Delhi Bank Corp.

2020 Annual Report

subsidiary

The Delaware National Bank of Delhi

CORPORATE INFORMATION

CORPORATE HEADQUARTERS
Delhi Bank Corp.
124 Main Street • Delhi NY 13753
855-413-3544

ANNUAL MEETING
Tuesday June 15, 2021, 1:00 p.m.
The Delhi Telephone Company Main Office
107 Main Street • Delhi NY 13753
855-413-3544

STOCK INFORMATION
The common stock of Delhi Bank Corp. is quoted on the OTC Markets under the symbol "DWNX". Information can be obtained from www.otcmarkets.com.

STOCK TRANSFER AGENT
The Delaware National Bank of Delhi
124 Main Street • Delhi NY 13753
855-363-3544

MARKET MAKER
Raymond James & Associates, Inc.
800-800-4693

DIVIDEND REINVESTMENT AND OPTIONAL CASH PURCHASE PLAN
Shareholders may participate in the Dividend Reinvestment and Optional Cash Purchase Plan. The plan provides that additional shares of common stock may be purchased with reinvested dividends and by voluntary cash payments. A plan description and enrollment form may be obtained upon request from The Delaware National Bank of Delhi.

DIVIDEND CALENDAR
Dividends on Delhi Bank Corp. common stock are customarily payable on or about the 15th of January, April, July, and October.

DIRECT DEPOSIT OF DIVIDENDS
Direct Deposit is a safe, convenient method for the receipt of dividend payments. Direct deposits to a checking, savings, or other account can be arranged by contacting The Delaware National Bank of Delhi.

INVESTOR/SHAREHOLDER INQUIRIES
Requests for information or assistance regarding Delhi Bank Corp. should be directed to The Delaware National Bank of Delhi.

THE DELAWARE NATIONAL BANK OF DELHI

BANK LOCATIONS

MAIN BANK
124 Main Street • Delhi, NY
855-413-3544

MARGARETVILLE BRANCH
42568 State Highway 28 • Margaretville, NY
855-423-3544

DAVENPORT BRANCH
2503 Prosser Hollow Road • West Davenport, NY
855-433-3544

HOBART BRANCH
1058 Main Street • Hobart, NY
855-443-3544

ONEONTA LOAN OFFICE
265 Main Street, Suite 7 • Oneonta, NY
855-403-3544

SIDNEY LOAN OFFICE
276 State Highway 7 • Sidney, NY
855-483-3544

BANK WEBSITE AND EMAIL

Website: www.dnbd.bank
Email: dnb@dnbd.net

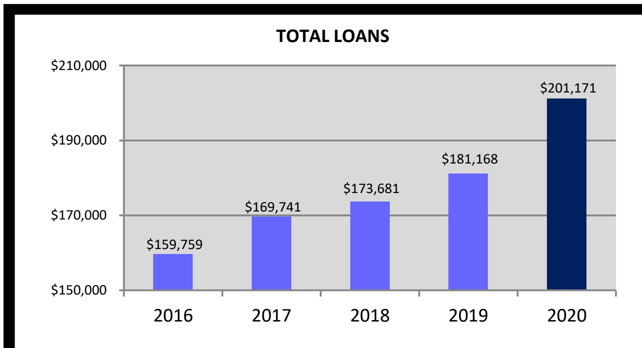
TRUST SERVICES

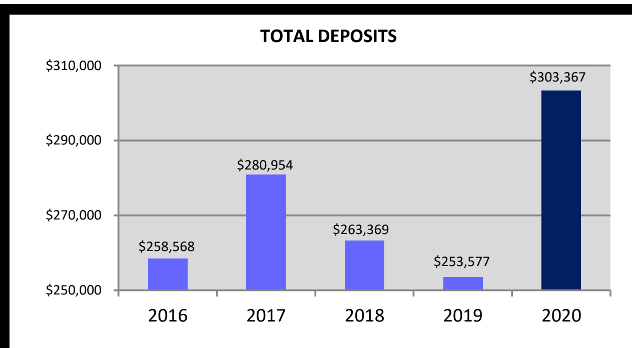
124 Main Street • Delhi, NY
855-363-3544
trust@dnbd.net

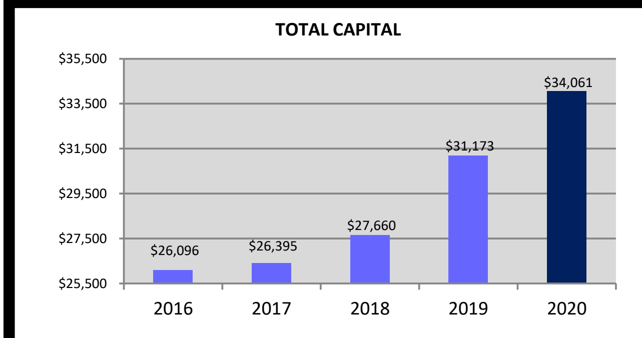
- Investment Management
- Estate Settlement
- Trusteeship
- Custodianship
- Transfer and/or paying agent
- Singular purchase/sale of securities
- Estate/Trust management
- Consultation

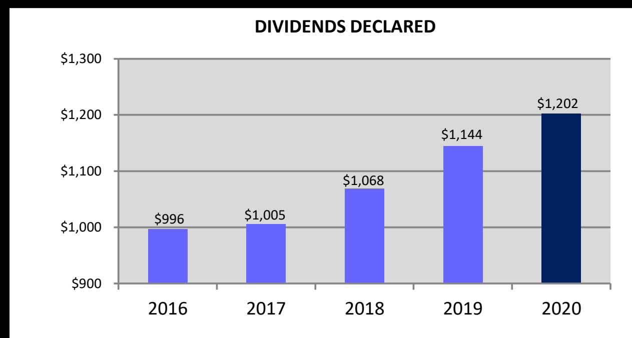
FINANCIALS AT A GLANCE

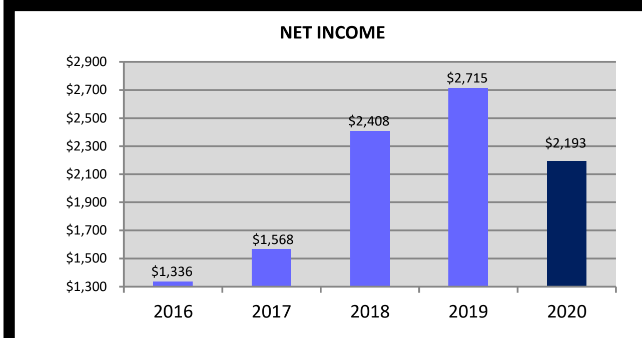
Dollars in thousands, except Closing Stock Price

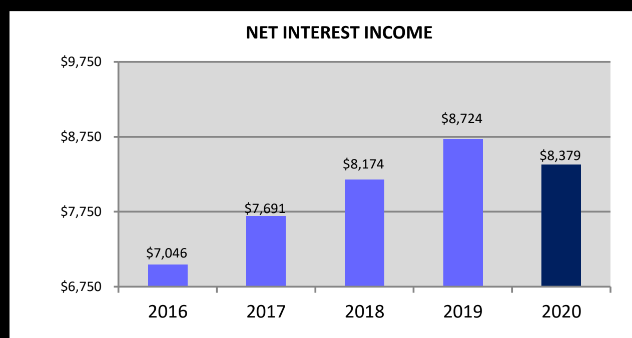


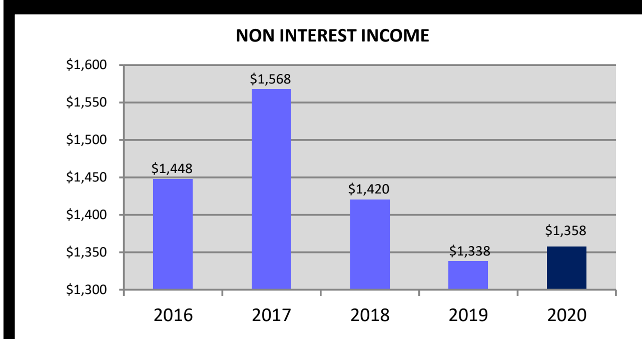


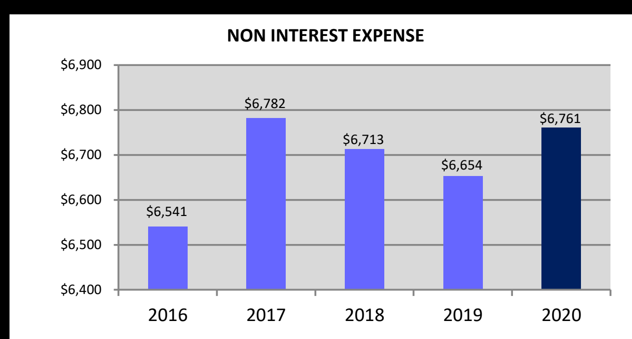


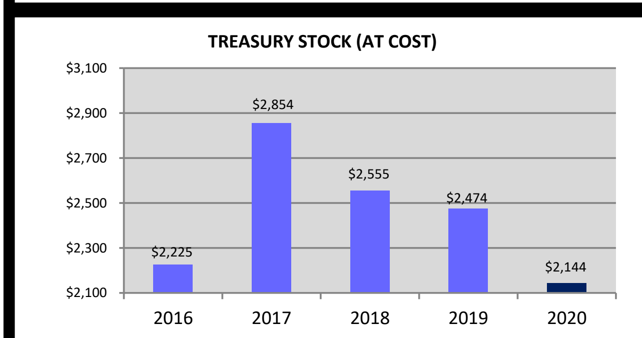


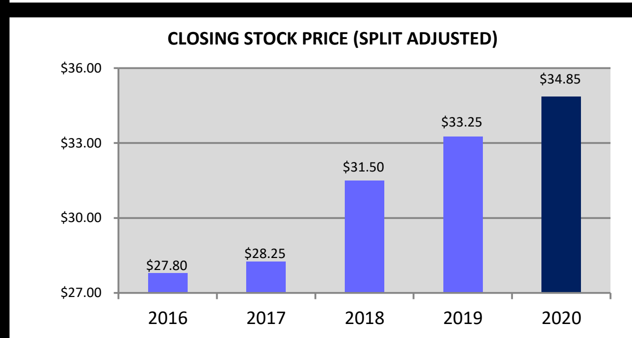












PRESIDENT'S MESSAGE
2021

To Our Stockholders,

It is hard to believe that a year has gone by and the world is still struggling with the effects of the COVID-19 pandemic. My thoughts and prayers go out to you and your families, especially those grieving the loss of a friend or loved one. We continue to take seriously the health and safety of our customers and employees. The Bank is following all current health and safety guidelines of the New York State Health Department and the Centers for Disease Control while remaining fully open in all branches and loan offices. I would be remiss if I did not take this opportunity to thank all of the hard working, dedicated employees of the Bank for their perseverance through these unprecedented times. They are truly an amazing group.

The year 2020, while a challenge, was a very successful year for Delhi Bank Corp. Net Income per share was $1.37, compared to the prior year's results of $1.72. The Bank's Net Income was $2.19 million, compared to 2019 which was $2.72 million. These results are very strong in spite of The Federal Reserve slashing the Fed Funds Rate by 150 basis points in the first quarter 2020.

Total assets increased by 15.28%. Investment securities increased by 21.17%, while net loans increased 11.04%. Deposits increased by 19.64%. Capital increased a robust 9.26%, making our capital to assets ratio 9.97% at year end. The increase in loans was generated predominately by local demand. The Bank was also an approved Small Business Administration Payroll Protection Program (PPP) lender. This designation enabled the Bank to process over 225 loans in excess of $14.5 million to businesses and organizations in need of financial stimulus. The Bank was honored to help its neighbors in the local communities when they needed it most. As always, we are very proud to be your community Bank.

The last shares of Delhi Bank Corp. traded in 2020 were at $34.85. The common stock book value per share at December 31, 2020, was $21.06 based on the actual number of common shares outstanding. Your Board of Directors declared cash dividends of $0.7485 per share in 2020, which was a 3.18% increase over the dividends declared in 2019. This equates to a dividend yield of 2.15% based on the year end market price. The dividend declared at year-end represented the 56th consecutive increase declared by your Directors.

The Delaware National Bank of Delhi has once again been awarded the BauerFinancial, Inc. highest (5-Star) rating for financial strength and stability. Per Bauer, "Earning a 5-Star rating indicates this bank excels in areas of capital adequacy, profitability, asset quality and much more. Earning and maintaining this top rating for 103 consecutive quarters, means that The Delaware National Bank of Delhi did not just make it through the Great Recession and is not just holding on now during this pandemic, but has triumphed over everything that has been thrown its way for decades."

Thank you for your continued support, and stay safe.

Respectfully

Peter V. Gioffe
President

Independent Auditors' Report

To the Board of Directors and Stockholders of
Delhi Bank Corp. and Subsidiary

We have audited the accompanying consolidated financial statements of Delhi Bank Corp. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delhi Bank Corp. and Subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly US, LLP

Wilkes-Barre, Pennsylvania
March 17, 2021

Delhi Bank Corp. and Subsidiary

Consolidated Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and due from banks	$ 9,187,666	$ 2,733,612
Interest-bearing deposits with banks	33,348,000	29,368,000
Available-for-sale securities	81,993,315	67,830,979
Held-to-maturity securities	2,275,207	1,263,053
Restricted equity securities	304,300	704,700
Loans receivable, net	201,171,002	181,168,172
Premises and equipment, net	3,246,993	3,445,814
Bank owned life insurance	7,704,761	7,485,610
Other assets	2,391,540	2,352,120
Total assets	$ 341,622,784	$ 296,352,060
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 65,405,415	$ 48,394,028
Interest-bearing	237,961,868	205,182,995
Total deposits	303,367,283	253,577,023
Short-term borrowings	-	7,525,000
Finance lease liability	142,237	165,253
Other liabilities	4,052,387	3,911,775
Total liabilities	307,561,907	265,179,051
Stockholders' Equity		
Common stock, $1 par; 5,000,000 shares authorized; 1,707,961 shares issued and 1,617,453 shares outstanding in 2020, and 1,690,531 shares issued and 1,584,207 shares outstanding in 2019	1,707,961	1,690,531
Additional paid-in capital	5,495,180	4,952,349
Retained earnings	27,886,032	26,894,978
Accumulated other comprehensive income	1,116,107	109,482
Treasury stock, at cost; 90,508 shares in 2020 and 106,324 shares in 2019	(2,144,403)	(2,474,331)
Total stockholders' equity	34,060,877	31,173,009
Total liabilities and stockholders' equity	$ 341,622,784	$ 296,352,060

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

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

	2020	2019
Interest and Dividend Income		
Interest and fees on loans	$ 7,705,391	$ 7,898,685
Investments:		
Taxable	1,387,593	1,624,002
Tax-exempt	132,066	173,751
Interest-bearing deposits with banks	621,438	766,234
Dividends	18,373	21,199
Total interest and dividend income	9,864,861	10,483,871
Interest Expense		
Deposits	1,466,049	1,725,093
Borrowed funds and finance lease	19,757	35,179
Total interest expense	1,485,806	1,760,272
Net Interest Income	8,379,055	8,723,599
Provision for Loan Losses	280,000	60,000
Net Interest Income After Provision for Loan Losses	8,099,055	8,663,599
Noninterest Income		
Service charges and fees and other income	1,138,582	1,138,710
Bank owned life insurance income	219,151	199,740
Total noninterest income	1,357,733	1,338,450
Noninterest Expense		
Salaries and employee benefits	3,831,211	3,618,737
Occupancy and equipment	1,742,817	1,696,003
Professional fees	307,936	304,813
FDIC premiums	68,598	19,288
Director fees	159,615	146,200
ATM and debit card processing	139,708	132,932
Other real estate owned	20,489	67,881
Contributions	49,131	180,955
Other	441,283	486,903
Total noninterest expense	6,760,788	6,653,712
Income Before Provision for Income Tax	2,696,000	3,348,337
Provision for Income Tax	502,916	633,234
Net Income	$ 2,193,084	$ 2,715,103
Earnings Per Share	$ 1.37	$ 1.72

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

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

	2020	2019
Net Income	$ 2,193,084	$ 2,715,103
Other Comprehensive Income		
Unrealized gains on available-for-sale securities	1,274,209	1,664,467
Tax effect	(267,584)	(349,538)
Total other comprehensive income	1,006,625	1,314,929
Total Comprehensive Income	$ 3,199,709	$ 4,030,032

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2018	$ 1,673,825	$ 4,421,912	$ 25,324,245	$ (1,205,447)	$ (2,554,808)	$ 27,659,727
Net income	-	-	2,715,103	-	-	2,715,103
Other comprehensive income	-	-	-	1,314,929	-	1,314,929
Issuance of 16,706 shares of common stock	16,706	516,683	-	-	-	533,389
Purchase of 10,195 shares of treasury stock	-	-	-	-	(326,691)	(326,691)
Sale of 17,976 shares of treasury stock	-	13,754	-	-	407,168	420,922
Dividends declared ($.7254 per share)	-	-	(1,144,370)	-	-	(1,144,370)
Balance, December 31, 2019	1,690,531	4,952,349	26,894,978	109,482	(2,474,331)	31,173,009
Net income	-	-	2,193,084	-	-	2,193,084
Other comprehensive income	-	-	-	1,006,625	-	1,006,625
Issuance of 17,430 shares of common stock	17,430	571,190	-	-	-	588,620
Purchase of 4,005 shares of treasury stock	-	-	-	-	(134,561)	(134,561)
Sale of 19,821 shares of treasury stock	-	(28,359)	-	-	464,489	436,130
Dividends declared ($.7485 per share)	-	-	(1,202,030)	-	-	(1,202,030)
Balance, December 31, 2020	$ 1,707,961	$ 5,495,180	$ 27,886,032	$ 1,116,107	$ (2,144,403)	$ 34,060,877

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Net income	$ 2,193,084	$ 2,715,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	280,000	60,000
Depreciation	309,964	294,522
Amortization and accretion of investment securities, net	547,892	550,204
Deferred income taxes	(22,392)	62,000
Bank owned life insurance income	(219,151)	(199,740)
Loss on sale of foreclosed assets	4,485	674
Loss on disposal of premises and equipment	-	5,843
Provision for loss on foreclosed assets	-	18,506
Net change in:		
Other assets	(256,735)	291,452
Other liabilities	55,613	10,693
Net cash provided by operating activities	2,892,760	3,809,257
Cash Flows From Investing Activities		
Net (increase) decrease in interest-bearing deposits in banks	(3,980,000)	1,747,000
Purchase of available for sale securities	(35,900,193)	(16,512,157)
Proceeds from maturities, calls and principal repayments of available-for-sale securities	22,464,174	16,238,650
Purchase of held-to-maturity securities	(1,454,281)	(420,644)
Proceeds from maturities, calls and principal repayments of held-to-maturity securities	442,127	1,243,227
Purchase of restricted equity securities	(405,800)	(1,915,400)
Proceeds from redemption of restricted equity securities	806,200	1,505,900
Net increase in loans receivable	(20,364,843)	(7,616,870)
Proceeds from sale of foreclosed assets	119,528	148,246
Purchase of premises and equipment	(111,143)	(281,016)
Net cash used in investing activities	(38,384,231)	(5,863,064)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits	49,790,260	(9,791,522)
Net (decrease) increase in short-term borrowings	(7,525,000)	7,428,489
Principal payments on finance lease liability	(23,016)	(20,508)
Dividends paid	(1,186,908)	(1,136,161)
Issuance of common stock	588,620	533,389
Purchase of treasury stock	(134,561)	(326,691)
Proceeds from sale of treasury stock	436,130	420,922
Net cash provided by (used in) financing activities	41,945,525	(2,892,082)
Net Increase (Decrease) in Cash and Due From Banks	6,454,054	(4,945,889)
Cash and Due From Banks, Beginning	2,733,612	7,679,501
Cash and Due From Banks, Ending	$ 9,187,666	$ 2,733,612

See notes to consolidated financial statements

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Delhi Bank Corp. (Bank Corp.) and its wholly-owned subsidiary, The Delaware National Bank of Delhi (Bank) (collectively, Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of commercial banking services to individual and small business customers in Delaware County, New York and the surrounding counties. The area is a rural market with an economic base made up of light manufacturing, retail and agricultural businesses. The Company's primary deposit products are demand deposits and interest bearing time and savings accounts. It offers a full array of loan products to meet the needs of retail and commercial customers.

The Bank is subject to regulation by the Office of the Comptroller of the Currency. The Bank Corp. is subject to regulation by the Federal Reserve Bank of New York.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the valuation of investment securities and determination of other-than-temporary impairment thereon, and valuation of deferred tax assets.

In connection with the determination of the allowance for loan losses, management generally obtains independent appraisals for significant properties. While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in economic conditions. It is reasonably possible that the estimated losses on loans may change materially in the near term.

The Company's investment securities are comprised of a variety of financial instruments. The fair values and possible other-than-temporary impairment of these securities are subject to various risks including changes in the interest rate environment and general economic conditions. Due to the increased level of these risks and their potential impact on the fair values and the need to recognize other-than-temporary impairment of the securities, it is possible that the amounts reported in the accompanying consolidated financial statements could materially change in the near term.

Cash and Due From Banks

For the purposes of the statements of cash flows, cash and due from banks includes cash on hand and amounts due from other banks.

Interest-Bearing Deposits With Banks

Interest-bearing deposits with banks consist of certificates of deposit and are carried at cost which approximates fair value.

Significant Group Concentration of Credit Risk

The Company grants loans to customers primarily located in Delaware County, New York and the surrounding counties. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on the economic conditions in its marketplace. The Company does not have any significant concentrations from one industry or customer.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Securities not classified as held-to-maturity are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. The Company has no trading securities.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Declines in the fair value of held-to-maturity and available-for-sale securities below their costs that are deemed to be credit-related are reflected in earnings as realized losses.

Restricted Equity Securities

Restricted equity securities consist of investments in the Federal Home Loan Bank of New York (FHLB), the Federal Reserve Bank of New York and the Atlantic Community Bankers Bank. Investments in these entities are restricted and carried at cost.

The Company, as a member of the FHLB system, is required to maintain an investment in the capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. Management considers whether this investment is impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost includes (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on the institutions and on the customer base of the FHLB and (4) the liquidity position of the FHLB. Management believes no impairment charge is necessary related to its investment in FHLB stock.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances, adjusted for the allowance for loan losses and any unamortized deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield over the contractual life of the loan using the interest method.

The loan receivable portfolio is segmented into real estate, commercial and industrial, agricultural and consumer loans. Real estate loans include loans secured by commercial, residential and agricultural properties. Residential loans include 1-4 family mortgage loans and home equity loans. Commercial and industrial loans are secured by equipment, accounts receivable, inventories or other business assets. Agricultural loans are secured by equipment and other farm assets. Consumer loans consist of personal installment and auto loans and credit cards. The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. Common risk characteristics include loan type, collateral type and geographic location.

Generally, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is well secured. When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. Interest received on nonaccrual loans, including impaired loans, is either applied to principal or recognized as interest income, depending on management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Consumer loans are generally charged off no later than 120 days past due on a contractual basis (earlier in the event of bankruptcy) or if there is an amount deemed uncollectible.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components.

The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, a specific allowance is established when the collateral value, observable market price, or discounted cash flows of the impaired loan is lower than the carrying value of that loan. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment records, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral.

For loans secured by real estate, estimated fair values are determined through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted, when necessary, to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's consolidated financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted, as appropriate, based on the age of the financial information or the quality of the assets.

The general component covers pools of loans by loan class including loans not considered impaired, as well as smaller balance homogeneous loans, such as residential and consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates, adjusted for qualitative risk factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Experience, ability and depth of lending management and staff.

5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.

6. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

7. Oversight, including the impact of banking laws and regulations as well as the overall regulatory environment.

Each factor is 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. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for all loan classes. Credit quality risk ratings include regulatory classifications of pass, special mention, substandard, doubtful and loss. Loans criticized as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are immediately charged to the allowance for loan losses. Loans not classified are rated pass. To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process encompassing both internal and external oversight. The Company's loan officers are responsible for the timely and accurate risk rating of all loans in the Company's loan portfolio at origination and on an ongoing basis. The Company utilizes an external loan review consultant to conduct a loan review of its portfolio each year. The external consultant generally reviews all commercial loan relationships exceeding a specified threshold.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring may involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

In addition, federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated lives of the assets. Finance lease right-of-use assets are recorded at an amount equal to the lease liability at commencement plus initial direct costs and is amortized over the shorter of the lease term or the estimated life of the asset. The lease liability is equal to the present value of the minimum lease payments. Amortization of finance lease right-of-use assets is included in depreciation expense.

Bank Owned Life Insurance

The Company is the owner and beneficiary of life insurance policies on certain current and former executive employees and directors. The life insurance investment is carried at the cash surrender value of the underlying policies. The increase in the cash surrender value is recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Company intends to hold these policies and, accordingly, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Earnings Per Share

Earnings per share is based on the weighted average number of shares of common stock outstanding. The Company's basic and diluted earnings per share are the same since there are no dilutive shares of potential common stock outstanding. Weighted average shares outstanding were 1,604,379 in 2020 and 1,576,840 in 2019.

Advertising Costs

Advertising costs are expensed as incurred and were $36,475 in 2020 and $49,387 in 2019.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Any losses based on the asset's fair value at the date of foreclosure are charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs incurred in maintaining foreclosed assets and subsequent adjustments to the carrying amount of the assets are included in noninterest expenses. Foreclosed assets totaled $0 and $42,000 at December 31, 2020 and 2019, respectively, and are included in other assets. Foreclosed assets consist entirely of residential real estate. Residential real estate loans in process of foreclosure at December 31, 2020 were approximately $112,000.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities. Enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Treasury Stock

Treasury stock is recorded at cost. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income consists solely of the net unrealized gains on available-for-sale securities, net of deferred income taxes. Accumulated other comprehensive income consists of net unrealized gain of $1,412,794 less deferred income taxes of $296,687 at December 31, 2020 and $138,585 less deferred income taxes of $29,103 at December 31, 2019.

Revenue Recognition

The Company recognizes revenue from various sources, including loans, investment securities, bank-owned life insurance, deposit accounts and sales of assets.

Interest income on loans is accrued on the unpaid principal balance and recorded daily. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Other loan fees, including late charges, are recognized as they occur.

Interest income on debt securities, including purchase premiums and discounts, is calculated using the interest method over the term of the securities. Dividends on equity securities are recorded when declared.

Earnings on bank-owned life insurance policies represent the increase in the cash surrender value of these policies as well as any gains resulting from settlement of the policies.

Service charges and fees include overdraft and other deposit account fees, debit card interchange income, trust department fees, and other miscellaneous fees and income. Revenue is recognized when the Company’s performance obligation is completed which is generally monthly for interchange and trust department income or when a transaction has been completed, such as when an overdraft occurs. Other fees and income are generally transactional in nature and are recognized as they occur.

Gains or losses on sales of assets are generally recognized when the asset has been legally transferred to the buyer and the Company has no continuing involvement with the asset. The Company does not generally finance the purchase.

Consolidated Statements of Cash Flows

Interest paid totaled $1,562,719 in 2020 and $1,708,454 in 2019. Income tax payments totaled $510,000 in 2020 and $550,000 in 2019. Amounts transferred from loans to foreclosed assets were $82,013 in 2020 and $69,319 in 2019.

Subsequent Events

Subsequent events were evaluated through March 17, 2021, the date the consolidated financial statements were available to be issued.

Future Accounting Standard to be Adopted

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments.* ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The Company is required to adopt this guidance in 2023. The Company continues to evaluate the potential impact of adopting this ASU.

2. Cash and Due From Banks

The Company is required to maintain amounts on reserve with the Federal Reserve Bank. These reserves totaled $0 at December 31, 2020 and $1,685,000 at December 31, 2019.

The Company is also required to maintain clearing balance funds on deposit with the Federal Reserve Bank. The required minimum clearing balance at December 31, 2020 and 2019 was $0 and $1,109,000, respectively.

3. Investment Securities

The amortized cost and fair values of investment securities available-for-sale and held-to-maturity are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 19,785,341	$ 543,116	$ 192,887	$ 20,135,570
U.S. government sponsored enterprises, (GSE), mortgage-backed securities - residential	57,310,083	953,589	63,247	58,200,425
Local government obligations	3,485,097	172,223	-	3,657,320
Total	$ 80,580,521	$ 1,668,928	$ 256,134	$ 81,993,315
Held-to-maturity:				
Local government obligations	$ 2,275,207	$ 84,778	$ -	$ 2,359,985

	December 31, 2019			
Available-for-sale:				
U.S. government agencies	$ 21,889,044	$ 255,014	$ 235,231	$ 21,908,827
U.S. GSE, mortgage-backed securities - residential	40,102,838	238,354	274,055	40,067,137
Local government obligations	5,700,512	154,596	93	5,855,015
Total	$ 67,692,394	$ 647,964	$ 509,379	$ 67,830,979
Held-to-maturity:				
Local government obligations	$ 1,263,053	$ 71,711	$ -	$ 1,334,764

The amortized cost and fair market values of debt securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,208,850	$ 1,233,113
Due after one through five years	1,511,167	1,535,981
Due after five through ten years	12,243,182	12,528,411
Due after ten years	8,307,239	8,495,385
Mortgage-backed securities	57,310,083	58,200,425
Total	$ 80,580,521	$ 81,993,315

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,490,019	$ 1,499,715
Due after one through five years	662,688	704,197
Due after five through ten years	87,500	109,447
Due after ten years	35,000	46,626
Total	$ 2,275,207	$ 2,359,985

There were no sales of available-for-sale securities in 2020 or 2019.

The following tables show the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	December 31, 2020					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. government agencies	$ 944,737	$ 11,219	$ 6,006,680	$ 181,668	$ 6,951,417	$ 192,887
Mortgage-backed securities, GSE, residential	12,116,829	59,563	405,378	3,684	12,522,207	63,247
Total	$ 13,061,566	$ 70,782	$ 6,412,058	$ 185,352	$ 19,473,624	$ 256,134

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available-for-sale:						
U.S. government agencies	$ 3,772,012	$ 52,361	$ 7,738,925	$ 182,870	$ 11,510,937	$ 235,231
Mortgage-backed securities, GSE, residential	2,098,955	10,582	19,830,173	263,473	21,929,128	274,055
Local government obligations	445,000	93	-	-	445,000	93
Total	$ 6,315,967	$ 63,036	$ 27,569,098	$ 446,343	$ 33,885,065	$ 509,379

The Company had 32 debt securities in unrealized loss positions at December 31, 2020. The securities have depreciated approximately 1.3 percent from the Company's amortized cost basis. These securities are primarily issued by U.S. government agencies and U.S. government sponsored enterprises. The unrealized losses are considered to result from changes in interest rates and not from downgrades in the creditworthiness of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The Company does not intend to sell these securities nor is it more likely than not that it will be required to sell these securities prior to recovery. No declines are deemed to be other-than-temporary.

Investment securities with carrying amounts of $62,271,193 and $45,769,247 at December 31, 2020 and 2019, respectively, were pledged to secure deposits as required or permitted by law.

4. Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31 are summarized as follows:

	2020	2019
Real estate:		
Residential	$ 85,764,806	$ 81,750,179
Commercial	74,962,636	63,570,961
Commercial and industrial	29,105,342	21,470,213
Agricultural	4,678,288	7,472,471
Consumer	4,316,298	4,711,511
Total	198,827,370	178,975,335
Allowance for loan losses	(635,054)	(476,777)
Deferred loan costs and purchase premiums, net	2,978,686	2,669,614
Net	$ 201,171,002	$ 181,168,172

Included above are individual loans purchased by the Company representing the fully guaranteed portion of loans originated through the Small Business Administration (SBA), U.S. Department of Agriculture and Farm Services Agency as well as Paycheck Protection Program (PPP) loans originated by the Company. Such loans are irrevocably guaranteed by the full faith and credit of the U.S. government as to principal and accrued interest. No allowance has been provided for these loans based on the guarantee. The table below details these loans by loan type at December 31:

	2020	2019
Real estate:		
Commercial	$ 52,196,483	$ 41,557,388
Commercial and industrial	24,690,980	16,372,369
Agricultural	4,597,004	7,253,402
Total	81,484,467	65,183,159
Allowance for loan losses	-	-
Purchase premiums and origination fees, net	112,983	47,611
Net	$ 81,597,450	$ 65,230,770

Changes in the allowance for loan losses for 2020 and related loan information are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning balance, January 1, 2020	$ 320,198	$ 93,268	$ 17,842	$ 657	$ 44,812	$ 476,777
Charge-offs	(83,544)	-	-	-	(93,149)	(176,693)
Recoveries	23,957	104	3,475	-	27,434	54,970
Provision	218,978	14,279	(3,665)	(373)	50,781	280,000
Ending balance, December 31, 2020	$ 479,589	$ 107,651	$ 17,652	$ 284	$ 29,878	$ 635,054
Ending balance individually evaluated for impairment	$ 8,655	$ -	$ -	$ -	$ -	$ 8,655
Ending balance collectively evaluated for impairment	$ 470,934	$ 107,651	$ 17,652	$ 284	$ 29,878	$ 626,399
Loans receivable at December 31, 2020, total balance	$ 85,764,806	$ 74,962,636	$ 29,105,342	$ 4,678,288	$ 4,316,298	$ 198,827,370
Ending balance individually evaluated for impairment	$ 1,127,131	$ 142,716	$ -	$ -	$ -	$ 1,269,847
Ending balance collectively evaluated for impairment	$ 84,637,675	$ 74,819,920	$ 29,105,342	$ 4,678,288	$ 4,316,298	$ 197,557,523

Changes in the allowance for loan losses for 2019 and related loan information are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Allowance for loan losses:						
Beginning balance, January 1, 2019	$ 358,051	$ 95,088	$ 15,121	$ 362	$ 33,506	$ 502,128
Charge-offs	(43,852)	(17,125)	-	-	(38,266)	(99,243)
Recoveries	600	2,733	4,143	-	6,416	13,892
Provision	5,399	12,572	(1,422)	295	43,156	60,000
Ending balance, December 31, 2019	$ 320,198	$ 93,268	$ 17,842	$ 657	$ 44,812	$ 476,777
Ending balance individually evaluated for impairment	$ 14,791	$ -	$ -	$ -	$ 2,702	$ 17,493
Ending balance collectively evaluated for impairment	$ 305,407	$ 93,268	$ 17,842	$ 657	$ 42,110	$ 459,284
Loans receivable at December 31, 2019, total balance	$ 81,750,179	$ 63,570,961	$ 21,470,213	$ 7,472,471	$ 4,711,511	$ 178,975,335
Ending balance individually evaluated for impairment	$ 1,323,539	$ 169,764	$ -	$ -	$ 3,614	$ 1,496,917
Ending balance collectively evaluated for impairment	$ 80,426,640	$ 63,401,197	$ 21,470,213	$ 7,472,471	$ 4,707,897	$ 177,478,418

The following table summarizes information on impaired loans at December 31:

December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 1,045,460	$ 1,025,865	$ -	$ 1,096,911	$ 3,081
Commercial real estate	152,061	142,716	-	164,556	-
Consumer	-	-	-	120	-
With an allowance recorded:					
Residential real estate	101,266	101,266	8,655	103,672	-
Consumer	-	-	-	833	-
Totals:					
Residential real estate	1,146,726	1,127,131	8,655	1,200,583	3,081
Commercial real estate	152,061	142,716	-	164,556	-
Consumer	-	-	-	953	-

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 1,238,208	$ 1,216,136	$ -	$ 1,299,844	$ 24,954
Commercial real estate	179,298	169,764	-	309,570	6,598
Consumer	1,154	912	-	1,945	136
With an allowance recorded:					
Residential real estate	107,403	107,403	14,791	239,900	-
Consumer	2,702	2,702	2,702	747	-
Totals:					
Residential real estate	1,345,611	1,323,539	14,791	1,539,744	24,954
Commercial real estate	179,298	169,764	-	309,570	6,598
Consumer	3,856	3,614	2,702	2,692	136

The following table presents information on nonaccrual loans at December 31:

	2020	2019
Residential real estate	$ 1,063,609	$ 1,053,103
Commercial real estate	142,716	96,664
Consumer	-	2,702
Total	$ 1,206,325	$ 1,152,469

The following table presents information by the Company's internal risk rating system at December 31:

2020	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Pass	$ 80,597,631	$ 71,325,563	$ 28,881,942	$ 4,673,165	$ 4,207,287	$ 189,685,588
Special mention	3,057,800	2,204,443	206,639	5,123	91,789	5,565,794
Substandard	1,957,261	1,432,630	16,761	-	17,222	3,423,874
Doubtful	152,114	-	-	-	-	152,114
Loss	-	-	-	-	-	-
Total	$ 85,764,806	$ 74,962,636	$ 29,105,342	$ 4,678,288	$ 4,316,298	$ 198,827,370

2019	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Agricultural	Consumer	Total
Pass	$ 76,258,224	$ 60,614,139	$ 21,178,018	$ 7,464,467	$ 4,502,345	$ 170,017,193
Special mention	3,074,802	1,402,017	218,132	8,004	181,558	4,884,513
Substandard	2,349,090	1,554,805	74,063	-	27,608	4,005,566
Doubtful	68,063	-	-	-	-	68,063
Loss	-	-	-	-	-	-
Total	$ 81,750,179	$ 63,570,961	$ 21,470,213	$ 7,472,471	$ 4,711,511	$ 178,975,335

The following table presents information on past due status at December 31:

2020	30-59 Days Past Due	60-89 Days Past Due	Greater > 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Residential real estate	$ 924,214	$ 74,891	$ 546,625	$ 1,545,730	$ 84,219,076	$ 85,764,806	$ -
Commercial real estate	28,117	-	42,334	70,451	74,892,185	74,962,636	-
Commercial and industrial	-	-	-	-	29,105,342	29,105,342	-
Agricultural	-	-	-	-	4,678,288	4,678,288	-
Consumer	34,700	2,814	-	37,514	4,278,784	4,316,298	-
Total	$ 987,031	$ 77,705	$ 588,959	$ 1,653,695	$ 197,173,675	$ 198,827,370	$ -

2019	30-59 Days Past Due	60-89 Days Past Due	Greater > 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days Accruing
Residential real estate	$ 387,182	$ 89,563	$ 685,365	$ 1,162,110	$ 80,588,069	$ 81,750,179	$ -
Commercial real estate	-	-	-	-	63,570,961	63,570,961	-
Commercial and industrial	-	-	-	-	21,470,213	21,470,213	-
Agricultural	-	-	-	-	7,472,471	7,472,471	-
Consumer	1,614	2,702	-	4,316	4,707,195	4,711,511	-
Total	$ 388,796	$ 92,265	$ 685,365	$ 1,166,426	$ 177,808,909	$ 178,975,335	$ -

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Company may modify loans through rate reductions, extensions of maturity, interest only payments or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's consolidated financial statements, revenue projections, tax returns and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The Company did not enter into any TDRs or have any TDRs default in 2020 and 2019.

In 2020, the Company instituted a payment deferral program to assist borrowers experiencing financial hardship due to COVID-19 related challenges. This program was established in response to federal banking agencies guidance encouraging banks to work with borrowers that may be unable to meet their contractual obligations due to the effects of COVID-19. This guidance stated that short-term modifications (up to six months) made on a good faith basis in response to COVID-19 to borrowers who were current at the time of modification are not considered TDRs. In addition, Section 4013 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) provided that loan modifications related to COVID-19 on a loan that was current at December 31, 2019 are not considered TDRs. Through December 31, 2020, the Company has modified $13,992,725 of loans to allow for payment deferrals. These deferrals included principal, and principal and interest deferrals, generally for three months. Additional modifications were made as necessary. At December 31, 2020, $299,758 of loans remained on payment deferral.

5. Premises and Equipment

Premises and equipment at December 31 is summarized as follows:

	2020	2019
Land	$ 744,592	$ 744,592
Buildings and improvements	5,097,645	5,044,435
Furniture and equipment	1,723,712	1,744,249
Right-of-use asset under finance lease	300,000	300,000
Total cost	7,865,949	7,833,276
Less accumulated depreciation	4,618,956	4,387,462
Net	$ 3,246,993	$ 3,445,814

The Company leases a branch facility under the terms of a lease agreement that has been accounted for as a finance lease. The lease expires in 2025. The net book value of the right-of-use asset under finance lease was $93,333 at December 31, 2020 and $113,333 at December 31, 2019.

Future minimum lease payments are as follows:

Years ended December 31:		
2021	$	35,580
2022		35,580
2023		35,580
2024		35,580
2025		23,720
Total minimum lease payments		166,040
Less amount representing interest		23,803
Net present value of minimum lease payments	$	142,237

Interest expense on the finance lease was $10,404 in 2020 and $11,832 in 2019 based on an interest rate of 6.70 percent. Amortization of the asset was $20,000 in 2020 and 2019. Total cash paid for the finance lease was $33,420 in 2020 and $32,340 in 2019.

6. Deposits

Deposit account balances at December 31 are summarized as follows:

	2020	2019
Noninterest-bearing	$ 65,405,415	$ 48,394,028
Interest-bearing demand	33,024,246	25,176,868
Money market	23,600,447	19,209,239
Savings	100,383,014	86,311,180
Time	80,954,161	74,485,708
Total	$ 303,367,283	$ 253,577,023

Time deposits in denominations of $250,000 and over were $29,496,025 and $27,658,945 at December 31, 2020 and 2019, respectively.

At December 31, 2020, scheduled maturities of time deposits are as follows (in thousands):

2021	$	48,409
2022		8,777
2023		7,207
2024		7,971
2025		8,590
Total	$	80,954

7. Borrowed Funds

The Company has a $1,500,000 unsecured line of credit agreement with the Atlantic Community Bankers Bank. Borrowings bear interest at the prime rate plus .50 percent, with a floor of 4.50 percent (4.50 percent at December 31, 2020). The line expires July 2021. There were no borrowings at December 31, 2020 and 2019.

Overnight borrowings with the FHLB were $0 and $7,525,000 at December 31, 2020 and 2019, respectively.

The Company may borrow funds on a long-term basis from the FHLB up to the amount of eligible collateral (loans and securities) it places with the FHLB. At December 31, 2020, the Company had a net borrowing capacity of approximately $47 million. There were no long-term borrowings at December 31, 2020 and 2019.

8. Income Taxes

The provision for income tax consists of the following:

	2020	2019
Current	$ 525,308	$ 570,234
Deferred	(22,392)	63,000
Total	$ 502,916	$ 633,234

The reconciliation between the expected statutory income tax provision and the actual provision for income tax is as follows:

	2020		2019	
	Amount	Percent	Amount	Percent
Expected provision at statutory rate	$ 566,160	21.0 %	$ 703,151	21.0 %
Tax-exempt income	(70,479)	(2.6)	(77,096)	(2.3)
Other	7,235	.3	7,179	.2
Actual provision and rate	$ 502,916	18.7 %	$ 633,234	18.9 %

The following temporary differences gave rise to the net deferred tax (liability) asset at December 31:

	2020	2019
Deferred compensation	$ 855,134	$ 834,960
Allowance for loan losses	133,552	90,227
Other	89,252	78,499
Total deferred tax assets	1,077,938	1,003,686
Depreciation	(45,153)	(63,372)
Unrealized gains on available-for-sale securities	(296,687)	(29,103)
Deferred loan costs	(750,461)	(685,540)
Total deferred tax liabilities	(1,092,301)	(778,015)
Net deferred tax asset before valuation allowance	(14,363)	225,671
State valuation allowance	(55,514)	(50,356)
Net deferred tax (liability) asset	$ (69,877)	$ 175,315

The net deferred tax liability is included in other liabilities in 2020 and the net deferred tax asset is included in other assets in 2019.

The Company has elected the option to deduct the net interest income on qualified loans from its New York State taxable income. The Company believes the amount of this deduction will exceed its New York State taxable income for the foreseeable future. As a result, the Company has determined the realization of its state deferred tax assets is not expected and has established a valuation allowance for the amount of the net state deferred tax assets.

The Company had no unrecognized tax benefits at December 31, 2020 and 2019. There were no interest and penalties recognized in the consolidated balance sheets and statements of income in 2020 and 2019.

9. Pension and Postretirement Benefits

The Company sponsors two defined contribution plans, a 401(k) plan and a non-leveraged employee stock ownership plan (ESOP) covering substantially all eligible Company employees. Eligible employees may defer and contribute a percentage of their annual earnings to the plans. In the 401(k) plan, the Company contributes 100 percent of the first 5 percent of compensation deferred. In the ESOP, the Company contributes 100 percent of the first 5 percent of compensation deferred. Pension expense for these plans was $199,643 in 2020 and $186,028 in 2019. The ESOP held 145,125 and 143,778 of the Company's stock at December 31, 2020 and 2019, with a fair value of $2,467,125 and $3,127,172, respectively. The ESOP shares are eligible to receive dividends and are considered outstanding shares for purposes of computing net income per share.

The Company also has individual deferred compensation arrangements with certain key executives and directors which provide supplemental retirement benefits. The total of these obligations was $3,547,726 and $3,463,514 at December 31, 2020 and 2019, respectively. Deferred compensation expense was $352,812 in 2020 and $299,093 in 2019.

10. Related-Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers, directors, significant shareholders (greater than 10 percent) and their affiliates. Such transactions were made on substantially the same terms and at those rates prevailing at the same time for comparable transactions with other customers. The following table summarizes the activity in these loans:

	2020	2019
Balance, beginning	$ 615,974	$ 783,183
New loans and other changes	367,414	165,360
Repayments and other changes	(333,516)	(332,569)
Balance, ending	$ 649,872	$ 615,974

Other changes result from the addition to or removal of individuals from the related party category.

The Company held deposits of $330,548 and $366,563 for related parties at December 31, 2020 and 2019, respectively.

A director of the Company provides professional legal services to the Company. Fees for these services were approximately $43,300 in 2020 and $47,600 in 2019.

11. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contractual amounts of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

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. Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not be collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment and real estate. The Company has not incurred any losses on its commitments in either 2020 or 2019.

Financial instruments whose contract amount represents credit risk were as follows:

	2020	2019
Commitments to extend credit (including lines of credit)	$ 27,553,641	$ 21,183,404
Standby letters of credit	427,024	397,024

12. Fair Value Disclosures

Fair value is defined as an exit price representing the amount that would be received to sell an asset or settle a liability in an orderly transaction between market participants. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Valuation is determined from quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument;

Level 3 - Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that a market participant would use to value the asset or liability.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 20,135,570	$ -	$ 20,135,570
U.S. government sponsored enterprises, (GSE), mortgage - backed securities - residential	-	58,200,425	-	58,200,425
Local government obligations	-	3,657,320	-	3,657,320
Total	$ -	$ 81,993,315	$ -	$ 81,993,315

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 21,908,827	$ -	$ 21,908,827
U.S. government sponsored enterprises, (GSE), mortgage - backed securities - residential	-	40,067,137	-	40,067,137
Local government obligations	-	5,855,015	-	5,855,015
Total	$ -	$ 67,830,979	$ -	$ 67,830,979

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

All debt securities are measured at fair value using quoted prices from an independent third party that provide valuation services, such as matrix pricing, for similar assets, with similar terms in actively traded markets.

The following table sets forth the Company's financial assets and liabilities subject to fair value adjustments on a nonrecurring basis by level within the fair value hierarchy:

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 92,611	$ 92,611

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 92,612	$ 92,612

Impaired loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Such collateral is primarily real estate whose value is based on appraisals performed by certified appraisers. These values are generally adjusted based on management's knowledge of changes in market conditions or other factors. Since the adjustments may be significant, are based on management's estimates and are generally unobservable, they have been classified as Level 3.

The appraisals may be adjusted by management for qualitative reasons and estimated liquidation expenses. Management's assumptions may include consideration of location and occupancy of the property and current economic conditions. At December 31, 2020 and 2019, to account for these factors, negative adjustments to the appraisal value between 15-20 percent (weighted average of 15.9%) were made and liquidation expenses of 6 percent were assumed.

In addition to the disclosures of financial instruments recorded at fair value, U.S. GAAP requires the disclosure of the estimated fair value of all the Company's financial instruments. The majority of the Company's assets and liabilities are considered financial instruments. However, many of these instruments lack an available market. In addition, the Company's general practice and intent is to hold its financial instruments to maturity. The Company has considered the fair value measurement criteria as required under the accounting standard relating to fair value measurement as noted above. Fair value estimates have been determined based on the methodologies management considers most appropriate for each financial instrument.

	2020				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 9,187,666	$ 9,187,666	$ 9,187,666	$ -	$ -
Interest-bearing deposits with banks	33,348,000	33,348,000	-	33,348,000	-
Available-for-sale securities	81,993,315	81,993,315	-	81,993,315	-
Held-to-maturity securities	2,275,207	2,359,985	-	2,359,985	-
Restricted equity securities	304,300	304,300	-	304,300	-
Loans receivable, net	201,171,002	213,124,000	-	-	213,124,000
Accrued interest receivable	1,177,805	1,177,805	-	1,177,805	-
Financial liabilities:					
Deposits	303,367,283	304,469,123	-	304,469,123	-
Accrued interest payable	43,953	43,953	-	43,953	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

	2019				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 2,733,612	$ 2,733,612	$ 2,733,612	$ -	$ -
Interest-bearing deposits with banks	29,368,000	29,368,000	-	29,368,000	-
Available-for-sale securities	67,830,979	67,830,979	-	67,830,979	-
Held-to-maturity securities	1,263,053	1,334,764	-	1,334,764	-
Restricted equity securities	704,700	704,700	-	704,700	-
Loans receivable, net	181,168,172	190,329,000		-	190,329,000
Accrued interest receivable	1,264,171	1,264,171	-	1,264,171	-
Financial liabilities:					
Deposits	253,577,023	253,809,315	-	253,809,315	-
Short-term borrowings	7,525,000	7,525,000	-	7,525,000	-
Accrued interest payable	120,866	120,866	-	120,866	-
Off-balance sheet financial instruments:					
Commitments to extend credit	-	-	-	-	-
Standby letters of credit	-	-	-	-	-

The carrying value of short-term financial instruments, as listed below, approximates their fair value. These instruments generally have limited credit exposure, no stated or short-term maturities and carry interest rates that approximate market.

Assets	**Liabilities**
Cash and due from banks	Demand and savings deposits
Interest-bearing deposits with banks	Short-term borrowings
Accrued interest receivable	Accrued interest payable

The fair value methodology for available-for-sale securities was described previously. The fair value methodology for held-to-maturity securities is similar to the methodology for available-for-sale securities. The fair value of restricted equity securities is considered to approximate its carrying value as there is no market for these securities and the stock is redeemable at par value.

For short-term loans and variable rate loans which reprice within 90 days, the carrying value is considered to approximate fair value. For other types of loans, fair value was estimated by discounting cash flows using current market interest rates for similar loans, adjusted to reflect credit risk.

The fair value of interest-bearing time deposits is estimated by discounting contractual cash flows using current rates for instruments with similar maturities.

The fair value of commitments to extend credit is estimated using the fees currently charged for similar agreements. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements plus the estimated cost to terminate or otherwise settle the obligations. The fair value of these instruments is considered immaterial.

13. Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the following table) of total capital, Tier 1 capital (as defined in the regulations) and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. A capital conservation buffer of 2.50 percent, comprised of common equity Tier I capital, is also established above the regulatory minimum capital requirements and must be maintained to avoid limitations on capital distributions.

In 2020, the Bank adopted the new community bank leverage ratio framework. This framework simplifies the regulatory capital requirements by requiring the Bank meet only the Tier 1 capital to average assets (leverage) ratio. The Bank must only maintain a leverage ratio greater than the 9 percent required minimum to be considered well capitalized under this framework. The Bank can opt out of the new framework and return to the risk-weighting framework at any time. In April 2020, the federal banking agencies temporarily reduced the minimum requirement to 8 percent for 2020, increasing to 8.50 percent for 2021, and returning to 9 percent for 2022 and thereafter.

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

As of December 31, 2020, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum ratios as set forth in the following tables. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are as follows:

	2020				
	Actual			To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	(Dollar Amounts in Thousands)	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 33,145	9.8 %		$ 27,009	8.0 %

	2019					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 31,805	28.7 %	$ ≥ 8,873	8.0 %	$ ≥ 11,901	10.0 %
Common equity Tier 1 capital (to risk-weighted assets)	31,266	28.2	≥ 4,991	4.5	≥ 7,209	6.5
Tier 1 (core) capital (to risk-weighted assets)	31,266	28.2	≥ 6,654	6.0	≥ 8,873	8.0
Tier 1 (core) capital (to average assets)	31,266	10.5	≥ 11,934	4.0	≥ 14,918	5.0

The Federal Reserve Bank has established capital guidelines for bank holding companies. These guidelines allow small bank holding companies, as defined, an exemption from regulatory capital requirements. The Bank Corp. meets the eligibility criteria and is exempt from regulatory capital requirements.

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Bank Corp. without regulatory approval. Generally, the dividend limit is equal to the current and preceding two years net income less dividends paid during the same period. However, dividend payments would be prohibited if the effect would cause the Bank's capital to be reduced below minimum capital requirements as discussed above. The Bank's retained earnings available for dividends was approximately $3,954,000 at December 31, 2020.

14. Dividend Reinvestment and Optional Cash Purchase Plan

In 2003, the Company established a Dividend Reinvestment and Optional Cash Purchase Plan (Plan) for its shareholders. The Plan is designed to provide the Company's stock at no transactional cost to its shareholders. Cash dividends paid to shareholders who are enrolled in the Plan plus voluntary cash deposits received are used to purchase shares either directly from the Company, from shares that become available in the open market or from the Company's previously acquired treasury stock. The Company has reserved 393,750 shares of its un-issued common stock for issuance under the Plan. Once these shares are issued, the Plan will terminate but there is no set termination date. Under Regulation A of the Securities Act of 1933, as amended, the Company may offer and sell up to $20 million of eligible securities annually. The Company issued 17,430 shares of common stock in 2020 and 16,706 shares of common stock in 2019 directly from authorized but unissued shares of the Company, plus the Company sold 5,743 shares of treasury stock in 2020 and 6,091 shares of treasury stock in 2019 for a total of 23,173 and 22,797 shares in 2020 and 2019, respectively. As of December 31, 2020, there were 109,314 shares available for future issuance.

DELHI BANK CORP. & SUBSIDIARY

Delhi Bank Corp.

DIRECTORS

Andrew F. Davis III - Chairman of the Board

Michael E. Finberg

Bruce J. McKeegan

Paul J. Roach

Peter V. Gioffe

Kristen L. Baxter

Kurt R. Mable

Michelle D. Catan

Jason J. Miller

OFFICERS

Peter V. Gioffe - President & CEO

Gretchen E. Rossley - Vice President

Bryan R. Boyer - Treasurer

Kathryn K. Pawlikowski - Secretary

The Delaware National Bank of Delhi Executive Officers

Peter V. Gioffe - President & CEO

Gretchen E. Rossley - Vice President, Chief Banking Officer

Deirdre A. Hillis - Vice President, Chief Lending Officer

Bryan R. Boyer - Vice President, Controller

Yvonne T. Haynes - Vice President, BSA Officer

Robin L. Hultenius - Vice President of Human Resources