SOLVAY BANK CORP.

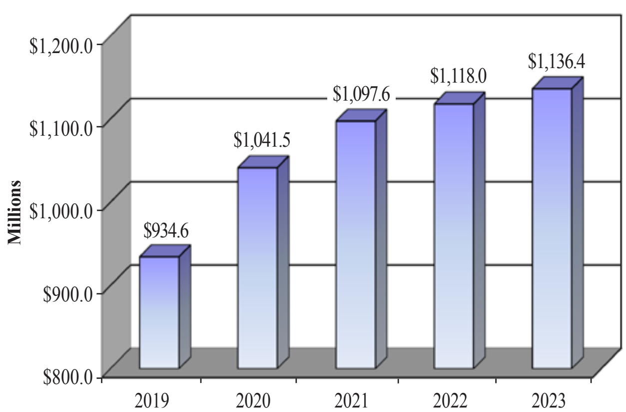
2023 ANNUAL REPORT

Selected Financial Data

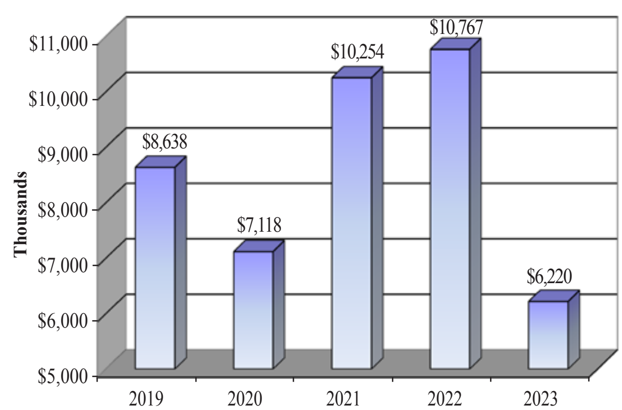
(In thousands, except share and per share data)	**2023**	2022	2021	2020	2019
Balance Sheet Data:					
Total Assets	**$ 1,136,430**	$ 1,117,966	$ 1,097,572	$1,041,470	$ 934,605
Total Deposits	**968,040**	992,029	987,505	906,360	784,102
Net Loans	**690,549**	664,398	617,596	621,800	600,527
Total Securities	**345,495**	381,615	426,844	294,482	280,370
Shareholders' Equity	**$ 77,255**	$ 69,640	$ 99,846	$ 91,139	$ 91,898
Operations Data:					
Net Interest Income	**$ 24,622**	$ 29,150	$ 27,535	$ 24,782	$ 24,435
Net Income	**6,220**	10,767	10,254	7,118	8,638
Cash Dividends	**$ 4,259**	$ 3,863	$ 3,404	$ 3,312	$ 3,082
Per Common Share Data:					
Basic Earnings	**$ 2.45**	$ 4.25	$ 4.04	$ 2.80	$ 3.39
Cash Dividends	**1.68**	1.52	1.34	1.31	1.21
Book Value	**$ 30.47**	$ 27.46	$ 41.34	$ 41.04	$ 39.56
Average Shares Outstanding	**2,535,202**	2,535,202	2,535,202	2,538,635	2,548,625

Per share data and average shares outstanding have been retrospectively adjusted to reflect 5% stock dividends executed on February 24, 2023, February 25, 2022, and March 20, 2020.

Total Assets



Net Income



Common Stock Data

Solvay Bank Corp. common stock is thinly traded in over-the-counter market. The following table sets forth the quarterly high and low price and cash dividends declared for 2023 and 2022.

	2023			2022		
	High	**Low**	**Div**	High	Low	Div
1st Quarter	**$40.00**	**$30.60**	**$0.42**	$42.79	$37.14	$.40
2nd Quarter	**$35.00**	**$28.55**	**$0.42**	$43.00	$37.60	$.40
3rd Quarter	**$30.00**	**$26.00**	**$0.42**	$39.90	$36.00	$.40
4th Quarter	**$31.50**	**$25.10**	**$0.42**	$36.30	$34.00	$.40

Stifel, Nicolaus & Company, Incorporated, 18 Columbia Turnpike, Florham Park, New Jersey 07932 is the market maker for the stock of Solvay Bank Corp. Information concerning the sale or purchase of Company stock may be obtained by calling Andrew Lieb at Stifel, Nicolaus & Company, Incorporated at 800-342-2325 or by writing to them at the above address.

A Message to Our Shareholders

Paul P. Mello, President & Chief Executive Officer

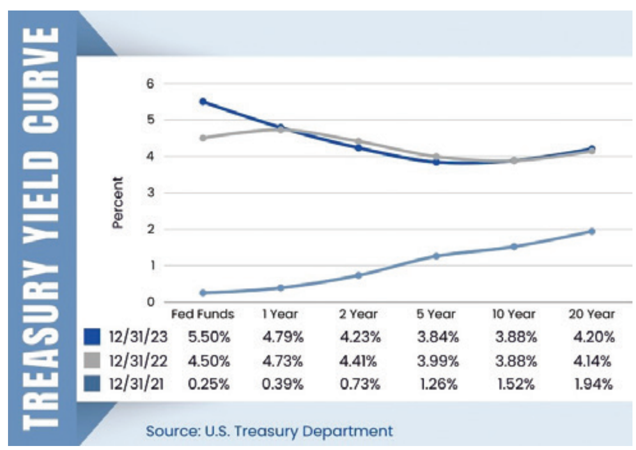
We are pleased with our results given the challenges our industry endured during 2023. Nationwide, interest rates continued their rapid increase, which began in 2022, placing tremendous pressure on most regional and community financial institutions to retain deposits and preserve liquidity. Despite these factors, we remained resilient and successful in providing our customers with outstanding service and meeting their financial needs, as we have over the course of our 106-year history. We were able to retain core deposit relationships, grow lending relationships, earn a respectable return on capital, maintain strong liquidity and capital, and increase dividends paid to shareholders for the 32nd consecutive year.

Our 2023 accomplishments are a testament to the tenacity and dedication of our team and support from our Board of Directors, who work together to advance our multi-year priorities.

We are proud to consistently deliver excellent service and financial results, in any economic environment, for our customers, employees, community, and shareholders.

OUR OPERATING ENVIRONMENT

The past two years have presented an extremely difficult operating environment for our industry. It was one marked with persistently high interest rates and inflation that led to depressed loan demand, intense competition for deposits, and a banking liquidity crisis, in which a few large regional bank failures exacerbated what was an already challenging situation. These combined factors have pressured the cost of deposits and have significantly increased operating expenses for most financial institutions. During this period, the Federal Reserve Bank (the Fed) focused on reducing high inflation by rapidly increasing short-term interest rates. For most community financial institutions, this environment has made it challenging to manage funding costs (deposits and borrowings), which are tied to short-term interest rates. Financial institutions use deposits and borrowings to lend money to businesses and consumers and to invest in debt securities. Loan and investment assets are priced off medium-to-long-term interest rates. Short-term interest rates have exceeded long-term interest rates for nearly a year and a half, causing what is known as an inverted yield curve. The Fed last increased interest rates in July 2023 and has indicated that they will hold interest rates at elevated levels for a longer period of time to reach their policy goals.



In 2024, the markets are anticipating reductions in short-term interest rates through their review of economic data and Fed commentary.

As the industry was bracing for these challenges, your Corporation focused on maintaining strong liquidity and capital. A key strategy in 2023 was to retain core deposit customers, while also attracting new deposits in a competitive market. We believe that leveraging core deposits to fund our growth is prudent, as opposed to other sources of liquidity that are more expensive long-term and less relationship-driven. The cost of retaining these deposits resulted in a significant increase in interest expense during 2023. As mentioned earlier, with the Fed signaling they may be reaching the end of their tightening cycle, we began to aggressively pursue new loan opportunities in the last half of the year while interest rates remain elevated. Our strategy to grow our loan portfolio was successful. We continue to effectively manage through these industry challenges from a position of strength. We have ample capital to deploy, a strong, diverse, and stable base of deposits, generations of loyal customers, and pristine loan and investment asset quality unrivaled by others. We remain agile and responsive to changes in our economic landscape and are well positioned to serve our customers and community.

OUR FINANCIAL PERFORMANCE

Despite the obstacles presented in the past year, our disciplined approach and sound management of our balance sheet, asset quality, and risk management practices contributed to a successful 2023. While we closely monitored our funding costs during the year, market demand along with the shape of the yield curve accelerated interest expense in 2023, which outpaced our growth in interest income on loans and investments. This, coupled with general increases in operating costs, driven by inflation, resulted in a decline in net income compared to 2022.

Net income for 2023 was $6.2 million, declining $4.5 million or 42.2% compared to 2022 and fully reflecting a substantial increase in interest expense, as noted earlier. Operating income (net interest income (NII)) and total other income was $29.8 million, down $4.9 million or 14.1% from the prior year. Our NII, which is the difference between income received from earning assets and interest paid on deposits and borrowings, declined by $4.5 million or 15.5% to a total of $24.6 million. Interest expense grew $9.8 million or 339.8% during 2023 to $12.6 million at year-end, driven by the interest rate environment, the compositional change in deposits to higher priced CDs, and promotional offers to retain core relationships. The NII decline was also due to $601 thousand in revenue from the Paycheck Protection Program that was fully recognized in the prior year, as the program wound down. The higher interest rate environment, coupled with solid loan growth, increased total interest income by over 16%; however, the increase in funding costs grew faster, causing a compression in NII and earnings. Total other income was $5.3 million, decreasing $226 thousand or 4.1%, mostly due to losses on the sale of residential mortgage loans and securities during the year, partially offset by increases in certain fee income. We selectively liquidated assets during the first and fourth quarters to fund the growth in our loan portfolio during 2023. Operating costs grew $1.2 million or 5.6% over the prior year to $22.2 million. The increase was mostly due to a rise in employee salary and benefit costs, contractual price increases from third-party vendors due to inflation, and from investments in technology to grow our business.

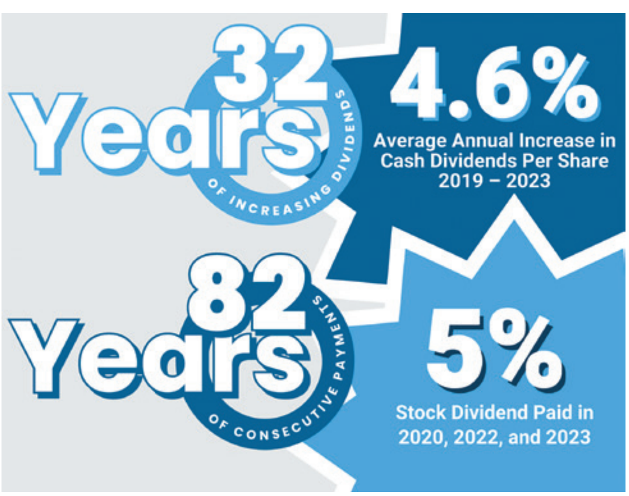
The provision for credit losses on loans was $125 thousand for 2023 and was reflective of continued strong asset quality. The effect of higher interest rates has not impacted our customers' ability to repay loans. Our allowance for credit losses on loans was $8.0 million at December 31, 2023, compared to $7.6 million in the prior year. We successfully implemented a new accounting guidance, known as the current expected credit losses (CECL), to estimate our allowance for credit losses, effective January 1, 2023. The impact of this adoption was negligible and is fully explained in our management discussion and analysis. Our reserve coverage of loans was at 1.15% at December 31, 2023, compared to 1.13% in the prior year. Non-performing loans remain at historic lows and were $467 thousand, compared to $811 thousand the previous year, representing 0.07% and 0.12% of loans at year-end, respectively.

Total assets were a record $1.1 billion, up $18.5 million or 1.7% from last year. Total deposits were $968.0 million, down $24.0 million or 2.4%. As mentioned earlier, maintaining core customer relationships was our focus given the need for liquidity in our industry. Our liquidity position remained steady over the year. We manage deposit fluctuations by borrowing on lines of credit, primarily from the Fed or Federal Home Loan Bank of New York (FHLBNY). Total borrowings were $80.7 million, compared to $49.7 million last year. Our net borrowing position (borrowings less Federal Funds Sold (FFS)) was $44.3 million, compared to $48.9 million at the end of 2022. We chose not to use FFS to pay down borrowings as the strategy was accretive to earnings. Other strategies in place to manage liquidity include multiple relationships with firms providing brokered deposits and a reciprocal deposit program providing additional FDIC insurance protection.

Given the demands to maintain ample liquidity and grow our loan portfolio, we reduced our total investment securities during the year by $36.1 million to $345.5 million at December 31, 2023, compared to $381.6 million the prior year. We utilized proceeds from security maturities and sales, in addition to borrowing funds from the Fed, to fund our growth in loans and to manage a small reduction in deposits. Total loans were $698.6 million at December 31, 2023, up $26.6 million or 4.0% over last year. Total commercial loans were $286.0 million, up $8.9 million or 3.2%. Non-owner occupied commercial real estate increased by $15.9 million, offset by decreases in owner-occupied commercial real estate and commercial and industrial loans of $5.1 million and $2.0 million, respectively. Residential mortgage loans, including home equity loans, were $315.6 million, declining slightly by $755 thousand or 0.2%, primarily reflecting a reduction in volume from higher mortgage interest rates, a tight local housing supply, and the sale of selected residential mortgage loans mentioned earlier. Consumer and other loans were $97.0 million, increasing $18.4 million or 23.5%. Indirect automobile loan production increased significantly due to aggressive price management and higher dealer incentives.

OUR COMMITMENT TO SHAREHOLDERS

Delivering value to our shareholders continues to be an essential component of our Mission. This value has been consistently delivered, as evidenced by the recurring payment of dividends for eighty-two consecutive years. In addition, we have increased the level of dividends paid for each of the past thirty-two years. In 2023, we increased cash dividends paid by 5.0% to $1.68 per share. This increase was in addition to a 5% stock dividend paid in February 2023.



THE VALUED CUSTOMER EXPERIENCE

A driving force for the Corporation is our strong commitment to delivering excellence in the customer experience. It is at the core of our corporate values, and it helps to differentiate us from our competition. As part of our commitment, we continued to adopt new technology and enhanced our digital engagement offerings to best serve our customers' financial needs and security. With the exponential rise in fraud nationwide, we implemented new technology to increase data security and offered tools to help our customers combat fraud. One-time passcodes were introduced, providing consumer online and mobile customers with real-time cybersecurity defense at login. An enhanced positive pay platform for business customers was also introduced, providing stronger management of ACH electronic payments and checks, reducing the potential for fraudulent activity. In addition to strengthened security tools, digital product enhancements were implemented, offering added banking convenience and account accessibility for customers. Zelle, a peer-to-peer (P2P) payments platform was added to our consumer product lineup. Zelle provides a free, convenient, and secure means of digitally moving money through our online banking and mobile app. Late in the year, we added a new online banking feature to extend transaction history, providing customers a more comprehensive view of their financial activity.

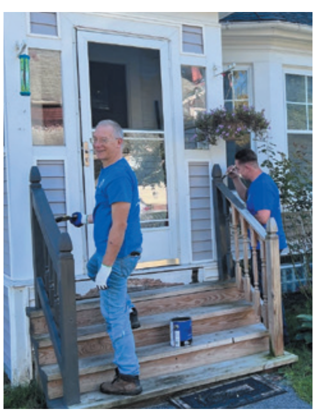
Zelle®, a new peer-to-peer (P2P) payment solution.

A quality customer experience requires new investments in technology, while also leveraging existing technology, for improved operational efficiencies. Using business process management, we streamlined how we onboard customers onto our core system, which led to faster service, reduced error rates, and improved data management. Internal operational enhancements and security were also strengthened through the implementation of Payments Exchange. This technology streamlines wire transfer processing through its direct connection to the Fed, decreasing the potential for errors and eliminating manual steps for our internal team. Additional improvements were made within the mortgage tax escrow administration process with the implementation of a digital solution designed to process these payments. In the fourth quarter, we began the phased implementation of a risk management application designed to provide a robust solution for fraud detection, regulatory compliance, customer management, and more. While leveraging technology advances improves operational efficiencies, an updated, comfortable work environment promotes better team cohesiveness. Along these lines, we began renovating the oldest sections of our corporate office. These renovations will support our teams and improve collaboration and communication. Renovations were completed in early 2024.

One way we measure how we are maintaining quality customer service is by obtaining feedback from our customers. Through new account surveys, scheduled follow-up onboarding calls, website and social media messaging, and professional third-party surveying, we continually measure our level of quality service. At the end of the year, our commitment to this priority was recognized through Solvay Bank's recognition as the 2023 CNY Readers' Choice Winner in the Community Bank category by Syracuse.com and the Post-Standard readers for the second year in a row. This award was based on public votes and celebrates the Bank's outstanding service to CNY customers and the community.

COMMUNITY ENGAGEMENT

We had many notable accomplishments in 2023 that furthered our multi-year priorities, but of equal importance and as an integral part of our corporate values is serving the needs of our community. Our employees are proud to play a role in the communities in which we serve. Solvay Bank team members donated 1,100 hours to organizations by serving on boards and supporting local schools, non-profit, and civic organizations. These commitments from our team offered valuable time and expertise to local organizations, while enriching the lives of our team members. It also provides us valuable insights into community needs. One issue identified for our community is the absence of an affordable supply of housing.



Solvay Bank team members helped repair a home at the Home HeadQuarters 2023 Block Blitz.

Helping to facilitate homeownership is an important component of our Mission. Our suite of housing programs continued to be at the center of these efforts, which was evidenced through multiple partnerships with organizations that have a shared focus on affordable housing.

We partnered with the FHLBNY to provide grants for closing cost assistance to income eligible first-time home buyers. Under this program, we closed over $1.0 million in mortgages in 2023. Since 2016, we originated more than $7.3 million in mortgages, providing homeowners with nearly $700 thousand in closing cost assistance.

We purchased $2.1 million in residential mortgage loans originated by Home HeadQuarters, Inc. (HHQ), a local community development financial institution that focuses on affordable housing. This purchase provided HHQ with liquidity to continue its lending activities in our market. We also provided HHQ with an extremely low interest rate loan to expand their Flex Fund program, which provides home improvement financing to homeowners with limited equity in their home. Finally, we issued a line of credit to HHQ, which will support the building of affordable housing under the City of Syracuse's Resurgent Neighborhoods Initiative.

We assisted Syracuse University (SU) employees in purchasing homes in the city of Syracuse through our partnership with SU on its Live Local initiative. Through this program, SU employees can finance up to 100% of the purchase price of their home. Nearly $1.1 million in mortgages were made through the program in 2023.

John Petrus, VP, Residential Lending Manager, congratulated Roshawn Kershaw for closing on her new home through the Syracuse University 'Live Local' program with Solvay Bank.

Along with affordable housing, we focused on other programs that address community needs as well as the financial well-being of our customers. We worked with the FHLBNY in another capacity to aid nineteen small businesses by partially subsidizing their interest costs through the FHLBNY's Zero Percent Development Advance Program. In addition, we were pleased to be able to participate in FHLBNY's 2023 Small Business Recovery Grant Program, which provided grant funding for certain qualifying non-profits and businesses. We procured grant funds totaling $50 thousand to support ten non-profit customers through this program.

Our New Leaf checking account was approved and certified as a “Bank On” product. Bank On is a national platform that supports financial institutions’ efforts to connect consumers to safe, affordable bank accounts, bringing many into the financial mainstream. We also redesigned our checking account overdraft program, reducing fees for customers impacted by higher living costs.

New financial education programs were introduced in the fourth quarter. Safe Banking for Seniors, an open to the public, seven-part program, was piloted at a local library. It includes several topics on protecting against elder financial abuse. In addition, a video creation contest was held at a local high school, providing students with the opportunity to create a video on a financial topic of their choice. The winner was awarded a local prize and submitted to a national contest.

OUR TALENTED TEAM

At Solvay Bank, we strive to attract and retain the most talented individuals who bring their unique skills, expertise, and passion for community banking to the table. It is through their collective efforts that make us a successful community bank. In an ever-changing business landscape, like what we have experienced the last several years, our team members have shown remarkable adaptability as they quickly adjusted to current market dynamics. Their ability to embrace change has allowed us to remain agile, while continuing to push forward with our operating plan. We remain committed to developing our workforce by investing in their growth, providing learning opportunities, and creating an inclusive environment that values and rewards their contributions.

The following employees were promoted this year for their expertise and devotion to our community banking model:

- *Jeannette Armstrong, promoted to Banking Officer, Electronic Banking Services Manager*
  Jeannette’s primary responsibility is to manage the suite of digital banking solutions for business customers. Her team supports our growth in digital banking solutions.
- *Janus Lighton, promoted to Assistant Vice President, Branch Manager*
  Jan is the manager of the Camillus Office and is responsible for operational oversight and providing exceptional customer experience. Jan truly embraces our community banking model.

Joining us in 2023, the following new employees bring an impressive blend of experience, skills, and knowledge:

- *Douglas Crego, Vice President, Senior Commercial Loan Officer, Commercial Team Leader*
  Doug provides oversight to a team of commercial relationship managers and coaches them to support the Bank’s goals. Doug has an extensive commercial lending and banking background.
- *Renee Dellas, Vice President, Commercial Banking Manager*
  Renee is charged with leading the commercial lending team, guiding them in their development of new business relationships, and supporting existing clients through a high level of customer service. Renee also has an extensive commercial lending and banking background.
- *Cristina Diamond, Assistant Vice President, Branch Manager*
  Tina is the manager of the Westvale Smart*Office and is responsible for operational oversight and providing exceptional customer experience. Tina is a team oriented leader and supportive of our branch team.
- *Michael Kinahan, Banking Officer, BSA & Security Analyst*
  Mike monitors and ensures compliance with designated laws and regulations affecting the Bank. Mike’s investigative background supports these efforts.
- *Matthew Nicholl, Vice President, Commercial Loan Officer*
  Matt is newly hired to support our commercial banking expansion in the Mohawk Valley area, a new market for the Bank. Matt has spent the majority of his career in the Mohawk Valley and will focus on developing new business relationships for the Bank.
- *Stephanie Reusswig, Assistant Vice President, Consumer Lending Manager*
  Stephanie oversees all aspects of consumer lending including consumer loan portfolio growth, product development, policy and procedures, and a team of underwriters. Stephanie brings community spirit along with extensive consumer lending experience in banking.
- *Nicholas Shaffer, Assistant Vice President, Assistant Information Technology Manager*
  Nick’s role is to drive department initiatives to streamline processes, ensuring the smooth running of the Bank’s network and computer systems. Nick brings expertise and passion in this new role at the Bank.

- *Joseph Skinner, Vice President, Commercial Loan Officer*
  Joe is responsible for developing new business relationships and supporting existing clients. Joe embraces the spirit of community banking in his approach to servicing clients and promoting Bank services.

Attaining retirement milestones in 2023, we appreciate the contributions to our Bank and our community made by the following team members:

- *Pat Carbone, Assistant Vice President, Security Officer & Facilities Manager*
  Pat retired after many years of service to the Bank in his current role, as well as roles in branch management and commercial lending.
- *Sandra Kalbach, Vice President, Trust & Investment Department Manager*
  Sandy retired after spending most of her career in Trust Administration and was very helpful to our Bank in the development of our Trust Administration business.

THE YEAR AHEAD

As we embark on 2024, we anticipate both challenges and opportunities ahead. With persisting pressure given the economic environment nationwide, our Vision continues to set direction and guide us towards our priority goals aimed at growing our business. Our focused approach is centered around deepening relationships with current customers, through enhancements in service and experience, and attracting new customers in our communities and adjoining markets. Planned initiatives for the year provide both growth and opportunity in the areas of market and business expansion and additional digital capabilities.

We are expanding our commercial lending service area into the Mohawk Valley. We believe the market represents a good opportunity for us to grow in Central New York. As mentioned earlier, a new commercial lender from the market was welcomed to our team. Apart from this market expansion, we are finalizing plans for our tenth branch office. In the first quarter, we will start a new Small Business Lending Program focused on targeting micro-to-small businesses. This will position the Bank for more small business lending opportunities.

Our digital product offerings will be comprised of a brand new platform, including new data-rich tools, allowing consumer and business customers to manage all their finances from one convenient location. A new credit card platform will be launched offering our customers many enhancements, including contactless cards, integration with our mobile app, and an improved card management portal for business customers. The adoption of the same day ACH payment method will allow our business customers to transfer electronic funds between bank accounts within the same day, adding to our menu of payment capabilities.

While higher interest rates will remain an obstacle, our team continues to push forward on our initiatives with perseverance and from a position of strength. Together, with the support of our Board of Directors, we look forward to continuing our growth and to supporting our customers and communities. Your Corporation remains focused on our Mission of providing the best experience for our customers to help make their financial dreams come true, while upholding socially responsible and community-minded principles, and delivering value to our shareholders. As always, I thank you for your continued support, loyalty, and confidence in Solvay Bank Corp.

Very truly yours,

SOLVAY BANK CORP.

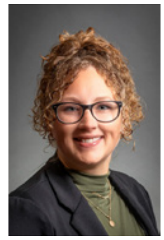
Paul P. Mello

Paul P. Mello
President & Chief Executive Officer

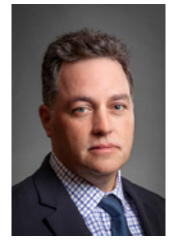
New Hires

Douglas Crego
Vice President,
Senior Commercial Loan Officer,
Commercial Team Leader

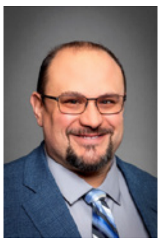
Renee Dellas
Vice President,
Commercial Banking Manager



Cristina Diamond
Assistant Vice President,
Branch Manager

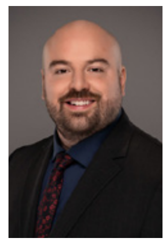


Michael Kinahan
Banking Officer,
BSA & Security Analyst



Matthew Nicholl
Vice President,
Commercial Loan Officer

Stephanie Reusswig
Assistant Vice President,
Consumer Lending Manager



Nicholas Shaffer
Assistant Vice President,
Assistant Information
Technology Manager

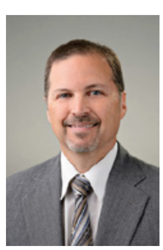
Joseph Skinner
Vice President,
Commercial Loan Officer

Promotions

Jeannette Armstrong
Banking Officer,
Electronic Services Manager

Janus Lighton
Assistant Vice President,
Branch Manager

Retirements



Pat Carbone
Assistant Vice President,
Security Officer &
Facilities Manager

Sandra Kalbach
Vice President,
Trust & Investment
Department Manager

Management's Discussion and Analysis of Financial Condition and Results of Operations

Solvay Bank Corp. (the Company) is a one-bank holding company incorporated in 1987. Its only subsidiary is Solvay Bank (the Bank), which was incorporated in 1917. The Bank is a state-chartered independent commercial bank, delivering comprehensive financial services through its offices in Solvay, the Village of Camillus, downtown Syracuse, Westvale in the Town of Geddes, North Syracuse, Liverpool, Cicero, DeWitt and Baldwinsville. Solvay Bank Insurance Agency, Inc. (SBIA), a wholly-owned subsidiary of Solvay Bank, operates as a general life, health, and property and casualty insurance agency. The Bank is also a majority owner of Solvay Realty Corp., a real estate investment trust company. The operations of these two companies are consolidated into the operations of the Bank and the Company.

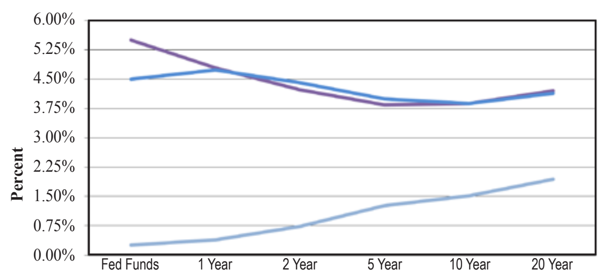
The following management discussion and analysis describes the Company's financial condition and operating results for 2023. This section should be read in conjunction with the accompanying graphs, consolidated financial statements and supporting notes to consolidated financial statements contained within this Annual Report.

Financial Condition

Overview

As an industry, we have been challenged over the last few years as the Federal Open Market Committee (the Fed), which is an arm of the Federal Reserve Banking System, has been raising interest rates in one of its most aggressive tightening cycles since the early 1980's. As part of its monetary policy and strategy, the Fed monitors and sets the Federal Funds Rate (FFR). The FFR is a targeted rate established by the Fed to influence short-term interest rates on the United States Treasury Curve (the Curve). It is one of their primary tools to influence economic activity, for both growth and curtailment. In early 2022, as the economy began to navigate through the post-pandemic period, the economic landscape began to shift. Consumer spending remained strong, aided by high cash reserves from Federal government stimulus programs. The labor markets continued to show remarkable resilience, remaining historically tight as the unemployment rate finished the year at 3.5% in 2022. Wage pressures escalated over the 2022 year as businesses tried to retain and acquire talent, paying significantly higher wage premiums. With economic growth, inflation began to become unruly as prices continued to rapidly rise, driven by high demand, a lack of worker availability, wage pressures and supply chain issues. As a result, inflation grew to a forty-year high, reaching 9.1% in June 2022. In response, the Fed was committed to reduce the price escalations to a more sustainable level and began increasing the FFR in March 2022 and continued their monetary policy objectives into 2023, ending with its last increase in the FFR in July. They raised the FFR by 525 basis points over that period. This tightening cycle marked the fastest and largest increase in short-term interest rates in over four decades. Short-term interest rates along the Curve grew at a faster pace than longer-term interest rates, which created what is known as an inverted yield Curve. The Fed's monetary policy efforts seemed to be taking hold as inflation subsided in 2023 to 3.4% and unemployment remained stable at 3.7%. As a result, the Fed paused on further tightening measures over the second half of 2023. They continued to reiterate their dual mandate to foster maximum employment and maintain price stability (low inflation), helping to support economic stability. They stated over the second half of 2023, short-term interest rates would remain higher for longer as they try to balance economic growth, avoid a future recession, and orchestrate a "soft landing" for the economy.

Comparison of Treasury Yield Curve



	Fed Funds	1 Year	2 Year	5 Year	10 Year	20 Year
12/31/23	5.50%	4.79%	4.23%	3.84%	3.88%	4.20%
12/31/22	4.50%	4.73%	4.41%	3.99%	3.88%	4.14%
12/31/21	0.25%	0.39%	0.73%	1.26%	1.52%	1.94%

Source: U.S. Treasury Department

The Fed's actions, however, have resulted in a sustained inversion in the Curve which has lasted much longer than in any other previous tightening cycle (see US Treasury Curve graph) and has significantly impacted deposit pricing for most financial institutions. Interest rates on the shorter end (one year or less) of the Curve have grown over 500 basis points since 2021, impacting pricing for deposits and borrowings. This has placed a significant amount of pressure on the Company's earnings. On a positive note, medium and longer-term Treasury rates also increased, favorably impacting loan and security rates. Correspondingly, the Prime Rate over the past two years has also grown as financial institutions moved the Prime loan rate up from 3.25% to 8.50%, influencing rates offered on business loans and mortgages. This has helped grow the Company's interest income.

The sustained inversion of the Curve and the Fed's measured and expedited tightening monetary policy (noted above) significantly influenced the financial results of the Company. Increases along the mid-to-longer end of the Curve helped improve the Company's interest income; however, the growth in interest expense outpaced the Company's revenue growth in 2023. While we are pleased with our operating efforts, strong liquidity, capital growth and outstanding asset quality, our net income for the year was $6.2 million, declining $4.5 million or 42.2% from our record 2022 results.

The Company's operating income (Net Interest Income (NII) and total other income), was $29.8 million, down $4.9 million or 14.1% from the prior year. Our NII, which is the difference between income received from earning assets and interest paid on deposits and borrowings, declined by $4.5 million or 15.5% to total $24.6 million. Interest expense grew $9.8 million or 339.8% during 2023 to $12.6 million at year-end, driven by the costs of deposits and borrowings. NII was further reduced by $601 thousand as revenue from the Paycheck Protection Program was fully recognized in the prior year due to the program winding down. The inversion in the Curve as noted earlier and the speed at which the Fed navigated the rate increases also created issues for the industry, giving banks little time to manage the rapid change in interest rates. This recent tightening of monetary policy was the second largest increase in the Fed's history, over the shortest amount of time. Higher interest rates and growth in our loan portfolio increased total interest income by over 16%; however, the increase in funding costs grew faster, causing a compression in NII and earnings. Total other income was $5.3 million, decreasing $226 thousand or 4.1%, mostly due to losses on the sale of residential loans and securities during the year, offset by increases in certain fee income. Operating costs grew $1.2 million or 5.6% over the prior year to $22.2 million. The increase was mostly due to a rise in employee salary and benefit costs, contractual price increases from third-party vendors due to the rate of inflation, and from investments in technology to grow our business.

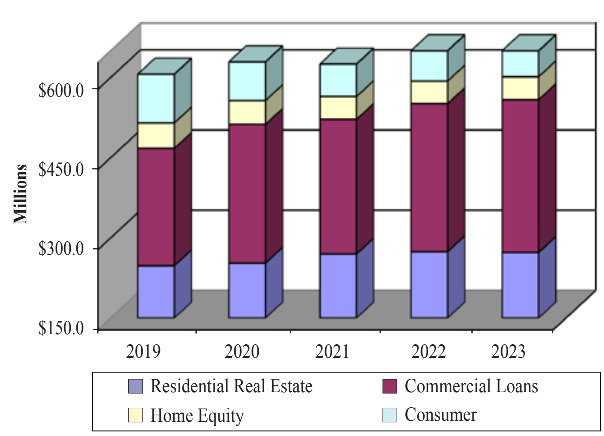
The provision for credit losses on loans was $125 thousand for 2023 and was reflective of continued strong asset quality. The effect of higher interest rates has not impacted our customers' ability to repay loans. Our allowance for credit losses on loans was $8.0 million at December 31, 2023, compared to $7.6 million in the prior year. Effective January 1, 2023, we were required to adopt new accounting guidance, commonly known as the current expected credit loss (CECL), to estimate the allowance for credit losses. This accounting standard requires forward-looking considerations and forecasting, versus the historical, incurred loss calculation previously used. CECL also applies to off-balance sheet commitments and investment securities. In 2023, we recorded $15 thousand in provision expense for off-balance sheet commitments and no provision for investment securities. Upon adoption, the implementation expenses were recognized through retained earnings, as allowed by the standard, and any further provisioning during the year was captured in provision expense as a reduction of net income. Our reserve coverage of loans was at 1.15% at December 31, 2023, compared to 1.13% in the prior year. Non-performing loans remain at historic lows and were $467 thousand compared to $811 thousand the previous year, representing 0.07% and 0.12% of loans at year-end, respectively.

Total assets of the Company were a record $1.1 billion, growing $18.5 million or 1.7% compared to last year. Assets were muted by temporary unrealized losses on the market value of our available-for-sale (AFS) securities portfolio for the second year in a row. Mark-to-market adjustments were $44.7 million at December 31, 2023, compared to $52.9 million at December 31, 2022. This temporary reduction in the market value of our securities portfolio, and thus total assets, was driven by significant increases in interest rates along the Curve, over the past twenty plus months. The reduction in our AFS securities portfolio also extended into the Bank's deferred tax assets and shareholders' equity as an accumulated other comprehensive loss. This adjustment temporarily impacted our book equity, net of tax. The unrealized loss may be reduced as securities mature, if interest rates decline, or if securities are purchased at current market rates. Currently, there are no credit concerns within the portfolio, as many of the Company's holdings carry the implicit or explicit guarantee of the federal government. Without consideration of the AFS impact, securities decreased by $44.3 million over the prior year. The Company utilized these funds to help support loan growth, deposit outflows and to improve its liquidity. Total deposits declined by $24.0 million or 2.4%, as customers searched for higher priced options and businesses utilized idle funds to pay down higher priced loan products. This reduction in deposits, coupled with steady loan growth throughout the year, resulted in the Company requiring additional funding. Borrowings grew to $80.7 million, an increase of $31.0 million compared to the prior year. Primarily, these were short-term borrowings maturing in one year or less.

The Company's continued focus in 2023 was to grow its earning assets into higher yielding loan products, investing in higher interest rates as influenced by the Fed's actions. Total loans were $698.6 million at December 31, 2023, up $26.6 million or 4.0% from last year. Total commercial loans increased $8.9 million or 3.2% from last year. Non-owner-occupied commercial real estate increased by $15.9 million, commercial real estate declined by $5.1 million, and commercial and industrial loans decreased slightly by $2.0 million. Residential mortgage loans, including home equity loans, remained stable at $315.6 million as compared to last year. Consumer and other loans increased $18.4 million or 23.5% from last year. Indirect loan production increased significantly due to active price management and business development initiatives. The Company effectively managed its liquidity through this tumultuous operating environment, competing for deposits in a heavily banked marketplace. The cost of retaining and growing new deposit relationships outpaced the repricing and growth within our earning asset portfolios, as noted earlier. As a result, the Company's NII and Net Interest Margin (NIM) declined. The Company's NIM is measured by the difference between total interest income and total interest expense divided by total average assets. NIM fell

38 basis points in 2023 to 2.22%. Earning assets comprised 94.4% and 93.6% of total assets at December 31, 2023 and 2022, respectively. Total shareholders' equity grew to $77.3 million as compared to $69.6 million last year. As noted earlier, the Company's book equity, net of tax, was also impacted by the significant rise in interest rates beginning in the first quarter of 2022. Unrealized losses on the market value of available-for-sale securities were recorded through accumulated other comprehensive loss, hence temporarily reducing book equity by $33.0 million (net of tax) in the year. The Company increased its cash dividend declared on its common stock by 5.0% over the previous year. The total cash dividend declared in 2023 was $1.68 per share, in addition to a 5% stock dividend paid during the year. The Company has increased its cash dividends paid for thirty-two consecutive years and has also paid a dividend without interruption for the past eighty-two years. The Company's average dividend increase was 4.6% over the past five years.

Composition of Loans



Note: Commercial loans includes Commercial & Industrial and Commercial Real Estate

Loans

As previously mentioned, a priority focus in 2023 was to deploy funds into higher yielding loan products, primarily commercial loans. The Company's strong balance sheet, ample liquidity and disciplined credit approach were factors that allowed us to lend and grow loans in the year. The Paycheck Protection Program (PPP) loan program, which helped fund nearly 1,200 applicants over the two rounds in 2020 and 2021, was satisfied at December 31, 2023 and we recognized the remaining $601 thousand of revenue from the program in 2022. This remarkable program and partnership with the Small Business Administration (SBA) supported the sustainability of local business in their time of need. As you may recall, the PPP was a forgivable loan program designed to provide a direct incentive for small businesses to keep their employees on the payroll during those years.

The Company's loans grew to $698.6 million at December 31, 2023, up $26.6 million or 4.0% from last year. The commercial loan portfolio increased to $286.0 million, as compared to $277.1 million in the prior year. The Company's commercial real estate loan footings grew $10.8 million and commercial and industrial loans declined slightly, by $2.0 million, as some borrowers decided to pay down or off their loans/lines as interest rates grew significantly in the past two years.

Residential real estate loans declined slightly by $1.4 million or 0.5% as compared to 2022. A competitive housing market for homebuyers due to lower existing home inventory stock and the rapid rise in mortgage interest rates significantly impacted residential application volume. Also, the Company sold $3.6 million in loans during the first quarter of the year to strengthen its liquidity position and to support compositional growth strategies. Home equity loans increased slightly by $659 thousand or 1.6% to $42.8 million as compared to $42.1 million in the prior year. This increase was related to the strength in consumer spending as homeowners continued to access home equity lines and loans for home improvement projects and general needs.

Consumer and other loans were $97.0 million compared to $78.5 million in the prior year, significantly growing by $18.4 million or 23.5%. Consumer loans include direct installment loans, indirect loans (from the Company's relationships with automobile dealers), and credit cards. The Company's indirect loan production grew significantly during 2023 due to aggressive price management and business development activities. The Company's strategy in general was to replace incoming lower yielding loan cash flows with higher priced loans. The indirect automobile portfolio was no different, as customer demand was consistent in this sector.

The total loan portfolio yielded 4.31% in 2023 compared to 3.83% in 2022. The increase in 2023 was directly due to repricing of certain loan products to higher interest rates, as rates along the mid to longer-term increased over the past two years. This increase was partially assisted by the Company's compositional growth in commercial real estate loans, indirect loans and from the rise in interest rates, notably prime-based loans.

Securities

The principal objectives of the Company's security portfolio are to provide liquidity for future funding needs, a safe and lower-risk investment alternative for idle funds, and a stable source of core earnings. Accordingly, the Company primarily purchases U.S. Government and Government-sponsored agency bonds, corporate bonds, and municipal bonds in New York State or local obligations from the Company's surrounding communities. These bonds are conservative in nature; the majority of the Company's security holdings have the highest credit ratings available.

Total securities were $345.5 million at December 31, 2023 compared to $381.6 million in the prior year, decreasing $36.1 million or 9.5%. Securities were significantly impacted by unrealized losses on the market value of our AFS portfolio due to the rapid rise in interest rates (as noted in the Overview). Mark-to-market loss adjustments were $44.7 million and $52.9 million at December 31, 2023 and 2022, respectively. This reduction is expected to be temporary as the market value of our AFS securities portfolio was driven by the Fed's response to reign in inflationary pressures by accelerating interest rates to slow economic growth and maintain price stability (lower inflation). The unrealized loss may be reduced as securities mature, if interest rates decline, or if securities are purchased at current market rates. Currently, there are no credit concerns within the portfolio, as many of the Company's holdings carry the implicit or explicit guarantee of the federal government. Securities declined $44.3 million over the prior year without the recognition of the AFS adjustment. This decline includes security sales during the year of $19.3 million, which resulted in a net loss to the Company of $396 thousand. The proceeds of the sale along with scheduled maturities helped support our loan growth and offset deposit outflows, which improved the Company's overall liquidity position. A portion of the sale was earmarked to be reinvested in early 2024 to improve future earnings and the overall return on the securities portfolio. The portfolio's average balance, excluding the market value adjustment, was $413.2 million at December 31, 2023 compared to $443.9 million at the end of 2022. Investment income improved to $7.5 million, a $378 thousand or 5.3% increase compared to the prior year. The securities portfolio yielded 1.82% in 2023 compared to 1.61% in the prior year. The increase in income and yield over the prior year was driven by the repricing of incoming cash flows to higher interest rate securities, measured purchases in higher yielding investment products, and slower prepayments, which lowered the acceleration of the amortization of bond premiums.

The portfolio provides consistent cash flows and is a source of liquidity to fund future loan production. At December 31, 2023, the fair value of the securities portfolio was $345.5 million, compared to an amortized cost basis (adjusted for the amortization or accretion of premiums or discounts) of $390.2 million. As previously noted, the fair value of our AFS investment portfolio was significantly impacted by the rapid rise in interest rates along the Curve. Approximately 97.4% of the portfolio was classified as available-for-sale and 2.6% classified as held-to-maturity, compared respectively to 98.1% and 1.9%, respectively in 2022. The slight decline relates to reduced investment security purchases in the current year as well as the reduction in the portfolio related to the sale.

In 2023, the Company's securities portfolio objective was to manage its credit, concentration, and interest rate risk, while sustaining ample liquidity and seeking opportunities to improve its portfolio return in the rising interest rate environment. The Company continued to adhere to its investment policy guidelines in 2023. The Company maintained a diversified portfolio, considering cash flow characteristics of individual bonds, geographic concentrations, rate volatility, as well as overall investment returns. The Company continued to purchase and support its local municipalities and their need for credit in 2023. Other portfolio purchases were measured for most of the year as the Company wanted to ensure its liquidity remained strong to support loan growth and higher than normal deposit outflows. Purchases, in general, resumed in late 2023, as the Company was seeking to invest in high quality securities, without significantly extending the portfolio duration. The Company generally purchases securities that mature within 15 years or less. However, this excludes mortgage-backed securities and SBA pools whose maturities are determined by the securities' structure as well as expected prepayment speeds, normally dictated by the existing interest rate cycles. At December 31, 2023, securities scheduled to mature within one year were $10.9 million or 3.2% of the portfolio, compared to $11.5 million or 3.0% in the prior year. At December 31, 2023, U.S. Government agency and Government-sponsored entity holdings had an amortized cost of $294.5 million, compared to $323.2 million in 2022, a decrease of $28.8 million. Included in the Government agency holdings were investment securities of $166.3 million and $180.5 million in 2023 and 2022, respectively, that held the explicit guarantee of the U.S. Government. The Company modestly reduced its Corporate Bond portfolio, through investment sales and/or maturities, by $5.0 million to $48.3 million at December 31, 2023. The Company supports local municipalities' requests for financing and includes these investments in its state and political subdivision portfolio. The municipal bond portfolio was $47.4 million at December 31, 2023, compared to $57.9 million in 2022. This reduction relates to security sales and general maturities within the portfolio. The Company is an active supporter to its municipal customers' funding needs.

In general, the investment portfolio's liquidity position will allow the Company to meet its short-term and future funding needs. Approximately 31.6% of the portfolio is due to mature within five years, increasing from 25.1% in 2022. The actual maturities of securities may differ from their stated maturities because certain agency bonds and mortgage-backed securities may have call or prepayment options. The Company's amortizing securities provide consistent monthly cash flows; however, these investments generally carry a stated maturity greater than five years. The Company also sold $19.3 million in investment securities for a loss of $396 thousand to support liquidity in 2023. Of this amount, in the month of December, $11.2 million was sold as part of a securities sale strategy to improve future earnings. This transaction resulted in a loss of $339 thousand, representing nearly 90% of the total recorded loss on security sales and nearly 60% of the total sold principal balance for all of 2023. These proceeds were reinvested at higher interest rates in early 2024, improving future earnings. The Company sold or had securities called of $9.1 million for a loss of $164 thousand in the prior year.

Asset Quality and Allowance for Credit Losses

The credit quality of the Company's assets is a measure of the amount of credit risk inherent in these assets. Credit risk is the risk that some loans, investments or off-balance sheet commitments may be at risk of default. Credit risk is predominantly inherent in lending activities, which are the Company's primary source of earnings. The Company measures asset quality, and thus credit risk, through several distinct methods, for loans as well as certain other earning assets (investments securities), inclusive to its unfunded off-balance sheet credit exposures.

The Company was required to adopt Accounting Standard Update (ASU) 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments as of January 1, 2023. This ASU replaced the incurred loan loss methodology with the current expected credit loss methodology that is commonly referred as the CECL methodology. The Allowance for Loan and Lease Losses (ALLL) was replaced in 2023 by the Allowance for Credit Losses (ACL). The measurement of expected credit losses under the CECL methodology extends to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities that may require considerations for recording credit loss expense. It also applies to off-balance sheet credit exposures (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). The accounting pronouncement required the Company to record and measure the ACL for each of the areas noted above, as of the January 1, 2023, adoption date. The guidance allowed the Company to record a one-time adjustment through its retained earnings, at the adoption date, versus impacting its current year earnings. The transition adjustment included a $242 thousand impact for increasing the ACL on loans and a $145 thousand impact for the recognition of an off-balance sheet reserve liability. There were no reserve requirements needed for investment securities. The cumulative effect of adopting the pronouncement was $387 thousand, net of tax, to retained earnings on January 1, 2023. At least quarterly, the Company measures its ACL for loans, securities and unfunded commitments and adjusts these reserves accordingly. Adjustments subsequent to the January 1st adoption date were recorded in provision for credit losses – loans, investment securities and off-balance sheet commitments. Prior period amounts continue to be reported in accordance with previously applicable Generally Accepted Accounting Principles (GAAP).

The Company's objectives are to maintain an ACL over its loan portfolio that is sufficient to cover losses expected on individual underperforming loans, distinct loan segments based on historical losses, reasonable and supportable expected losses, and losses reflecting inherent considerations for future performance, based on several economic factors. The Company will also consider an ACL for its securities portfolio as deemed necessary, evaluating credit and interest rate risk factors. Lastly, the Company will maintain an off-balance sheet reserve that captures exposure to credit losses on unfunded commitments. The Company uses several factors as it considers the appropriate amount of coverage for its allowance for credit losses for all three areas. This includes for its loan and off-balance sheet analysis the incorporation of third-party modeling software, which considers historical data and statistical analysis on past performance, including periods of economic stress. Discounting cash flows, default risk, and changes in prepayment and curtailment rates are modeled to forecast a reasonably expected ACL for its loan portfolio. Quantitative and Qualitive factors continue to make up the Company's ACL analysis for its loan portfolio. The Company also conducts at least quarterly an analysis of its securities portfolio for both its available-for-sale securities (AFS) and held-to-maturity securities (HTM). For AFS, an analysis is conducted to determine if a decline in fair value is below the amortized cost basis due to credit losses or other factors deemed other than temporary in nature. The Company also measures expected credit losses within its held-to-maturity securities on a collective basis, when similar characteristics exist. If similar characteristics are not shared, the securities are evaluated on an individual basis. When developing an estimate ACL for the HTM portfolio, the Company shall consider several factors which may include internal and external information, past and current conditions of the credit, along with financial and supportable forecasts of solvency. At December 31, 2023, the allowance for credit losses for the Company's loan portfolio was $8.0 million under the Company's CECL methodology. For its securities portfolio, no allowance was deemed necessary based on the Company's analysis and due to the credit nature of the security holdings. The allowance for unfunded commitments was $215 thousand.

The remainder of the analysis shall focus on other reporting metrics and measurements that the Company considers as part of its overall evaluation of its loan portfolio. Nonperforming assets consist of nonaccrual loans, loans ninety days past due and accruing, as well as other real estate owned (ORE). Loans are generally placed on nonaccrual when a loan becomes ninety days past due or when the collection of the contractual interest amount or principal is determined to be doubtful. Each nonaccrual loan is in one of the various stages of collection including, but not limited to, restructuring of terms and conditions, settlement, lawsuit, or foreclosure. ORE consists of property obtained in satisfaction of debts previously contracted. There were no ORE assets at December 31, 2023 or 2022. Nonperforming assets decreased to a historic low of $470 thousand or 0.04% of total assets and were 0.07% of total loans at December 31, 2023, compared to $811 thousand or 0.07% of total assets and 0.12% of total loans at the end of 2022.

Total Classified and Special Mention loans were $10.4 million, increasing by $2.3 million as compared to the prior year. In the fourth quarter of 2023, one particular relationship was downgraded due to construction delays, which required the Company to extend its interest only period on the note. The Company continues to have active communications and expects the notes to perform within their agreed upon terms. As of January 1, 2023, the Company was required to individually analyze loans for credit deterioration that do not have similar characteristics for potential credit losses for its corresponding loan segment. This requirement was part of ASU 2016-13. These loans now are individually analyzed separately for ACL loan reserves. This evaluation may consider a discounted cash flows analysis or the underlining fair value of collateral. If necessary, a reserve is included within the ACL for loans. For the year-ended December 31, 2023, the Company's review of individually analyzed loans was $452 thousand, and the ACL recorded was minimal. In the prior year under previous accounting guidance, these notes were noted as impaired loans and held a value of $1.9 million and there was no related allowance for loan loss recorded. The Company considers several factors as it monitors the credit quality of its loan portfolio. Furthermore, the Company continues to see sustained and active loan repayment on all its loan segments.

The Company maintains an allowance for credit losses for its loan portfolio through a charge to current earnings based upon specific, forecasted, subjective, and general evaluations of its loan portfolios. The Company adopted the CECL methodology in 2023, as previously noted earlier. The ACL was $8.0 million at the end of 2023, which reflects the adoption of CECL adjustment of $329 thousand at January 1, 2023. The ACL was also increased in 2023 from recoveries of previously charged-off loans totaling $110 thousand and from provision for credit losses on loans for $125 thousand. Loans charged-off totaled $143 thousand during the year, which reduced the ACL. In 2022, the Company was under the incurred loss methodology for its ALLL calculation, and the balance was $7.6 million at December 31, 2022. The allowance increased in 2022 from recoveries of previously charged-off loans totaling $146 thousand and was reduced by $132 thousand for loans charged-off. There was no provision expense in 2022.

At December 31, 2023, the allowance covered approximately 1,227% of nonaccrual loans compared to 740% in the prior year. The adequacy of the allowance is evaluated monthly by management and is reported to the Company's Board of Directors. The evaluation consists of a comprehensive analysis of specific loans, which have credit weaknesses, and a general analysis of the remaining portfolio. Loans not specifically reviewed, such as residential mortgages and consumer loans, are included as part of the general analysis. As part of its analysis of the adequacy of the allowance, management also relies on a third-party loan review company, which annually reviews certain commercial relationships within the portfolio for credit risk and independently reports to the Board of Directors' Audit and Risk Management Committee.

Management believes that the allowance as of December 31, 2023 and 2022 was adequate to cover probable losses inherent in the loan portfolio based upon the quality of the portfolio and current economic conditions. As with any financial institution, a poor economy, high unemployment, elevated inflation, or high interest rates may lead to additional losses in the loan portfolio. If economic conditions in our local marketplace deteriorate significantly, an alteration of various estimates and appraisals of current value would be necessary, which would influence the calculation of the allowance. Under such circumstances, it is probable that additional assets would become nonperforming; accordingly, additional provisions for credit losses within the loan portfolio would be required. The likelihood of such events and their duration cannot be predicted at this time.

Liquidity Management and Capital Resources

Liquidity Management

The purpose of liquidity management is to properly manage cash to meet the financial needs of the Company, while at the same time maximizing income. Liquidity is available through cash on-hand, interest-bearing deposits with banks, Fed Funds Sold, maturing securities and amortizing bond payments, incoming deposits, brokered deposit relationships, cash inflows from loans (maturities and/or principal payments), sales of assets, and borrowings under lines of credit. Financial outflows include meeting demand for loan requests, deposit runoff, repayment of borrowed funds, investment purchases, and normal operating expenses.

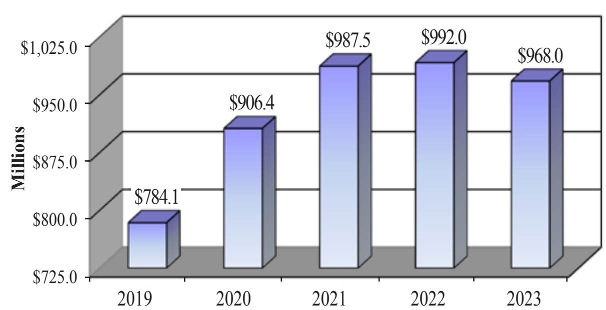
The Company's funding base is very diverse with thousands of loyal customers spread between retail, business, and municipal customers. The Company's liquidity position remained stable and in good order for the year-ended December 31, 2023, despite heavier deposit outflows as customers searched for higher yielding deposits and loan demand remained steady throughout the year. The inverted Curve and competitive marketplace gave depositors several options they have not been accustomed to in recent years, contributing to the deposit outflows. Customers throughout the year continued to seek ways to improve their deposit yield not only through traditional financial institutions and credit unions, but through online banks and brokerage firms. In addition, in the first quarter of the year, a few larger regional banks failed due to poor risk management and tight liquidity practices. This sent ripples throughout the financial industry as customers began to question the safety and soundness of their banking partner. The Company proactively met these challenges by not only relying on its stable and sound liquidity practices, but by also strategically adding additional liquidity levers. Active communications were extended to the Company's deposit base in the first quarter of the year, to address the national media attention on the industry. The Company noted its 106 years of existence and how its traditional community banking model differs from the failed banks and their poor practices. The Company restated its sound investment and risk management practices, its stable liquidity position, and strong capital and asset quality metrics, which satisfied customer concerns. In addition, customers were extended options on how to increase their FDIC insurance coverage. This included tutorials on FDIC account titling, along with FDIC money market account options within our Trust and Investment Management Department (TIMD). Some customers moved approximately $25 million off the Company's balance sheet to our TIMD to extend their FDIC coverage. The Company also established brokered deposit relationships with a few of its existing third-party brokerage firms. This gives the Company access to brokered certificates of deposit and external money market funds, further strengthening our liquidity. At December 31, 2023, the Company had $5.0 million in brokered deposits. The Company also slowed its planned 2023 investment purchases for most of the year as it continued to measure deposit outflows, loan demand and its access to third party credit. Further, as part of the Company's management of its liquidity, loan growth, and interest rate risk, $19.3 million in investment securities and $3.6 million in residential mortgages were sold in 2023, compared to $9.1 million of investment securities and $360 thousand in residential mortgages sold in 2022. The Company grew loan footings by $26.6 million, or 4.0% as compared to 2022. The Company continues to actively monitor its liquidity needs, balancing cash in/outflows while maximizing its earnings potential.

The Company's primary access to credit is with its relationships with the New York Federal Reserve Bank Discount window (FRB) and with the Federal Home Loan Bank of New York (FHLB). Through various programs offered at the Federal Reserve Bank, the Company has the ability to pledge certain unencumbered mortgage-related assets and investment securities to support its available borrowing line at the FRB. As a member of the FHLB, the Company can also pledge certain unencumbered mortgage-related assets to secure borrowings. At December 31, 2023, the Company had borrowings of $80.7 million as compared to $49.7 million at December 31, 2022 (see Borrowings section for further discussion). The average borrowed funds in 2023 and 2022 were $59.9 million and $9.4 million, respectively. The Company also held $36.4 million in Federal Funds Sold at December 31, 2023, increasing $35.6 million from the prior year. The Company chose not to utilize its FFS balance to pay down short-term borrowings, as this strategy remained accretive to earnings. The Company's net borrowing position for 2023 (borrowings less FFS) was $44.3 million, compared to $48.9 million last year. In general, the Company's liquidity risk is considered low-to-moderate in assessing its ability to maintain sufficient cash flow, as well as to meet liquidity requirements under supervisory agency regulations.

Deposits

Deposits are the Company's primary source of funding for its loan and security portfolios. The Company's focus in 2023 was to retain existing core customers while attracting new deposit relationships in a highly competitive market, spurred by the interest rate cycle noted earlier.

Total Deposits



As higher interest rates took hold and inflationary pressures proved to be longer-term than originally expected deposit rates in the market escalated and the ability to retain or acquire new deposit relationships became more costly. While we were successful in maintaining most of our core relationships, as well as growing new ones, customers demanded higher deposit rates and continuously shopped for promotional offers. The Company also saw a significant compositional change in its existing funding cost from lower cost transactional accounts to higher yielding interest-bearing accounts including certificates of deposit (CDs). Deposit outflows, in general, were greater than in previous years as customers utilized available funds to support spending and, in some instances, pay down their higher-priced loan balances. The Company saw some higher-than-normal outflows as customers moved funds to other financial institutions with greater promotional offers. As noted in the Liquidity section, some bank customers also moved funds to our TIMD, contributing to the overall decline in deposit footings for the year. All these activities increased the Company's reliance on borrowed funds and contributed to the rise in our interest expense, growing $9.8

million in the year to $12.6 million and our funding cost increased nearly 100 basis points from 2022.

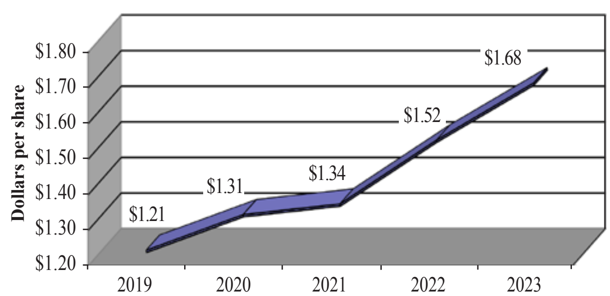
Deposits declined by $24.0 million to $968.0 million at December 31, 2023, compared to the prior year. Average deposits declined by $55.6 million or 5.4% as customers were avidly seeking higher priced deposit options and moved some funds to our TIMD, as noted above. In addition, the Company determined in some cases to allow certain noncore, monoline depositors to exit the Bank as their funding requests did not align with the Company's rate structure. Total average non-interest-bearing deposits declined $25.9 million in 2023 compared to a modest increase of $3.6 million in 2022, while total average interest-bearing deposits and borrowings grew $20.7 million over the prior year, demonstrating the compositional shift in deposits as noted earlier. In addition, to fund a portion of the deposit outflows and loan growth, the Company relied on higher short-term borrowings from the FRB and FHLB as average borrowings grew to $59.9 million as compared to $9.4 million in 2022. The Company continued promoting its high interest checking account product in 2023 to grow core retail deposit relationships as well as offer several promotional offers. Brokered deposits were $5.0 million at December 31, 2023, compared to none in 2022.

For the year ending December 31, 2023, the average interest-bearing transaction and savings accounts and Certificates of Deposit (CDs) were $454.9 million and $225.9 million, respectively, compared to $542.8 million and $167.7 million, respectively, in the prior year. The average CDs balance represented 23.3% of the total average deposits at December 31, 2023 compared to 16.3% in the prior year. The average CDs balance increased by $58.2 million, or 34.7% in 2023. Municipal and retail clients throughout the year continued to move their excess deposits into higher priced CDs to improve their yield. This compositional shift also contributed to the significant rise in interest expense noted above. The Company's weighted average cost of funds on its deposits and borrowings increased 95 basis points to 1.23% in 2023 from 0.28% in 2022. This increase was directly related to compositional deposit changes and the Company's heavier reliance on higher priced borrowings and promotional offers. The Company will continue to strategically manage its liquidity, composition of deposit growth, funding costs, and net interest margin to optimize its earnings.

Shareholders' Equity

Shareholders' equity (Equity) at December 31, 2023 was $77.3 million compared to $69.6 million in 2022, for an increase of $7.6 million or 10.9%. Equity increased $6.0 million from an improvement to the accumulated other comprehensive loss (AOCL) and from net income of $6.2 million. This growth was offset by dividends declared to the Company's shareholders of $4.3 million. In 2023 and 2022, AOCL was significantly impacted by rising interest rates, with large unrealized losses on available-for-sale investments recorded. While still in a loss position at year-end 2023, the AOCL had an improved balance due to changes in the investment portfolio and improved market conditions. Accumulated other comprehensive losses are recorded through equity, net of tax, as they are considered temporary. The Company also performs annual credit reviews on its investment securities, as well as quarterly analyses on its allowance for credit losses on investments (per the new CECL accounting standard as discussed in the Asset Quality and Allowance for Credit Losses section) and noted no significant credit deterioration in the securities portfolio for 2023 or 2022. Therefore, no allowances for credit losses on investments were required during 2023. The Company paid out 68.5% of its earnings in the form of a cash dividend compared to 35.9% in 2022. The record cash dividends declared per share were $1.68, an increase of 5.0% as compared to the prior year. This increase was in addition to a 5% stock dividend paid on February 24, 2023.

Cash Dividends Per Share



Per share data has been retrospectively adjusted to reflect 5% stock dividends executed on February 24, 2023, February 25, 2022 and March 20, 2020.

The Bank is subject to certain capital requirements as defined by its regulators. The requirements are more fully explained in Footnote 12 in the Notes to Consolidated Financial Statements. At December 31, 2023 and 2022, the Bank exceeded all minimum regulatory capital requirements and maintained its strong capital position as a well-capitalized institution based upon the capital guidelines.

Borrowings

The Company has several lines of credit and borrowing facilities available as part of its liquidity management and contingency funding plan. Borrowings at the FHLB are secured by mortgage loans, and there was $125.7 million and $171.4 million available to borrow at December 31, 2023 and 2022, respectively. In 2023, the FHLB also launched a new 0% Development Advance (ZDA) Program that provides members with subsidized funding in the form of interest rate credits to assist in originating loans or purchasing loans/investments that meet one of its eligibility criteria and is also secured by the mortgage loans. FHLB members can request to reserve interest rate credits up to $250,000, which the Company was successfully granted during the year. This resulted in the Company extending $1.7 million in loans, with which the Company shared rate reductions to qualified business relationships. The Company can also borrow from the Federal Reserve Bank's discount window, and there was approximately $18.0 million and $11.0 million available at December 31, 2023 and 2022, respectively. Further, a new borrowing facility created by the Fed, known as the Bank Term Funding Program (BTFP) was also utilized during 2023. In response to the events surrounding large bank failures in March of 2023, the Fed promptly deployed the BTFP to provide financial institutions with easily accessible liquidity. Banks could pledge certain investment securities (U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets) as collateral and could borrow up to one hundred percent of their value for a term of one-year at a rate specific to the program. At December 31, 2023, the Company had $85.5 million in investment securities pledged to the BTFP. The Company also has various unsecured lines of credit available through its correspondent bank relationships. The available lines were $28.0 million at December 31, 2023 and 2022.

At December 31, 2023 and 2022, the Company had $80.7 million and $49.7 million, respectively, in total borrowings entirely consisting of short-term debt. At December 31, 2023, BTFP advances at the Fed were $79.0 million and the remaining $1.7 million were borrowed from the FHLB via the ZDA program. See Footnote 6 in the Notes to Consolidated Financial Statements for more information.

Interest Rate Risk Management

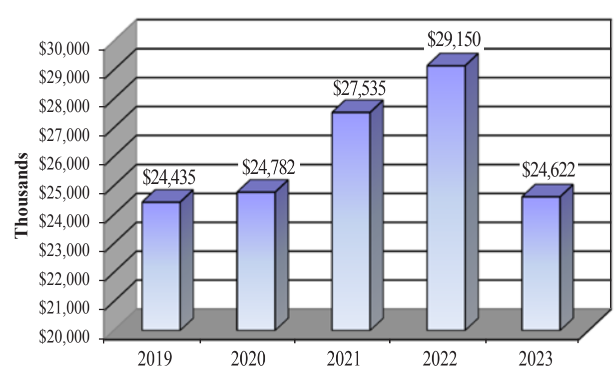
Interest rate risk (IRR) is the risk that changes in market interest rates will have an adverse effect on the Company's earnings and its underlying economic value. The goal of interest rate risk management is to minimize the Company's exposure to these adverse effects through defining, measuring, monitoring, and reporting interest rate risk to senior management and to the Board of Directors. The Company measures and monitors net interest income at risk over a one-year and two-year period using a net interest income simulation model. The model projects the Company's net interest income over a two-year period from the calculation date under different interest rate scenarios and assumptions. To enhance the monitoring of the Company's interest rate risk, both a dynamic (growth) and static (no growth) review of the balance sheet is conducted over a two-year period. In general, the Company measures the impact on net interest income of an instantaneous 200, 300, and 400 basis point increase and decrease in market rates and compares this information to Board approved interest rate risk policy guidelines. At December 31, 2023, under the dynamic model assumption, an instantaneous 400 basis point increase in market rates was estimated to have an approximate 11.4% negative impact on net interest income over one year and a 1.8% negative impact over a two-year period. An instantaneous 400 basis point decrease in market rates was estimated to have an approximate 10.9% positive impact on net interest income over one-year and a 9.3% positive impact over a two-year period. Under the static balance sheet assumption, an instantaneous 400 basis point increase in market rates was estimated to have an approximate 19.1% negative impact on net interest income over one year and a 11.0% negative impact over a two-year period. An instantaneous 400 basis point decrease in market rates was estimated to have an approximate 15.7% positive impact on net interest income over one year and a 14.2% positive impact over a two-year period. The Company's IRR profile is measured at a point in time and is reflective of its liquidity position, incoming and outgoing cash flows including its FFS and/or overnight borrowing position, along with its earning asset allocations and duration. Deposit composition and fixed term certificates of deposit holdings and the duration of borrowed funds are also factored into its IRR risk profile. The Company experienced a slight increase in its volatility risk at year-end 2023 relating to its short-term borrowing position, compositional shift in idle lower cost deposits to term deposits, and due to longer-term fixed securities purchased in 2021. This risk has been tempered by the Company's earning asset growth in loans and stable incoming cash flows. In all cases, the Company was within policy guidelines. Furthermore, the Company's interest rate risk profile is considered moderate, generally consistent with prior year results. An external review of the Company's interest rate risk management process was also performed by an independent party during the year and their conclusions concurred with those of the Company.

Results of Operations

Net Interest Income

The principal source of income for the Company is net interest income (NII), which is the difference between income received from interest earning assets (primarily loans, securities, and federal funds sold including other interest-bearing deposits) and interest paid on interest-bearing liabilities (deposits and borrowings). NII was $24.6 million for 2023, declining $4.5 million or 15.5%, as compared to the prior year.

Net Interest Income



The operating environment for the Company in 2023 continued to be a challenging one. The rapid rise in interest rates continued into 2023 as the Fed remained focused on reducing pricing pressures caused by inflation. The Fed began raising the FFR, in early 2022, as inflation grew to a forty-year high, peaking in June 2022. Its monetary policy and strategy remained consistent throughout 2023, reducing inflation by raising short-term interest rates. The Fed increased the FFR by 525 basis points over the period March 2022 through July 2023, where it remained at 5.50% through the end of 2023. As a result, short-term interest rates along the Curve followed, which resulted in higher funding costs for the industry as a whole as deposits and borrowings are priced off the short end of the Curve. Medium-to-longer term rates, where loans and investments are priced from, also increased; however, their increases along the Curve were not to the extent of the short-term interest rates. The Fed's tightening cycle over the twenty plus monthly period was the second largest increase in the Fed's history, in the shortest amount of time. This has not been rivaled in over forty years. As a result, the Company's NII declined significantly, along with net income.

The Company's plan for 2023 was to leverage its balance sheet, allocating idle funds into higher yielding earning assets to improve NII. However, in the first quarter of the year, higher than anticipated deposit outflows due to intense competition in the Company's marketplace, as well as a banking liquidity crisis caused by a few large regional bank failures, caused the Company to reevaluate its strategy. As a result of the industry pressures and unfavorable interest rate environment, the Company made an assertive effort to improve its liquidity by retaining core depositors, growing its earning assets at a measured pace and implementing additional liquidity levers. The Company's strategy was to preserve its 106-year business model and loyal deposit base.

The Company grew its average loan balances by $32.9 million over last year, which increased interest income on loans by $4.5 million or 18.2%. Loan growth in the fourth quarter of the year was outstanding across all business lines, as the Company began to aggressively price its consumer loan products to attract additional loan business while interest rates remained elevated. The Company's weighted average yield on its portfolio grew 60 basis points to 4.57% over the prior year, stemming from its average commercial loan growth of $15.1 million and indirect loan growth of $17.8 million and also from the rising interest rate environment. The weighted average yield also grew on our securities portfolio by 21 basis points to 1.82%, despite the average balance declining $30.7 million. Interest income on securities grew to $7.5 million, a $378 thousand increase or 5.3% from the prior year. The Company used security cash flows to support its 2023 loan growth, supplement deposit outflows, and maintain ample liquidity needs. The average Federal Funds Sold balance remained stable at $9.8 million as compared to 2022. However, due to the rising rate environment it contributed an additional $372 thousand of interest income to the Company as the weighted average yield grew from 1.84% to 5.49%. In summary, higher interest rates and growth in the Company's loan portfolio significantly increased total interest income 16.3% over the prior year.

Despite this excellent growth in interest income, the cost to retain and grow the Company's funding position came at a heftier price than in past years. The Company's cost of funds grew to 1.23% as compared to 0.28% last year. Interest expense grew $9.8 million or 339.8% during 2023 to $12.6 million at year-end. This increase was related to cost of funds management and the compositional change in deposit holdings from low-cost transactional accounts to higher cost certificate of deposits. Costs of interest-bearing liabilities were 1.71%, up 131 basis points from the prior year. The Company's cost to retain its core customers and attract new deposit relationships soared in 2023 from the rising interest rate environment and from the intensity of the promotional offers within the Company's marketplace. Also, the Company's deposit outflows were trending higher than in previous years as customers continued to spend idle funds, search for more lucrative offers in the market and pay down higher cost loan products. As a result, borrowing needs grew, contributing to the rise in interest expense. The Company's liquidity position, while challenged in 2023, remained in good order and well-positioned; however, this came at a cost, impacting earnings and the Company's NIM. NIM was 2.22% in 2023 as compared to 2.60% in 2022.

Net Income

The Company reported net income of $6.2 million in 2023, compared to $10.8 million in 2022, decreasing $4.5 million or 42.2% from the prior year. Decreases in net interest income (NII) of $4.5 million and increases in operating expenses of $1.2 million year-over-year were the primary drivers of the reduction in earnings. NII declined $4.5 million or 15.5%, to $24.6 million, as a result of the significant rise in funding costs (deposit and borrowing interest expense). These costs increased $9.8 million or 339.8%. The Company responded to market demand by offering competitive certificates of deposit promotions, increased tiered money market products for retail, business, and municipal clients, and borrowed funds to maintain its liquidity. Partially offsetting the increased interest expense was continued growth in interest income, primarily driven by an increase in average loan balances and the repricing of earning assets (Investments, FFS, and loans) to higher interest rates. Total interest income was $37.3 million, up $5.2 million or 16.3% from the prior year. Strong asset quality metrics and low non-performing loan balances helped keep provisioning costs modest, adding $125 thousand in provision for credit loss on loans in 2023 and a $15 thousand provision for off-balance sheet reserves. This resulted in a collective $140 thousand increase in provision expense compared to the prior year. Total other income was $5.3 million, declining $226 thousand or 4.1%, as compared to 2022, led by transactional fee-based charges primarily related to service charges on accounts, bank card income, and overdraft fees, as well as losses recorded on loan and investment sales. In both 2023 and 2022, the Company executed sales swap strategies within its securities portfolio where it sold lower yielding securities, which resulted in losses on sale. These proceeds were then reinvested into higher yielding security products, improving the Company's earnings and overall investment return. However, based on the interest rate environment at the time of execution, the loss in 2023 was larger than in 2022, resulting in a $232 thousand pre-tax variance year-over-year. This strategy, along with a $29 thousand loss recorded on the sale of residential mortgage loans, reduced the Company's other income as compared to 2022. Total other expenses grew 5.6% over the prior year. This increase was led by a rise in salary and benefit costs, contractual price increases from third-party vendors due to inflation and from investments in technology to grow our business. The Company continued to manage its expense growth through cost control strategies and modest discretionary spending. Basic earnings per share were $2.45, compared to $4.25 in the prior year, as adjusted for the February 2023 5% stock dividend. The returns on average assets and average shareholders' equity in 2023 were 0.56% and 8.64%, respectively, compared to 0.96% and 13.85% in 2022.

Other Income

Other income mainly consists of fees from deposit and loan accounts and services related to maintaining such accounts, Trust Services (Trust and Investment Management fees), Insurance Agency revenue (Solvay Bank Insurance Agency (SBIA)), brokerage and investment services revenue, net gains/losses on the sale and call of assets, along with revenue from increases in the cash surrender value of life insurance policies, also known as Bank-Owned Life Insurance (BOLI) investments. Total other income was $5.3 million in 2023, decreasing $226 thousand or 4.1% as compared to the prior year. Growth in insurance agency revenue, BOLI income and stock dividends was offset by lower service charges and brokerage income. In addition, losses on the sale and call of securities and loan sales further contributed to the year-over-year variance. Service charges were $3.6 million, declining $117 thousand or 3.1% as compared to the prior year. This included bank card revenue, consisting of debit/credit card and merchant fee income, which decreased $123 thousand as compared to 2022 as merchant commissions and debit card sales volume were reduced. Overdraft and chargeback fees decreased $77 thousand from 2022, which was an expected decline based on changes to the Company's overdraft program to conform with updated regulatory guidance. These reductions were partially offset by improved service charges on commercial accounts and letter of credit fees. Trust services income was $1.2 million, which was in line with 2022. The market value on the department's investment portfolio was impacted by declines in the stock and bond markets early in 2023. However, these markets rebounded over the second half of the year leading to a neutral impact in revenue. Brokerage and investment services decreased $15 thousand, also related to market activity. SBIA revenue increased $52 thousand as a result of contingency bonuses received from strong carrier performance, as well as increased premium and sales activity. The sale of loans and securities declined by $261 thousand as compared to the prior year. In 2023, 19 loans totaling $3.6 million were sold at a net loss of $32 thousand. Three loans were sold for a loss of $3 thousand in 2022. Loss on investments totaled $396 thousand in 2023, as the result of the Company's decision to execute a securities sale swap strategy to improve earnings. The Company sold $19.3 million of lower yielding securities and reinvested the funds into higher yielding investments products, while also improving the portfolio's cash flow ladder. In the prior year, the Company sold $9.1 million in investment securities and one security was called, resulting in a net loss of $164 thousand. The Company's BOLI income was $376 thousand, increasing $29 thousand from 2022 due to improved yields impacting overall return. Other income also increased $86 thousand, primarily from stock dividends received on additional stock held with the Federal Home Loan Bank (FHLB).

Other Expenses

Total other expenses were $22.2 million in 2023 and $21.0 million in 2022, increasing $1.2 million or 5.6%.

Salary and benefit costs increased $678 thousand or 5.5%. Salaries increased 3.4%, related to general increases in merit and market-matched compensation to retain and acquire talent. The remaining increase was due to an increase in health and retirement benefit costs. Technology and infrastructure costs grew as the Company continued to expand its services and enhance customer and internal cybersecurity protections. Technology and equipment expenses were $2.4 million, growing $77 thousand or 3.3% as compared to the prior year. Software costs to further improve cyber and fraud defenses contributed to the year-over-year increase, as the Company launched SecureNow at the beginning of 2023, which verifies user identity via a one-time passcode (OTP) when logging in to accounts via mobile or online platforms. The Company also onboarded a new ACH Positive Pay platform, which provides an automated and streamlined experience for business clients processing ACH transactions. Zelle, a peer-to-peer payment platform was introduced to safely and securely send money directly between accounts. The cost to add these three services was approximately $60 thousand in 2023 and contributed to the Company's continued investment in improving its technology offerings to meet customer needs in a safe and secure manner. Occupancy expenses were $1.5 million, increasing $51 thousand or 3.4% from the prior year, and Professional fees were $1.6 million, growing $71 thousand or 4.7% as compared to 2022. Higher property taxes and general increases in branch maintenance costs caused the growth in facilities costs year-over-year. Professional fees grew in 2023 related to annual increases in audit and compliance costs, which support the regulatory and compliance reporting requirements of the Company, along with rising shareholder and outside services expenses. The Company moved to a third-party shareholder services platform at the end of 2022, which provides enhanced shareholder access. This expense line was also moved to Professional Fees from Bank Operations and the outsourcing of some functions related to shareholder services (previously done in-house) resulted in the additional expense. In addition, the Company outsourced its Chief Information Security Officer (CISO) function in 2023 and began the implementation process for a new AML/BSA platform that will assist with risk management practices. These new endeavors contributed to the increase in outside services. These increases were offset by declines in legal, recruiting, and consulting fees. FDIC insurance costs also increased in 2023 by $215 thousand or 68.3%, caused by the FDIC's increase in its base insurance assessment from three to five basis points for all financial institutions. Business development costs increased $146 thousand or 34.2% as compared to last year as the Company increased its marketing efforts for the 2023 deposit promotions. Lending operation costs were $1.2 million, increasing $16 thousand or 1.4% from the prior year. An increase in consumer indirect loan volume, resulting in increased dealer reserve payments, contributed to the expense growth. Increased Visa point redemptions in 2023 also contributed to the growth in expense. Bank Operations expense decreased $74 thousand or 5.4% over the prior year to $1.3 million, primarily attributed to a decrease in telecommunication costs of $70 thousand, a cost savings recognized from infrastructure improvements and changes in service providers. Shareholder service costs that were previously captured in Bank Operations have also been reclassified to Professional Fees to better align the expense, as this function is now primarily outsourced.

On October 3, 2021, Solvay Bank Corp. renewed its directors' and officers' liability insurance policy until October 3, 2024. The annual premium, including commissions, for the extension of the renewal was approximately $101 thousand. The primary policy is issued by Great American Insurance Company and covers all directors and officers of Solvay Bank Corp. and its subsidiaries.

Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The amendments in this Update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This update also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments in this Update apply to all entities that are subject to Topic 740, Income Taxes, which applies to the Company and are effective for annual periods beginning after December 15, 2024 on a prospective basis.

Statement of Management Responsibility

The management of Solvay Bank Corp. is responsible for the preparation, content, and integrity of this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applied on a consistent basis. Refer to Management's Report on Internal Control Over Financial Reporting for discussion on the Company's internal control environment.

The Audit and Risk Management Committee of the Board of Directors reviews the activities of the Internal Audit Firm, which is independent of management. In addition, it has the responsibility of recommending to the Board of Directors the independent auditors for the Company. Bonadio & Co., LLP has been appointed by the Board of Directors to conduct an independent audit and to express an opinion as to the fairness of the presentation of the consolidated financial statements of Solvay Bank Corp. and its subsidiary, in conformity with U.S. generally accepted accounting principles.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Solvay Bank Corp (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2023. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on our assessment, we believe that, as of December 31, 2023, the Company's internal control over financial reporting was effective based on those criteria.

Paul P. Mello
President & Chief Executive Officer

Kevin A. Dattellas
Senior Vice President, Chief Financial Officer

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Solvay Bank Corp. and subsidiary:

Report on the Consolidated Financial Statements and Internal Control

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of Solvay Bank Corp. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Solvay Bank Corp. and subsidiary as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited Solvay Bank Corp. and subsidiary's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the FDIC Call Report, as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Solvay Bank Corp. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework (2013), issued by COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of Solvay Bank Corp. and subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, Solvay Bank Corp. and subsidiary adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, as of January 1, 2023. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Controls over Financial Reporting.

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Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting (Continued)

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Solvay Bank Corp. and subsidiary's ability to continue as a going concern over within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Solvay Bank Corp. and subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the consolidated financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America.

Definition and Inherent Limitations of Internal Control over Financial Reporting (Continued)

Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Solvay Bank Corp. and subsidiary's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions).

An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the financial statements.

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the Annual Report. The other information comprises the President's Message, Management's Discussion and Analysis, and Selected Financial Data that includes additional per-share information, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Bonadio & Co., LLP

Pittsford, NY

March 15, 2024

Consolidated Balance Sheets

(In thousands, except share and per share data)	December 31, 2023	2022
Assets		
Cash and due from banks	**$ 10,928**	$ 14,527
Federal funds sold and other interest bearing deposits	**36,400**	843
TOTAL CASH AND CASH EQUIVALENTS	**47,328**	15,370
Securities available-for-sale, at fair value	**336,528**	374,380
Securities held-to-maturity (fair value of **$8,948** in 2023 and $7,167 in 2022)	**8,967**	7,235
TOTAL SECURITIES	**345,495**	381,615
Loans	**698,573**	672,001
Less allowance for credit losses on loans	**8,024**	7,603
NET LOANS	**690,549**	664,398
Bank premises and equipment, net of accumulated depreciation and amortization	**11,168**	11,546
Cash surrender value of life insurance policies	**17,550**	17,174
Other assets	**24,340**	27,863
TOTAL ASSETS	**$1,136,430**	$ 1,117,966
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing	**$ 296,158**	$ 319,314
Savings, NOW, and Money Market	**398,573**	508,257
Time (time deposits of $250,000 or more totaled **$145,809** in 2023 and $72,416 in 2022)	**273,309**	164,458
TOTAL DEPOSITS	**968,040**	992,029
Borrowings	**80,720**	49,700
Other liabilities	**10,415**	6,597
TOTAL LIABILITIES	**1,059,175**	1,048,326
Shareholders' equity:		
Preferred stock - par value $.01 per share:		
Authorized **200,000** shares, none issued		
Common Stock - par value $7 per share:		
Authorized - **5,000,000** shares in 2023 and 2022		
Issued - **3,046,810** shares in 2023 and 2,926,239 in 2022		
Outstanding - **2,535,202** shares in 2023 and 2,414,631 in 2022	**21,328**	20,484
Additional paid in capital	**22,270**	18,339
Retained earnings	**82,730**	85,937
Treasury stock, at cost (**511,608** shares in 2023 and 2022)	**(14,991)**	(14,991)
Accumulated other comprehensive loss	**(34,082)**	(40,129)
TOTAL SHAREHOLDERS' EQUITY	**77,255**	69,640
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	**$ 1,136,430**	$1,117,966

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	For the years ended December 31, 2023	2022
Interest Income		
Loans	**$ 29,191**	$ 24,706
Securities		
Taxable	**6,517**	6,016
Tax exempt	**1,011**	1,134
Federal funds sold and other interest bearing deposits	**539**	167
TOTAL INTEREST INCOME	**37,258**	32,023
Interest Expense		
Time deposits of $250,000 or more	**4,461**	798
Other deposits	**5,334**	1,804
Borrowings	**2,841**	271
TOTAL INTEREST EXPENSE	**12,636**	2,873
NET INTEREST INCOME	**24,622**	29,150
Provision for credit losses - loans	**125**	-
Provision for credit losses - off-balance sheet credit exposures	**15**	-
TOTAL PROVISIONS FOR CREDIT LOSSES	**140**	-
NET INTEREST INCOME AFTER PROVISIONS FOR CREDIT LOSSES	**24,482**	29,150
Other Income		
Service charges	**3,615**	3,732
Trust services	**1,167**	1,167
Brokerage and investment services	**66**	81
Insurance agency revenue	**296**	244
Net loss on sale and call of securities	**(396)**	(164)
Net loss on sale of loans	**(32)**	(3)
Net increase in cash surrender value of life insurance policies	**376**	347
Other	**203**	117
TOTAL OTHER INCOME	**5,295**	5,521
Other Expenses		
Salaries and employee benefits	**13,069**	12,391
Occupancy	**1,544**	1,493
Technology & equipment	**2,416**	2,339
Business development	**573**	427
Professional fees	**1,566**	1,495
FDIC insurance	**530**	315
Lending operations	**1,174**	1,158
Banking operations	**1,292**	1,366
TOTAL OTHER EXPENSES	**22,164**	20,984
INCOME BEFORE INCOME TAXES	**7,613**	13,687
Income taxes	**1,393**	2,920
NET INCOME	**$ 6,220**	$ 10,767
BASIC EARNINGS PER SHARE	**$ 2.45**	$ 4.25

Per share data has been retrospectively adjusted to reflect 5% stock dividends effected on February 24, 2023 and February 25, 2022.
See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)	For the years ended December 31, 2023	2022
NET INCOME	**$ 6,220**	$ 10,767

Other Comprehensive Income (Loss), Before Tax:

	2023	2022
UNREALIZED GAINS (LOSSES) ON SECURITIES AVAILABLE-FOR-SALE:		
Unrealized holding gains (losses) arising during the period	**7,802**	(50,191)
Reclassification adjustment for losses included in net income	**396**	164
NET UNREALIZED GAINS (LOSSES)	**8,198**	(50,027)
UNREALIZED GAINS ON SECURITIES HELD-TO-MATURITY		
Amortization of net unrealized losses on securities transferred from available-for-sale	**2**	6
NET UNREALIZED GAINS	**2**	6
DEFINED BENEFIT PENSION PLAN:		
Net gains (losses) arising during the period	**231**	(787)
Amortization of net losses and prior service credit recognized in net pension expense	**194**	139
DEFINED BENEFIT PENSION PLAN, NET	**425**	(648)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX	**8,625**	(50,669)
Tax effect	**(2,578)**	13,567
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**6,047**	(37,102)
TOTAL COMPREHENSIVE INCOME (LOSS)	**$ 12,267**	$ (26,335)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2023 and 2022

(In thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT JANUARY 1, 2022	$ 19,680	$ 14,832	$ 83,352	$ (14,991)	$ (3,027)	$ 99,846
Net Income	-	-	10,767	-	-	10,767
Other Comprehensive Loss	-	-	-	-	(37,102)	(37,102)
Cash dividends - $1.52 per share	-	-	(3,863)	-	-	(3,863)
Stock dividend - 5%, 114,770 shares	804	3,507	(4,311)	-	-	-
Fractional shares	-	-	(8)	-	-	(8)
BALANCE AT DECEMBER 31, 2022	$ 20,484	$ 18,339	$ 85,937	$ (14,991)	$ (40,129)	$ 69,640
Net Income	**-**	**-**	**6,220**	**-**	**-**	**6,220**
Other Comprehensive Income	**-**	**-**	**-**	**-**	**6,047**	**6,047**
Adoption of ASU 2016-13	**-**	**-**	**(387)**	**-**	**-**	**(387)**
Cash dividends - **$1.68** per share	**-**	**-**	**(4,259)**	**-**	**-**	**(4,259)**
Stock dividend - **5%, 120,571** shares	**844**	**3,931**	**(4,775)**	**-**	**-**	**-**
Fractional shares	**-**	**-**	**(6)**	**-**	**-**	**(6)**
BALANCE AT DECEMBER 31, 2023	**$ 21,328**	**$ 22,270**	**$ 82,730**	**$ (14,991)**	**$ (34,082)**	**$ 77,255**

Per share data has been retrospectively adjusted to reflect 5% stock dividends effected on February 24, 2023 and February 25, 2022.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

(In thousands)	For the years ended December 31, 2023	2022
Cash Flow From Operating Activities		
Net Income	**$ 6,220**	$ 10,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Credit loss expense	**140**	-
Depreciation and amortization	**730**	695
Net amortization of premiums on securities	**640**	819
Deferred income taxes	**(71)**	174
Net loss on sale and call of securities	**396**	164
Net loss on sale of loans	**32**	3
Carrying amount of loans sold	**(3,640)**	(362)
Proceeds from sale of loans	**3,608**	359
Net increase in cash surrender value of life insurance policies	**(376)**	(347)
Pension contributions	**-**	(200)
Increase in accrued interest payable	**3,172**	293
Other	**1,596**	(2,009)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**12,447**	**10,356**
Cash Flow From Investing Activities		
Proceeds from maturities and calls of securities held-to-maturity	**4,603**	5,335
Proceeds from maturities and calls of securities available-for-sale	**28,862**	58,585
Proceeds from sale of securities available-for-sale	**19,273**	9,047
Purchases of securities held-to-maturity	**(6,294)**	(4,718)
Purchases of securities available-for-sale	**(3,160)**	(74,024)
Loans originated, net of principal collected	**(26,291)**	(46,803)
Purchases of bank premises and equipment	**(353)**	(108)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**16,640**	**(52,686)**
Cash Flow From Financing Activities		
Net (decrease) increase in deposits, excluding time deposits	**(132,840)**	15,275
Net increase (decrease) in time deposits	**108,851**	(10,751)
(Repayments of) proceeds from overnight FHLB advances, net	**(37,700)**	36,500
Proceeds from FHLB term advances	**1,720**	12,000
Repayment of FHLB term advances	**(12,000)**	(2,500)
Proceeds from FRB term advances	**79,000**	-
Cash dividends paid	**(4,160)**	(3,749)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**2,871**	**46,775**
INCREASE IN CASH AND CASH EQUIVALENTS	**31,958**	**4,445**
CASH AND CASH EQUIVALENTS: AT BEGINNING OF YEAR	**15,370**	**10,925**
AT END OF YEAR	**$ 47,328**	**$ 15,370**
Supplemental Disclosures		
Cash paid for:		
Income taxes	**$ 1,320**	$ 2,225
Interest	**$ 9,464**	$ 2,580
Non-cash financing activity:		
Issuance of shares pursuant to stock dividend	**$ 4,775**	$ 4,311

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

1. Summary of Significant Accounting Policies

Organization: Solvay Bank Corp. is a one-bank holding company. Its only subsidiary is Solvay Bank (the Bank), a state chartered independent commercial bank, delivering a wide range of financial services to businesses and consumers primarily in Central New York.

Basis of Presentation: The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). A description of the significant accounting policies is presented below. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Significant estimates include the allowance for credit losses and valuation of deferred tax assets, investment securities and employee benefit plan obligations. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of Solvay Bank Corp. and its wholly-owned subsidiary, Solvay Bank, collectively (the Company). Solvay Bank Insurance Agency, Inc., a wholly-owned subsidiary of Solvay Bank, operates as a general life, health, and property and casualty insurance agency. The Bank is also a majority owner of Solvay Realty Corp., a real estate investment trust company. The operations of these two companies are consolidated into the operations of the Bank and the Company. All significant intercompany transactions have been eliminated in consolidation.

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

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet (OBS) credit exposures. Results for reporting periods beginning after December 31, 2022 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of **$387** thousand as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a **$242** thousand impact for increasing the Allowance for Credit Losses on loans and a **$145** thousand impact due to including an OBS reserve liability, both net of tax.

The following table illustrates the impact of ASC 326:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Commercial real estate	**$ 3,085**	**$ 3,218**	**$ (133)**
Commercial	**1,375**	**1,791**	**(416)**
Residential real estate	**2,249**	**1,263**	**986**
Consumer	**1,162**	**748**	**414**
All other loans	**61**	**60**	**1**
Unallocated	**-**	**523**	**(523)**
Allowance for credit losses on loans	**$ 7,932**	**$ 7,603**	**$ 329**
Liabilities:			
Allowance for credit losses on OBS credit exposures	**$ 200**	**$ -**	**$ 200**

There was no impact of ASC 326 on allowance for credit losses on debt securities.

Cash and Cash Equivalents: For the purpose of reporting cash flows, cash and cash equivalents are highly liquid investments with maturities at the time of purchase of less than 90 days.

Securities: The Company classifies its securities as either available-for-sale or held-to-maturity. Held-to-maturity securities are those debt securities that the Company has the ability and intent to hold until maturity. All other securities not included as held-to-maturity are classified as available-for-sale.

Held-to-maturity securities are recorded at amortized cost. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive (loss) income in shareholders' equity until realized.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are generally amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Purchases and sales are recorded on a trade date basis with settlement occurring shortly thereafter. Dividends and interest income are recognized when earned. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

Mortgage-backed securities are primarily residential in nature and are issued by U.S. Government sponsored agencies and enterprises.

Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Allowance for Credit Losses – Held-to-Maturity Securities: Beginning on January 1, 2023, management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Accrued interest receivable on held-to-maturity debt securities totaled **$134** thousand at December 31, 2023 and is excluded from the estimate of credit losses.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Allowance for Credit Losses – Available-For-Sale Securities: Beginning on January 1, 2023, for available-for-sale debt securities in an unrealized loss position, the Company assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on available-for-sale debt securities totaled **$1.4** million at December 31, 2023 and is excluded from the estimate of credit losses.

Prior to January 1, 2023, a decline in the fair value of any available-for-sale or held-to-maturity security below amortized cost was deemed to be an impairment. To determine whether an impairment was other-than-temporary, the Company considered all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts when developing estimates of cash flows expected to be collected. Evidence considered in this assessment included the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

When an other-than-temporary impairment occurred, the amount of the other-than-temporary impairment recognized in earnings depended on whether the Company intended to sell the security or more likely than not would be required to sell the security before recovery of its amortized cost basis. If the Company intended to sell the security or more likely than not would be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment was recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Company did not intend to sell the security and it was not more likely than not that the Company would be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment was separated into the amount representing the credit loss, if any, and the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss was recognized in earnings. The amount of the total other-than-temporary impairment related to other factors was recognized in other comprehensive income, net of applicable income taxes.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Accrued interest receivable totaled **$2.2** million at December 31, 2023 and was reported in other assets on the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct loan origination costs are deferred and amortized generally over the average life of the related loans as an adjustment of yield using the interest method.

Accrual of interest on loans is generally discontinued when loan payments are 90 days or more past due for commercial loans, consumer loans and real estate loans or when, by judgement of management, collectability becomes uncertain. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is reversed against current period interest income. Subsequent recognition of income occurs only to the extent that payment is received. Payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loans. Loans are returned to accrual status when both principal and interest are current and the loan is determined to be performing in accordance with the applicable loan terms. Past-due status is based on the contractual terms of the loan, but generally applies when a payment is outstanding greater than 29 days. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Generally, the Company has the ability and intent to hold its loans to maturity. The Company may, from time to time, elect to sell loans originated to be held in the portfolio. The Company may also originate certain residential fixed rate mortgages with the intent to sell. At the date of origination, the loans designated and meeting secondary market guidelines are identified as held-for-sale and carried at the lower of net cost or fair value on an aggregate basis. Mortgage servicing rights are recognized as an asset when loans are sold with servicing retained by allocating proceeds from sold mortgage loans between the loan and servicing right based on estimated relative fair values. The proceeds allocated to the servicing right is capitalized as a separate asset and amortized in proportion to, and over the period of, estimated net servicing income.

Allowance for Credit Losses – Loans:: Beginning on January 1, 2023, the allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management determines the adequacy of the allowance for credit losses on loans based upon reviews of individual credits, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Loans deemed uncollectible are charged to the allowance. Provision for loan losses and recoveries on loans previously charged off are added to the allowance.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in current and expected future economic conditions, such as changes in unemployment rates, consumer price indices, or other relevant factors. The Company has elected to forecast the first four quarters of the credit loss estimate and revert to a long-run average of each considered economic factor, which include unemployment rate for all segments and gross domestic product for certain consumer loans.

The allowance for credit losses is measured on a collective pool basis with receivables that have similar risk characteristics. The following portfolio segments have been identified by management: Commercial, Commercial Real Estate, Residential, Consumer and Other. Each segment measures the allowance for credit losses using the discounted cash flow method. When the discounted cash flow method is used to determine the allowance for credit losses, management adjusts the effective interest rate used to discount expected cash flows to incorporate expected prepayments.

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

Modifications for Debtors Experiencing Financial Difficulty: Beginning on January 1, 2023, the allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

A substantial portion of the Company's loans are collateralized by real estate in Central New York State, which is the Company's primary lending market. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is particularly susceptible to changes in the economic conditions in Central New York.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: Beginning on January 1, 2023, the Company maintains a separate reserve for credit losses on off-balance sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement. On January 1, 2023, the Company recorded an adjustment for unfunded commitments of **$200** thousand for the adoption of ASC Topic 326. For the year-ended December 31, 2023, the Company recorded a provision for credit losses of **$15** thousand for unfunded commitments. At December 31, 2023, the liability for credit losses on off-balance sheet credit exposures included in other liabilities was **$215** thousand.

Allowance for Loan Losses: Prior to January 1, 2023, the Company estimated losses on impaired loans based on the present value of expected future cash flows (discounted at the loan's effective interest rate) or the fair value of the underlying collateral if the loan is collateral dependent. An impairment loss existed if the recorded investment in a loan exceeded the value of the loan as measured by the aforementioned methods. Impairment losses were included as a component of the allowance for loan losses. A loan was considered impaired when it was probable that the Company would be unable to collect all amounts due according to the contractual terms of the loan agreement. All commercial loans and commercial mortgage loans greater than $250 thousand and on nonaccrual and all troubled debt restructurings (TDR's) were evaluated for impairment. Residential mortgage loans, consumer loans, home equity loans, lines of credit and education loans were evaluated collectively since they were homogeneous and generally carry smaller individual balances. The Company recognized interest income on impaired loans using the cash basis of income recognition. Cash receipts on impaired loans were generally applied according to the terms of the loan agreement, or as a reduction of principal, based upon management judgment and the related factors discussed above.

The allowance for loan losses was maintained at a level that management believed, to the best of its knowledge, covered losses in the loan portfolio that were both probable and reasonably estimable. Management's determination of the adequacy of the allowance was based on periodic evaluations of the loan portfolio and other relevant factors and required material estimates including the amounts and timing of expected future cash flows on impaired loans. While management used all available information to recognize losses on loans, future additions to the allowance may have been necessary based on changes in economic conditions.

The allowance consisted of specific, general and unallocated components. The specific component related to loans that were classified as impaired. For loans that were classified as impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying amount of that loan. The general component covered pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous consumer loans. These pools of loans were evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative risk factors. These qualitative risk factors included:

1. Lending policies, procedures and underwriting standards
2. Economic trends and business conditions
3. Nature and volume of portfolio and terms of loans
4. Experience, ability and depth of lending personnel
5. Volume and severity of nonperforming loans
6. Quality of the loan review function
7. Underlying collateral values (for collateral dependent loans)
8. Concentrations of credit risk or existence of concentrations
9. Competition, regulatory environment or other external factors

For 2022, the Company also included a specific qualitative risk factor for the COVID-19 pandemic.

Each factor was assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. An unallocated component was maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflected the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 of information available to them at the time of their examination.

Loans Held-for-Sale: Loans held-for-sale are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. There were no loans held-for-sale as of December 31, 2023 or 2022.

Other Real Estate: Real estate acquired in settlement of loans is carried at fair value as determined by current appraisal less estimated costs to sell. Write-downs from the unpaid loan balance to fair value which are required at the time of foreclosure are charged to the allowance for loan losses. Adjustments to the carrying values of such properties that result from subsequent changes in value are charged to other expenses in the period in which the change occurred. Operating costs associated with the properties are charged to expenses as incurred. There was no Other Real Estate owned at December 31, 2023 or 2022.

Bank Premises and Equipment: Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets (5 to 40 years for building and 3 to 10 years for equipment). Leasehold improvements are amortized on the straight-line method over the shorter of the estimated lives of the improvements or the lease term.

Leases: Lease right-of-use ("ROU") assets and lease liabilities for operating leases are recognized at commencement date based on the present value of lease payments over the lease term, discounted using the Company's incremental borrowing rate. Operating lease ROU assets are recorded in Bank premises and equipment while operating lease liabilities are recorded in other liabilities. The Company has not entered into any finance leases.

Options to renew or terminate the lease are recognized as part of ROU assets and liabilities when it is reasonably certain the options will be exercised. The Company has lease agreements that contain both lease and non-lease components, such as maintenance costs, which are accounted for separately. Operating lease expense for fixed lease payments is recognized on a straight-line basis over the lease term. Variable lease payments for real estate taxes, insurance, maintenance and utilities, which are generally based on our pro rata share of the total property, are not included in the measurement of the ROU assets or lease liabilities and are expensed as incurred. In addition, the Company does not recognize ROU assets or lease liabilities for short-term leases with a term of 12 months or less, which are also expensed as incurred.

Bank Owned Life Insurance: The Company invests in bank owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Company on a chosen group of employees. The Company is the owner and co-beneficiary of the life insurance policies, and as such, the investment is carried at the cash surrender value of the underlying policies and the liability for the split-dollar arrangement is recorded in other liabilities.

Income Taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled and tax carryforwards are expected to be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Benefit Plans: The Company has a noncontributory defined benefit cash balance pension plan (the Plan). Effective January 1, 2013, the Company amended the Plan limiting eligibility so that no employee hired on or after January 1, 2013 shall become a participant of the Plan. In order to measure the expense associated with the Plan, various assumptions are made including the discount rate used to value the benefit obligation, expected rate of return on Plan assets and anticipated mortality rates. The assumptions are based on historical experience as well as current facts and circumstances. A third-party actuarial firm is used to assist management in measuring the expense and liability associated with the Plan. The Company uses a December 31st measurement date for the Plan. As of the measurement date, plan assets are determined based on fair value, generally representing observable market prices. The Company's funding policy is to annually contribute amounts determined by the Plan's actuary which meet minimum regulatory funding requirements. The Company's pension cost is computed using the projected unit credit actuarial cost method.

The Company recognizes in its balance sheet an asset for the plan's overfunded status or a liability for the Plan's underfunded status. Changes in the overfunded or underfunded status are recognized in the year in which the changes occur as a component of other comprehensive (loss) income, net of taxes.

The Company also offers a defined contribution 401(k) Employee Savings Plan for substantially all employees in which the Company matches a portion of the employee contributions.

Per Share Data: Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding was **2,535,202** in 2023 and 2022 and reflects the retrospective adjustment of the 5% stock dividends executed on February 24, 2023 and February 25, 2022.

Comprehensive Income: Comprehensive income represents net income, the net change in unrealized gains or losses on available-for-sale securities, net of taxes, for the year and the actuarial gain or loss and amortization of unrecognized amounts in the Company's defined benefit pension plan, net of taxes, and is presented in the Consolidated Statements of Comprehensive Income.

Trust Assets: Assets held by the Company in fiduciary or agency capacities for its customers are not included in the accompanying consolidated balance sheets, since these assets are not assets of the Company. Trust Department income is recognized when its obligation to the customer is satisfied.

Reclassifications: Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the current year presentation.

Subsequent Events: The Company has evaluated subsequent events for potential recognition and/or disclosure through March 15, 2024, the date the consolidated financial statements were available to be issued.

In January 2024, the Company filed for the Employee Retention Credit (ERC). The ERC is a refundable payroll tax credit for certain eligible businesses impacted by mandated governmental shutdowns or partial shutdowns related to the COVID-19 pandemic, who continued to pay their employees during that period. As a result of the filing, during 2024 the Company recorded an $851 thousand receivable for the ERC, which is expected to be recognized in other income in its 2024 consolidated statement of income, and a $179 thousand taxes payable liability and corresponding tax expense for the anticipated taxes, for a net impact of $672 thousand.

2. Securities

Securities by major security type are as follows:

	December 31, 2023			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury Bonds	**$ 25,859**	**$ -**	**$ (2,106)**	**$ 23,753**
U.S. Government sponsored agencies	**139,737**	**35**	**(14,195)**	**125,577**
State and political subdivisions	**39,132**	**5**	**(3,580)**	**35,557**
Corporate Bonds	**48,333**	**-**	**(6,721)**	**41,612**
Mortgage-backed securities	**128,134**	**41**	**(18,146)**	**110,029**
TOTAL AVAILABLE-FOR-SALE	**$ 381,195**	**$ 81**	**$ (44,748)**	**$ 336,528**
Held-to-maturity:				
U.S. Government sponsored agencies	**$ 745**	**$ -**	**$ (43)**	**$ 702**
State and political subdivisions	**8,222**	**28**	**(4)**	**8,246**
TOTAL HELD-TO-MATURITY	**$ 8,967**	**$ 28**	**$ (47)**	**$ 8,948**

(In thousands)	December 31, 2022 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury Bonds	$ 29,833	$ -	$ (2,888)	$ 26,945
U.S. Government sponsored agencies	149,717	68	(17,365)	132,420
State and political subdivisions	51,640	-	(4,036)	47,604
Corporate Bonds	53,283	-	(8,683)	44,600
Mortgage-backed securities	142,772	-	(19,961)	122,811
TOTAL AVAILABLE-FOR-SALE	$ 427,245	$ 68	$ (52,933)	$ 374,380
Held-to-maturity:				
U.S. Government sponsored agencies	$ 926	$ -	$ (61)	$ 865
State and political subdivisions	6,309	5	(12)	6,302
TOTAL HELD-TO-MATURITY	$ 7,235	$ 5	$ (73)	$ 7,167

Maturities of debt securities classified as available-for-sale and held-to-maturity are as follows:

(In thousands)	**December 31, 2023** Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	**$ 5,176**	**$ 5,054**
Due after one year through five years	**106,314**	**97,528**
Due after five years through ten years	**79,694**	**68,633**
Due after ten years	**1,322**	**1,108**
TOTAL	**192,506**	**172,323**
Mortgage-backed securities and SBA pools	**188,689**	**164,205**
TOTAL AVAILABLE-FOR-SALE	**$ 381,195**	**$ 336,528**
Held-to-maturity:		
Due in one year or less	**$ 5,909**	**$ 5,923**
Due after one year through five years	**753**	**755**
Due after five years through ten years	**800**	**808**
Due after ten years	**760**	**760**
TOTAL	**8,222**	**8,246**
SBA pools	**745**	**702**
TOTAL HELD-TO-MATURITY	**$ 8,967**	**$ 8,948**

Mortgage-backed securities and SBA pools are shown separately since they are not due at a single maturity date. SBA pools are classified in U.S. Government sponsored agencies. Gross realized losses on sales or calls of securities during 2023 were **$396** thousand and the gross realized losses on sales or calls of securities was $164 thousand during 2022.

The table presents debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded:

	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2023:						
U.S. Treasury Bonds	**$ -**	**$ -**	**$ 23,753**	**$ 2,106**	**$ 23,753**	**$ 2,106**
U.S. Government sponsored agencies	**1,108**	**1**	**120,870**	**14,194**	**121,978**	**14,195**
State and political subdivisions	**-**	**-**	**35,250**	**3,580**	**35,250**	**3,580**
Corporate Bonds	**-**	**-**	**41,612**	**6,721**	**41,612**	**6,721**
Mortgage-backed securities	**-**	**-**	**107,067**	**18,146**	**107,067**	**18,146**
	$ 1,108	**$ 1**	**$ 328,552**	**$ 44,747**	**$ 329,660**	**$ 44,748**

The table presents the fair value and the unrealized loss on securities available-for-sale that were temporarily impaired as follows:

	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2022:						
U.S. Treasury Bonds	$ 10,362	$ 743	$ 16,583	$ 2,145	$ 26,945	$ 2,888
U.S. Government sponsored agencies	27,944	2,102	98,437	15,263	126,381	17,365
State and political subdivisions	33,030	2,066	14,574	1,970	47,604	4,036
Corporate Bonds	8,805	832	35,795	7,851	44,600	8,683
Mortgage-backed securities	60,516	6,096	62,295	13,865	122,811	19,961
	$ 140,657	$ 11,839	$ 227,684	$ 41,094	$ 368,341	$ 52,933

Beginning January 1, 2023, unrealized losses on corporate bonds have not been recognized into income because the issuers' bonds are of high credit quality (rated AA or higher), management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

There were no debt securities held-to-maturity in nonaccrual and past due over 90 days still on accrual by major security type as of December 31, 2023.

As the Company's held-to-maturity debt securities are comprised of general obligation bonds issued by U.S. Government Sponsored Agencies and New York State Municipalities, management has determined there was a zero-nonpayment credit risk at December 31, 2023 or January 1, 2023 and therefore, no allowance for credit losses was recorded during the year-ended 2023.

The table presents the fair value and the unrealized loss on securities held-to-maturity that were temporarily impaired as follows:

	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2022:						
U.S. Government sponsored agencies	$ 865	$ 61	$ -	$ -	$ 865	$ 61
State and political subdivisions	2,568	9	82	3	2,650	12
	$ 3,433	$ 70	$ 82	$ 3	$ 3,515	$ 73

At December 31, 2023, there were **1** and **429** securities in an unrealized loss position less than 12 months and greater than 12 months, respectively. At December 31, 2022, there were 284 and 210 securities in an unrealized loss position less than 12 months and greater than 12 months, respectively.

Unrealized losses on investment securities result from the amortized cost basis of the security being higher than its current fair value. Unrealized losses generally occur because of changes in interest rates since the time of purchase, or because the credit quality of the issuer has deteriorated. The unrealized loss for these investments for 2023 and 2022 was directly related to changes in market interest rates. The unrealized loss positions are unrelated to credit based on the direct relationship of the declines in fair value to movements in interest rates. U.S. government or government-sponsored enterprises, including securities issued by the Treasury, GNMA, FNMA, FHLB, FFCB, FHLMC and the SBA are considered to have no credit risk as there are either explicit or implicit guarantees as to the payment of the contractual principal and interest. State and political subdivisions (municipal bonds) are general obligation bonds to municipalities located in New York State. Corporate bonds are issued by companies registered with the Securities & Exchange Commission. For both municipal and corporate bonds, the Company performs annual credit reviews and obtains broker information. These securities are subject to pre-purchase prudent safe and sound and investment grade assessments, in addition to minimum investment grade ratings by the credit rating agencies (i.e., S&P and Moody's). These securities are heavily monitored by the Company and any unrealized losses reflected in this category are attributable to the changes in the interest rate environment.

For the year-ended December 31, 2022, because the Company did not intend to sell any of its temporarily impaired securities, and because it was unlikely that the Company would be required to sell the securities prior to recovery, the impairment was considered temporary. Management did not believe any individual securities within the portfolio as of December 31, 2022 represented other-than-temporary impairment.

The fair value of investment securities pledged to secure municipal deposits amounted to **$162.2** million at December 31, 2023 and $191.0 million at December 31, 2022. In addition, the Bank secured a municipal letter of credit with the FHLB for **$20.0** million as additional collateral pledged to secure municipal deposits at December 31, 2023. The Bank also had **$85.5** million in securities pledged, at par value, to the FRB to secure borrowings through the Bank Term Funding Program and **$6.2** million in securities pledged, at fair value, to the FRB for the Borrower-in-Custody Program. See Note 6 for further discussion on Borrowings.

Included in other assets are restricted equity securities, which include non-marketable Federal Home Loan Bank of New York (FHLB) 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 level of FHLB stock is based on the amount of FHLB borrowings and is pledged to secure those borrowings. Holdings of FHLB stock and FRB stock totaled **$893** thousand and **$686** thousand at December 31, 2023, respectively, and $2.9 million and $686 thousand at December 31, 2022, respectively. These securities are carried at par, which is also cost, and are periodically reviewed for impairment based on ultimate recovery of par value.

3. Loans

The loan portfolio is summarized as follows:

	December 31,	
(In thousands)	**2023**	2022
Commercial real estate	**$ 210,621**	$ 199,774
Commercial	**75,384**	77,338
Residential real estate	**315,581**	316,336
Consumer	**93,522**	75,029
All other loans	**3,465**	3,524
TOTAL LOANS	**$ 698,573**	$ 672,001

Net unamortized loan origination costs totaled **$3.0** million at December 31, 2023 and $2.6 million at December 31, 2022 and are included with their related loan class.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year-ended December 31, 2023:

(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	All Other Loans	Unallocated	Total
Allowance for loan losses							
Beginning balance prior to adoption of ASC 326	**$ 3,218**	**$ 1,791**	**$ 1,263**	**$ 748**	**$ 60**	**$ 523**	**$7,603**
Impact of adoption of ASC 326	**(133)**	**(416)**	**986**	**414**	**1**	**(523)**	**329**
Provisions for credit losses	**(180)**	**(323)**	**199**	**477**	**(48)**	**-**	**125**
Loans charged-off	**-**	**-**	**(67)**	**(68)**	**(8)**	**-**	**(143)**
Recoveries of loans previously charged-off	**8**	**31**	**8**	**21**	**42**	**-**	**110**
Balance end of year	**$ 2,913**	**$ 1,083**	**$ 2,389**	**$ 1,592**	**$ 47**	**-**	**$8,024**

The following table presents an analysis of the allowance for loan losses by loan class, including those individually and collectively evaluated for impairment:

(In thousands)	Commercial Real Estate	Commercial	Residential Real Estate	Consumer	All Other Loans	Unallocated	Total
At December 31, 2022:							
Allowance for loan losses:							
Beginning balance:	$ 3,142	$ 1,498	$ 1,401	$ 775	$ 88	$ 685	$ 7,589
Provision for loan losses:	58	254	(161)	(40)	51	(162)	-
Loans charged off:	-	(5)	-	(27)	(100)	-	(132)
Recoveries:	18	44	23	40	21	-	146
Ending Balance:	$ 3,218	$ 1,791	$ 1,263	$ 748	$ 60	$ 523	$ 7,603
Ending balance related to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 3,218	$ 1,791	$ 1,263	$ 748	$ 60	$ 523	$ 7,603
Loans:							
Ending balance:	$199,774	$ 77,338	$316,336	$75,029	$ 3,524	$ -	$672,001
Ending balance:							
Individually evaluated for impairment	$ 157	$ 716	$ 1,032	$ -	$ -	$ -	$ 1,905
Collectively evaluated for impairment	$199,617	$ 76,622	$315,304	$75,029	$ 3,524	$ -	$670,096

Prior to January 1, 2023, loans were considered modified in a troubled debt restructuring ("TDR") when, due to a borrower's financial difficulties, the Company made a concession(s) to the borrower that it would not otherwise consider. These modifications may have included, among others, an extension for the term of the loan, an extension of credit for debt consolidation, and granting a period when interest-only payments could be made with the principal payments made over the remaining term of the loan or at maturity.

During the year-ended December 31, 2022, there were no loans modified as troubled debt restructurings.

In monitoring the credit quality of the portfolio, management applies a credit quality indicator to substantially all commercial and commercial real estate loans. These quality indicators range from pass through doubtful. The ratings are used as inputs to the calculation for the allowance for loan loss. Loans which are rated pass are generally allocated a lesser percentage in the allowance for loan losses than loans rated special mention through doubtful. Unrated loans are allocated a percentage of the allowance for loan losses on a pooled basis.

Loans rated Pass: A loan rated Pass will range from borrowers who exhibit superior financial strength characterized by a substantially risk free profile with unquestioned credit strength and superior repayment sources to borrowers with an above average risk profile due to potential financial weakness or uncertainties. Although the borrowers in the lower end of the range are considered a Pass credit, these borrowers may warrant a higher level of monitoring by the Company.

Loans rated Special Mention: A loan rated Special Mention will exhibit potential weaknesses but default will not be considered imminent. If left uncorrected, the potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention borrowers are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Loans rated Substandard: A loan rated Substandard exhibits definite weaknesses and a potential for loss. A loan rated Substandard is inadequately protected by the current sound worth and paying capacity of the borrower or the collateral. Loans so classified must have a well defined weakness that jeopardizes the collection of the debt. Loans so classified are characterized by the distinct possibility that the Company will sustain some loss if corrective action is not taken and if the deficiencies are not corrected.

Loans rated Doubtful: A loan classified as Doubtful has all weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. There were no loans rated Doubtful at December 31, 2023 or 2022.

Consumer loans, consisting of residential mortgages, consumer, and other loans, are not subject to the same risk ratings specified on above. Consumer credit is categorized by performing and non-performing loan types. Non-performing loans consist of nonaccrual loans and loans ninety days past due and accruing.

The following table presents loans to customers, based on year of origination, within each credit quality indicator:

(In thousands)	At December 31,				
	2023	2022	2021	Prior	Total
Commercial loans:					
Pass	**$ 22,060**	$ 20,792	$ 10,891	$ 21,127	$ 74,870
Special Mention	**-**	-	18	14	32
Substandard	**-**	-	245	237	482
	$ 22,060	$ 20,792	$ 11,154	$ 21,378	$ 75,384
Current period gross write-offs	**$ -**	$ -	$ -	$ -	$ -
Current period recoveries	**-**	-	-	31	31
Current period net write-offs	**$ -**	$ -	$ -	$ 31	$ 31
Commercial Real Estate loans:					
Pass	**$ 23,777**	$ 49,759	$ 33,319	$ 93,562	$ 200,417
Special Mention	**1,307**	-	5,119	1,020	7,446
Substandard	**-**	-	388	2,370	2,758
	$ 25,084	$ 49,759	$ 38,826	$ 96,952	$ 210,621
Current period gross write-offs	**$ -**	$ -	$ -	$ -	$ -
Current period recoveries	**-**	-	-	8	8
Current period net write-off	**$ -**	$ -	$ -	$ 8	$ 8

	At December 31,				
	2023	2022	2021	Prior	Total
Residential mortgage loans:					
Performing	**$ 33,607**	$ 37,814	$ 62,526	$ 181,164	$ 315,111
Non-Performing	**-**	-	203	267	470
	$ 33,607	$ 37,814	$ 62,729	$ 181,431	$ 315,581
Current period gross write-offs	**$ -**	$ -	$ (22)	$ (45)	$ (67)
Current period recoveries	**-**	-	-	8	8
Current period net write-offs	**$ -**	$ -	$ (22)	$ (37)	$ (59)
Consumer loans:					
Performing	**$ 44,883**	$ 31,048	$ 8,266	$ 9,319	$ 93,516
Non-Performing	**-**	-	-	6	6
	$ 44,883	$ 31,048	$ 8,266	$ 9,325	$ 93,522
Current period gross write-offs	**$ (8)**	$ (18)	$ (6)	$ (36)	$ (68)
Current period recoveries	**6**	-	2	13	21
Current period net write-offs	**$ (2)**	$ (18)	$ (4)	$ (23)	$ (47)
Other loans:					
Performing	**$ 88**	$ 103	$ 211	$ 3,063	$ 3,465
Non-Performing	**-**	-	-	-	-
	$ 88	$ 103	$ 211	$ 3,063	$ 3,465
Current period gross write-offs	**$ -**	$ -	$ -	$ (8)	$ (8)
Current period recoveries	**-**	-	-	42	42
Current period net write-offs	**$ -**	$ -	$ -	$ 34	$ 34

Prior to January 1, 2023, the following tables presented the loan portfolio by credit quality indicator. Credit quality indicators were reassessed for each applicable loan at least annually or upon receipt and analysis of the borrower's financial statements, when applicable.

(In thousands)	Commercial Real Estate	Commercial
At December 31, 2022:		
Pass	$ 195,670	$ 73,054
Special Mention	478	3,384
Substandard	3,626	900
TOTAL	$ 199,774	$ 77,338

(In thousands)	Residential Real Estate	Consumer	All Other Loans
At December 31, 2022:			
Performing	$ 316,033	$ 75,029	$ 3,524
Non-performing	303	-	-
TOTAL	$ 316,336	$ 75,029	$ 3,524

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status:

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans	Loans >90 & Accruing[1]	Loans on Non-Accrual Status
At December 31, 2023:								
Residential RE	**$ 1,659**	**$ 147**	**$ 10**	**$ 1,816**	**$313,765**	**$315,581**	**$ 10**	**$ 452**
Commercial RE	**496**	**207**	**-**	**703**	**209,918**	**210,621**	**-**	**-**
Commercial	**-**	**38**	**-**	**38**	**75,346**	**75,384**	**-**	**-**
Consumer	**241**	**10**	**5**	**256**	**93,266**	**93,522**	**5**	**-**
Other	**12**	**-**	**-**	**12**	**3,453**	**3,465**	**-**	**-**
Total	**$ 2,408**	**$ 402**	**$ 15**	**$ 2,825**	**$695,748**	**$698,573**	**$ 15**	**$ 452**

(In thousands)	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Loans	Loans >90 & Accruing[1]	Loans on Non-Accrual Status
At December 31, 2022:								
Residential RE	$ 1,969	$ 159	$ -	$ 2,128	$314,208	$316,336	$ -	$ 303
Commercial RE	378	-	-	378	199,396	199,774	-	-
Commercial	141	-	-	141	77,197	77,338	-	508
Consumer	539	23	-	562	74,467	75,029	-	-
Other	14	8	-	22	3,502	3,524	-	-
Total	$ 3,041	$ 190	$ -	$ 3,231	$668,770	$672,001	$ -	$ 811

Interest foregone due to non-accruing loans approximated **$55** thousand in 2023 and $54 thousand in 2022.

(1) Certain loans 90 days or more past due are still accruing because they are well secured and in process of collection.

The following table provides loans on nonaccrual status as of December 31, 2023. In connection with the Company's adoption of CECL, nonaccrual loans may have an allowance for credit losses or a negative allowance for credit losses from expected recoveries of amounts previously written off. Nonaccrual loans may not have an allowance for credit losses if the loss expectations are zero given collateral fair value in excess of carrying value as per the collateral-dependent practical expedient discussed below. Disclosure is not comparative due to the Company's adoption of CECL on January 1, 2023.

	Amortized cost		
(In thousands)	Nonaccrual loans	Nonaccrual loans without related allowance for credit losses	Recognized interest income
At December 31, 2023:			
Residential real estate	**$ 452**	**$ 145**	**$ 22**
Total nonaccrual loans	**$ 452**	**$ 145**	**$ 22**

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

(In thousands)	Amortized cost	Collateral Type
December 31, 2023:		
Real estate:		
Residential 1-4 family	**$ 452**	Residential real estate property

Prior to January 1, 2023 the details on impaired loans are as follows:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
At December 31, 2022:					
With no related allowance recorded					
Residential real estate	$ 1,032	$ 1,051	$ -	$ 1,179	$ 53
Commercial	$ 716	$ 1,283	$ -	$ 788	$ 22
Commercial real estate	$ 157	$ 157	$ -	$ 171	$ 10
TOTAL:					
RESIDENTIAL REAL ESTATE	$ 1,032	$ 1,051	$ -	$ 1,179	$ 53
COMMERCIAL	$ 716	$ 1,283	$ -	$ 788	$ 22
COMMERCIAL REAL ESTATE	$ 157	$ 157	$ -	$ 171	$ 10

Directors and executive officers of the Company and their affiliated companies were customers of, and had other transactions with, the Company in the ordinary course of business during 2023 and 2022. All deposits, loans, and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unrelated persons and did not involve more than normal risk of collectibility or present other unfavorable features. The balances of such loans included in total loans were **$679** thousand at December 31, 2023 and $491 thousand at December 31, 2022. During 2023, there was **$339** thousand in loans made to such related parties, and repayments amounted to **$151** thousand.

Loans serviced for others were approximately **$44.4** million and $43.4 million at December 31, 2023 and 2022, respectively. Related servicing assets, net of amortization, were **$29** thousand at December 31, 2023 and $16 thousand at December 31, 2022.

There were **$203** thousand and $85 thousand of residential real estate loans in the process of foreclosure at December 31, 2023 and 2022, respectively.

4. Bank Premises & Equipment

A summary of bank premises and equipment is as follows:

(In thousands)	December 31, 2023	2022
Land	**$ 3,162**	$ 3,162
Building and leasehold improvements	**11,012**	10,873
Equipment	**16,459**	15,834
Right-of-use assets	**1,669**	2,000
Construction in progress	**-**	80
	32,302	31,949
Less accumulated depreciation and amortization	**(21,134)**	(20,403)
TOTAL BANK PREMISES AND EQUIPMENT, NET	**$ 11,168**	$ 11,546

Total depreciation and amortization expense was **$730** thousand and $695 thousand for the years ended December 31, 2023 and 2022, respectively.

The Company enters into leases in the normal course of business primarily for banking offices. The Company's leases have remaining terms ranging from less than one year to 7 years, some of which include renewal or termination options to extend the lease for up to 30 years. 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 Company's leases do not include residual value guarantees or covenants.

Leases are classified as operating leases at the lease commencement date. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Operating lease costs were **$373** thousand and $372 thousand for 2023 and 2022, respectively.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. Upon adoption of the new leases standard ASC 842 on January 1, 2019, the Company used its incremental borrowing rate as of the date of adoption to calculate the present value of lease payments if the rate implicit in a lease was not known. For any new leases, the Company will use its incremental borrowing rate on the lease commencement date. The Company's incremental borrowing rate is based on the FHLB advance rate, adjusted for the lease term and other factors. The Company did not enter into any new lease agreements during the year-ended December 31, 2023.

Right-of-use assets and lease liabilities, and the associated balance sheet classifications, are as follows:

(In thousands)	**Balance Sheet Classification**	December 31, 2023	2022
Right-of-use assets:			
Operating leases	Bank premises and equipment, net	**$ 1,669**	$ 2,000
Lease liabilities:			
Operating leases	Other liabilities	**$ 1,689**	$ 2,020
Supplemental Lease Information			
Operating cash flows paid for operating leases		**$ 366**	$ 361
Operating lease weighted average remaining lease term		**5.9 Years**	6.8 Years
Operating lease weighted average discount rate		**3.29%**	3.27%

The undiscounted cash flows of the operating lease liabilities are as follows:

(In thousands)	**December 31, 2023**
2024	**$ 374**
2025	**313**
2026	**315**
2027	**315**
2028	**301**
Thereafter	**359**
Total undiscounted cash flows	**1,977**
Less: net present value adjustments	**(288)**
LEASE LIABILITIES	**$ 1,689**

5. Deposits

Contractual maturities of time deposits were as follows:

(In thousands)	**December 31, 2023**
Under 1 year	**$ 238,376**
1-3 years	**31,706**
3-5 years	**3,227**
TOTAL CONTRACTUAL MATURITIES OF TIME DEPOSITS	**$ 273,309**

Deposits from directors and executive officers of the Company at December 31, 2023 and 2022 were **$4.4** million and $3.9 million, respectively.

6. Borrowings/Lines of Credit

The Company had **$80.7** million in borrowings as of December 31, 2023 and $49.7 million in borrowings as of December 31, 2022. Borrowings consist of advances from the Federal Home Loan Bank of New York (FHLB) and the Federal Reserve Bank of New York (FRB).

The following table sets forth the contractual maturities of borrowings with the FHLB and FRB as of December 31:

(In thousands)	Advance Date	Maturity Date	Rate	**2023**	2022
	11/22/22	1/23/23	4.45%	**$ -**	$ 12,000
	12/30/22	1/03/23	4.61%	**-**	37,700
	4/06/23	4/05/24	4.61%	**20,000**	-
	5/04/23	5/03/24	4.70%	**45,000**	-
	5/11/23	5/10/24	4.71%	**1,500**	-
	5/12/23	5/10/24	4.74%	**2,000**	-
	10/12/23	10/13/26	5.16%	**620**	-
	12/12/23	12/14/26	4.73%	**1,030**	-
	12/27/23	12/26/24	4.85%	**10,500**	-
	12/27/23	12/29/25	4.53%	**70**	-
TOTAL				**$ 80,720**	$ 49,700

Borrowings at the FHLB are secured by mortgage loans with a carrying amount of **$215.2** million and $223.1 million at December 31, 2023 and 2022, respectively, and the Company's investment in FHLB stock. As of December 31, 2023 and 2022, **$145.7** million and $171.4 million, respectively, was available for borrowings. Of this amount, **$1.7** million and $49.7 million were outstanding at December 31, 2023 and 2022, respectively. The Bank also secured a municipal letter of credit for **$20.0** million as additional collateral pledged to secure municipal deposits at December 31, 2023, reducing the available borrowing capacity. In 2023, the FHLB launched a new 0% Development Advance (ZDA) Program that provided members with subsidized funding in the form of interest rate credits to assist in originating loans or purchasing loans/investments that meet its eligibility criteria. FHLB members could request to reserve interest rate credits up to $250,000, which the Company was successfully granted during the year. Borrowings through this program were also secured by the same mortgage loans. Borrowings outstanding at the FHLB at December 31, 2023 were through the ZDA program, while borrowings at December 31, 2022 were through the FHLB's traditional advance program.

Borrowings through the discount window program at the Federal Reserve Bank of New York are secured by mortgage loans and investment securities with a carrying amount of **$24.6** million and $16.4 million at December 31, 2023 and 2022, respectively, and **$17.8** million and $11.0 million were available for borrowing at December 31, 2023 and 2022, respectively. There were no outstanding borrowings on these lines at December 31, 2023 or 2022. In 2023, a new borrowing facility was created by the Fed, known as the Bank Term Funding Program (BTFP). In response to the events surrounding large bank failures in March of 2023, the Fed deployed the BTFP to provide financial institutions with easily accessible liquidity. Banks could pledge certain investment securities (U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets) as collateral and could borrow up to one hundred percent of their par value for a term of one-year at a rate specific to the program. Borrowings through the BTFP were secured by investment securities with a carrying amount of **$85.5** million at December 31, 2023. Of this amount, **$79.0** million were outstanding at December 31, 2023. The Company also had various unused unsecured lines of credit with other correspondent banks totaling **$28.0** million at December 31, 2023 and December 31, 2022 with approximate terms of the current federal funds rate plus 0.25%.

The following table sets forth the contractual maturities of all FHLB borrowings at December 31, 2023:

(In thousands)	Contractual Maturity	Weighted Average Rate
2025	**$ 70**	**0.00%**
2026	**$ 1,650**	**0.00%**
TOTAL	**$ 1,720**	**0.00%[1]**

The following table sets forth the contractual maturities of all FRB borrowings at December 31, 2023:

(In thousands)	Contractual Maturity	Weighted Average Rate
2024	**$ 79,000**	**4.70%**
TOTAL	**$ 79,000**	**4.70%**

[1] FHLB Advances through the ZDA Program are effectively at a 0.00% rate due to interest expense credits received.

7. Income Tax

Income tax expense (benefit) attributable to income before income taxes consists of:

(In thousands)	Current	Deferred	Total
Year ended December 31, 2023:			
Federal	**$ 1,343**	**$ 16**	**$ 1,359**
State	**121**	**(87)**	**34**
TOTAL INCOME TAX EXPENSE (BENEFIT)	**$ 1,464**	**$ (71)**	**$ 1,393**
Year ended December 31, 2022:			
Federal	$ 2,337	$ 137	$ 2,474
State	409	37	446
TOTAL INCOME TAX EXPENSE	$ 2,746	$ 174	$ 2,920

Income tax expense attributable to income before income taxes for the years ended December 31, 2023 and 2022 differed from amounts computed by applying the U.S. Federal income tax rate of 21 percent to income before income taxes as a result of the following:

	December 31,	
(In thousands)	**2023**	2022
Computed "expected" tax expense	**$ 1,599**	$ 2,874
Increase (reduction) in income taxes resulting from:		
Tax exempt income	**(264)**	(328)
State income taxes, net of Federal income tax	**26**	353
Other	**32**	21
TOTAL INCOME TAX EXPENSE	**$ 1,393**	$ 2,920

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
(In thousands)	**2023**	2022
Deferred tax assets:		
Unrealized net losses on securities	**$ 11,675**	$ 14,132
Financial statement allowance for credit losses	**2,153**	2,032
Deferred compensation	**176**	138
State net operating loss	**60**	-
Nonaccrual interest	**2**	3
Other	**48**	41
TOTAL GROSS DEFERRED TAX ASSETS	**14,114**	16,346
Deferred tax liabilities:		
Pension	**679**	654
Bank premises and equipment	**561**	515
Other	**415**	351
TOTAL GROSS DEFERRED TAX LIABILITIES	**1,655**	1,520
NET DEFERRED TAX ASSETS, INCLUDED IN OTHER ASSETS	**$ 12,459**	$ 14,826

The realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. In assessing the need for a valuation allowance, management considers the scheduled reversal of the deferred tax liabilities, the level of historical taxable income and projected future taxable income over the periods in which the temporary differences comprising the deferred tax assets will be deductible. Based on its assessment, management determined that no valuation allowance was necessary for 2023 or 2022.

The Company is currently open to audit by the Internal Revenue Service and New York State for the years ending December 31, 2021 through 2023. The Company recognizes interest and penalties, if any, assessed by the taxing agencies in other expenses. Interest and penalties were not significant in 2023 or 2022.

8. Comprehensive Income

The amounts of income tax (benefit) expense allocated to each component of other comprehensive income are as follows for the years ended December 31, 2023 and 2022:

	December 31,	
(In thousands)	**2023**	2022
Unrealized gains (losses) on securities available-for-sale	**$ 2,363**	$ (13,440)
Reclassification adjustments for losses included in net income	**103**	44
Net unrealized gains (losses)	**2,466**	(13,396)
Amortization of net unrealized losses on securities transferred from available-for-sale	**1**	2
Net unrealized gains on securities held-to-maturity	**1**	2
Defined benefit pension plan:		
Net gains (losses) arising during the period	**60**	(210)
Amortization of net losses and prior service credit recognized in net pension expense	**51**	37
Defined benefit pension plan, net	**111**	(173)
	$ 2,578	$ (13,567)

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

	Amount reclassified from accumulated other comprehensive loss		Affected line item in the statement where net income is presented
	December 31,		
(In thousands)	**2023**	2022	
Unrealized (losses) gains on securities available-for-sale (before tax)	**$ (396)**	$ (164)	Net (loss) gain on sale and call of securities
Tax benefit	**103**	44	Income taxes
Net of tax	**(293)**	(120)	
Amortization of pension plan items (before tax):			
Prior service credit	**-**	68	
Settlement cost	**-**	(164)	
Net losses	**(194)**	(43)	
	(194)	(139)	Salaries & employee benefits
Tax benefit	**51**	37	Income taxes
Net of tax	**(143)**	(102)	
Total reclassification for the year, net of tax	**$ (436)**	$ (222)	

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

(In thousands)	Unrealized Gains (Losses) on Securities Available-for-Sale	Unrealized Gains (Losses) on Securities Held-to-Maturity	Defined Benefit Pension Plan	Accumulated Other Comprehensive Income (Loss)
Accumulated other comprehensive income (loss) as of January 1, 2022	$ (2,110)	$ (15)	$ (902)	$ (3,027)
Other comprehensive income (loss) before reclassification	(36,752)	4	(576)	(37,324)
Amounts reclassified from accumulated other comprehensive loss	120	-	102	222
Accumulated other comprehensive loss as of December 31, 2022	(38,742)	(11)	(1,376)	(40,129)
Other comprehensive income before reclassification	**5,438**	**1**	**172**	**5,611**
Amounts reclassified from accumulated other comprehensive loss	**293**	**-**	**143**	**436**
Accumulated other comprehensive loss as of December 31, 2023	**$ (33,011)**	**$ (10)**	**$ (1,061)**	**$ (34,082)**

9. Benefit Plans

Obligations and Funded Status:

The following table sets forth the Plan's change in benefit obligation, change in plan assets, and funded status and amounts recognized in the Company's consolidated balance sheets using the most recent actuarial data measured as follows:

(In thousands)	December 31, **2023**	2022
Change in Benefit Obligation		
Benefit obligation at beginning of year	**$ (6,634)**	$ (7,864)
Service cost	**(170)**	(193)
Interest cost	**(396)**	(293)
Actuarial (loss) gain	**(268)**	988
Benefits paid	**266**	728
Benefit obligation at end of year	**(7,202)**	(6,634)
Change in Plan Assets		
Fair value of assets at beginning of year	**9,081**	10,792
Employer contributions	**-**	200
Actual return on plan assets	**986**	(1,183)
Benefits paid	**(266)**	(728)
Fair value of assets at end of year	**9,801**	9,081
FUNDED STATUS AT END OF YEAR, INCLUDED IN OTHER ASSETS	**$ 2,599**	$ 2,447
Amounts recognized in accumulated other comprehensive loss		
Unrecognized net actuarial loss	**$ (1,469)**	$ (1,894)
TOTAL	**$ (1,469)**	$ (1,894)

The accumulated benefit obligation was **$7.2** million at December 31, 2023 and $6.6 million at December 31, 2022.

Components of Net Periodic (Benefit) Cost and Other Amounts Recognized in Other Comprehensive Loss:

(In thousands)	December 31, **2023**	2022
Net Periodic Benefit Cost		
Service cost	**$ 170**	$ 193
Interest cost	**396**	293
Expected return on plan assets	**(487)**	(593)
Net amortization and deferral	**194**	(24)
Settlement cost	**-**	164
Net periodic pension cost	**273**	33
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Loss		
Net gain (loss)	**(425)**	744
Amortization of prior service credit	**-**	68
Settlement cost	**-**	(164)
Total recognized in other comprehensive loss	**(425)**	648
TOTAL RECOGNIZED IN NET PERIODIC COST (BENEFIT) AND OTHER COMPREHENSIVE LOSS	**$ (152)**	$ 681

There were no settlement costs recognized during the year-ended December 31, 2023. Due to a large number of lump sum distributions made during the 2022 fiscal year, $164 thousand of settlement costs were recognized during the year-ended December 31, 2022. Settlement accounting requires the percentage of the unrecognized (gain)/loss that is recognized at December 31, 2022 (8.0%) to equal the ratio of the total lump sum benefits paid in 2022 ($576 thousand) to the amount of the Projected Benefit Obligation prior to recognizing these distributions ($7.2 million).

The projected benefit obligation was determined using an assumed weighted average discount rate of **6.00%** in 2023 and 6.19% in 2022. The projected net periodic pension cost was determined using an assumed weighted average discount rate of **6.19%** in 2023 and 3.83% in 2022. The Company utilized an expected overall weighted average long-term-rate-of-return on plan assets of **5.50%** in 2023 and 2022. Historical and future expected returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan. The weighted average assumed rate of compensation increase was **3.00%** in 2023 and 2022.

The 2023 mortality tables used were the sex-distinct Amount-Weighted White Collar Pri-2012 mortality tables for employees and healthy annuitants adjusted for mortality improvements with the scale MP-2021 mortality improvement scale on a generational basis. This assumption was based on a review of published mortality tables and the demographics and industry of the plan.

The 2023 mortality table used to convert annuities to equivalent lump sum amounts and to annuitize cash balance accounts was updated to the applicable mortality table for the determination of present values under IRC Section 417(e)(3)(B). This table is currently a 50/50 blend of male and female rates from the 2023 sex distinct optional combined mortality tables, as prescribed under IRC Section 430. The change in mortality table resulted in an increase in liabilities and service cost.

The Company has an investment strategy to create income for the defined benefit plan with modest asset risk. The target investment allocations are fixed income securities 50% - 75%, equity securities 15% - 40%, and cash and cash equivalents up to 10%. Variances to policy are acceptable if approved by the Plan Trustees. The Company's common stock is included in the equity securities class with a maximum limit of 10% of the portfolio. The Plan assets include **12,685** and 12,575 shares of the Company's common stock at December 31, 2023 and 2022, respectively.

The asset allocations of the Company's pension benefits as of December 31 were as follows:

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	**2023**	Level 1	Level 2	Level 3
Cash and cash equivalents	**$ 876**	**$ 876**	**$ -**	**$ -**
Certificates of Deposit	**1,122**	**-**	**1,122**	**-**
Equity Securities:				
Large cap	**2,700**	**2,700**	**-**	**-**
Mid cap	**1,134**	**1,134**	**-**	**-**
Small cap	**374**	**374**	**-**	**-**
Fixed income securities:				
Corporate bonds	**1,467**	**-**	**1,467**	**-**
Mutual funds	**2,128**	**2,128**	**-**	**-**
TOTAL	**$ 9,801**	**$ 7,212**	**$ 2,589**	**$ -**

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	2022	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 40	$ 40	$ -	$ -
Certificates of Deposit	939	-	939	-
Equity Securities:				
Large cap	2,050	2,050	-	-
Mid cap	1,565	1,565	-	-
Small cap	440	440	-	-
Fixed income securities:				
Corporate bonds	1,465	-	1,465	-
Mutual funds	2,582	2,582	-	-
TOTAL	$ 9,081	$ 6,677	$ 2,404	$ -

The fair value of level 1 pension plan assets are based on unadjusted, quoted market prices from exchanges in active markets. The fair value of level 2 pension plan assets are based on an independent bond pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. There were no Level 3 assets at December 31, 2023 and 2022 or any time during 2023 or 2022.

The Company does not expect to contribute to its pension plan in 2024. Potential future contributions may be considered.

The benefits expected to be paid from the pension plan in each year 2024-2028 are **$461**, **$502**, **$443**, **$441**, and **$447** thousand, respectively. The aggregate benefits expected to be paid in the five years from 2029-2033 are **$2.8** million. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31st and include estimated future employee service.

Defined Contribution Plan

The Company also has a defined contribution 401(k) Employee Savings Plan for all eligible employees. Matching contributions to the plan, which are subject to plan limitations, amounted to **$537** thousand in 2023 and $516 thousand in 2022.

10. Commitments and Contingencies

Loan Commitments and Letters of Credit

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Management does not anticipate any significant losses as a result of these transactions.

The Company's exposure to credit loss in the event of nonperformance by the other parties to the financial instrument for commitments to extend credit, unused lines of credit and letters of credit is represented by the contractual nominal amounts of those commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses of Financial Instruments, which extends to off-balance sheet credit exposures. The Company controls credit risk through credit approvals, limits and monitoring procedures.

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon the extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include cash, securities, receivables, inventory, and equipment.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing these investments is essentially the same as that involved in extending loans to customers.

The Company's commitments (unfunded loans or unused lines of credit) and letters of credit outstanding are as follows:

	December 31,	
(In thousands)	**2023**	2022
Commitments to extend credit – variable	**$ 165,836**	$ 152,593
Commitments to extend credit – fixed	**27,447**	29,972
Performance and standby letters of credit	**7,325**	6,978
TOTAL LOAN COMMITMENTS AND LETTERS OF CREDIT	**$ 200,608**	$ 189,543

Contingencies

In the normal course of business, there are various outstanding legal proceedings. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial position of the Company.

At December 31, 2023 and 2022, the Company held **7,213** shares of VISA Class B Common Stock. The Company is restricted from selling these shares until certain VISA legal matters are resolved. The Company is not a party to these legal matters. Upon resolution of these legal matters, the Company's shares will be convertible to marketable Class A common shares. The Company has valued these shares at zero, which is equal to the cost basis of their equity interest in VISA. The Company cannot predict when the restriction on these shares will be released or what the value of these shares might be at that time.

11. Fair Value of Financial Instruments

The Company uses fair value measurements to record fair value adjustments and to determine fair value disclosures of financial assets and financial liabilities measured at fair value on a recurring basis and for nonfinancial items that are recognized or disclosed at fair value on a non-recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value measurements are not adjusted for transaction costs. In addition, GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The only assets or liabilities that the Company measured at fair value on a recurring basis at December 31, 2023 and 2022 were securities available-for-sale. The Company held no securities or liabilities for trading on such dates.

The following table presents the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis at December 31, 2023 and 2022:

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	**2023**	Level 1	Level 2	Level 3
U.S. Treasury Bonds	**$ 23,753**	**$ -**	**$ 23,753**	**$ -**
U.S. Government sponsored agencies	**125,577**	**-**	**125,577**	**-**
State and political subdivisions	**35,557**	**-**	**35,557**	**-**
Corporate bonds	**41,612**	**-**	**41,612**	**-**
Mortgage-backed securities	**110,029**	**-**	**110,029**	**-**
Securities available-for-sale	**$ 336,528**	**$ -**	**$ 336,528**	**$ -**

		Fair Value Measurements at Reporting Date Using:		
(In thousands)	2022	Level 1	Level 2	Level 3
U.S. Treasury Bonds	$ 26,945	$ -	$ 26,945	$ -
U.S. Government sponsored agencies	132,420	-	132,420	-
State and political subdivisions	47,604	-	47,604	-
Corporate bonds	44,600	-	44,600	-
Mortgage-backed securities	122,811	-	122,811	-
Securities available-for-sale	$ 374,380	$ -	$ 374,380	$ -

The fair value of level 2 securities available-for-sale are based on an independent bond pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows. Based on the inputs used by our independent pricing services, we identify the appropriate level within the fair value hierarchy to report these fair values. There were no Level 3 securities at December 31, 2023 and 2022 or any time during 2023 or 2022.

Certain assets are also measured at fair value on a non-recurring basis. These other financial assets include specifically-evaluated loans if the loan's fair value is based on the fair value of the underlying collateral and Other Real Estate ("ORE"). At December 31, 2023 and 2022, the Company had no significant amount of loans and other real estate measured at fair value on a non-recurring basis.

The table on page 54 presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2023 and 2022. The fair value estimates, methods and assumptions set forth below for the Company's financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this annual report. The carrying amounts shown in the table are included in the consolidated balance sheets under the indicated captions, except for FHLB and FRB stock, accrued interest receivable, and accrued interest payable, which are included in other assets or other liabilities.

	December 31,								
	2023					2022			
(In thousands)	Fair Value Hierarchy		Carrying Amount		Fair Value		Carrying Amount		Fair Value
Financial Assets:									
Cash and cash equivalents	**1**	**$**	**47,328**	**$**	**47,328**	$	15,370	$	15,370
Securities available-for-sale	**2**	**$**	**336,528**	**$**	**336,528**	$	374,380	$	374,380
Securities held-to-maturity	**2**	**$**	**8,967**	**$**	**8,948**	$	7,235	$	7,167
FHLB and FRB stock	**1**	**$**	**1,579**	**$**	**1,579**	$	3,655	$	3,655
Accrued interest receivable	**1**	**$**	**3,716**	**$**	**3,716**	$	3,550	$	3,550
Net loans	**3**	**$**	**690,549**	**$**	**613,574**	$	664,398	$	600,773
Financial Liabilities:									
Non-interest bearing deposits	**1**	**$**	**296,158**	**$**	**296,158**	$	319,314	$	319,314
Savings, NOW, Money Market	**1**	**$**	**398,573**	**$**	**398,573**	$	508,257	$	508,257
Time deposits	**2**	**$**	**273,309**	**$**	**272,247**	$	164,458	$	164,058
Borrowings	**2**	**$**	**80,720**	**$**	**80,703**	$	49,700	$	49,697
Accrued interest payable	**1**	**$**	**3,599**	**$**	**3,599**	$	427	$	427

The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed below. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, FHLB and FRB stock, and accrued interest receivable and accrued interest payable approximate fair value.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Securities
The Company determines the fair value of its securities using an independent bond pricing service for identical assets or significantly similar securities (level 2). The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads, and actual and projected cash flows.

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.

Deposits
The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date resulting in a level 1 classification. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using market interest rates for deposits of similar remaining maturities resulting in a level 2 classification.

Borrowings
The fair value of borrowings are estimated based on quoted interest rates for similar liabilities resulting in a level 2 classification.

Commitments to Extend Credit and Letters of Credit

The fair values of commitments to extend credit and letters of credit are estimated based on the fees currently charged to originate similar agreements. For fixed rate loan commitments, fair value estimates also consider the difference between current market interest rates and the committed rates. Such fees were not significant at December 31, 2023 and 2022.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

12. Regulatory Matters

The Bank is subject to legal limitations on the amount of dividends it can pay to Solvay Bank Corp. Dividends are limited to net profits for the current period and retained net profits for the two preceding years, as defined by New York State Banking Law. Approximately **$16.0** million and $17.7 million was available for the declaration of dividends at December 31, 2023 and 2022, respectively. In 2023 and 2022, Solvay Bank paid dividends of approximately **$4.3** million and $4.3 million, respectively, to Solvay Bank Corp. which allowed for the payment of regular dividends to Solvay Bank Corp. shareholders. Payments to shareholders were **$4.3** million and $3.7 million in 2023 and 2022, respectively. There were no payments to Solvay Bank Corp. to fund operating costs in 2023. Payments to Solvay Bank Corp. to fund operating costs were $573 thousand in 2022.

Effective March 26, 2020, the Board of Governors of the Federal Reserve System reduced reserve requirement ratios to zero percent. This action eliminated reserve requirements for all depository institutions.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gains (losses) on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2023, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The federal banking agencies provide for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules, the community bank leverage ratio minimum requirement is 9%. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 8%.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2023 and 2022, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

The Company and Bank's approximate capital amounts and ratios at December 31 are as follows:

(In thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
As of December 31, 2023:	Amount	Ratio	Amount	Ratio
Tier 1 Core Capital (to Average Assets)				
Consolidated	**$ 111,337**	**9.69%**	**n/a**	**n/a**
Solvay Bank	**$ 111,051**	**9.67%**	**$ 103,374**	**9.00%**

(In thousands)	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
As of December 31, 2022:	Amount	Ratio	Amount	Ratio
Tier 1 Core Capital (to Average Assets)				
Consolidated	$ 109,769	9.48%	n/a	n/a
Solvay Bank	$ 109,239	9.44%	$ 104,200	9.00%

13. Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers is recognized within other income as the Company satisfies its obligation to the customer. The following table presents these revenues for the years ended December 31, 2023 and 2022, respectively:

(In thousands)	December 31, 2023	December 31, 2022
Service Charges on Deposit Accounts:		
Deposit related fees	**$ 845**	$ 794
Overdraft & chargeback fees	**404**	481
ATM/point of sale fees	**70**	69
Wire transfer fees	**69**	71
TOTAL SERVICE CHARGES ON DEPOSIT ACCOUNTS	**$ 1,388**	$ 1,415
Bank Card Income:		
Debit and credit card interchange fees	**$ 1,779**	$ 1,826
Merchant net commissions	**282**	358
TOTAL BANK CARD INCOME	**$ 2,061**	$ 2,184
Investment Services Income:		
Trust services	**$ 1,167**	$ 1,167
Brokerage and investment services	**66**	81
TOTAL INVESTMENT SERVICES INCOME	**$ 1,233**	$ 1,248
Insurance Agency Income:		
Insurance agency services	**$ 296**	$ 244
TOTAL INSURANCE AGENCY INCOME	**$ 296**	$ 244

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, wire transfer 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. Revenue included in Service charges on the consolidated statements of income that was not related to contracts with customers was **$166** thousand and $133 thousand for the years ended December 31, 2023 and 2022, respectively.

Bank Card Income: The Company earns interchange fees from debit cardholder transactions conducted through the Fiserv EFT payment network and includes it in service charges income. 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 the cardholder. The Company also earns fees for merchant transaction processing services provided to its business customers by a third-party service provider. The fees represent a percentage of the monthly transaction activity net of related costs and are received from the service provider on a monthly basis.

Investment Services Income: The Company earns fees from trust and investment management department services provided to its customers by a third-party service provider. The Company receives and recognizes commissions from the third-party service provider monthly, 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 not control the services rendered to the customers. Investment fees are presented net of related costs.

Insurance Agency Income: The Company earns fees from insurance services provided to its customers by third-party service providers. The Company receives and recognizes commissions from the third-party service providers monthly, 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 not control the services rendered to the customers.

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SOLVAY BANK

MAKE MORE POSSIBLE.SM

MISSION STATEMENT

To provide the best experience for our customers

to help make their financial dreams come true,

while upholding socially responsible

and community-minded principles,

and delivering value to our shareholders.

SOLVAY BANK
MAKE MORE POSSIBLE.℠

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