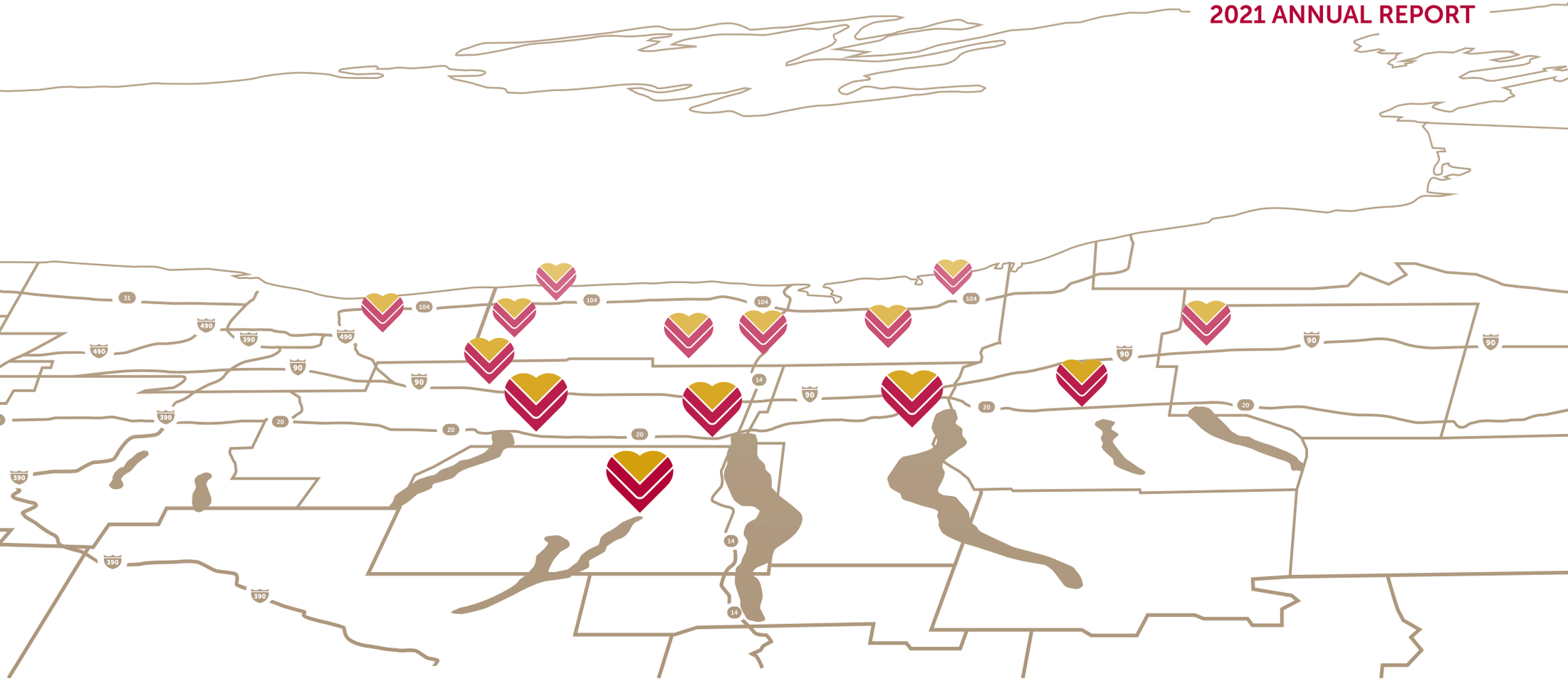
Lyons Bancorp, Inc.

2021 ANNUAL REPORT



LNB LOCAL

Profile

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.63 billion as of December 31, 2021. 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 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.

LNB Loves Local

7

New York State counties are served by LNB: Cayuga, Monroe, Onondaga, Ontario, Seneca, Wayne, Yates.

16

full-service offices serve the banking needs of individuals, organizations, and businesses throughout the region.

4,800+

area residents joined LNB for their banking needs, making 2021 the second-highest year for attracting new-to-bank customers.

LNB is dedicated to the people and businesses of the Finger Lakes Region. Through board service, volunteerism, donations, advisory boards, and promotional campaigns, LNB continues to make a true and tangible impact on the hometown communities we serve.

A MESSAGE FROM OUR CEO

With much hard work and dedication, Lyons Bancorp and The Lyons National Bank team had its best performance to date in 2021. This was true financially — we set an all-time earnings record for the Bank. And it was even more true in the service accomplishments of the entire LNB team — the collective drive and commitment of our staff, our officers, our community-based Advisory Board members, and our Board of Directors enabled us to provide outstanding service to our customers and our communities at a time when they needed it most. While doing so, we also maintained our commitment to deliver consistently strong results to our shareholders. These results were achieved despite the uncertain times we operated in. We took a proactive — and prudent — approach to assist our customers.

Thomas L. Kime

President & CEO,
The Lyons National Bank

The efforts put forth by everyone produced an increase in earnings for 2021 of $5.2 million at the holding company level, a 51% increase in earnings, and a record year of earnings at $15.5 million resulting in a return on equity of 15.6 %. We achieved these earnings while growing assets to $1.62 billion for a growth of 12.5%. This strong performance was achieved while continuing to take a conservative approach to risk management and financial preparedness. We modified our enterprise risk management process and model in 2021 — we optimized the data collected and improved the ability to analyze large data sets and identify trends more effectively. At the same time, Credit Administration is enhancing our credit risk and provisioning model which will be fully functional in 2022. LNB achieved our total loan growth goal and maintained solid loan quality measurements, with retail delinquencies of 30 days or more at just over a quarter of 1% and commercial loans at just over a half of 1%. These are historically low and below that of our peers. LNB, despite these sound results, chose not to follow a current industry trend of pulling funds from loan loss reserves and using these reserves to enhance current earnings. With the uncertainty and challenges still facing the economy and the world stage, we continued to fund our loan loss reserve, which stands at 1.61% and above most peer levels, as well as funding a cybersecurity reserve of $1.5 million — $1.1 million was funded in 2021 alone. Although we achieved strong earnings and demonstrated a solid and diverse loan portfolio, the Board and management felt it advisable to maintain a monthly provision and build our loan loss reserve.

In 2021, LNB remained focused on customer service and core growth. Doing so resulted in the second highest year of new customers coming to

LNB, even counting years with new LNB branches opening. If you do not count the years we opened a new branch, 2021 would be our highest year of new-to-bank customers and our strongest growth year to date, with a record $1.6 billion in assets. This speaks volumes to how well our staff and officers took care of both our current customers and the people who came to LNB looking for a personal banking relationship. In turn, LNB's commitment to our staff led us to maintain our staffing levels, add new talent for future growth, and keep our branches open. We also reinvested a higher level of earnings back into support for our staff with additional bonuses and incentives paid during the year, as well as increased funding of our employees' long-term retirement plans, while at the same time investing significantly in new technology, software, and services. In generating strong earnings, we chose to continue to build our customer base and invest in our staff, technology, and the Bank's future, all while remaining well reserved.

"In generating strong earnings, we chose to continue to build our customer base and invest in our staff, technology, and the Bank's future, all while remaining well reserved."

LNB has invested heavily in technology and offers a full array of convenient digital banking services. We offer Zelle® for real-time banking with friends and family anywhere, anytime and CardValet® to protect your card use and keep track of transactions. We also offer cash management solutions for retail and business mobile banking and many other online banking services, such as the Notifi℠ platform. These digital banking services allow our customers to apply for a mortgage, to receive alerts to keep them informed on account activity, to monitor their electronic cards, to turn their card on or off with ease, to see postings to accounts (usually before they exit the location where they just made the transaction), and to add location parameters to help mitigate fraud risk, just to expand on a few. As noted earlier, the Bank currently allocates over $1 million a year for technology and cybersecurity, in addition to our technology partner's budget of $750 million for research and development, to ensure we provide the best and most secure digital services.

At the same time, if customers want to come to the bank in person to talk to a bank employee who has both the expertise and desire to help, our branches are open and our frontline staff is sincerely glad to assist. Branches are staffed with local, licensed professionals who can help with all financial services. We are the top choice for many of these services across the greater Finger Lakes marketplace.

Our combination of hometown personal customer service and technology is evident across all of LNB but is especially so in our residential mortgage arena. LNB mortgage customers are able to apply online, check on the status of their loan from their phone, upload documents from their homes, and also visit branches to ask questions and get guidance on buying a new home. In this challenging real estate market, we were able to help a record number of local customers and families navigate the mortgage process in 2021. We are very proud to again be the number one mortgage lender in four of our local counties, while increasing activity in all of our markets. Further, LNB was awarded its third consecutive RISE Award® by Freddie Mac, recognizing our work with low-to-moderate income borrowers and first-time homebuyers in our communities.

LNB's model of community banking has never been stronger. It includes all of the LNB staff and officers, along with our 14-member Board of Directors and the 42 members of our Advisory Boards. As the Bank and our marketplace grows, this group of business professionals and community leaders keep us focused on what is important to each of the unique communities that we serve. This goes beyond business and retail needs and includes local service needs. Every year, the staff, management, and Boards reevaluate the donations we made to local causes. In 2021, LNB made contributions to those organizations that had the most critical needs. Members of the Board of Directors and the Advisory Boards added not just their suggestions but also their own generous contributions to those given by the Bank.

"LNB'S model of community banking has never been stronger."

I am fortunate to work with, and for, people who really support the Bank's mission to "exceed the expectations of every customer every time" —

I would also add "every need." I would like to thank the entire LNB team that has done so much to meet the needs of our customers and community to be successful in these challenging times. The entire management team and I appreciate it very much.

I would also like to thank all of our customers, both legacy and new customers, for choosing LNB to be your bank. We look forward to earning and keeping your trust for years to come.

Sincerely,

Tom

Thomas L. Kime

A VIEW FROM THE CHAIR

ANOTHER WOW! PERFORMANCE AND DEALING WITH COVID-RELATED CHANGES

"The only constant in life is change." Unless you are living the life of a hermit — in which case you are missing out by not reading this report — you have lived to experience its truth. The statement itself is old, as it, or something similar, is credited to 6th century BC philosopher Heraclitus. Speakers paraphrase it to make their points. Such was the case at the 2018 World Economic Forum's Annual Meeting in Davos, Switzerland, when Canadian Prime Minster Justin Trudeau said, "The pace of change has never been this fast, yet it will never be this slow again." The essence of Mr. Trudeau's speech was about changes induced by rapidly advancing digital and cyber technology.

Robert A. Schick

Board Chairman & President, Lyons Bancorp, Inc.

We all know that about two years after the Canadian Prime Minister's talk, COVID-19 was unleashed onto the world stage, and life changed in ways no one could have foreseen. These changes have affected and will continue to affect how we live our lives and how we run our businesses. Some of these changes are positive while others present tremendous challenges.

I will talk about one of those challenges we face here at The Lyons National Bank in a moment, but first I need to congratulate Tom Kime and our staff at the Bank for the record-setting year it produced in 2021. Year-over-year earnings were up a whopping 51%. Earnings per diluted share in 2021 totaled $4.62 versus $3.12 in 2020.

It's true that in 2020 we purposely added generously to our loan reserves at the expense of our bottom line. That was the prudent strategy to follow as no one at that time could have predicted the depth nor the tail of the worldwide pandemic. The Bank's remarkable 2021 financial performance was not the result of unwinding our conservative reserve stance from the year before as many other banks chose to do. Rather, we will absorb the extra reserves we set aside in 2020 through future loan growth. Last year's record-setting financial performance is a result of growth: growth on the balance sheet and growth in our customer base. 2021 was the second-best year in the Bank's history for adding new customers. Think about that. While 2021 was a little brighter than the darkness that prevailed in 2020, many businesses were still shuttered to some degree and many folks were still in

hibernation. Yet LNB had one of its best years ever, attracting new customers to our way of banking! Here's something else to ponder. The overall population of our marketplace is not growing. So where did these new customers come from?

Yes, the government used the banking system to distribute its stimulus programs to individuals and businesses and paid the banks accordingly. Last year, Tom outlined in his report to the shareholders the long hours our staff worked in 2020 to facilitate programs such as the Paycheck Protection Program (PPP) to get the money into the hands of the folks who needed it then and there. Our people worked equally hard last year on the second round of PPP loans, as well as other initiatives. Accordingly, salary expenses increased proportionally, offsetting some of the one-time government income we received for participating in PPP. Like 2016, when we received the benefits of a tax decrease, Tom's strategy was again to spend some of the one-time PPP fee income on technology that will foster even more future growth and better efficiency. Most importantly, he made the Board-supported conscious decision to reward the staff for another job well done. Our tag line, It's All About People, is much more than a marketing tool. It's our culture of taking care of people. And that caring starts with our staff. My and the Board's congratulations go out to them all.

We will need to use our ingenuity . . . to attract the next generation of the best and brightest bankers to join our ranks.

As mentioned earlier, COVID has brought about changes that were not on the radar screen prior to the pandemic. No business will escape these changes and the challenges they present. One such challenge is the shift in the U.S. workforce in both numbers and attitude. A recent article in the *Wall Street Journal* noted that last year workers quit their jobs at a record rate. They quit because job opportunities were plentiful, and they could find higher wages elsewhere. Some workers liked the flexibility of working remotely, and when told to return to the office, they quit. Others fled densely populated cities for space and a better quality of life in more rural areas. While escaping high taxes remains the number one reason people migrated to other states, less populated states like Montana have noted an increase in folks reporting they moved there for a perceived better life. The advances in technology have all but removed geographic boundaries. Some employees left their jobs upset about vaccine mandates or were simply disenchanted with pre-pandemic office life. Still others used COVID as a reason to follow their entrepreneurial urge. According to a recent report from the Pew Research Center, roughly 16 million of the 150 million workers in the U.S. today are self-employed, the majority of whom work alone or employ just a handful of people. The number of self-employed climbs even higher once you factor in freelancers and gig workers, and that brings the total to 59 million people in 2021 or 36% of the total workforce. Looking further ahead, a recent survey from FreshBooks®, a cloud-based accounting software company, found that 40% of people expect to work for themselves within the next two years, with that number climbing to over 50% when it comes to people aged 35 or younger. Some working seniors, who were past retirement age but had stayed at jobs that they enjoyed, left the workforce because of their age group's susceptibility to COVID. Whatever the reason, the pandemic provided employees with new ways to evaluate their job status. Many made changes.

Whatever the individual reason a person quit his or her job, COVID helped to change the dynamics of the workforce from an employer's market to an employee's market. With the recently announced growth in the U.S. population at just one-tenth of one percent, this is not a dynamic that is about to reverse course in the near future.

The decrease in the pool of potential new employees and the change in work attitude will be a major challenge for us. As our financial results from last year point out, the cornerstone of our success was driving growth by holding true to our business model of being a high-touch, relationship-driven bank. To continue growing and prospering, we need more new employees who share the values and attributes of our current staff. But to stubbornly ignore what may be a seismic and lasting transformation in attitudes toward work choices is dangerous. We will need to use our ingenuity and be willing to find common ground in order to attract the next generation of the best and brightest bankers to join our ranks.

Staying on the theme of change: In November, Dale Hunt was appointed to the Board of Directors of both Lyons Bancorp and The Lyons National Bank, as well as Lyons Realty Associates Corp., the Bank's real estate trust. Dale lives in Farmington with his wife Patricia. The Hunts are horse fanciers, and until recently, they owned a portfolio of both commercial and residential properties. Previously, Dale was a member of the Bank's Farmington Advisory Board. Dale will stand for election to the Board at our annual shareholder meeting.

Speaking of the shareholder meeting: At this time it is our intention to return to an in-person meeting at the Ohmann Theatre in Lyons on Wednesday, June 15, at 4:30 p.m. If we can make the technology work in the historic theatre, we will also present virtually. Cross your fingers!

In closing, I want to thank the shareholders who participated last fall in our $10 million Shareholders' Rights Offering. Their investment provided us with new capital which helped sustain our growth momentum. I trust that they, and all of our shareholders, are pleased with the recent market performance of our stock. Soon, hopefully very soon, the pandemic will lessen into a controllable endemic and some sense of normalcy will return. When it does, we — armed with added capital in the vault, an experienced team of professionals with know-how and determination, and a new generation of energetic and smart bankers joining our ranks — will be back out looking for new landscapes to cultivate LNB WOW! growth.

Change may be constant but our long history of financial success has been built on continued growth driven by our employees, and there's no reason to change that!

Stay healthy and stay safe!

Robert A. Schick

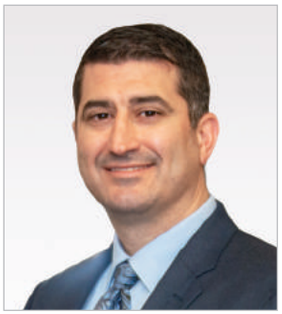
BOARD OF DIRECTORS

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

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

Thomas L. Kime
President & CEO, The Lyons National Bank

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



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

David J. Breen, Jr.
Retired Supermarket Executive

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

Joseph A. Fragnoli
President & Owner, Super Casuals

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

Dale H. Hemminger
Principal, Hemdale Farms, Inc.

James A. Homburger
Real Estate Broker & Investor

Dale L. Hunt
President, Hunt Properties

Teresa M. Jackson
Owner, Dudley Poultry Company

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

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

A Leading Local Lender

The Home Mortgage Disclosure Act (HMDA) ranks LNB as the

#1

lender in Cayuga, Seneca, Wayne, and Yates Counties.

Thirty-five grants totaling

$350,000

were awarded to first-time homeowners.

LNB has long been one of the Finger Lakes Region's leading mortgage lenders. With a dedicated team of mortgage specialists at each of our sixteen full-service locations, we're prepared to not just meet the needs of our growing communities but far exceed industry standards and customer expectations.

2021 FINANCIAL HIGHLIGHTS

Chad J. Proper

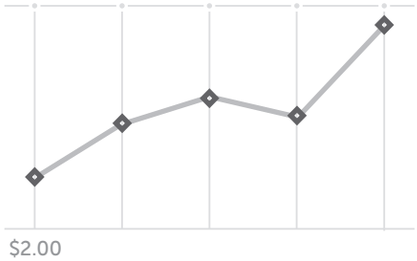
Senior Vice President & CFO
The Lyons National Bank

RESULTS OF OPERATIONS

Fiscal 2021 was a record year despite the financial and pandemic-related challenges that began in 2020 and appear to be continuing into 2022. Even with the ongoing challenges, we are pleased to report that net income in 2021 was $15.5 million, representing an increase of $5.3 million or 34.2%. Net income in 2021 represented diluted earnings per common share of $4.62, compared to $3.12 in 2020, an increase of $1.50 or 48%. Basic earnings per common share increased by $1.55 or 49%, from $3.16 in 2020 to $4.71 in 2021.

DILUTED EARNINGS PER SHARE

2017	2018	2019	2020	2021
$2.42	$3.03	$3.33	$3.12	$4.62



Our provision for loan losses is based upon our assessment of a variety of factors, such as recurring items that include, but are not limited to, the general economic environment and changes in the volume of our loan portfolio. From time to time, it also includes items considered non-recurring such as the pandemic-related activities.

As previously reported, the negative impacts of the pandemic manifested themselves primarily in our provision for loan losses in 2020, which was an increase from 2.3 million in 2019 to $6.3 million in 2020. The provision for loan losses in 2021 was $1.3 million. We felt it prudent not to reverse any portion of the provision recorded in 2020 and record a modest provision for loan losses in 2021 to ensure our allowance for loan losses at December 31, 2021, was sufficient to address the lingering uncertainties from the pandemic. The increase in our provision for loan losses of $4 million in 2020 resulted in a decrease in diluted earnings per share of $1.00 in 2020.

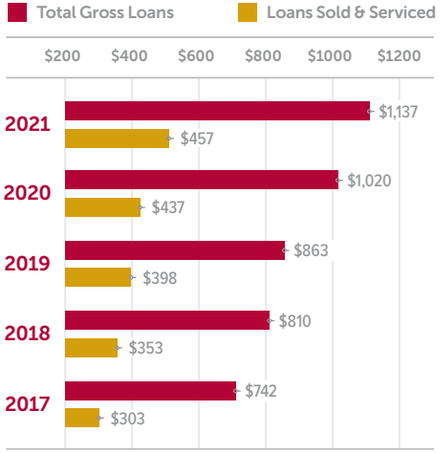
Programs associated with the pandemic continued to provide us with revenue in 2021 as they had in 2020, which was included in interest income. Net income expressed as a return on average assets was 0.99% and as a return on average shareholders' equity was 15.62% in 2021, compared to 0.78% and 10.47%, respectively, in 2020.

As one would expect, our largest source of income is 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). Net interest income for 2021 was $47.5 million, an increase of $8.0 million or a robust 20.3% over the 2020 total of $39.5 million. This increase was due primarily to the strong growth of both our investment and loan portfolios funded by deposit growth. The growth of quality assets remains a high priority for us in this period of low interest rates. The average balance of our interest earning assets increased $252.7 million or 20.2% to $1.504 billion during 2021 as compared to $1.251 billion during 2020. This compares to an increase of $185.1 million or 17.4% in 2020 as compared to 2019. Average interest-bearing liabilities increased $146.9 million or 16.8% to $1.019 billion in 2021 compared to $872.5 million in 2020. This compares to an increase of $92.7 million or 11.9% in 2020 compared to 2019.

Average noninterest-bearing deposits increased $98.8 million in 2021 and $81.8 million in 2020. Strong Demand Deposit Account (DDA) balances, which help stabilize and mitigate costs, contribute to net interest income. DDAs or noninterest-bearing deposits are critical in providing additional funding for our asset growth.

Our tax-equivalent margin remained constant, measuring 3.18% in both 2021 and 2020, as the decrease in asset yields and the decrease in funding costs were comparable.

LOAN BREAKDOWN
($ MILLIONS)



	2021			2020		
	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)	AVERAGE BALANCE ($)	INTEREST INC/EXP ($)	AVERAGE YIELD/COST (%)
INTEREST-EARNING ASSETS: (Thousands $)						
Residential real estate	484,598	16,683	3.44%	375,542	13,887	3.70%
Commercial and agricultural real estate	334,490	15,544	4.65%	305,260	14,943	4.89%
Commercial and agricultural loans	211,066	11,729	5.56%	236,821	10,636	4.49%
Consumer installment loans	33,665	1,785	5.30%	36,348	2,111	5.81%
TOTAL LOANS	**1,063,819**	**45,741**	**4.30%**	**953,971**	**41,577**	**4.36%**
Investments	363,114	5,898	1.62%	224,342	4,817	2.15%
Federal funds sold & other interest-earning assets	76,953	96	0.12%	72,897	153	0.21%
TOTAL INTEREST-EARNING ASSETS	**1,503,886**	**51,735**	**3.44%**	**1,251,210**	**46,547**	**3.72%**
Noninterest-earning assets	**67,842**			**67,800**		
TOTAL ASSETS	**1,571,728**			**1,319,010**		
INTEREST-BEARING LIABILITIES: (Thousands $)						
Interest-bearing checking	173,451	234	0.14%	143,888	375	0.26%
Money market and savings accounts	611,274	1,699	0.28%	452,012	1,768	0.39%
Time deposits	213,831	1,370	0.64%	260,304	4,379	1.68%
Borrowings	0	18	0	7,598	141	1.85%
Junior subordinated debentures	20,896	878	4.20%	8,727	370	4.24%
TOTAL INTEREST-BEARING LIABILITIES	**1,019,452**	**4,199**	**0.41%**	**872,529**	**7,033**	**0.81%**
Noninterest-bearing deposits	430,101			331,311		
Other noninterest-bearing liabilities	22,799			17,036		
TOTAL LIABILITIES	**1,472,352**			**1,220,876**		
Total equity	99,376			98,134		
TOTAL LIABILITIES AND EQUITY	**1,571,728**			**1,319,010**		
Net interest spread			3.03%			2.91%
Net interest income/margin on earning assets		47,536			39,514	
Tax equivalent adjustment		267			237	
Net interest income/margin on a tax equivalent basis		47,803	3.18%		39,751	3.18%

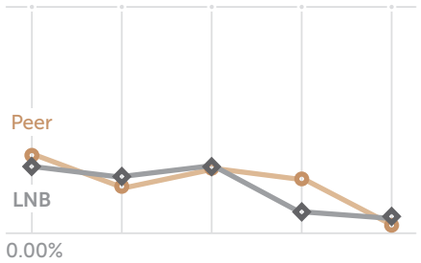
See the discussion above concerning the provision for loan losses recorded in 2021 and 2020. At December 31, 2021, our nonperforming loans totaled 0.31% of total loans, as compared to 0.33% at December 31, 2020. These ratios continue to compare favorably to our peer group ratio of 0.41% at December 31, 2021. Our net charge-offs to average loans during 2021 totaled 0.04%, down slightly from the prior year amount of 0.05%.

Our allowance for loan losses as a percentage of total loans remained relatively consistent, totaling 1.61% and 1.70% at December 31, 2021, and 2020, respectively. These loan-related asset quality metrics continue to demonstrate high quality in our loan portfolio coupled with an allowance for loan losses considered adequate to cover losses in the loan portfolio given our growth and the continued uncertainties stemming from the pandemic.

Noninterest income remains an important revenue source for us given the interest rate environment, which continues to put pressure on margins. Noninterest income includes, but is not limited to, loan servicing income, cardholder income, service charges, financial services revenue, and gains (losses) on sales of loans and securities. In 2021, noninterest income represented 22% of all revenue sources and totaled $14.7 million, a decrease of $1.7

NET CHARGED-OFF LOANS TO AVERAGE LOANS

2017	2018	2019	2020	2021
0.10%	0.09%	0.10%	0.05%	0.04%
0.11%	0.08%	0.10%	0.09%	0.03%



million or 10.7% from the $16.4 million recorded in 2020. The decrease in noninterest income in 2021 was primarily due to a $2.2 million decrease in the gain on the sale of loans, as we held more loans on our books, and a $592,000 loss on the sales of securities compared to a gain on the sale of securities in 2020 of $217,000. These decreases were partially offset by a $625,000 increase in cardholder fees due to increased volume.

Noninterest expense consists primarily of compensation and employee benefits, occupancy expenses, advertising, data processing, professional fees, FDIC insurance, and other operating expenses. In 2021, total noninterest expense was $41.5 million, an increase of $4.3 million or 11.6% compared to $37.2 million recorded in 2020. Increases in salaries and wages totaled $1.2 million and were primarily the result of annual wage and merit increases, as well as a performance/appreciation payment to employees. Other notable increases: professional fees totaling $721,000 that includes a best-practice initiative to increase future revenue; a data processing increase totaling $489,000; and a net increase in other expenses totaling $917,000 that include a cybersecurity/fraud reserve account.

2021 FINANCIAL HIGHLIGHTS CONT.

ANALYSIS OF FINANCIAL CONDITION

The last twelve months showed another year of controlled high-quality loan growth with total assets increasing 14.3% to $1.626 billion at December 31, 2021, from $1.423 billion at December 31, 2020. Stockholders' equity rose 14.9% to $109.7 million at December 31, 2021, from $95.5 million at December 31, 2020. In September of 2021, we completed a Rights Offering which increased stockholders' equity by $9.1 million net of related offering expenses. As previously reported, we completed the sale of approximately $16 million of subordinated promissory notes in October 2020 to accredited investors at the holding company level. The Bank used the proceeds from the sale of the notes for general corporate purposes, to provide capital to support organic growth of the Bank, and to fund potential future initiatives.

On September 17, 2021, Lyons Bancorp, Inc. successfully completed a $9,372,322 common stock offering to its current common and preferred shareholders in the form of a Rights Offering. The Company sold 237,274 shares of common stock. Each shareholder was entitled to one subscription right for each 13 common shares and for each 13 shares of common stock underlying the Company's Series "A" convertible preferred stock held as of the close of business on August 2, 2021. The Company offered the shares at $39.50 per share, a 6% discount from the trading price of Lyons Bancorp, Inc. common stock (stock symbol LYBC), as of the record date. The Company plans to use the proceeds from the stock sale to continue its growth in markets it currently serves and to expand into additional markets in the Finger Lakes area. The net proceeds of the offering, after deducting offering expenses of $291,153, totaled $8,962,532.

Total loans were $1.136 billion at December 31, 2021, an increase of $117.3 million or 11.5% from $1.019 billion at December 31, 2020. The increase in loans was primarily attributable to a $119 million increase in 1-4 family residential real estate loans and growth from the CARES Act Paycheck Protection Program (PPP). Of the $166 million, in the two rounds of PPP loans originated in 2020 and 2021, $156 million of PPP loans were forgiven under the CARES Act, resulting in only $10 million of PPP loans remaining on the balance sheet at year-end. As of December 2021, the bank originated 1,177 PPP loans in the first round and 661 PPP loans in the second round, resulting in a total of 1,838 PPP loans. The PPP loans include both new and existing customers of which the bank had no loan deferrals under Section 4013 of the CARES act. All of the customers currently on deferment chose principal deferment only and have returned to paying interest monthly. We continue to support our strategy of maintaining balance within the loan portfolio between consumer and agricultural/commercial loans, ending the year with 46% consumer-related loans versus 54% agricultural/commercial-related loans, essentially unchanged from last year.

We maintain an investment portfolio to provide us with a critical liquidity source and to generate earnings while not sacrificing asset quality and creating undue risk. Our investment portfolio consists primarily of United States Agency debt, mortgage-backed securities either guaranteed by the U.S. government or issued by the Federal Home Loan Bank, and state and local government debt. As of December 31, 2021, our investment portfolio totaled $391.9 million, an increase of $99.6 million over the total of $292.3 million at December 31, 2020. Increases were shown in all investment security types when comparing 2021 to 2020. The securities portfolio classifications include: available for sale (which may be sold to satisfy liquidity purposes as needed), held-to-maturity, and restricted equity.

Deposits generated within our local markets continue to be the major source of funds for our lending and investment activities. Total deposits at December 31, 2021, were $1.471 billion, an increase of $184.9 million or 14.4% over $1.286 billion at December 31, 2020. We continued to experience strong growth in our core retail and commercial deposit bases within most of our branches. The increase in core deposits in 2021 more than fully funded our lending activity. Public deposit balances represented 17% of total deposits at December 31, 2021, compared to 16% at December 31, 2020.

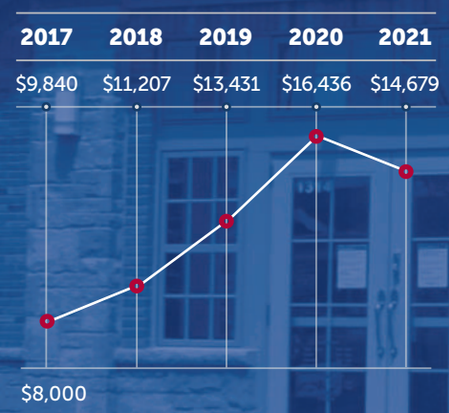
We continue to have capital levels in excess of regulatory minimums. Total equity was $109.7 million at December 31, 2021. The message from the Board of Directors remains unchanged—we are maintaining our commitment to providing a safe and meaningful return to our shareholders. We declared cash dividends of $1.34 per share during 2021 compared to $1.24 in 2020. The 2021 dividend represents a yield of 3.1% based on our year-end market price of $43.20 per share—the same yield that was reported in 2020 based on a December 31, 2020, market price of $40.00.

"Deposits generated within our local markets continue to be the major source of funds for our lending and investment activities."

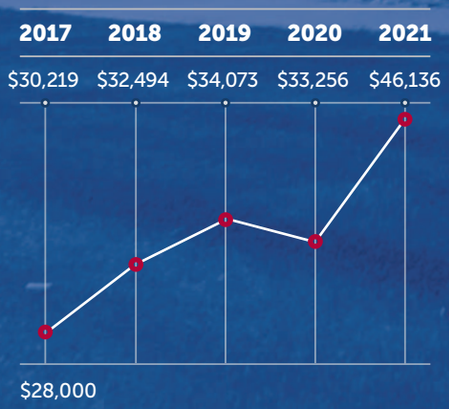
Please refer to our Consolidated Financial Report as of and for the year ended December 31, 2021, for more information regarding our 2021 operating results and financial position.

NET INTEREST INCOME (BEFORE PROVISION)

FEE INCOME



NET INTEREST INCOME
(AFTER PROVISION FOR LOAN LOSSES)



Selected Financial Data — Year Ended December 31

	2021	2020	2019	2018	2017
FINANCIAL STATEMENT HIGHLIGHTS (Thousands $)					
Assets	**1,626,165**	1,423,147	1,163,683	1,081,697	1,031,844
Loans, gross	**1,136,959**	1,109,696	862,509	810,136	741,860
Deposits	**1,470,870**	1,285,967	1,029,485	945,837	893,256
Other borrowings	**0**	0	25,000	42,000	50,000
Junior subordinated debentures	**20,903**	5,155	6,190	6,190	6,190
Total equity	**109,648**	95,462	86,792	78,009	73,842
Interest and dividend income	**51,735**	46,547	44,985	40,589	35,700
Interest expense	**4,199**	7,033	8,571	5,962	3,981
Net interest income	**47,536**	39,514	36,414	34,627	31,719
Provision for loan losses	**1,340**	6,258	2,341	2,133	1,500
Net interest income (after provision for loan losses)	**46,196**	33,256	34,073	32,494	30,219
Net securities gains	**(592)**	217	(222)	(35)	(17)
Net income	**15,524**	10,268	11,005	9,992	8,009
PER SHARE INFORMATION ($)					
Basic earnings per share	**4.71**	3.16	3.38	3.06	2.43
Diluted earnings per share	**4.62**	3.12	3.33	3.03	2.42
Cash dividends declared	**1.34**	1.24	1.22	1.14	1.05
Book value per share (incl. Conv. Pref.)	**30.98**	28.99	26.38	23.61	22.31
Book value per share (excl. Conv. Pref.)	**30.63**	28.53	25.82	22.95	21.60
SELECTED RATIOS					
Return on average assets	**0.99%**	0.78%	0.98%	0.95%	0.80%
Return on average shareholders' equity	**15.62%**	10.47%	12.99%	13.37%	10.99%
Leverage ratio (Bank)	**8.51%**	8.41%	8.44%	8.50%	8.33%
Dividend payout ratio	**29.81%**	40.53%	37.43%	38.69%	44.95%
OTHER SELECTED DATA (Whole Numbers)					
Employees (full-time equivalent)	**229**	**226**	217	215	213
Banking offices	**16**	**16**	15	15	14

Per share data reflect a 2-for-1 stock split in the form of a stock dividend, effective October 30, 2015.
Ratios presented throughout the Annual Report narrative use net income attributable to Lyons Bancorp, Inc.

ADVISORY BOARDS

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

Our Advisory Board members choose to serve because they understand the impact hometown banking has on our local business communities.

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

CANANDAIGUA

J. David Damaske
Parkview Fairways Golf Course

Alexandra M. Farnsworth
Randall Farnsworth Auto Group

Gail D. Herman
The Medicine Shoppe Pharmacy

Kurt M. Koczent
Thompson Health

Jack W. Moran
Roseland Bowl Family Fun Center

Charles W. Potter
J&T Properties of Canandaigua

Justin Sensenig
Sensenig's Landscape Supply

CAYUGA COUNTY

Richard L. Beauchine, CPA
Waterloo Container

John F. Bouck
Bouck Real Estate

Keith R. Cuttler
East Hill Medical Center

Mark A. DiVietro, O.D.
Silbert Optical

Christopher J. Geherin
Builder's Choice Lumber Company

FARMINGTON

Megan Larmouth Avila
Pioneer Millworks and New Energy Works

Barbara J. Cole
Town of Victor

Thomas G. Ewing
Ewing Graphics, Inc.

John E. Garvey
Retired Ontario County Administrator

Tyler W. Wolk
Rochester Insulated Glass

GENEVA

Stephen J. Blowers
Blowers Agri Service, Inc.

Peter J. D'Amico, Jr.
D'Amico Chrysler Dodge Jeep

Jason S. Feinberg, MD
Finger Lakes Health

Matthew D. Horn
MRB Group

Bernard G. Lynch
Lynch Furniture

Anne D. Nenneau
CCN International

PENN YAN

Bonnie B. Curbeau
Curbeau Realty

Ryan T. Kennedy
Morgan Marine

James H. Long
Longs' Cards and Books

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

Henry H. Martin
Town of Benton Dairy Farmer

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

Neil J. Simmons
Simmons Vineyards

PERINTON PARK

James W. Diem
Alliance Insurance Group

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

Martha M. Malone
Fairport OCED

Terrence A. O'Neil
Green Lantern

Howard I. Sharp
RV & E Bike and Skate

J. Lincoln Swedrock, P.E.
BME Associates

SENECA COUNTY

Salvatore N. Franzone
Ciccino's Pizzeria and Restaurant

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

Kenneth W. Padgett, DO
New York Chiropractic College

Erica L. Paolicelli
Three Brothers Wineries & Estates

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

Raymond A. Tuuri, Jr.
Finger Lakes Equipment Rental

Stephen J. Wadhams
Wadhams Enterprises, Inc.

EXECUTIVE & MANAGEMENT TEAM

Thomas L. Kime
President & Chief Executive Officer

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

Stephen V. DeRaddo
Executive Vice President & Chief Credit/Branching Officer

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

Chad J. Proper
Senior Vice President & Chief Financial Officer

Robert W. Sollenne
Senior Vice President & Chief Operating Officer

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

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

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

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

Barbara L. Hennessy
Vice President & Director of Marketing

Amanda M. McDonald
Vice President & Senior Credit Administrator

Deborah A. Odell
Vice President & Director of Training

Melonie L. Tiffany
Vice President & Director of Internal Audit

BANK OFFICERS AND SUPERVISORS

ADMINISTRATION

Thomas D. Muller
Senior Vice President & Project Administrator

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

Jenna L. DeBrock
Banking Officer & Executive Administrative Assistant

BRANCH DIVISION

Demetrius Murphy
Vice President & Branch Manager, Auburn

Tara R. Rago
Vice President & Branch Manager, Canandaigua

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

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

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

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

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

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

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

Greg T. Noel
Assistant Vice President & Branch Operations Manager

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

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

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

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

Leah S. Hodge
Banking Officer & Branch Manager, Penn Yan

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

Allison M. Verkey
Banking Officer & Branch Manager, Clyde

BANK OFFICERS AND SUPERVISORS CONT.

COMMERCIAL LENDING

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

Anna M. Bridger
Vice President & Commercial Loan Officer

Mark J. DeBacco
Vice President & Commercial Loan Officer

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

Michael A. Fratto
Vice President & Commercial Loan Officer

James H. King
Vice President & Commercial Loan Officer

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

Michael E. Rusinko
Assistant Vice President & Commercial Loan Officer

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

HUMAN RESOURCES

Danielle M. Ayers
Banking Officer & Human Resources Specialist

CREDIT ADMINISTRATION & COMPLIANCE

Pamela J. Lee
Vice President & Loan Portfolio Monitoring Officer

Joyce A. Marble
Vice President & Compliance/BSA Officer

Eric R. Heieck
Assistant Vice President & BSA/AML Specialist

Cristin M. Menotti
Banking Officer & Senior Credit Underwriter

RETAIL & RESIDENTIAL MORTGAGE LENDING

Angela M. Merola
Vice President & Collections Manager

Craig A. Schojan
Vice President & Senior Mortgage Underwriter

James M. Allison
Assistant Vice President & Mortgage Specialist

Joseph M. Arbogast
Assistant Vice President & Mortgage Specialist

Valorie A. Heinzman
Assistant Vice President & Mortgage Specialist

Timothy H. Lead
Assistant Vice President & Mortgage Underwriter

Craig R. Mietz
Assistant Vice President & Mortgage Specialist

Kari R. Bezek
Banking Officer & Mortgage Specialist

Wendy E. Disanto
Banking Officer & Guaranteed Loan Coordinator

Heidi E. King
Banking Officer & Mortgage Specialist

Trisha A. Mastrodonato
Banking Officer & Mortgage Specialist

Paul R. Rowan
Banking Officer & Mortgage Underwriter

Scott W. Russell
Banking Officer & Mortgage Underwriter

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

SECURITY/FACILITIES

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

OPERATIONS & IT

Hope A. Alexanian
Vice President & Retail Loan Operations Supervisor

Cheryl M. Graham
Vice President & Deposit Operations Supervisor

Lynnette M. Zelias
Vice President & Commercial Loan Operations Supervisor

Karen D. Lombardozzi
Assistant Vice President & Systems Administrator

FINANCIAL SERVICES

Robert T. Koczent
Vice President & Director of Financial Services

David J. DeRaddo
Assistant Vice President & Financial Services Representative

Kim M. Emperato
Banking Officer & Financial Services Representative

Donna J. Johnson
Banking Officer & Financial Services Representative

FINANCE

Shannon M. Romano
Assistant Vice President & Senior Assistant Controller

Michael J. George
Banking Officer & Assistant Corporate Controller

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.

Robert W. Sollenne
Senior Vice President &
Chief Operating Officer

Promoted from Senior Vice President & Director of Performance Improvement

Amanda M. McDonald
Vice President & Senior
Credit Administrator

Promoted from Vice President & Senior Credit Underwriter

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

Promoted from Banking Officer & Assistant Branch Manager

Leah S. Hodge
Banking Officer &
Branch Manager, Penn Yan

Promoted from Mortgage & Commercial Loan Processor

Paul R. Rowan
Banking Officer &
Mortgage Underwriter

Promoted from Mortgage Underwriter

Joyce A. Marble
Vice President &
Compliance & BSA Officer

Promoted from Assistant Vice President & Compliance & BSA Officer

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

Promoted from Banking Officer & Branch Manager

Michael J. George
Banking Officer & Assistant
Corporate Controller

Promoted from Assistant Corporate Controller

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

Promoted from Assistant Branch Manager

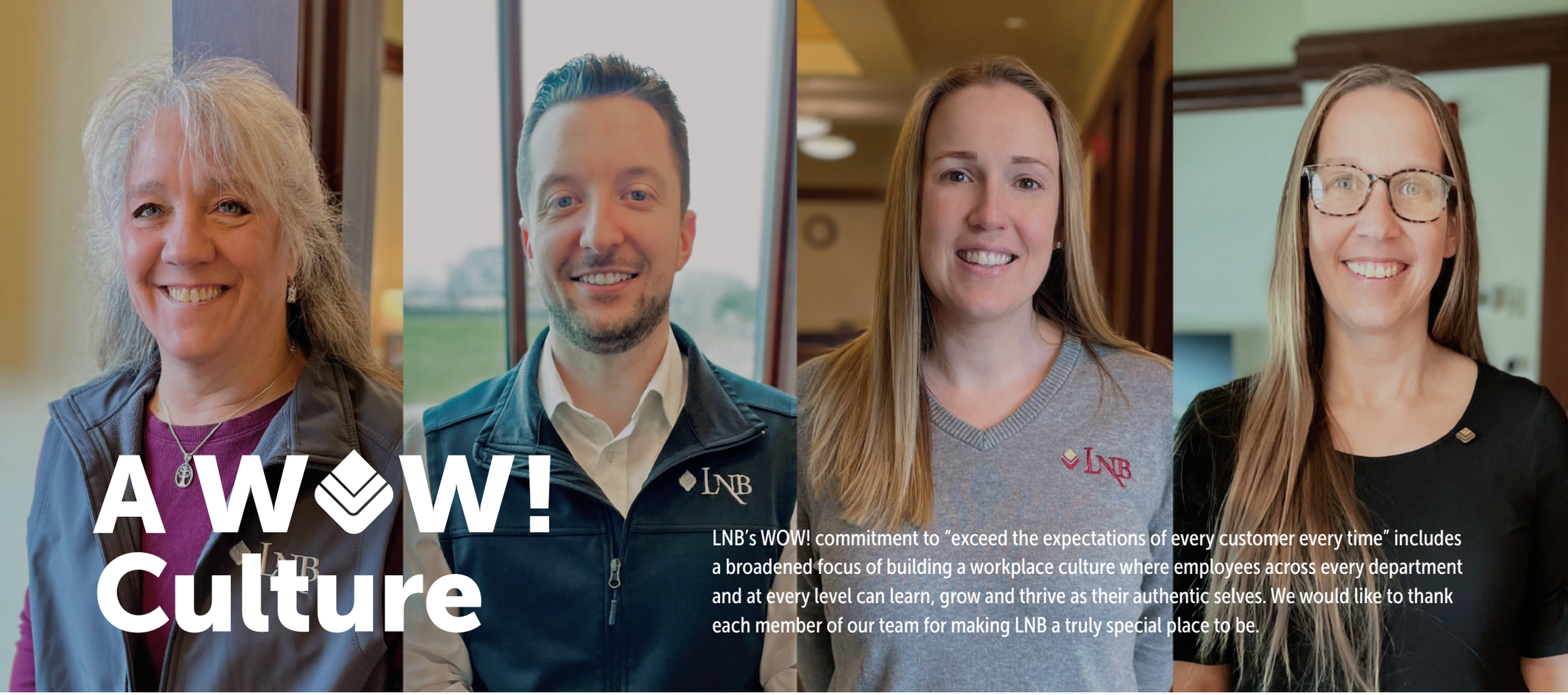
2021 Fun in the Sun

LNB Shows Love for Local Businesses

At LNB, we believe that small businesses are the heartbeat of our communities. To show our love and support, we created the 2021 Fun in the Sun Sweepstakes.

Through this initiative, LNB purchased more than $21,000 in gift cards from more than 100 neighborhood businesses across seven counties. These gift cards were then awarded to sweepstakes winners from Memorial Day through Labor Day.

At LNB, it's "all about people;" and it's all about supporting the local businesses that not only fuel our local economy, but make our region a special and vibrant place to live and work.



A WOW! Culture

LNB's WOW! commitment to "exceed the expectations of every customer every time" includes a broadened focus of building a workplace culture where employees across every department and at every level can learn, grow and thrive as their authentic selves. We would like to thank each member of our team for making LNB a truly special place to be.

GEM Award Recognizes The Team

As president of the Bank, I have the honor of awarding a number of employees each year for their outstanding efforts. It is not a responsibility that I take lightly.

This year, more than any other, it was particularly difficult to narrow the field down to just a handful of team members. During 2021, our employees balanced their personal lives, undoubtedly stressed by factors outside of their control, with their work lives with strength and dedication. Their hard work and commitment played a significant role in the Bank's unprecedented success.

To recognize their contributions, employees were given a year-end Going the Extra Mile (GEM) monetary award. Our employees are our greatest asset, and this acknowledgement was a token of our appreciation for a job well done.

Tom Kime | *President*

Lyons Bancorp, Inc.

Consolidated Financial Report

December 31, 2021

LNB Banking.
It's all about people.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

March 11, 2022

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, 2021. 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, 2021.

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, 2021, 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, 2021, 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, 2021, has been audited by Bonadio Co., LLP, an independent public accounting firm, as stated in their report dated March 11, 2022.

Lyons Bancorp, Inc.

Thomas Kime
President and Chief Executive Officer

Chad Proper
Chief Financial Officer

Bonadio & Co., LLP
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

March 11, 2022

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, 2021 and 2020, 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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, 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 11, 2022, expressed an unqualified opinion.

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

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

(Continued)

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

www.bonadio.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Continued)

Critical Audit Matter

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

Allowance for Loan Losses

The Company's loan portfolio totaled $1.14 billion as of December 31, 2021, and the associated allowance for loan losses (allowance) was $18.3 million. As discussed in Note 1 and 4 of the consolidated financial statements, the allowance represents management's estimate of incurred credit losses inherent in the loan portfolio at the consolidated balance sheet date. Management estimates the allowance by applying expected loss rates derived from a statistical analysis of historical default and loss severity experience to existing loans with similar characteristics. The allowance also considers adjustments to reflect management's assessment of qualitative factors that may not be measured in the statistical analysis of expected losses, including external factors, along with Company and portfolio specific factors.

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

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

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

Bonadio & Co., LLP

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 11, 2022

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, 2021, 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, 2021, 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 11, 2022, 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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Pittsford, New York 14534
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f (585) 381-3131

www.bonadio.com

(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

Bonadio & Co., LLP
Pittsford, New York

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Lyons Bancorp, Inc.

Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets	(In thousands)	
Cash and due from banks	**$ 15,618**	$ 17,777
Interest-bearing deposits in banks	**31,306**	43,446
Investment securities:		
Available for sale	**354,999**	278,672
Held to maturity	**32,049**	8,794
Restricted equity securities	**4,888**	4,827
Total Investment Securities	**391,936**	292,293
Loans	**1,136,959**	1,019,696
Less: allowance for loan losses	**(18,344)**	(17,382)
Net Loans	**1,118,615**	1,002,314
Land, premises and equipment, net	**26,699**	27,704
Bank-owned life insurance	**21,327**	19,062
Accrued interest receivable and other assets	**20,665**	20,551
Total Assets	**$ 1,626,166**	$ 1,423,147
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	**$ 1,018,939**	$ 915,050
Non-interest-bearing	**451,931**	370,917
Total Deposits	**1,470,870**	1,285,967
Subordinated debentures	**20,903**	20,891
Accrued interest payable and other liabilities	**24,744**	20,827
Total Liabilities	**1,516,517**	1,327,685
Stockholders' Equity		
Lyons Bancorp, Inc. stockholders' equity:		
Preferred stock	**3**	3
Common stock	**1,718**	1,599
Paid-in capital	**28,344**	19,374
Retained earnings	**87,568**	76,665
Accumulated other comprehensive loss	**(7,416)**	(1,275)
Treasury stock, at cost	**(624)**	(960)
Total Lyons Bancorp, Inc. Stockholders' Equity	**109,593**	95,406
Noncontrolling interest	**56**	56
Total Stockholders' Equity	**109,649**	95,462
Total Liabilities and Stockholders' Equity	**$ 1,626,166**	$ 1,423,147

See notes to consolidated financial statements.

Consolidated Statements of Income
Years Ended December 31, 2021 and 2020

	2021	2020
	(In thousands, except per share data)	
Interest Income		
Loans	**$ 45,741**	$ 41,577
Investment securities:		
Taxable	**4,944**	4,025
Non-taxable	**1,050**	945
Total Interest Income	**51,735**	46,547
Interest Expense		
Deposits	**3,303**	6,522
Borrowings	**896**	511
Total Interest Expense	**4,199**	7,033
Net Interest Income	**47,536**	39,514
Provision for Loan Losses	**1,340**	6,258
Net Interest Income after Provision for Loan Losses	**46,196**	33,256
Noninterest Income		
Cardholder fees	**3,962**	3,337
Realized gains on loans sold	**3,360**	5,576
Loan servicing fees	**2,767**	2,797
Service charges on deposit accounts	**2,624**	2,478
Financial services fees	**1,805**	1,400
Earnings on investment in bank owned life insurance (BOLI)	**365**	396
Net realized gains (losses) from sales of securities	**(592)**	217
Other	**388**	235
Total Noninterest Income	**14,679**	16,436
Noninterest Expense		
Salaries and wages	**17,342**	16,164
Pensions and benefits	**5,851**	5,438
Occupancy	**3,456**	3,408
Professional fees	**3,189**	2,468
Data processing	**2,801**	2,312
Cardholder expense	**1,685**	1,441
FDIC and OCC assessments	**1,038**	788
Advertising	**937**	775
Office supplies	**225**	317
Other	**5,013**	4,096
Total Noninterest Expense	**41,537**	37,207
Income before Income Taxes	**19,338**	12,485
Income Tax Expense	**3,809**	2,212
Net income attributable to noncontrolling interest and Lyons Bancorp, Inc.	**15,529**	10,273
Net income attributable to noncontrolling interest	**5**	5
Net income attributable to Lyons Bancorp, Inc.	**15,524**	10,268
Preferred stock dividends	**250**	250
Net Income available to common shareholders	**$ 15,274**	$ 10,018
Earnings Per Share – basic	**$ 4.71**	$ 3.16
Earnings Per Share – diluted	**$ 4.62**	$ 3.12

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020

	2021	2020
	(In thousands)	
Net Income	**$ 15,529**	$ 10,273
Other Comprehensive Income (loss)		
Securities Avaliable for Sale:		
Net unrealized gains (losses) during the year	**(9,077)**	4,257
Reclassification adjustment for (gains) losses included in income	**592**	(217)
Pension and Postretirement Benefits:		
Amortization of prior service credit	**(2)**	(4)
Amortization of net (loss) gain	**305**	263
Net actuarial (loss) gain	**(22)**	(1,176)
Cash Flow Hedge:		
Gains on the effective portion of cashflow hedge	**-**	85
Reclassification adjustment for losses included in income	**15**	37
	(8,189)	3,245
Net Tax (Expense) Benefit	**2,048**	(811)
Other Comprehensive Income (loss)	**(6,141)**	2,434
Total Comprehensive Income	**9,388**	12,707
Comprehensive Income Attributable to Noncontrolling Interest	**(5)**	(5)
Comprehensive Income attributable to Lyons Bancorp, Inc.	**$ 9,383**	$ 12,702

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020

(In thousands, except per share data)	Common Stock	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Noncontrolling Interest	Total
BALANCE, January 1, 2020	$ 1,599	$ 3	$ 19,385	$ 70,558	$ (3,709)	$ (1,100)	$ 56	86,792
Net income for 2020	-	-	-	10,268	-	-	5	10,273
Total other comprehensive loss, Net	-	-	-	-	2,434	-	-	2,434
Purchase of treasury stock, net of purchase fee	-	-	-	-	-	(209)	-	(209)
Deferred Comp shares issued from treasury	-	-	(11)	-	-	349	-	338
Dividends to noncontrolling interests	-	-	-	-	-	-	(5)	(5)
Dividends declared Preferred Series A $50.00 per share	-	-	-	(250)	-	-	-	(250)
Cash dividends declared-$1.24 per share	-	-	-	(3,911)	-	-	-	(3,911)
BALANCE, December 31, 2020	$ 1,599	$ 3	$ 19,374	$ 76,665	$ (1,275)	$ (960)	$ 56	95,462
Net income for 2021	-	-	-	**15,524**	-	-	**5**	**15,529**
Total other comprehensive loss, Net	-	-	-	-	**(6,142)**	-	-	**(6,141)**
Rights Offering - Par value 237,274 Shares @ $0.50 per share	**119**	-	**8,963**	-	-	-	-	**9,081**
Deferred Comp shares issued from treasury	-	-	**7**	-	-	**336**	-	**343**
Dividends to noncontrolling interests	-	-	-	-	-	-	**(5)**	**(5)**
Dividends declared Preferred Series A $50.00 per share	-	-	-	**(250)**	-	-	-	**(250)**
Cash dividends declared-$1.34 per share	-	-	-	**(4,371)**	-	-	-	**(4,371)**
BALANCE, December 31, 2021	**$ 1,718**	**$ 3**	**$ 28,344**	**$ 87,568**	**$ (7,416)**	**$ (624)**	**$ 56**	**109,649**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities	(In thousands)	
Net income	**$ 15,529**	$ 10,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**1,340**	6,258
Earnings on investment in bank owned life insurance	**(365)**	(396)
Net realized loss/(gain) from sales of securities	**592**	(217)
Realized gains on loans sold	**(3,360)**	(5,555)
Amortization of debt issuance costs	**12**	-
Gain on sale of real estate owned and other repossessed assets	**-**	(21)
Deferred compensation expense	**1,003**	1,350
Net amortization on securities	**795**	450
Depreciation and amortization	**1,418**	1,330
Deferred income benefit	**(1,387)**	(2,653)
Decrease (increase) in accrued interest receivable and other assets	**3,320**	(983)
Increase in accrued interest payable and other liabilities	**2,505**	2,747
Impairment of mortgage servicing rights	**-**	391
Loans originated for sale	**(103,930)**	(147,180)
Proceeds from sales of loans	**111,384**	154,847
Net Cash Provided by Operating Activities	**28,855**	20,641
Cash Flows from Investing Activities		
Net change in interest bearing deposits at other financial institutions	**12,140**	(21,990)
Purchases of securities available for sale	**(219,035)**	(176,802)
Proceeds from sales of securities available for sale	**45,649**	22,967
Proceeds from maturities and calls of securities available for sale	**87,185**	80,333
Purchases of held to maturity securities	**(30,317)**	(6,500)
Proceeds from maturities of securities held to maturity	**7,064**	3,804
Net decrease (increase) in restricted equity securities	**(61)**	2,053
Net increase in portfolio loans	**(121,736)**	(159,730)
Purchase of BOLI	**(1,900)**	-
Premises and equipment purchases, net	**(413**	(4,712)
Net Cash Used in Investing Activities	**(221,424)**	(260,577)
Cash Flows from Financing Activities		
Net increase in demand and savings deposits	**236,737**	288,002
Net decrease in time deposits	**(51,834)**	(31,520)
Net decrease in overnight borrowings from Federal Home Loan Bank	**-**	(25,000)
Preferred Stock Dividend	**(250)**	(250)
Issuance of subordinated debt, net of debt issuance costs	-	15,736
Net decrease in trust preferred	-	(1,035)
Issuance of treasury stock	-	(209)
Issuance of common stock in connection with rights offering, net	**9,082**	-
Dividends paid	**(3,325)**	(3,911)
Net Cash Provided by Financing Activities	**190,410**	241,813
	(2,159)	1,877
Cash and Cash Equivalents – Beginning	**17,777**	15,900
Cash and Cash Equivalents – Ending	**$ 15,618**	$ 17,777
Supplementary Cash Flow Information		
Interest paid	**$ 3,548**	$ 7,103
Income taxes paid	**$ 4,194**	$ 2,556
Transfer of available for sale securities to held to maturity	**$ -**	$ 3,806
Dividends declared not yet paid	**$ 1,046**	$ 978

See notes to consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies
Nature of Operations

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

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

Coronavirus Pandemic

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

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

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

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

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

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

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

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

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

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

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

As of January 20, 2022, the Company originated 661 loans in the amount of $50.0 million during 2021. The Company has 64 Second draw loans outstanding in the amount of $7.4 million. These loans are recorded as commercial loans on the balance sheet. The Company recorded $1.9 million of Second draw PPP fee income during 2021 and has not yet recorded any Second draw PPP fee income during 2022.

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

Investment Securities

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

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

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

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

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

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

Restricted Equity Securities

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

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

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

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

agricultural loans, and consumer installment classes. Residential real estate loans include classes for 1-4 family and home equity loans. Consumer installment loans include classes for direct and indirect loans.

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

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

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

Loans Held for Sale

Generally, loans held for sale consist of residential mortgage loans that are originated and are intended to be sold through agreements the Bank has with the Federal Home Loan Bank (FHLB) and the Federal Home Loan Mortgage Corporation (Freddie Mac). Realized gains and losses on sales are computed using the specific identification method. These loans are carried on the consolidated balance sheets at the lower of cost or estimated fair value determined in the aggregate. Residential loans held for sale totaled $3.4 million and $7.5 million at December 31, 2021 and 2020, respectively, and are included in loans on the consolidated balance sheets.

During 2021 and 2020, the Company sold residential mortgage loans totaling $111.4 million and $154.8 million, respectively, and realized gains on these sales were $3.4 million and $5.6 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 2021 and 2020, the Company recorded mortgage-servicing assets of $892,000 and $1.4 million, respectively. Amortization of mortgage-servicing assets amounted to $735,000 in 2021 and

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

$1.3 million in 2020. Net mortgage-servicing assets included in other assets in the consolidated balance sheets totaled $2.9 million and $2.7 million, net of amortization, as of December 31, 2021 and 2020, 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 2021 and 2020, the Company sold no commercial loans. There were no commercial loans held for sale at December 31, 2021 or 2020.

Total loans serviced for others and excluded from the consolidated balance sheets of the Company amounted to $457.3 million and $437.0 million at December 31, 2021 and 2020, respectively.

Allowance for Loan Losses

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

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

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

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

General Component

The general component of the allowance is based on historical loss experience adjusted for qualitative factors stratified by the following loan classes: 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. As a result of the COVID-19 pandemic, during the year ended December 31, 2020, the Company increased certain qualitative loan portfolio risk factors in relation to current local and national economic conditions. For the year ended December 31, 2021, within the calculated allowance, qualitative factors remain elevated in our attempt to measure the potential impact of the COVID-19 pandemic, with increased concerns from the Omicron variant.

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

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.

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.

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

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

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

Unallocated Component

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

Troubled Debt Restructurings

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

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

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

Land, Premises and Equipment

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

Note 1 - Summary of Significant Accounting Policies (Continued)
Bank Owned Life Insurance

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

Foreclosed Real Estate

Included in other assets are real estate properties acquired through, or in lieu of, loan foreclosure. These properties are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cash basis. Any write-downs based on the asset's fair value at date of foreclosure are charged to the allowance for loan losses. After foreclosure, property held for sale is carried at the lower of the new basis or fair value less any costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of the property to the lower of its cost or fair value less cost to sell. The recorded investment in residential real estate in process of foreclosure at December 31, 2021 and 2020 was $477,000 and $418,000, respectively. There was no foreclosed real estate at December 31, 2021 or 2020.

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 income statements 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 $2.8 million and $2.8 million for the years ended December 31, 2021 and 2020. Late fees and ancillary fees related to loan servicing are not material. For the year ended December 31, 2021, the Company did not recognize any impairment on mortgage servicing rights. For the year ended December 31, 2020, the Company recognized $391,000 of impairment on mortgage servicing rights.

Note 1 - Summary of Significant Accounting Policies (Continued)
Treasury Stock

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

Interest Rate Swap Agreements

The Company utilizes interest rate swap agreements as part of its management of interest rate risk to modify the repricing characteristics of its floating-rate junior subordinate debentures and to hedge fixed rate assets on the consolidated balance sheets that are funded by short-term and variable liabilities. For these swap agreements, amounts receivable or payable are recognized as accrued under the terms of the agreement, and the net differential is recorded as an adjustment to interest expense of the related hedged item. The interest rate swap agreements are designated as a cash flow hedge. Therefore, the effective portion of the swap's unrealized gain or loss was initially recorded as a component of other comprehensive income, net of tax. The ineffective portion of the unrealized gain or loss, if any, is immediately reported in other operating income. The Company's interest rate swap agreement matured in 2020 and it did not record any gains or losses in earnings during 2021 or 2020.

Advertising Costs

Advertising costs are expensed as incurred.

Noncontrolling Interest

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

Income Taxes

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

Transfers of Financial Assets

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

Note 1 - Summary of Significant Accounting Policies (Continued)
Earnings per Share

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

Comprehensive Income

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

Statements of Cash Flows

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

Off-Balance-Sheet Financial Instruments

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

Segment Reporting

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

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued an Update (ASU 2020-04), Reference Rate Reform (Topic 848). The amendments in this Update provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The following optional expedients for applying the requirements of certain Topics or Industry Subtopics in the Codification are permitted for contracts that are modified because of reference rate reform and that meet certain scope guidance: (1) Modifications of contracts within the scope of Topics 310, Receivables, and 470, Debt, should be accounted for by prospectively adjusting the effective interest rate. (2) Modifications of contracts within the scope of Topics 840, Leases, and 842, Leases, should be accounted for as a continuation of the existing contracts with no reassessments of the lease classification and the discount rate (for example,

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

the incremental borrowing rate) or remeasurements of lease payments that otherwise would be required under those Topics for modifications not accounted for as separate contracts. (3) Modifications of contracts do not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract under Subtopic 815-15, Derivatives and Hedging— Embedded Derivatives. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic, the amendments in this Update must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. An entity may elect to apply the amendments in this Update to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The adoption of this guidance does not have a material impact on the Company's consolidated results of operation or financial position.

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

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

In August 2018 the FASB issued an Update (ASU No. 2018-14), "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans", that applies to all employers that sponsor defined benefit pension or other postretirement plans. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The following disclosure requirements were removed from Subtopic 715-20: (1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year; (2) the amount and timing of plan assets expected to be returned to the employer; (3) the disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law; related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan; (4) for nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. However, nonpublic entities will be required to disclose separately the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets; and (5) for public entities, the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. The following disclosure requirements were added to Subtopic 715-20: (1) the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates; and (2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: (1) the projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets; and (2) the benefit accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. ASU No. 2018-14 is effective for fiscal years ending after December 15, 2020 for public business entities and for fiscal years ending after December 15, 2021 for all other entities. Early adoption is permitted for all entities. The adoption of this guidance did not have a material impact on the Company's consolidated results of operations or financial position.

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

Note 2 - Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. Effective March 26, 2020, the Federal Reserve reduced reserve requirement ratios on all net transaction accounts to zero percent, eliminating reserve requirements for all depository institutions. At December 31, 2021 and December 31, 2020, there were no reserves required.

Note 3 - Investments

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, are as follows at December 31, 2021 and 2020:

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

Note 3 – Investments (Continued)

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

The Company's current policies generally limit securities investments to U.S. Government and securities of government sponsored enterprises, federal funds sold, municipal bonds, corporate debt obligations including subordinated debt of banks and certain mutual funds. In addition, the Company's policies permit investments in mortgage-backed securities, including securities issued and guaranteed by Fannie Mae, Freddie Mac, and GNMA, and collateralized mortgage obligations issued by these entities. At December 31, 2021, all mortgage-backed securities including collateralized mortgage obligations were securities of government sponsored enterprises, no private-label mortgage-backed securities or collateralized mortgage obligations were in the securities portfolio. The Company's investments in state and political subdivisions securities generally are municipal obligations that are general obligations supported by the general taxing authority of the issuer, and in some cases are insured. The obligations issued by school districts are primarily supported by state aid. Primarily, these investments are issued by municipalities within New York State. Restricted equity securities primarily include non-marketable Federal Home Loan Bank New York (FHLBNY) stock and non-marketable Federal Reserve Bank (FRB) stock, both of which are required to be held for regulatory purposes and for borrowing availability. The required investment in FHLBNY stock is tied to both the Company's borrowing levels with the FHLB and commitments to sell residential mortgage loans to the FHLB. Holdings of FHLBNY stock and FRB stock totaled $3.2 million and $1.1 million at December 31, 2021, respectively, and $3.6 million and $648,000 at December 31, 2020, 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 $238,000 and $148,000 at December 31, 2021 and 2020, respectively, in order to participate in certain lending activities with Farmer Mac. The stock is actively traded on the NYSE, pays a dividend, and is reflective of current market value. Restricted equity securities also include miscellaneous investments carried at par, which is also cost.

Note 3 – Investments (Continued)

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

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

	Less than 12 Months		**12 Months or More**		**Total**	
(In thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unreailzed Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2021:						
United States agencies	**$ 125,434**	**$ (3,275)**	**$ 29,870**	**$ (1,474)**	**$ 155,304**	**$ (4,749)**
State and Local Governments	**47,188**	**(507)**	**7,701**	**(208)**	**54,889**	**(715)**
Corporate	**4,941**	**(109)**	**-**	**-**	**4,941**	**(109)**
Mortgage-backed securities	**66,087**	**(1,062)**	**1,864**	**(86)**	**67,951**	**(1,148)**
	$ 243,650	**$ (4,953)**	**$ 39,435**	**$ (1,768)**	**$ 283,085**	**$ (6,721)**

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

On a quarterly basis, the Company performs an assessment to determine whether there have been any events or economic circumstances indicating that a security with an unrealized loss has suffered other-than-temporary impairment. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the amortized cost basis, (2) the financial condition of the issuer (and guarantor, if any) and adverse conditions specifically related to the security, industry or geographic area, (3) failure of the issuer of the security to make scheduled interest or principal payments, (4) any changes to the rating of a security by a rating agency, (5) the presence of credit enhancements, if any, including the guarantee of the federal government or any of its agencies, (6) whether the Company intends to sell or more likely than not be required to sell the debt security, and (7) if the present value of the expected cash flow is not sufficient to recover the entire amortized cost.

Note 3 – Investments (Continued)

There were 305 securities with unrealized losses at December 31, 2021, with a fair value of $243.7 million that were less than 12 months. There were 23 securities with unrealized losses at December 31, 2021, with a fair value of $39.4 million that were 12 months or longer. On December 31, 2020 there were 34 securities with unrealized losses, all of those securities, with a value of $55.1 million, were less than 12 months. Substantially all of the unrealized losses on the Company's securities were caused by market interest rate changes from those in effect when the securities were purchased by the Company. The contractual terms of these securities do not permit the issuer to settle the securities at a price less than par value. Except for certain state and local government obligations, all securities rated by an independent rating agency carry an investment grade rating. Financial information relating to unrated state and government obligations is reviewed for indications of adverse conditions that may indicate other-than-temporary impairment. The Company did not consider these investment securities to be other than temporarily impaired at December 31, 2021 and 2020.

The amortized cost and fair value of debt securities at December 31, 2021, 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	$ 5,834	$ 5,858	$ 3,022	$ 3,022
Due after one year through five years	34,039	34,234	9,014	8,929
Due after five years through ten years	156,379	153,310	19,525	19,212
Due after ten years	45,130	43,537	488	489
Securities not due at a single maturity date	118,389	118,060	-	-
	$ 359,771	$ 354,999	$ 32,049	$ 31,652

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 2021, the Company sold $45.6 million of securities available for sale, while in 2020 the Company sold $23.0 million. Gross losses on the sale of investments in 2021 were $592,000. Gross gains on the sale of investment securities in 2020 were $217,000. Investment securities with carrying amounts of $156.0 million and $130.2 million at December 31, 2021 and 2020, respectively, were pledged to secure deposits as required or permitted by law.

Note 4 – Loans

Loans consisted of the following at December 31:

	2021	2020
	(In thousands)	
Real estate:		
Residential:		
1-4 family	**$ 448,449**	$ 329,452
Home equity	**105,146**	111,417
Commercial	**289,788**	252,314
Agriculture	**74,747**	77,609
Total mortgage loans on real estate	**918,130**	770,792
Commercial loans	**142,745**	179,515
Agriculture loans	**39,721**	38,974
Consumer installment loans:		
Direct	**29,756**	22,017
Indirect	**6,607**	8,398
Total consumer installment loans	**36,363**	30,415
Total loans	**$ 1,136,959**	$ 1,019,696

Net unamortized loan origination (fees) costs totaled $456,000 at December 31, 2021 and $(435,000) at December 31, 2020, respectively and are included with their related loan class.

The Company has transferred a portion of its originated commercial, commercial real estate, agriculture and agriculture real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2021 and 2020, the Company was servicing loans for participants aggregating $11.5 million and $13.2 million, respectively.

Under the PPP, small businesses may, subject to certain regulatory requirements, obtain low interest (1%), government-guaranteed SBA loans. These loans may be forgiven if the funds are used for designated expenses and meet certain designated requirements. If our borrowers fail to qualify for PPP loan forgiveness, or if the PPP loans are not fully guaranteed by the US government or if the SBA determines that there is a deficiency in the manner in which we originated, funded or serviced the PPP loans, we risk holding loans with unfavorable terms and may experience loss related to our PPP loans. The Company originated 1,177 first draw PPP loans in the amount of $116.3 million during 2020 and 661 second draw PPP loans in the amount of $50.0 million during 2021. These loans are recorded as commercial loans on the consolidated balance sheets. As of December 31, 2021, the Company had received forgiveness for 1,733 PPP loans in the amount of $156.0 million. As of December 31, 2020, the Company had received forgiveness for 669 PPP loans in the amount $60.4 million.

Note 4 – Loans (Continued)

As of December 31, 2021, the Company had 103 loans in the amount of $10.2 million remaining on its balance sheet. As of December 31, 2020, the Company had 635 loans in the amount of $55.9 million remaining on its balance sheet. As of December 31, 2021, the Company had recorded $4.1 million of deferred fees as a yield adjustment to loans interest income and processing fees with a remaining fees of $571,000 to be recorded. As of December 31, 2020, the Company had recorded $2.4 million of deferred fees as a yield adjustment to loans interest income and processing fees with a remaining fees of $2.2 million to be recorded.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments are due. Generally, loans are placed on nonaccrual status if principal or interest payments become 90 days or 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, 2021 and 2020:

(In thousands)	Current	30-89 Days Past Due	90 Days and Greater	Total Loans	Loans on Nonaccrual
December 31, 2021:					
Commercial loans	**$ 142,508**	**$ 53**	**$ 184**	**$ 142,745**	**$ 1,399**
Commercial real estate	**288,276**	**1,014**	**498**	**289,788**	**563**
Agriculture loans	**39,044**	**-**	**677**	**39,721**	**677**
Agriculture real estate	**74,390**	**-**	**357**	**74,747**	**479**
Residential real estate:					
1-4 family	**447,288**	**883**	**278**	**448,449**	**278**
Home equity	**104,799**	**301**	**46**	**105,146**	**46**
Consumer installment loans:					
Direct	**29,740**	**16**	**-**	**29,756**	**-**
Indirect	**6,607**	**-**	**-**	**6,607**	**52**
Total	**$1,132,652**	**$ 2,267**	**$ 2,040**	**$ 1,136,959**	**$ 3,494**

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

Note 4 – Loans (Continued)

At December 31, 2021, there were no loans over 90 days' delinquent and still accruing interest. At December 31, 2020, there was one home equity loan in the amount of $108,000 over 90 days' delinquent and still accruing interest.

Activity in the allowance for loan losses for the years ended December 31, 2021 and 2020 follows:

(In thousands)

2021	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
Beginning balance	**$ 4,848**	**$ 5,571**	**$ 1,201**	**$ 970**	**$ 4,275**	**$ 517**	**$ -**	**$ 17,382**
Provisions for loan losses	**(233)**	**(207)**	**350**	**201**	**1,155**	**74**	**-**	**1,340**
Recoveries of loans previously charged off	**3**	**-**	**3**	**-**	**3**	**96**	**-**	**105**
Loans charged off	**(330)**	**-**	**-**	**-**	**-**	**(153)**	**-**	**(483)**
Ending balance	**$ 4,288**	**$ 5,364**	**$ 1,554**	**$ 1,171**	**$ 5,433**	**$ 534**	**$ -**	**$ 18,344**
2020								
Beginning balance	$ 2,773	$ 3,630	$ 943	$ 565	$ 2,206	$ 555	$ 883	$ 11,555
Provisions for loan losses	2,138	1,966	258	405	2,185	189	(883)	6,258
Recoveries of loans previously charged off	64	-	-	-	12	63	-	139
Loans charged off	(127)	(25)	-	-	(128)	(290)	-	(570)
Ending balance	$ 4,848	$ 5,571	$ 1,201	$ 970	$ 4,275	$ 517	$ -	$ 17,382

The allocation of the allowance for loan losses by loan class is as follows at December 31, 2021 and 2020:

(In thousands)

December 31, 2021	**Commercial**	**Commercial Real Estate**	**Agriculture**	**Agriculture Real Estate**	**Residential Real Estate**	**Consumer**	**Unallocated**	**Total**
Amount of allowance for loan losses on loans individually evaluated for impairment	**$ -**	**$ -**	**$ 350**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 350**
Amount of allowance for loan losses on loans collectively evaluated for impairment	**4,288**	**5,364**	**1,204**	**1,171**	**5,433**	**534**	**-**	**17,994**
Total allowance for loan losses	**$ 4,288**	**$ 5,364**	**$ 1,554**	**$ 1,171**	**$ 5,433**	**$ 534**	**$ -**	**$ 18,344**
Loans individually evaluated for impairment	**$ 1,399**	**$ 563**	**$ 677**	**$ 479**	**$ -**	**$ -**	**$ -**	**$ 3,118**
Loans collectively evaluated for impairment	**141,346**	**289,225**	**39,044**	**74,268**	**553,595**	**36,363**	**-**	**1,133,841**
Total Loans	**$ 142,745**	**$ 289,788**	**$ 39,721**	**$ 74,747**	**$ 553,595**	**$ 36,363**	**$ -**	**$ 1,136,959**

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

Note 4 – Loans (Continued)

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

Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in the local area, concentration of risk, changes in interest rates, and declines in local property values. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

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

Note 4 – Loans (Continued)

The following table summarizes information regarding impaired loans by loan portfolio class as of December 31, 2021 and 2020:

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

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

Note 4 – Loans (Continued)

As of December 31, 2021 and 2020, the Company has a recorded investment in troubled debt restructurings of $6.1 million and $2.1 million, respectively. The Company has allocated $350,000 and $650,000 of specific allowance for those loans at December 31, 2021 and 2020 respectively.

The modifications of the terms of such commercial loans, agriculture loans, commercial real estate loans and residential real estate loans performed during the year ended December 31, 2021 included an extension of the maturity date, interest rate reduction, payment deferrals, loan increase and additional collateral. The modification of the terms of such commercial loans, agriculture loan and commercial real estate loan performed during December 31, 2020 included an extension of the maturity date.

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

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

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

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, 2020.

Note 4 – Loans (Continued)

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within the first twelve months following the modification during the years ended December 31, 2021 and 2020:

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

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

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

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

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

Additionally, the Company is working with borrowers impacted by COVID-19 and providing modifications to include principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the CARES Act or under applicable interagency guidance of the federal banking regulators. As of December 31, 2021, the Company does not have any remaining loan modifications. As of December 31, 2020, the Company has remaining loan modifications of 9 commercial loans with outstanding balances of $3.2 million, no agriculture loans, 6 residential mortgage loans with outstanding balances of $713,000 and 3 consumer loans with outstanding balances of $21,000.

Credit Quality

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

Note 4 – Loans (Continued)

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, 2021 or 2020.

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, 2021 or 2020.

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

The following table presents the classes of the commercial and agriculture loan portfolios summarized by the aggregate pass rating and the criticized and classified ratings of special mention and substandard within the Company's internal risk rating system as of December 31, 2021 and 2020:

Note 4 – Loans (Continued)

(In thousands)

	Commercial	Commercial Real Estate	Agriculture	Agriculture Real Estate	Total
December 31, 2021					
Grade:					
Pass	**$ 137,622**	**$ 278,391**	**$ 38,459**	**$ 72,413**	**$ 526,885**
Special Mention	**3,171**	**3,973**	**585**	**406**	**8,135**
Substandard	**1,952**	**7,424**	**677**	**1,928**	**11,981**
Total	**$ 142,745**	**$ 289,788**	**$ 39,721**	**$ 74,747**	**$ 547,001**
December 31, 2020					
Grade:					
Pass	$ 171,943	$ 246,207	$ 37,365	$ 75,118	$ 530,633
Special Mention	690	2,441	783	320	4,234
Substandard	6,882	3,666	826	2,171	13,545
Total	$ 179,515	$ 252,314	$ 38,974	$ 77,609	$ 548,412

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, 2021 and 2020:

(In thousands)

	1-4 Family	Home Equity	Consumer - Direct	Consumer - Indirect	Total
December 31, 2021 Performing	**$ 448,171**	**$ 105,100**	**$ 29,756**	**$ 6,555**	**$ 589,582**
Nonaccrual	**278**	**46**	**-**	**52**	**376**
Total	**$ 448,449**	**$ 105,146**	**$ 29,756**	**$ 6,607**	**$ 589,958**
December 31, 2020					
Performing	$ 328,628	$ 111,184	$ 22,017	$ 8,333	$ 470,162
Nonaccrual	824	233	-	65	1,122
Total	$ 329,452	$ 111,417	$ 22,017	$ 8,398	$ 471,284

Note 5 - Land, Premises and Equipment

Land, premises and equipment, net consist of the following at December 31, 2021 and 2020:

	2021	2020
	(In thousands)	
Land	**$ 5,875**	$ 5,875
Building	**22,847**	23,139
Furniture and equipment	**9,763**	9,092
Leasehold improvements	**3,055**	3,055
Construction in progress	**12**	-
	41,552	41,161
Less: Accumulated depreciation	**(14,853)**	(13,457)
	$ 26,699	$ 27,704

Depreciation and amortization expense in 2021 and 2020 are included in noninterest expense as follows:

	2021	2020
	(In thousands)	
Building	**$ 586**	$ 508
Furniture and equipment	**713**	676
Leasehold improvements	**119**	146
	$ 1,418	$ 1,330

At December 31, 2021, the Bank leased out space under non-cancelable operating leases. Future minimum rental payments to be received by the Company under these leases are as follows:

Years Ending December 31,	(In thousands)
2022	**$ 14**
2023	**-**
2024	**-**
2025	**-**
2026	**-**
Thereafter	**-**
	$ 14

Rental income under the operating leases totaled $96,000 and $94,000 in 2021 and 2020, respectively.

Note 6 - Deposits

Certificates of deposit in denominations of $250,000 and over were $67.6 million and $81.8 million at December 31, 2021 and 2020, respectively.

At December 31, 2021, scheduled maturities of time deposits are as follows:

Years Ending December 31,	(In thousands)
2022	**$ 168,797**
2023	**18,035**
2024	**1,941**
2025	**398**
2026	**1,368**
	$ 190,539

Included within certificates of deposits in December 31, 2021 and 2020 were $5.0 million and $10.0 million in brokered certificates of deposits.

Note 7 - Borrowings

Borrowings consist of overnight advances with the Federal Home Loan Bank. At December 31, 2021 and 2020, there were no overnight advances outstanding. The table below details additional information related to overnight advances for the years ended December 31, 2021 and 2020:

	2021	2020
	(Dollars in thousands)	
Maximum outstanding balance	**$ -**	$ 25,000
Average outstanding balance	**$ -**	$ 4,005
Interest expense	**$ -**	$ 35
Weighted average interest rate during the year	**0.00%**	1.75%
Weighted average interest rate at end of year	**0.00%**	0.00%

There was no long term debt at December 31, 2021 and 2020.

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, 2021, total unencumbered mortgage-related loans were $244.0 million. At December 31, 2020, total unencumbered mortgage-related loans were $162.9 million. Additional assets may also qualify as collateral for FHLB advances.

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

Note 7 – Borrowings (Continued)

loans was $46.5 million. At December 31, 2020, total otherwise unencumbered collateral in the form of home equity loans and other consumer loans was $42.3 million.

The Company, through the Bank, had available unsecured line of credit agreements with correspondent banks permitting borrowings to a maximum of $40.0 million at December 31, 2021 and December 31, 2020. There were no outstanding advances against those lines at December 31, 2021 or 2020.

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

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

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

Note 8 - Subordinated Debentures

Junior Subordinated Debentures

On June 27, 2003, the Company issued $1.035 million in junior subordinated debentures due June 27, 2033, to Trust I. The Company owns all of the $35,000 in common equity of Trust I and the debentures are the sole asset of Trust I. Trust I issued $1.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.75%. In October 2020, Trust I was dissolved and the $1.0 million of floating-rate trust capital securities were exchanged for $1.0 million as part of the Lyons Bancorp subordinate debt offering.

On August 23, 2004, the Company issued $5,155 million in junior subordinated debentures due August 23, 2034, to Trust II. The Company owns all of the $155,000 in common equity of Trust II and the debentures are the sole asset of Trust II. Trust II issued $5.0 million of floating-rate trust capital securities in a non-public offering. The floating-rate capital securities provide for quarterly distributions at a variable annual coupon rate, reset quarterly, based on three-month LIBOR plus 2.65%. The coupon rate was 2.81% at December 31, 2021 and 2.86% at December 31, 2020. The securities are callable by the Company subject to any required regulatory approval, at par.

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

Note 8 - Subordinated Debentures (Continued)

The accounts of Trust I and Trust II are not included in the consolidated financial statements of the Company. However, for regulatory purposes, the trust capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2021 and 2020, $5.0 million in trust capital securities qualified as Tier I capital, respectively.

Subordinated Debenture Offering

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

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

For regulatory purposes, the subordinated promissory notes capital securities qualify as Tier I capital of the Company subject to a 25% of capital limitation under risk-based capital guidelines. The portion that exceeds the 25% of capital limitation qualifies as Tier II capital. At December 31, 2021 and December 31, 2020, $15.7 million in subordinated promissory notes capital securities qualified as Tier I capital, respectively.

Note 9 - Income Taxes

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

	2021	2020
	(In thousands)	
Current Tax Provision		
Federal	**$ 4,443**	$ 4,279
State	**753**	586
Total current tax provision	**5,196**	4,865
Deferred tax (benefit)		
Federal	**(1,017)**	(2,161)
State	**(370)**	(492)
Total deferred tax (benefit)	**(1,387)**	(2,653)
	$ 3,809	$ 2,212

Note 9 - Income Taxes (Continued)

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

	2021	2020
Statutory federal tax rate	**21.0%**	21.0%
Increase (decrease) resulting from:		
Tax-exempt interest income	**(1.2)**	(1.6)
Non-taxable earnings on bank-owned life insurance	**(0.4)**	(0.6)
Disallowed interest expense	**0.0**	0.1
State taxes	**1.2**	(0.2)
Other, net	**(0.9)**	(0.9)
Effective tax rate	**19.7%**	17.8%

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

	2021	2020
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	**$ 4,810**	$ 4,455
Net unrealized gain on available for sale securities	**1,193**	-
Compensation and benefits	**2,699**	2,374
Prepaid pension	**1,186**	795
Other	**1,172**	542
Total deferred tax assets	**$ 11,060**	$ 8,166
Deferred tax liabilities:		
Net unrealized gain on available for sale securities	**$ -**	$ 928
Depreciation	**842**	769
Other	**943**	628
Total deferred tax liabilities	**$ 1,785**	$ 2,325
Net deferred tax assets	**$ 9,275**	$ 5,841

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

Note 10 - Stockholders' Equity

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

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, 2021 and 2020, all 5,000 shares, par value $0.50 per share, of the authorized preferred stock have been issued and are outstanding.

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

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

The common stock and treasury stock of the Company at December 31, 2021 and 2020 are as follows:

	2021	2020
Common stock, authorized shares, $0.50 par value	**7,500,000**	7,500,000
Issued shares	**3,435,934**	3,198,660
Less: treasury stock shares	**(16,961)**	(25,322)
Outstanding shares	**3,418,973**	3,173,338

Note 10 - Stockholders' Equity – (Continued)

The amounts of income tax expense (benefit) allocated to each component of other comprehensive income (loss) are as

	2021	2020
Securities available for sale:	(in thousands)	
Net unrealized (losses) during the year	**$ (2,269)**	$ 1,064
Reclassification adjustment for losses (gains) included in income	**148**	(54)
Pension and Postretirement benefit:		
Amortization of Prior service credit	**(0)**	(1)
Amortization of net loss	**76**	65
Net Actuarial loss	**(6)**	(351)
Cash Flow Hedge:		
Gains (losses) on the effective portion of cash flow hedge	**-**	79
Reclassification adjustment for losses included in income	**4**	9
Tax expense	**$ (2,048)**	$ 811

follows for the Years Ended December 31, 2021 and 2020:

Reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2021 and 2020 are as follows:

Details About Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item In The Statement Where Net Income is Presented
	2021	2020	
	(in thousands)		
Unrealized Gains and Losses on avaliable for sale securities (before tax)	**$ (592)**	$ 217	Net realized gain/(loss) from sales of securities
Tax (Expense) Benefit	**148**	(54)	Income tax expense
Net of Tax	**(444)**	163	
Amortization of Pension and postretirement benefit plan items			
Prior service credit	**2**	4	
Net Losses	**(305)**	(263)	
	(303)	(259)	Pensions and benefits expense
Tax Benefit	**75**	65	Income tax expense
Net of Tax	**(228)**	(194)	
Gains and losses on Cash flow hedge (before tax)	**(15)**	(37)	Interest expense - borrowings
Tax Benefit	**4**	9	Income tax expense
Net of Tax	**(11)**	(28)	
Total Reclassification for the year, net of tax	**$ (683)**	$ (59)	

Note 10 - Stockholders' Equity (Continued)

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

(In thousands)	Unrealized gains (losses) on securities available for sale	Pension and postretire-ment benefits	Unrealized losses on cash flow hedge	Total
Balance – January 1, 2020	$ (246)	$ (3,411)	$ (52)	$ (3,709)
Other comprehensive income (loss) before reclassifications	3,193	(824)	6	2,375
Amounts reclassified from accumulated other comprehensive income	(163)	194	28	59
Other comprehensive income (loss) for 2020	3,030	(630)	34	2,434
Balance – December 31, 2020	$ 2,784	$ (4,041)	$ (18)	$ (1,275)
Other comprehensive income (loss) before reclassifications	**$ (6,808)**	**$ (16)**	**$ -**	**$ (6,824)**
Amounts reclassified from accumulated other comprehensive income	**444**	**228**	**11**	**683**
Other comprehensive income (loss) for 2021	**(6,364)**	**212**	**11**	**(6,141)**
Balance – December 31, 2021	**$ (3,580)**	**$ (3,829)**	**$ (7)**	**$ (7,416)**

Note 11 - Pension and Postretirement Benefit Plans

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

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

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

Note 11 - Pension and Postretirement Benefit Plans (Continued)

The following table provides a reconciliation of the changes in the Pension Plan's benefit obligations and fair value of assets and the accumulated benefit obligation for the Healthcare Plan for the years ending December 31, 2021 and 2020:

	Pension Plan		Healthcare Plan	
	2021	2020	**2021**	2020
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 26,400**	$ 20,612	**$ 426**	$ 407
Service cost	**2,002**	1,567	**8**	7
Interest cost	**736**	725	**18**	21
Actuarial loss	**215**	4,059	**42**	25
Expected expenses	**(208)**	(141)	**-**	-
Benefits paid "expected"	**(624)**	(422)	**(36)**	(34)
Benefit obligation at end of year	**28,521**	26,400	**458**	426
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 23,171**	$ 19,599	**-**	-
Actual return on plan assets	**1,457**	4,163	**-**	-
Employer contribution	**-**	-	**36**	34
Actual expenses paid	**(215)**	(148)	**-**	-
Benefits paid	**(645)**	(443)	**(36)**	(34)
Fair value of plan assets at end of year	**23,768**	23,171	**-**	-
Unfunded status recognized	**$ (4,753)**	$ (3,229)	**$ (458)**	$ (426)
Accumulated benefit obligation	**$ 23,018**	$ 21,557	**$ (687)**	$ (712)

The unfunded status of the Pension and Healthcare Plans as of December 31, 2021 and 2020 has been recognized in other liabilities in the consolidated balance sheets.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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

	Pension Plan		Healthcare Plan	
	2021	**2020**	**2021**	**2020**
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	**$ 2,002**	$ 1,567	**$ 8**	$ 7
Interest cost	**736**	725	**18**	21
Expected return on plan assets	**(1,200)**	(1,158)	**-**	-
Amortization of prior service cost (credits)	**-**	-	**(2)**	(4)
Amortization of net loss	**261**	234	**44**	29
Net periodic benefit cost	**$ 1,799**	$ 1,368	**$ 68**	$ 53
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Net (gain) loss	**$ (15)**	$ 1,081	**$ 37**	$ 95
Recognized actuarial loss	**(261)**	(234)	**(44)**	$ (29)
Recognized prior service credit	**-**	-	**2**	4
Recognized in other comprehensive income	**(276)**	847	**(5)**	70
Total recognized in net periodic benefit cost and other comprehensive income	**$ 1,523**	$ 2,215	**$ 63**	$ 123

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

	Pension Plan		Healthcare Plan	
	2021	**2020**	**2021**	**2020**
	(In thousands)			
Prior service credit	**$ -**	$ -	**$ -**	$ (1)
Other	**-**	-	**(27)**	(64)
Net actuarial loss	**3,684**	3,891	**172**	215
	$ 3,684	$ 3,891	**$ 145**	$ 150

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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

	Pension Plan	Healthcare Plan	Total
		(In thousands)	
Prior service credit	$ -	$ (2)	$ (2)
Net actuarial loss	214	41	255
Total	$ 214	$ 39	$ 253

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

	Pension Plan		Healthcare Plan	
	2021	2020	**2021**	2020
Discount rates:				
Benefit cost for Plan Year	**2.82%**	3.57%	**2.39%**	3.13%
Benefit obligation at end of Plan Year	**3.03%**	2.82%	**2.74%**	2.39%
Expected long-term return on plan assets	**5.25%**	5.25%	**N/A**	N/A
Rate of compensation increase:				
Benefit cost for Plan Year	**3.00%**	3.00%	**N/A**	N/A
Benefit obligation at end of Plan Year	**3.00%**	3.00%	**N/A**	N/A

The assumed health care cost trend rate used in the postretirement health care plan at December 31, 2021 was 4.00%. Assumed health care trend rates may have a significant effect on the amounts reported for this plan. A 1% increase in the trend rate would increase the periodic benefit cost by $4,000 and increase the accumulated postretirement benefit obligation by $91,000.

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 11 - Pension and Postretirement Benefit Plans (Continued)

The Company's funding policy is to contribute, at a minimum, an actuarially determined amount that will satisfy the minimum funding requirements determined under the appropriate sections of the Internal Revenue Code. The Company made no contribution in 2021 and no contribution in 2020.

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

	Pension Plan	Healthcare Plan
Years Ending December 31,	(In thousands)	
2022	$ 595	$ 36
2023	637	35
2024	773	35
2025	876	44
2026	934	44
2027-2031	6,250	213
Total	$ 10,065	$ 407

The fair value of the Company's pension plan assets at December 31, 2021 and 2020 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, 2021				
Cash equivalent:				
Foreign currencies	$ -	$ -	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	-	-	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	-	-	-	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	-	-	-	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	-	-	-	-
Investments valued using Net Asset Value	23,768			
Total	$ 23,768	$ -	$ -	$ -

Note 11 - Pension and Postretirement Benefit Plans (Continued)

	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2020				
Cash equivalent:				
Foreign currencies	$ 1	$ 1	$ -	$ -
Short tern investment funds	-	-	-	-
Total cash equivalents	1	1	-	-
Equity Securitties:				
Common stock	-	-	-	-
Depository receipts	-	-	-	-
Commingled pension trust funds	-	-	-	-
Preferred stock	-	-	-	-
Total equity securities	-	-	-	-
Fixed income securites				
Collateralized mortgage obligations	-	-	-	-
Commingled pension trust fund	-	-	-	-
Corporate bonds	1	-	1	-
Government National Mortgage Association II	-	-	-	-
Government Issues	-	-	-	-
Other securities	-	-	-	-
Total fixed income securities	1	-	1	-
Other financial instruments				
Commingled pension financial instruments	-	-	-	-
Total other financial instruments	-	-	-	-
Subtotal:	2	1	1	-
Investments valued using Net Asset Value	23,169			
Total	$ 23,171	$	$	$

At December 31, 2021 and 2020, the portfolio was substantially managed by one investment firm who controlled approximately 100% and 99%, respectively, of the System's assets. In addition, as of December 31, 2021 and 2020, approximately $0 and $284,000, respectively, of Pension Plan monies had not yet been allocated to an investment manager.

At December 31, 2021 and 2020, the System had an investment concentration of approximately 100% and 99% respectively, of its total portfolio in the JPMCD LDI Diversified Balanced Fund, a commingled pension trust fund.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

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

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

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

The Fund is valued utilizing the valuation policies set forth by a JP Morgan's asset management committee. Underlying investments for which market quotations are readily available are valued at their market value. Underlying investments for which market quotations are not readily available are fair valued by approved affiliated and/or unaffiliated pricing vendors, third-party broker-deals or methodologies as approved by the asset management committee. Fixed income instruments are valued based on prices received from approved affiliated and unaffiliated pricing vendors or third party broker-dealers (collectively referred to as "Pricing Services"). The Pricing Services use multiple valuation techniques to determine the valuation of fixed income instruments. In instances where sufficient market activity exists, the Pricing services may utilize a market-based approach through which trades or quotes from market makers are used to determine the valuation of these instruments. In instances where sufficient market activity may not exist, the Pricing Services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining fair value and/or market characteristics in order to estimate the relevant cash flows, which are then discounted to calculate the fair values. Equities and other exchange-traded instruments are valued at the last sales price or official market closing price on the primary exchange on which the instrument is traded before the net asset values ("NAV") of the Funds are calculated on a valuation date. Futures contracts are generally valued on the basis of available market quotations. Forward foreign currency exchange contracts are valued utilizing market quotations from approved Pricing Services. The Fund invests in the Commingled Pension Trust Fund ("Strategic Property Fund") of JPMorgan Chase Bank, N.A. (the "SPF"), which holds significant amounts of investments which have been fair valued at December 31, 2021 and 2020.

Note 11 - Pension and Postretirement Benefit Plans (Continued)

During the years ended December 31, 2021 and 2020, 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 11 - Pension and Postretirement Benefit Plans (Continued)

The target allocation for 2021 and actual allocation of plan assets as of December 31, 2021 and 2020 are as follows:

	Target Allocation	% of Plan Assets at December 31,	
Asset Category	**2021**	**2021**	2020
Cash equivalents	**0%**	**0.0%**	0.0%
Equity securities	**30%**	**35.7%**	31.6%
Fixed income securities	**15%**	**35.0%**	62.6%
Other financial instruments	**55%**	**29.4%**	5.8%

Defined Contribution Plan

The Bank has a contributory 401(k) Plan for substantially all employees. Employees are eligible to contribute a percentage of their salary up to the maximum as determined by the Internal Revenue Service. The Bank is required to match 75% of the employees' contributions up to a maximum of 6% of the employees' salaries. The Bank contributed $586,000 and $558,000 under these provisions during 2021 and 2020, 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, 2021 and 2020 was $7.4 million and $6.6 million, respectively, and is recorded in other liabilities in the consolidated balance sheets. Compensation expense related to the SERP was $793,000 and $1.1 million for the years ended December 31, 2021 and 2020.

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 158,448 and 159,830 at December 31, 2021 and 2020 respectively. Total shares awarded were 8,345 and 8,712 for 2021 and 2020, 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 $258,000 and $228,000 for the years ended December 31, 2021 and 2020, respectively.

Note 12 - Earnings Per Share

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

	2021	2020
	(In thousands, except per share data)	
Net Income attributable to Lyons Bancorp, Inc.	**$ 15,524**	$ 10,268
Adjustments for dilutive potential common shares	**-**	-
Preferred stock dividends	**250**	250
Net income available for diluted common shares	**$ 15,274**	$ 10,018
Weighted average common shares used to calculate basic EPS	**$ 3,239,977**	$ 3,171,206
Add: effect of common stock equivalents[1]	**120,000**	120,000
Weighted average common shares used to calculate diluted EPS	**$ 3,359,977**	$ 3,291,206
Earnings per common share:		
Basic	**$ 4.71**	$ 3.16
Diluted	**$ 4.62**	$ 3.12

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

Note 13 - Related Party Transactions

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

The amount of loans to such related parties for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
	(In thousands)	
Beginning Balance	**$ 15,190**	$ 16,752
New Loans	**5,354**	3,874
Sold Loans	**-**	(312)
Repayments	**(3,053)**	(5,124)
Ending Balance	**$ 17,491**	$ 15,190

Note 14 - Commitments and Contingent Liabilities

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

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

	2021	2020
	(In thousands)	
Commitments to extend credit:		
Commitments to grant loans	**$ 181,564**	$ 153,252
Unfunded commitments under commercial lines of credit	**149,527**	138,289
Unfunded commitments under consumer lines of credit	**119,604**	103,365
Standby letters of credit	**11,783**	9,513
	$ 462,478	$ 404,419

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 $10.1 million and $8.2 million at December 31, 2021 and 2020, respectively. The amount of the liability related to guarantees under standby letters of credit was not material at December 31, 2021 and 2020.

In addition to other investors, the Bank sells residential mortgage loans to the FHLB. The agreement with the FHLB includes a maximum credit enhancement liability of $5.8 million and $6.2 million at December 31, 2021 and 2020 respectively, which the Bank may be required to pay if realized losses on any of the sold mortgages exceed the amount held in the FHLB's spread account. The FHLB is funding the spread account annually based on the outstanding balance of loans sold. The Bank's historical losses on residential mortgages have been lower than the amount being funded to the spread

Note 14 - Commitments and Contingent Liabilities (Continued)

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

In addition to pledging investment securities to secure deposits, the Bank has entered into an agreement with the FHLB whereby the FHLB agrees to issue letters of credit for the benefit of securing deposits. In the event the FHLB makes a payment under this agreement, such payment will constitute an advance to the Bank and shall be immediately due and payable. The Bank has pledged otherwise unencumbered mortgage-related assets to secure letters of credit from the FHLB. As of December 31, 2021 the Bank had letters of credit outstanding with FHLB of $63.8 million and as of December 31, 2020 the Bank had letters of credit outstanding with the FHLB of $63.8 million.

Note 15 - Concentrations of Credit

The Company's loan customers are located primarily in the New York communities served by the Bank. Investments in state and local government securities also involve governmental entities within the Company's market area. Although operating in numerous communities in New York State, the Company is still dependent on the general economic conditions of New York. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $82.5 million or 7.26% of total loans as of December 31, 2021. The largest concentration of credit by industry is Lessors of Residential Buildings and Dwellings, with loans outstanding of $63.3 million or 6.21% of total loans as of December 31, 2020. Risk related to this concentration is controlled through adherence to loan policy guidelines, including appropriate debt service coverage, adequate property values substantiated by current appraisals, and obtaining guarantors where appropriate. The Company, as a matter of policy, does not extend credit to any single borrower, or group of related borrowers, in excess of its legal lending limit. Further information on the Company's lending activities is provided in Note 4.

Note 16 - Regulatory Matters

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

Capital

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

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

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

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 16 - 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, 2021:								
Total risk-based capital								
Consolidated	$ 131,317	12.1%	$ 86,918	≥8.0%	$ 108,647	≥10.0%	$ 114,080	≥10.5%
Bank	$ 151,750	13.9%	$ 87,065	≥8.0%	$ 108,831	≥10.0%	$ 114,273	≥10.5%
Tier 1 capital								
Consolidated	$ 117,622	10.8%	$ 65,188	≥6.0%	$ 86,918	≥8.0%	$ 92,350	≥8.5%
Bank	$ 138,031	12.7%	$ 65,299	≥6.0%	$ 87,065	≥8.0%	$ 92,507	≥8.5%
Tier 1 leverage								
Consolidated	$ 117,622	7.3%	$ 64,891	≥4.0%	$ 81,114	≥ 5.0%	$ 81,114	≥ 5.0%
Bank	$ 138,031	8.5%	$ 64,910	≥4.0%	$ 81,138	≥ 5.0%	$ 81,138	≥ 5.0%
Common Equity Tier 1								
Consolidated	$ 110,213	10.1%	$ 48,891	≥4.5%	$ 70,621	≥ 6.5%	$ 76,053	≥ 7.0%
Bank	$ 130,623	12.0%	$ 48,974	≥4.5%	$ 70,740	≥ 6.5%	$ 76,182	≥ 7.0%

	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, 2020:								
Total risk-based capital								
Consolidated	$ 109,685	11.5%	$ 76,427	≥8.0%	$ 95,534	≥10.0%	$ 100,311	≥10.5%
Bank	$ 130,173	13.6%	$ 76,399	≥8.0%	$ 95,499	≥10.0%	$ 100,274	≥10.5%
Tier 1 capital								
Consolidated	$ 97,620	10.2%	$ 57,321	≥6.0%	$ 76,427	≥8.0%	$ 81,204	≥8.5%
Bank	$ 118,112	12.4%	$ 57,300	≥6.0%	$ 76,399	≥8.0%	$ 81,174	≥8.5%
Tier 1 leverage								
Consolidated	$ 97,620	6.9%	$ 56,196	≥4.0%	$ 70,245	≥ 5.0%	$ 70,245	≥ 5.0%
Bank	$ 118,112	8.4%	$ 56,187	≥4.0%	$ 70,234	≥ 5.0%	$ 70,234	≥ 5.0%
Common Equity Tier 1								
Consolidated	$ 96,363	10.1%	$ 42,990	≥4.5%	$ 62,097	≥ 6.5%	$ 66,874	≥ 7.0%
Bank	$ 116,855	12.2%	$ 42,975	≥4.5%	$ 62,074	≥ 6.5%	$ 66,849	≥ 7.0%

Note 16 - Regulatory Matters (Continued)

Management believes, as of December 31, 2021 and 2020, 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, 2021, the Bank's retained earnings available for the payment of dividends were approximately $23.7 million. At December 31, 2020, the Bank's retained earnings available for the payment of dividends were approximately $19.0 million.

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments

Determination of Fair Value

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

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

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

Fair Value Hierarchy

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

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

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

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

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

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at December 31, 2021 and 2020:

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

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

Investment Securities

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

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

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)
Loans Held for Sale

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

Loans

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

Impaired Loans

The fair value of loans considered impaired is generally determined based upon independent third party appraisals of the properties (market approach), or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of $3.1 million and $2.2 million, net of valuation allowances of $350,000 and $675,000 as of December 31, 2021 and 2020, respectively.

Accrued Interest Receivable and Payable

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

Mortgage Servicing Rights

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

Deposits

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

Borrowings from the Federal Home Loan Bank

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

Junior Subordinated Debentures

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

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

Subordinated Debt Offering

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

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.

Note 17 - Fair Value Measurements and Fair Values of Financial Instruments (Continued)
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, 2021 and 2020 are as follows:

	Carrying Value	(Level 1) Quoted Prices in Active Markets for	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In thousands)		
December 31, 2021:				
Securities available for sale:				
United States agencies	**$ 149,015**	**$ -**	**$ 149,015**	**$ -**
State and local governments	**87,923**	**-**	**87,923**	**-**
Mortgage-backed securities	**103,677**	**-**	**103,677**	**-**
Corporate securities	**14,384**	**-**	**14,384**	**-**
Total securities available for sale	**$ 354,999**	**$ -**	**$ 354,999**	**$ -**
Restricted equity security	**$ 238**	**$ 238**	**$ -**	**$ -**
December 31, 2020:				
Securities available for sale:				
United States agencies	$ 122,378	$ -	$ 122,378	$ -
State and local governments	72,654	-	72,654	-
Mortgage-backed securities	75,863	-	75,863	-
Corporate securities	7,777	-	7,777	-
Total securities available for sale	$ 278,672	$ -	$ 278,672	$ -
Restricted equity security	$ 148	$ 148	$ -	$ -

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

Impaired loans (level 3), mortgage servicing rights (level 2) and loans held for sale (level 2) are measured at fair value on a nonrecurring basis at December 31, 2021 and 2020.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2021 and 2020 are as follows:

		2021		2020	
	Fair Value Hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets:			(In thousands)		
Cash and due from banks	1	**$ 15,618**	**$ 15,618**	$ 17,777	$ 17,777
Interest-bearing deposits in bar	1	**31,306**	**31,306**	43,446	43,446
Investment securities	1 and 2	**391,935**	**350,532**	292,293	278,840
Loans, net of allowance	2 and 3	**1,118,615**	**1,126,617**	1,002,314	1,023,835
Accrued interest receivable	1	**4,407**	**4,407**	4,783	4,783
Mortgage servicing rights	2	**2,866**	**2,866**	2,708	2,708
Financial liabilities:					
Demand and savings deposits	1	**$ 1,279,946**	**$ 1,279,946**	$ 1,041,883	$ 1,041,883
Certificates of deposit	2	**190,539**	**190,307**	244,084	244,948
Borrowings from FHLB	2	**-**	**-**	-	-
Junior subordinated debentures	2	**5,155**	**5,150**	5,155	5,155
Subordinated debt offering	2	**15,748**	**15,748**	15,736	15,736
Accrued interest payable	1	**109**	**109**	354	354

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

Note 18 – Revenue Recognition

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

Note 18 – Revenue Recognition (Continued)

The following table presents revenues subject to ASC 606 for the years ended December 31, 2021 and 2020, respectively. Items outside the scope of ASC 606 are noted as such.

	For the years ended December 31, *(In thousands)*	
	2021	2020
Service charges on deposit accounts		
Insufficient funds fees	**$ 1,326**	$ 1,314
Deposit related fees	**443**	402
ATM/point of sale fees	**855**	762
	2,624	2,478
Cardholder fees		
Debit card interchange fees	**3,437**	2,793
Other cardholder fees	**525**	544
	3,962	3,337
Loan servicing fees and realized gain on sales of loans		
Loan Servicing Fees*	**2,767**	2,797
Realized gain on sale of loans*	**3,360**	5,576
	6,127	8,373
Financial services fees	**1,805**	1,400
Other miscellaneous income*	**161**	848
	$ 14,679	$ 16,436

*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 18 – 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 19 – Leases

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

The Company's leases have remaining terms that vary from less than one year up to 25 years, some of which include options to extend the leases for various renewal periods. All options to renew are included in the current lease term when the Company believes it is reasonably certain that the renewal options will be exercised.

The components of the lease expense are as follows:

(In thousands)	**December 31, 2021**	December 31, 2020
Operating lease cost	**$ 375**	$ 383
Total	**$ 375**	$ 383

Supplemental cash flow information related to leases was as follows:

(In thousands)	**December 31, 2021**	December 31, 2020
Cash paid for amount included in the measurement of operating lease liabilities:		
Operating cash flows from operating leases	**$ 375**	$ 383

Note 19 – Leases (Continued)

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

(In thousands, except lease term and discount rate)	Balance Sheet Classification	**December 31, 2021**	December 31, 2020
Operating Leases			
Operating lease right-of-use assets	Other assets	**$ 3,962**	$ 4,194
Operating lease liabilities	Other liabilities	**$ 4,278**	$ 4,478
Weighted Average Remaining Lease Term			
Operating Leases		**17.9 years**	18.6 years
Weighted Average Discount Rate			
Operating Leases		**3.68%**	3.66%

Maturities of operating lease liabilities were as follows:

Year Ending December 31,	*(In thousands)*
2022	$ 198
2023	206
2024	217
2025	241
2026	256
Thereafter	3,160
Total minimum lease payments	$ 4,278

Note 20 – Subsequent Events

Management has evaluated subsequent events through March 11, 2022, the date which the consolidated financial statements were available to be issued.

Lyons Bancorp, Inc.

It's all about people.

PROFILE

Lyons Bancorp, Inc. is a financial holding company headquartered in Lyons, New York, with assets of $1.63 billion as of December 31, 2021. Lyons Bancorp, Inc. has a banking subsidiary, The Lyons National Bank.

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

STOCK SYMBOL

LYBC

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Retired Supermarket Executive

Clair J. Britt, Jr.
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Chief Commercial Lending Officer
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MAIN OFFICE

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

NOTES

NOTES

AUBURN

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

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

CANANDAIGUA

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

CLYDE

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

FARMINGTON

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

GENEVA

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

JORDAN

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

LYONS

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

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

MACEDON

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

NEWARK

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

ONTARIO

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

PENN YAN

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

PERINTON PARK

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

SENECA COUNTY

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

WOLCOTT

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

It’s all about people.