 426**

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The fair value of the Company's pension plan assets at December 31, 2023 and 2022 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, 2023				
Cash equivalent:				
Foreign currencies	$ -	$ -	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	-	-	-	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	-	-	-	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	-	-	-	-
Investments valued using Net Asset Value	20,840			
Total	$ 20,840			

Note 10 - Pension and Postretirement Benefit Plans (Continued)

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

At December 31, 2023 and 2022, the portfolio was substantially managed by one investment firm who controlled approximately 98% and 96%, respectively, of the System's assets. In addition, as of December 31, 2023 and 2022, approximately $308,000 and $821,000, respectively, of Pension Plan monies had not yet been allocated to an investment manager.

At December 31, 2023 and 2022, the System had an investment concentration of approximately 98% and 96% respectively, of its total portfolio in the JPMCD LDI Diversified Balanced Fund, a commingled pension trust fund.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

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

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

- Level 1- Quoted prices in active markets for identical assets or liabilities.
- Level 2- Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Pension Plan is valued utilizing the valuation policies set forth by a JP Morgan's asset management committee. Underlying investments for which market quotations are readily available are valued at their market value. Underlying investments for which market quotations are not readily available are fair valued by approved affiliated and/or unaffiliated pricing vendors, third-party broker-deals or methodologies as approved by the asset management committee. Fixed income instruments are valued based on prices received from approved affiliated and unaffiliated pricing vendors or third party broker-dealers (collectively referred to as "Pricing Services"). The Pricing Services use multiple valuation techniques to determine the valuation of fixed income instruments. In instances where sufficient market activity exists, the Pricing services may utilize a market-based approach through which trades or quotes from market makers are used to determine the valuation of these instruments. In instances where sufficient market activity may not exist, the Pricing Services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining fair value and/or market characteristics in order to estimate the relevant cash flows, which are then discounted to calculate the fair values. Equities and other exchange-traded instruments are valued at the last sales price or official market closing price on the primary exchange on which the instrument is traded before the net asset values ("NAV") of the Funds are calculated on a valuation date. Futures contracts are generally valued on the basis of available market quotations. Forward foreign currency exchange contracts are valued utilizing market quotations from approved Pricing Services. The Fund invests in the Commingled Pension Trust Fund ("Strategic Property Fund") of JPMorgan Chase Bank, N.A. (the "SPF"), which holds significant amounts of investments which have been fair valued at December 31, 2023 and 2022.

Note 10 - Pension and Postretirement Benefit Plans (Continued)

During the years ended December 31, 2023 and 2022, there were no changes in valuation methodologies and no transfers in or out of levels 1, 2 or 3.

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

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

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

Note 10 - Pension and Postretirement Benefit Plans (Continued)

The target allocation for 2023 and actual allocation of plan assets as of December 31, 2023 and 2022 are as follows:

		% of Plan Assets at December 31,	
Asset Category	**Target Allocation 2023**	**2023**	2022
Cash equivalents	**0%**	**0.1%**	15.6%
Equity securities	**30%**	**31.5%**	25.1%
Fixed income securities	**15%**	**36.1%**	21.7%
Other financial instruments	**55%**	**32.2%**	36.7%

Defined Contribution Plan

The Bank has a contributory 401(k) Plan for substantially all employees. Employees are eligible to contribute a percentage of their salary up to the maximum as determined by the Internal Revenue Service. The Bank matches 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed $604,000 and $606,000 under these provisions during 2023 and 2022, 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, 2023 and 2022 was $6.9 million and $7.3 million, respectively, and is recorded as a component of accrued interest payable and other liabilities on the consolidated balance sheets. Compensation credit related to the SERP was ($335,000) and ($70,000) for the years ended December 31, 2023 and 2022.

Deferred Compensation Plans

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

The Company obtains shares for the new deferred compensation plan either through open market purchases or from treasury shares. The amount of awarded shares is based on the amount earned by each executive under the deferred compensation plan. The executives are awarded a number of shares based on the amount of deferred compensation earned divided by the value of the shares. The value of the shares purchased on the open market is the price paid. The value of the shares from treasury is the average daily closing price of the stock for each day within the past quarter. Total deferred compensation shares were 149,844 and 154,074 at December 31, 2023 and 2022 respectively. Total shares awarded were 6,770 and 5,663 for 2023 and 2022, 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 $193,000 and $109,000 for the years ended December 31, 2023 and 2022, respectively.

Note 11 - Earnings Per Share

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

	2023	2022
	(In thousands, except per share data)	
Net Income attributable to Lyons Bancorp, Inc.	$ 17,354	$ 17,204
Adjustments for dilutive potential common shares	-	-
Less: Preferred stock dividends	(250)	(250)
Net income available for diluted common shares	$ 17,104	$ 16,954
Weighted average common shares used to calculate basic EPS	3,421,460	3,419,885
Add: effect of common stock equivalents[1]	120,000	120,000
Weighted average common shares used to calculate diluted EPS	3,541,460	3,539,885
Earnings per common share:		
Basic	$ 5.00	$ 4.96
Diluted	$ 4.90	$ 4.86

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

Note 12 - Related Party Transactions

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

The amount of loans to such related parties as of, and for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
	(In thousands)	(In thousands)
Beginning Balance	$ 16,419	$ 17,491
New Loans	2,345	3,258
Change in Related Party Status	95	-
Sold Loans	(1,334)	(1,410)
Repayments	(1,923)	(2,920)
Ending Balance	$ 15,602	$ 16,419

Deposits from principal officers, directors, and their affiliates at December 31, 2023 and 2022 were $12.0 million and $14.0 million, respectively.

Note 13 - Commitments and Contingent Liabilities

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

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

	2023	2022
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 185,361**	**$ 147,305**
Unfunded commitments under commercial lines of credit	**171,432**	**159,677**
Unfunded commitments under consumer lines of credit	**142,478**	**139,002**
Standby letters of credit	**12,105**	**10,829**
	$ 511,376	**$ 456,813**

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

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

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Generally, letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank generally holds collateral supporting those commitments. Such collateral amounted to $10.7 million and $9.5 million at December 31, 2023 and 2022, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2023 and 2022.

In addition to other investors, the Bank sells residential mortgage loans to the FHLB. The agreement with the FHLB includes a maximum credit enhancement liability of $4.8 million at December 31, 2023 and $5.8 million at 2022 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

Note 13 - Commitments and Contingent Liabilities (Continued)

sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread account. As such, the Bank does not anticipate recognizing any losses and, accordingly, has not recorded a liability for the credit enhancement.

In addition to pledging investment securities to secure deposits, the Bank has entered into an agreement with the FHLB whereby the FHLB agrees to issue letters of credit for the benefit of securing deposits. In the event the FHLB makes a payment under this agreement, such payment will constitute an advance to the Bank and shall be immediately due and payable. The Bank has pledged otherwise unencumbered mortgage-related assets to secure letters of credit from the FHLB. As of December 31, 2023, the Bank had letters of credit outstanding with FHLB of $97.3 million and as of December 31, 2022, the Bank had letters of credit outstanding with the FHLB of $51.5 million.

Note 14 - Concentrations of Credit

The Company's loan customers are located primarily in the New York communities served by the Bank. Investments in state and local government securities also involve governmental entities within the Company's market area. Although operating in numerous communities in New York State, the Company is still dependent on the general economic conditions of New York. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $97.5 million or 7.07% of total loans as of December 31, 2023. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $96.8 million or 7.45% of total loans as of December 31, 2022. Risk related to this concentration is controlled through adherence to loan policy guidelines, including appropriate debt service coverage, adequate property values substantiated by current appraisals, and obtaining guarantors where appropriate. The Company, as a matter of policy, does not extend credit to any single borrower, or group of related borrowers, in excess of its legal lending limit. Further information on the Company's lending activities is provided in Note 3.

Note 15 - Regulatory Matters

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

Capital

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

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

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

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

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

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

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

Note 15 - Regulatory Matters (Continued)

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions		Minimum for Capital Adequacy with Buffer	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023:								
Total risk-based capital								
Consolidated	**$ 145,269**	**10.9%**	**$ 106,269**	**≥8.0%**	**$ 132,836**	**≥10.0%**	**$ 139,478**	**≥10.5%**
Bank	**$ 165,677**	**12.5%**	**$ 106,221**	**≥8.0%**	**$ 132,776**	**≥10.0%**	**$ 139,415**	**≥10.5%**
Tier 1 capital								
Consolidated	**$ 129,946**	**9.8%**	**$ 79,702**	**≥6.0%**	**$ 106,269**	**≥8.0%**	**$ 112,911**	**≥8.5%**
Bank	**$ 150,363**	**11.3%**	**$ 79,666**	**≥6.0%**	**$ 106,221**	**≥8.0%**	**$ 112,860**	**≥8.5%**
Tier 1 leverage								
Consolidated	**$ 129,946**	**7.0%**	**$ 73,811**	**≥4.0%**	**$ 92,264**	**≥ 5.0%**	**$ 92,264**	**≥ 5.0%**
Bank	**$ 150,363**	**8.1%**	**$ 73,837**	**≥4.0%**	**$ 92,297**	**≥ 5.0%**	**$ 92,297**	**≥ 5.0%**
Common Equity Tier 1								
Consolidated	**$ 88,044**	**6.6%**	**$ 59,776**	**≥4.5%**	**$ 86,344**	**≥ 6.5%**	**$ 92,985**	**≥ 7.0%**
Bank	**$ 108,461**	**8.2%**	**$ 59,749**	**≥4.5%**	**$ 86,305**	**≥ 6.5%**	**$ 92,943**	**≥ 7.0%**

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

Note 15 - Regulatory Matters (Continued)

Management believes, as of December 31, 2023 and 2022, that the Company and the Bank met all capital adequacy requirements to which they are subject.

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

Dividend Restrictions

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

At December 31, 2023 and 2022, the Bank's retained earnings available for the payment of dividends were approximately $35.5 million and $29.5 million, respectively.

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

Determination of Fair Value

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

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

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

Fair Value Hierarchy

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

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

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

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

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2023 and 2022:

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

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

Investment Securities

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

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

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

Loans Held for Sale

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

Loans

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

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $3.1 million and $2.8 million, net of valuation allowances of $279,000 and $170,000 as of December 31, 2023 and 2022, respectively.

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

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

Deposits

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

Borrowings from the Federal Home Loan Bank

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

Junior Subordinated Debentures

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

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

Subordinated Debt Offering

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

Off-Balance Sheet Financial Instruments

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For financial assets and liabilities measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2023 and 2022 are as follows:

	Carrying Value	(Level 1) Quoted Prices in Active Markets for Identical	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	(In thousands)			
December 31, 2023:				
Securities available for sale:				
United States agencies	**$ 131,532**	**$ -**	**$ 131,532**	**$ -**
State and local governments	**78,804**	**-**	**78,804**	**-**
Mortgage-backed securities	**74,077**	**-**	**74,077**	**-**
Corporate securities	**15,507**	**-**	**15,507**	**-**
Total securities available for sale	**$ 299,920**	**$ -**	**$ 299,920**	**$ -**
Restricted equity security	**$ 343**	**$ 343**	**$ -**	**$ -**
December 31, 2022:				
Securities available for sale:				
United States agencies	$ 127,900	$ -	$ 127,900	$ -
State and local governments	82,854	-	82,854	-
Mortgage-backed securities	81,512	-	81,512	-
Corporate securities	16,366	-	16,366	-
Total securities available for sale	$ 308,632	$ -	$ 308,632	$ -
Restricted equity security	$ 223	$ 223	$ -	$ -

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

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired loans (level 3), mortgage servicing rights (level 2) and loans held for sale (level 3) are measured at fair value on a nonrecurring basis at December 31, 2023 and 2022.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022 are as follows:

		2023		2022	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
			(In thousands)		
Financial assets:					
Cash and due from banks	1	**$20,596**	**$20,596**	$22,047	$22,047
Interest-bearing deposits in bank	1	**36,678**	**36,678**	18,887	18,887
Investment securities	1 and 2	**347,468**	**344,080**	352,584	302,327
Loans, net of allowance	3	**1,359,117**	**1,192,687**	1,278,243	1,112,319
Accrued interest receivable	1	**6,663**	**6,663**	5,533	5,533
Mortgage servicing rights	2	**3,392**	**3,392**	3,051	3,051
Financial liabilities:					
Demand and savings deposits	1	**$1,205,573**	**$1,205,573**	$1,271,330	$1,271,330
Certificates of deposit	2	**365,196**	**419,851**	322,750	347,085
Borrowings from FRB	2	**71,000**	**71,000**	-	-
Junior subordinated debentures	2	**5,155**	**5,107**	5,155	5,113
Subordinated debt offering	2	**15,772**	**15,772**	15,760	15,760
Accrued interest payable	1	**750**	**750**	586	586

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

Note 17 – Revenue Recognition

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

Note 17 – Revenue Recognition (Continued)

The following table presents revenues subject to ASC 606 for the years ended December 31, 2023 and 2022, respectively. Items outside the scope of ASC 606 are noted as such.

	For the years ended December 31, *(In thousands)*	
	2023	2022
Service charges on deposit accounts		
Insufficient funds fees	**$ 1,683**	$ 1,634
Deposit related fees	**504**	463
ATM/point of sale fees	**988**	985
	3,175	3,082
Cardholder fees		
Debit card interchange fees	**3,561**	3,454
Other cardholder fees	**848**	830
	4,409	4,284
Loan servicing fees and realized gain on sales of loans		
Loan Servicing Fees*	**2,192**	2,321
Realized gain on sale of loans*	**1,861**	1,219
	4,053	3,540
Financial services fees	**1,746**	1,725
Other miscellaneous income*	**1,494**	727
	$ 14,877	$ 13,358

*Not within scope of ASC 606.

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

Note 17 – Revenue Recognition (Continued)

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

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

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

Note 18 – Leases

In the normal course of business, the Company leases five of its branch locations and its back-office operations center. During the year ended December 31, 2023, the Company entered into a new lease agreement for one of its branch locations.

The Company's leases have remaining terms that vary from less than 6 years up to 23 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when the Company believes it is reasonably certain that the renewal options will be exercised.

Lease Cost
For the years ended December 31, 2023 and 2022 are as follows:

(In thousands)	**December 31, 2023**	December 31, 2022
Operating lease cost	**$381**	$378

Supplemental cash flow information related to leases for the years ended December 2023 and 2022 are as follows:

(In thousands)	**December 31, 2023**	December 31, 2022
Cash paid for amount included in the measurement of operating lease liabilities:		
Operating cash used for operating leases	**$381**	$378

Note 18 – Leases (Continued)

Supplemental consolidated balance sheet information related to leases as of December 31, 2022 and 2023 was as follows:

(In thousands, except lease term and discount rate)	Balance Sheet Classification	**December 31, 2023**	December 31, 2022
Operating Leases			
Operating lease right-of-use assets	Other assets	**$3,766**	$4,027
Operating lease liabilities	Other liabilities	**$4,141**	$4,371
Weighted Average Remaining Lease Term			
Operating Leases		**15.9 years**	16.4 years
Weighted Average Discount Rate			
Operating Leases		**3.61%**	3.56%

Future maturities of operating lease liabilities as of December 31, 2023 were as follows:

Year Ending December 31, *(In thousands)*	
2023	**$243**
2024	**$266**
2025	**$284**
2026	**$297**
2027	**$307**
Thereafter	**$2,744**
Total minimum lease payments	**$4,141**

Note 19 – Subsequent Events

Management has evaluated subsequent events through March 8, 2024, the date in which the consolidated financial statements were available to be issued.