DELHI BANK CORP.

2022 Annual Report

subsidiary

THE DELAWARE NATIONAL BANK · ORGANIZED · DNB · 1839 · DELHI, N.Y.

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 13, 2023, 1:00 p.m.
The Delaware National Bank of Delhi
Main Office
124 Main Street • Delhi NY 13753

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

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

BANK WEBSITE AND EMAIL

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

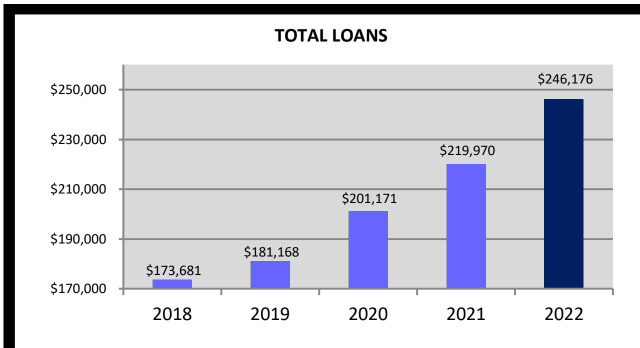
TRUST SERVICES

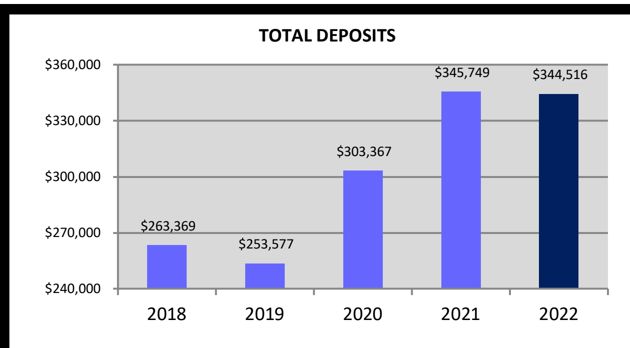
124 Main Street • Delhi, NY
855-363-3544
trust@dnbd.net

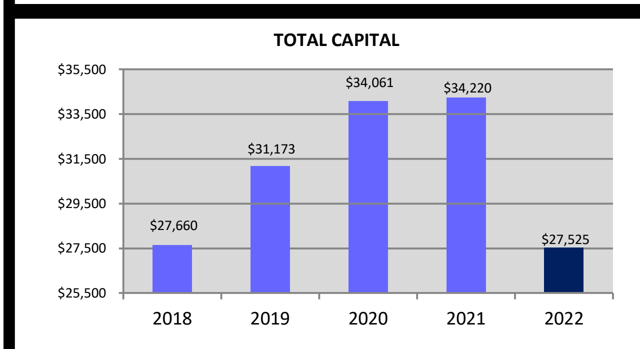
- Investment Management
- Estate Settlement
- Trusteeship
- Custodianship
- Transfer and/or paying agent
- Singular purchase/sale of securities
- Estate/Trust management
- Consultation

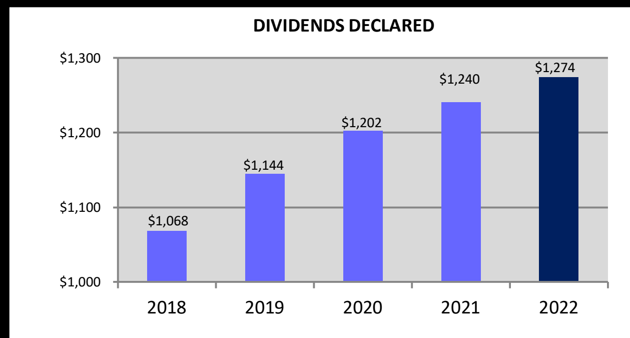
FINANCIALS AT A GLANCE

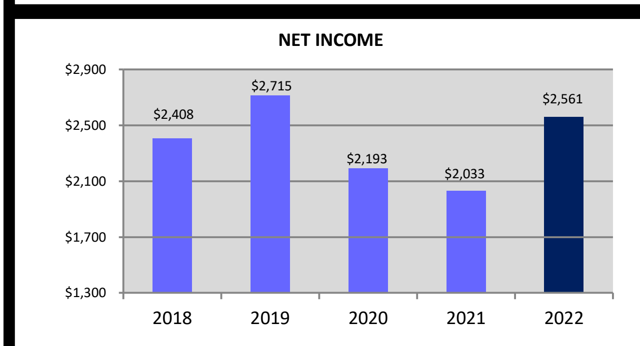
Dollars in thousands, except Closing Stock Price

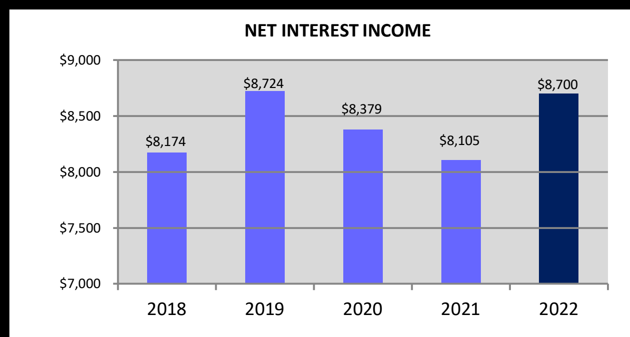


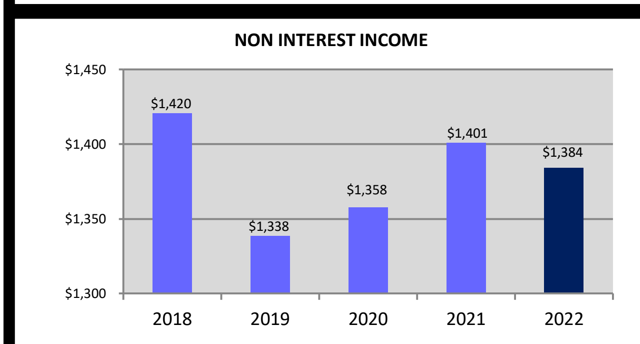


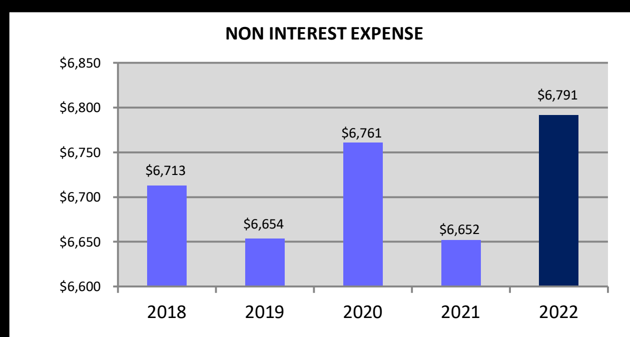


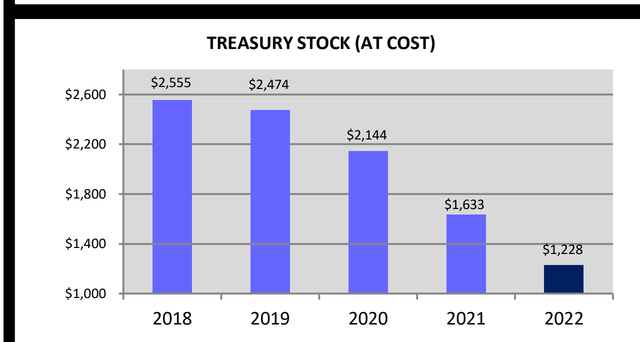


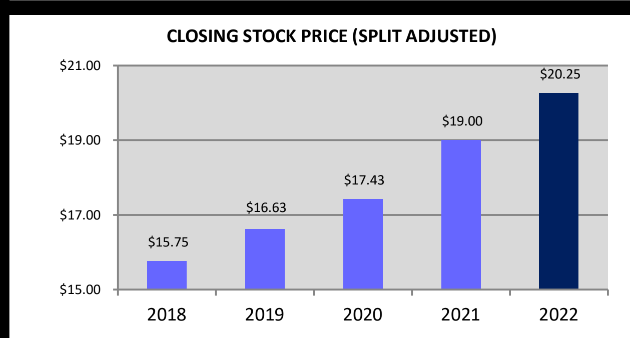












PRESIDENT'S MESSAGE
2023

To Our Stockholders,

The year 2022 was another very successful one for Delhi Bank Corp., led by an engaged Board of Directors along with a highly dedicated team of employees. The issues other institutions are facing within the financial sector, as I prepare this message, make me proud to say, "we are not them." Now more than ever it is important to emphasize that you can rest assured that The Delaware National Bank of Delhi remains well capitalized and well positioned to continue to assist you with your banking and lending needs as we have since 1839. The Bank is a member of the Federal Deposit Insurance Corporation (FDIC), so your deposits up to $250,000 are insured and guaranteed. And as a community bank, we operate under an entirely different business model than those that failed. For this reason, you can bank with confidence at The Delaware National Bank of Delhi.

The Delaware National Bank of Delhi was proudly named the Delaware County Chamber of Commerce 2022 Business of the Year. This recognition does not come lightly, as the criteria for consideration is what the Bank strives to provide each and every day.

Net Income per share was $0.76, compared to the prior year's results of $0.62. The Bank's Net Income was $2.56 million, compared to 2021, which was $2.03 million. The Net Income increase was a robust 26%.

Total assets decreased by 2.0%. Investment securities decreased by 20.4%, while net loans increased 11.9%. Deposits decreased by 0.36%. Capital decreased by 19.57%, making our capital to assets ratio 7.31% at year end. The increase in loans was created predominately by local demand. As always, we are very proud to be your community Bank.

The last shares of Delhi Bank Corp. traded in 2022 were at $20.25. The common stock book value per share at December 31, 2022, was $8.10 based on the actual number of common shares outstanding. Your Board of Directors declared cash dividends of $0.3772 per share in 2022, which was a 0.08% increase over the dividends declared in 2021. This equates to a dividend yield of 1.86% based on the year end market price. Including the dividend declared at year end, Delhi Bank Corp. has maintained or increased the dividend payout for 64 consecutive quarters.

In June 2022, Mr. Michael E. Finberg retired from our Board of Directors after 25 years of service to the Bank. It was a pleasure to have served with Michael, who was instrumental in the establishment of the Bank's first branch, in Margaretville. We wish Michael the best of health and enjoyment in his retirement and thank him for his many years of dedication and service.

The Delaware National Bank of Delhi has once again earned Bauer's top (5-Star) rating for financial strength and stability. Having earned this rating for 112 consecutive quarters, The Delaware National Bank of Delhi has earned Bauer's highest designation as a "*Best of Bauer Bank.*" Bauer rates every federally-insured U.S. chartered bank with the same strict standards, and is pleased to report that The Delaware National Bank of Delhi continues to outperform its peers. What does it mean when we say, "like having a friend in the banking business?", muses Karen Dorway, president of BauerFinancial. "It means loyalty and dedication. It's a connection, one that you can rarely find in a big bank. But at The Delaware National Bank of Delhi, it comes naturally. Not to mention", she continues, "a local bank means local decisions, made by people just like you." Established in 1839, The Delaware National Bank of Delhi has been a dedicated banking partner for the community for 184 years. Making connections and supporting this community has been its hallmark since its inception.

Thank you for your continued support. We look forward to a successful 2023 and beyond. Be safe.

Respectfully

Peter V. Gioffe
President

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Delhi Bank Corp. and Subsidiary (Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' 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 the Company as of December 31, 2022 and 2021, 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 (GAAP).

Basis for Opinion

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company 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 opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

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 the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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 to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement 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 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 in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- 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 audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- 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 the Company'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 audit.

Baker Tilly US, LLP

Wilkes-Barre, Pennsylvania
March 15, 2023

Delhi Bank Corp. and Subsidiary

Consolidated Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and due from banks	$ 2,781,448	$ 8,223,218
Interest-bearing deposits with banks	26,629,000	37,570,000
Available-for-sale debt securities	81,003,687	101,963,166
Held-to-maturity debt securities	623,163	785,188
Restricted equity securities	401,850	328,400
Loans receivable, net	246,176,205	219,970,084
Premises and equipment, net	4,884,263	4,539,371
Bank owned life insurance	8,151,159	7,928,355
Other assets	5,945,554	3,032,588
Total assets	$ 376,596,329	$ 384,340,370
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 81,067,097	$ 78,003,247
Interest-bearing	263,448,607	267,745,394
Total deposits	344,515,704	345,748,641
Short-term borrowings	150,000	-
Finance lease liability	86,661	115,378
Other liabilities	4,319,008	4,256,172
Total liabilities	349,071,373	350,120,191
Stockholders' Equity		
Common stock, $1 par; 5,000,000 shares authorized; 3,499,856 shares issued and 3,399,815 shares outstanding in 2022, and 3,457,937 shares issued and 3,320,066 shares outstanding in 2021	3,499,856	3,457,937
Additional paid-in capital	5,311,119	4,480,193
Retained earnings	29,966,084	28,678,487
Accumulated other comprehensive loss	(10,024,140)	(763,133)
Treasury stock, at cost; 100,041 shares in 2022 and 137,871 shares in 2021	(1,227,963)	(1,633,305)
Total stockholders' equity	27,524,956	34,220,179
Total liabilities and stockholders' equity	$ 376,596,329	$ 384,340,370

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021

	2022	2021
Interest and Dividend Income		
Interest and fees on loans	$ 7,873,492	$ 7,207,545
Investments:		
Taxable	1,661,039	1,415,422
Tax-exempt	52,510	74,781
Interest-bearing deposits with banks	427,132	502,791
Dividends	31,287	12,936
Total interest and dividend income	10,045,460	9,213,475
Interest Expense		
Deposits	1,239,619	1,099,091
Borrowed funds and finance lease	106,066	8,890
Total interest expense	1,345,685	1,107,981
Net Interest Income	8,699,775	8,105,494
Provision for Loan Losses	120,000	360,000
Net Interest Income After Provision for Loan Losses	8,579,775	7,745,494
Noninterest Income		
ATM and debit card processing	387,038	410,672
Trust department	354,405	376,593
Service charges and fees	293,127	249,411
Bank owned life insurance income	222,804	223,594
Other	169,032	140,576
Loss on disposal of premises and equipment	(42,317)	-
Total noninterest income	1,384,089	1,400,846
Noninterest Expense		
Salaries and employee benefits	3,749,415	3,797,112
Occupancy and equipment	1,768,598	1,779,470
Professional fees	313,049	323,461
Director fees	168,260	177,330
ATM and debit card processing	183,333	158,980
FDIC premiums	106,980	95,688
Other	501,577	320,018
Total noninterest expense	6,791,212	6,652,059
Income Before Provision for Income Tax	3,172,652	2,494,281
Provision for Income Tax	611,456	461,610
Net Income	$ 2,561,196	$ 2,032,671
Earnings Per Share	$ 0.76	$ 0.62

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2022 and 2021

	2022	2021
Net Income	$ 2,561,196	$ 2,032,671
Other Comprehensive Loss		
Unrealized losses on available-for-sale securities	(11,722,794)	(2,378,785)
Tax effect	2,461,787	499,545
Total other comprehensive loss	(9,261,007)	(1,879,240)
Total Comprehensive Income (Loss)	$ (6,699,811)	$ 153,431

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total
Balance, December 31, 2020	$ 3,415,922	$ 3,787,219	$ 27,886,032	$ 1,116,107	$ (2,144,403)	$ 34,060,877
Net income	-	-	2,032,671	-	-	2,032,671
Other comprehensive income	-	-	-	(1,879,240)	-	(1,879,240)
Issuance of 42,015 shares of common stock	42,015	734,649	-	-	-	776,664
Purchase of 3 shares of treasury stock	-	-	-	-	(56)	(56)
Sale of 43,148 shares of treasury stock	-	(41,675)	-	-	511,154	469,479
Dividends declared ($.3769 per share)	-	-	(1,240,216)	-	-	(1,240,216)
Balance, December 31, 2021	3,457,937	4,480,193	28,678,487	(763,133)	(1,633,305)	34,220,179
Net income			2,561,196			2,561,196
Other comprehensive loss				(9,261,007)		(9,261,007)
Issuance of 41,919 shares of common stock	41,919	816,507				858,426
Purchase of 5,006 shares of treasury stock					(102,115)	(102,115)
Sale of 42,836 shares of treasury stock		14,419			507,457	521,876
Dividends declared ($.3772 per share)			(1,273,599)		-	(1,273,599)
Balance, December 31, 2022	$ 3,499,856	$ 5,311,119	$ 29,966,084	$ (10,024,140)	$ (1,227,963)	$ 27,524,956

See notes to consolidated financial statements

Delhi Bank Corp. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Net income	$ 2,561,196	$ 2,032,671
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	120,000	360,000
Depreciation	365,236	330,754
Amortization and accretion of investment securities, net	454,091	643,102
Deferred income taxes	277,104	3,566
Bank owned life insurance income	(222,804)	(223,594)
Loss on disposal of premises and equipment	42,317	-
Net change in:		
Other assets	(678,690)	(40,073)
Other liabilities	55,316	89,788
Net cash provided by operating activities	2,973,766	3,196,214
Cash Flows From Investing Activities		
Net change in interest-bearing deposits with banks	10,941,000	(4,222,000)
Purchase of available-for-sale debt securities	(10,496,058)	(48,251,257)
Proceeds from maturities, calls and principal repayments of available-for-sale debt securities	19,278,652	25,259,519
Purchase of held-to-maturity debt securities	(100,000)	-
Proceeds from maturities, calls and principal repayments of held-to-maturity debt securities	262,025	1,490,019
Purchase of restricted equity securities	(5,186,475)	(125,000)
Proceeds from redemption of restricted equity securities	5,113,025	100,900
Net change in loans receivable	(26,375,714)	(19,159,082)
Purchase of premises and equipment	(752,445)	(1,623,132)
Net cash used in investing activities	(7,315,990)	(46,530,033)
Cash Flows From Financing Activities		
Net change in deposits	(1,232,937)	42,381,358
Net change in short-term borrowings	150,000	-
Principal payments on finance lease liability	(28,717)	(26,859)
Dividends paid	(1,266,079)	(1,231,215)
Issuance of common stock	858,426	776,664
Purchase of treasury stock	(102,115)	(56)
Proceeds from sale of treasury stock	521,876	469,479
Net cash provided by (used in) financing activities	(1,099,546)	42,369,371
Net Change in Cash and Due From Banks	(5,441,770)	(964,448)
Cash and Due From Banks, Beginning	8,223,218	9,187,666
Cash and Due From Banks, Ending	$ 2,781,448	$ 8,223,218

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 (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.

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. Debt 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.

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.

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. Effect of other external factors (i.e., competition, legal and regulatory).

8. Changes in the quality of the loan review system.

9. Changes in the value of underlying collateral for collateral-dependent loans.

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 classified 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 are 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 3,373,704 in 2022 and 3,286,997 in 2021.

Advertising Costs

Advertising costs are expensed as incurred and were $40,695 in 2022 and $40,663 in 2021.

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. There were $49,593 of foreclosed assets at December 31, 2022 and no foreclosed assets at December 31, 2021. Residential real estate loans in process of foreclosure at December 31, 2022 were approximately $430,000.

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 (Loss)

Comprehensive income (loss) consists of net income and other comprehensive loss. Other comprehensive loss consists solely of the net unrealized losses on available-for-sale debt securities, net of deferred income taxes. Accumulated other comprehensive loss consists of net unrealized losses of $12,688,785 less deferred income tax benefit of $2,664,645 at December 31, 2022 and $965,991 less deferred income taxes of $202,858 at December 31, 2021.

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.

Noninterest income includes service charge, overdraft, and other deposit account fees, ATM and 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 $1,316,706 in 2022 and $1,113,290 in 2021. Income tax payments totaled $490,000 in 2022 and 2021. Amounts transferred from loans to foreclosed assets were $49,593 in 2022 and $0 in 2021. Dividends payable were $320,602 and $313,082 at December 31, 2022 and 2021, respectively.

Reclassifications

Certain amounts related to 2021 have been reclassified to conform with the 2022 reporting presentation.

Subsequent Events

Subsequent events were evaluated through March 15, 2023, the date the consolidated financial statements were available to be issued.

Future Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU 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 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.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses - Troubled Debt Restructurings and Vintage Disclosures*. This standard eliminates the recognition and measurement guidance for troubled debt restructurings (TDRs) by creditors and enhances disclosure requirements for certain loan restructurings when a borrower is experiencing financial difficulty. In addition, the standard requires the disclosure of gross write-offs by year of origination.

The Company is required to adopt these standards in 2023 but does not believe the adoption will have a material effect on its consolidated financial statements.

2. Investment Securities

The amortized cost and fair values of investment debt securities are as follows:

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 15,752,410	$ 4,556	$ 1,495,714	$ 14,261,252
U.S. government sponsored enterprises, (GSE), mortgage-backed securities, residential	76,811,756	20,300	11,185,524	65,646,532
Local government obligations	1,128,306	23	32,426	1,095,903
Total	$ 93,692,472	$ 24,879	$ 12,713,664	$ 81,003,687
Held-to-maturity:				
Local government obligations	$ 623,163	$ 16,878	$ 1,419	$ 638,622

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. government agencies	$ 21,612,661	$ 258,468	$ 309,855	$ 21,561,274
U.S. government sponsored enterprises, (GSE), mortgage-backed securities, residential	79,088,554	359,363	1,365,903	78,082,014
Local government obligations	2,227,942	91,936	-	2,319,878
Total	$ 102,929,157	$ 709,767	$ 1,675,758	$ 101,963,166
Held-to-maturity:				
Local government obligations	$ 785,188	$ 53,768	$ -	$ 838,956

The amortized cost and fair market values of debt securities at December 31, 2022, 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	$ 137,083	$ 137,106
Due after one through five years	3,810,823	3,600,981
Due after five through ten years	8,785,106	8,476,344
Due after ten years	35,443,982	30,362,009
Mortgage-backed securities	45,515,478	38,427,247
Total	$ 93,692,472	$ 81,003,687

	Held-to-Maturity	
	Amortized Cost	Fair Value
Due in one year or less	$ 211,195	$ 212,699
Due after one through five years	307,801	312,152
Due after five through ten years	104,167	113,771
Total	$ 623,163	$ 638,622

There were no sales of available-for-sale debt securities in 2022 or 2021.

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, 2022					
	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	$ 3,271,964	$ 166,373	$ 10,117,757	$ 1,329,341	$ 13,389,721	$ 1,495,714
Mortgage-backed securities, GSE, residential	18,849,851	1,975,390	44,914,391	9,210,134	63,764,242	11,185,524
Local government obligations	1,000,880	32,426	-	-	1,000,880	32,426
Total	$ 23,122,695	$ 2,174,189	$ 55,032,148	$ 10,539,475	$ 78,154,843	$ 12,713,664
Held-to-maturity:						
Local government obligations	$ 104,332	$ 1,419	$ -	$ -	$ 104,332	$ 1,419

	December 31, 2021					
Available-for-sale:						
U.S. government agencies	$ 5,746,503	$ 152,390	$ 4,490,827	$ 157,465	$ 10,237,330	$ 309,855
Mortgage-backed securities, GSE, residential	45,298,301	1,134,035	9,275,633	231,868	54,573,934	1,365,903
Total	$ 51,044,804	$ 1,286,425	$ 13,766,460	$ 389,333	$ 64,811,264	$ 1,675,758

The Company had 161 debt securities in unrealized loss positions at December 31, 2022. The securities have depreciated approximately 14% from the Company's amortized cost basis. These securities are primarily issued by U.S. government agencies and U.S. GSE. 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 $41,051,763 and $59,521,322 at December 31, 2022 and 2021, respectively, were pledged to secure deposits as required or permitted by law.

3. Loans Receivable and Allowance for Loan Losses

Loans receivable at December 31 are summarized as follows:

	2022	2021
Real estate:		
Residential	$ 112,080,650	$ 95,988,907
Commercial	110,780,656	95,830,459
Commercial and industrial	15,799,115	20,577,227
Agricultural	1,212,113	1,263,454
Consumer	3,851,983	3,930,024
Total	243,724,517	217,590,071
Allowance for loan losses	(1,159,355)	(1,015,795)
Deferred loan costs and purchase premiums, net	3,611,043	3,395,808
Net	$ 246,176,205	$ 219,970,084

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 (in 2021) 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:

	2022	2021
Real estate:		
Commercial	$ 89,717,239	$ 74,415,652
Commercial and industrial	13,827,692	18,509,809
Agricultural	1,181,441	1,179,564
Total	104,726,372	94,105,025
Allowance for loan losses	-	-
Purchase premiums and origination fees, net	74,694	158,548
Net	$ 104,801,066	$ 94,263,573

Changes in the allowance for loan losses for 2022 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, 2022	$ 820,178	$ 140,397	$ 13,370	$ 545	$ 41,305	$ 1,015,795
Charge-offs	-	-	-	-	(27,906)	(27,906)
Recoveries	19,210	-	4,819	-	27,437	51,466
Provision	115,524	10,824	(4,389)	(330)	(1,629)	120,000
Ending balance, December 31, 2022	$ 954,912	$ 151,221	$ 13,800	$ 215	$ 39,207	$ 1,159,355
Ending balance individually evaluated for impairment	$ 2,232	$ -	$ -	$ -	$ -	$ 2,232
Ending balance collectively evaluated for impairment	$ 952,680	$ 151,221	$ 13,800	$ 215	$ 39,207	$ 1,157,123
Loans receivable at December 31, 2022, total balance	$ 112,080,650	$ 110,780,656	$ 15,799,115	$ 1,212,113	$ 3,851,983	$ 243,724,517
Ending balance individually evaluated for impairment	$ 986,884	$ 72,957	$ -	$ -	$ 20,466	$ 1,080,307
Ending balance collectively evaluated for impairment	$ 111,093,766	$ 110,707,699	$ 15,799,115	$ 1,212,113	$ 3,831,517	$ 242,644,210

Changes in the allowance for loan losses for 2021 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, 2021	$ 479,589	$ 107,651	$ 17,652	$ 284	$ 29,878	$ 635,054
Charge-offs	-	-	-	-	(17,336)	(17,336)
Recoveries	-	20,937	4,842	-	12,298	38,077
Provision	340,589	11,809	(9,124)	261	16,465	360,000
Ending balance, December 31, 2021	$ 820,178	$ 140,397	$ 13,370	$ 545	$ 41,305	$ 1,015,795
Ending balance individually evaluated for impairment	$ 2,484	$ -	$ -	$ -	$ 4,636	$ 7,120
Ending balance collectively evaluated for impairment	$ 817,694	$ 140,397	$ 13,370	$ 545	$ 36,669	$ 1,008,675
Loans receivable at December 31, 2021, total balance	$ 95,988,907	$ 95,830,459	$ 20,577,227	$ 1,263,454	$ 3,930,024	$ 217,590,071
Ending balance individually evaluated for impairment	$ 933,346	$ 46,910	$ -	$ -	$ 4,636	$ 984,892
Ending balance collectively evaluated for impairment	$ 95,055,561	$ 95,783,549	$ 20,577,227	$ 1,263,454	$ 3,925,388	$ 216,605,179

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

December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 797,265	$ 793,292	$ -	$ 742,596	$ -
Commercial real estate	73,023	72,957	-	79,794	-
Consumer	20,466	20,466	-	6,258	-
With an allowance recorded:					
Residential real estate	193,592	193,592	2,232	148,355	-
Totals:					
Residential real estate	990,857	986,884	2,232	890,951	-
Commercial real estate	73,023	72,957	-	79,794	-
Consumer	20,466	20,466	-	6,258	-

December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 818,298	$ 800,225	$ -	$ 923,065	$ -
Commercial real estate	49,948	46,910	-	85,545	-
With an allowance recorded:					
Residential real estate	133,120	133,121	2,484	194,736	2,823
Consumer	4,636	4,636	4,636	834	-
Totals:					
Residential real estate	951,418	933,346	2,484	1,117,801	2,823
Commercial real estate	49,948	46,910	-	85,545	-
Consumer	4,636	4,636	4,636	834	-

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

	2022	2021
Residential real estate	$ 986,884	$ 875,382
Commercial real estate	72,957	46,910
Consumer	20,466	4,636
Total	$ 1,080,307	$ 926,928

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

	2022					
	Residential Real Estate	**Commercial Real Estate**	**Commercial and Industrial**	**Agricultural**	**Consumer**	**Total**
Pass	$ 107,941,543	$ 107,558,002	$ 15,628,494	$ 1,212,113	$ 3,767,934	$ 236,108,086
Special mention	2,589,460	2,236,129	146,419	-	61,038	5,033,046
Substandard	1,549,647	986,525	24,202	-	23,011	2,583,385
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 112,080,650	$ 110,780,656	$ 15,799,115	$ 1,212,113	$ 3,851,983	$ 243,724,517

	2021					
	Residential Real Estate	**Commercial Real Estate**	**Commercial and Industrial**	**Agricultural**	**Consumer**	**Total**
Pass	$ 91,241,358	$ 91,991,370	$ 20,368,289	$ 1,260,581	$ 3,850,840	$ 208,712,438
Special mention	2,982,649	2,695,514	186,617	2,873	68,877	5,936,530
Substandard	1,764,900	1,143,575	22,321	-	10,307	2,941,103
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 95,988,907	$ 95,830,459	$ 20,577,227	$ 1,263,454	$ 3,930,024	$ 217,590,071

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

	2022						
	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	$ 416,785	$ 99,816	$ 700,233	$ 1,216,834	$ 110,863,816	$ 112,080,650	$ 78,808
Commercial real estate	31,626	-	55,171	86,797	110,693,859	110,780,656	-
Commercial and industrial	-	-	-	-	15,799,115	15,799,115	-
Agricultural	-	-	-	-	1,212,113	1,212,113	-
Consumer	22,209	-	-	22,209	3,829,774	3,851,983	-
Total	$ 470,620	$ 99,816	$ 755,404	$ 1,325,840	$ 242,398,677	$ 243,724,517	$ 78,808

	2021						
Residential real estate	$ 263,520	$ -	$ 456,335	$ 719,855	$ 95,269,052	$ 95,988,907	$ -
Commercial real estate	2,448	-	-	2,448	95,828,011	95,830,459	-
Commercial and industrial	-	-	-	-	20,577,227	20,577,227	-
Agricultural	-	-	-	-	1,263,454	1,263,454	-
Consumer	4,530	-	4,636	9,166	3,920,858	3,930,024	-
Total	$ 270,498	$ -	$ 460,971	$ 731,469	$ 216,858,602	$ 217,590,071	$ -

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 2022 and 2021.

4. Premises and Equipment

Premises and equipment at December 31 is summarized as follows:

	2022	2021
Land	$ 744,592	$ 744,592
Buildings and improvements	6,079,859	5,137,619
Furniture and equipment	1,594,772	1,994,547
Right-of-use asset under finance lease	300,000	300,000
Construction in progress	-	1,312,323
Total cost	8,719,223	9,489,081
Less accumulated depreciation	3,834,960	4,949,710
Net	$ 4,884,263	$ 4,539,371

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 $53,333 at December 31, 2022 and $73,333 at December 31, 2021.

Future minimum lease payments on the finance lease are as follows:

Years ended December 31:	
2023	$ 35,830
2024	35,830
2025	23,720
Total minimum lease payments	94,880
Less amount representing interest	8,219
Net present value of minimum lease payments	$ 86,661

Interest expense on the finance lease was $6,864 in 2022 and $8,721 in 2021 based on an interest rate of 6.70%. Amortization of the asset was $20,000 in 2022 and 2021. Total cash paid for the finance lease was $35,580 in 2022 and 2021.

5. Deposits

Deposit account balances at December 31 are summarized as follows:

	2022	2021
Noninterest-bearing	$ 81,067,097	$ 78,003,247
Interest-bearing demand	42,402,191	42,252,048
Money market	21,325,546	24,923,116
Savings	114,585,035	112,403,900
Time	85,135,835	88,166,330
Total	$ 344,515,704	$ 345,748,641

Time deposits in denominations of $250,000 and over were $34,171,083 and $32,111,519 at December 31, 2022 and 2021, respectively.

At December 31, 2022, scheduled maturities of time deposits are as follows (in thousands):

2023	$ 54,283
2024	14,867
2025	8,008
2026	4,804
2027 and thereafter	3,174
Total	$ 85,136

6. 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%, with a floor of 4.00%. The line expires July 2023. There were no borrowings at December 31, 2022 and 2021.

Overnight borrowings with the FHLB were $150,000 and $0 at December 31, 2022 and 2021, respectively. These borrowings bore interest of 4.61%.

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, 2022, the Company had a borrowing capacity of approximately $57 million. At December 31, 2022, $25 million of that capacity was used on an irrevocable stand-by letter of credit for a municipal customer which expires in May 2023. There were no long-term borrowings at December 31, 2022 and 2021.

7. Income Taxes

The provision for income tax consists of the following:

	2022	2021
Current	$ 334,352	$ 458,044
Deferred	277,104	3,566
Total	$ 611,456	$ 461,610

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

	2022		2021	
	Amount	**Percent**	**Amount**	**Percent**
Expected provision at statutory rate	$ 666,257	21.00 %	$ 523,800	21.00 %
Tax-exempt income	(57,326)	(1.8)	(62,153)	(2.5)
Other	2,525	0.0	(37)	0.0
Actual provision and rate	$ 611,456	19.2 %	$ 461,610	18.5 %

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

	2022	2021
Deferred compensation	$ 878,712	$ 867,687
Allowance for loan losses	266,987	235,673
Unrealized losses on available-for-sale securities	2,664,645	202,858
Other	81,912	95,381
Total deferred tax assets	3,892,256	1,401,599
Depreciation	(357,161)	(73,557)
Deferred loan costs	(924,310)	(847,166)
Total deferred tax liabilities	(1,281,471)	(920,723)
Net deferred tax asset before valuation allowance	2,610,785	480,876
State valuation allowance	-	(54,774)
Net deferred tax asset	$ 2,610,785	$ 426,102

The net deferred tax asset is included in other assets in 2022 and 2021.

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 net state deferred tax assets is not expected. In 2022, the Company was in a net deferred tax liability position for state purposes. As such, no valuation allowance was required. In 2021, the Company was in a net deferred tax asset position for state purposes and recognized a valuation allowance for the amount of the net state deferred tax assets.

The Company had no unrecognized tax benefits at December 31, 2022 and 2021. There were no interest and penalties recognized in the consolidated balance sheets and statements of income in 2022 and 2021.

8. 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 both the 401(k) and ESOP plans, the Company contributes 100% of the first 5% of compensation deferred. Pension expense for these plans was $191,278 in 2022 and $210,406 in 2021. The ESOP held 344,299 and 319,702 of the Company's stock at December 31, 2022 and 2021, with an estimated fair value of $3,546,000 and $3,069,000, respectively. The ESOP shares are eligible to receive dividends and are considered outstanding shares for purposes of computing net income per share.

Effective January 1, 2023, the Company consolidated the two plans into a combined plan retaining features of both plans.

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 $3,650,614 and $3,602,346 at December 31, 2022 and 2021, respectively. Deferred compensation expense was $335,468 in 2022 and $323,220 in 2021.

9. Related-Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers, directors, significant shareholders (greater than 10%) and their business 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:

	2022	2021
Balance, beginning	$ 1,798,195	$ 649,872
New loans and other changes	1,175,350	1,335,042
Repayments and other changes	(1,560,773)	(186,719)
Balance, ending	$ 1,412,772	$ 1,798,195

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

The Company held deposits of $750,693 and $566,699 for related parties at December 31, 2022 and 2021, respectively.

A director of the Company provides professional legal services to the Company. Fees for these services were approximately $57,300 in 2022 and $61,600 in 2021.

10. 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 2022 or 2021.

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

	2022	2021
Commitments to extend credit (including lines of credit)	$ 25,326,462	$ 29,527,601
Standby letters of credit	467,024	467,024

11. 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, 2022			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 14,261,252	$ -	$ 14,261,252
U.S. government sponsored enterprises, (GSE), mortgage-backed securities, residential	-	65,646,532	-	65,646,532
Local government obligations	-	1,095,903	-	1,095,903
Total	$ -	$ 81,003,687	$ -	$ 81,003,687

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Available-for-sale:				
U.S. government agencies	$ -	$ 21,561,274	$ -	$ 21,561,274
U.S. government sponsored enterprises, (GSE), mortgage-backed securities, residential	-	78,082,014	-	78,082,014
Local government obligations	-	2,319,878	-	2,319,878
Total	$ -	$ 101,963,166	$ -	$ 101,963,166

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, 2022			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 191,360	$ 191,360

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Impaired loans, net	$ -	$ -	$ 130,637	$ 130,637

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, 2022 and 2021, to account for these factors, negative adjustments to the appraisal value between 15-20% (weighted average of 15.3%) were made and liquidation expenses of 6% were assumed.

In addition to the disclosures of financial instruments recorded at fair value, 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.

	2022				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 2,781,448	$ 2,781,448	$ 2,781,448	$ -	$ -
Interest-bearing deposits with banks	26,329,000	26,329,000	-	26,329,000	-
Available-for-sale debt securities	81,003,687	81,003,687	-	81,003,687	-
Held-to-maturity debt securities	623,163	638,622	-	638,622	-
Restricted equity securities	401,850	401,850	-	401,850	-
Loans receivable, net	246,146,205	213,377,000	-	-	213,377,000
Accrued interest receivable	2,104,067	2,104,067	-	2,104,067	-
Financial liabilities:					
Deposits	344,515,704	343,812,869	-	343,812,869	-
Accrued interest payable	67,623	67,623	-	67,623	-

	2021				
	Carrying Amount	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets:					
Cash and due from banks	$ 8,223,218	$ 8,223,218	$ 8,223,218	$ -	$ -
Interest-bearing deposits with banks	37,570,000	37,570,000	-	37,570,000	-
Available-for-sale debt securities	101,963,166	101,963,166	-	101,963,166	-
Held-to-maturity debt securities	785,188	838,956	-	838,956	-
Restricted equity securities	328,400	328,400	-	328,400	-
Loans receivable, net	219,970,084	228,254,000	-	-	228,254,000
Accrued interest receivable	1,405,413	1,405,413	-	1,405,413	-
Financial liabilities:					
Deposits	345,748,641	345,896,311	-	345,896,311	-
Accrued interest payable	38,644	38,644	-	38,644	-

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	Accrued interest payable
Accrued interest receivable	

The fair value methodology for available-for-sale debt securities was described previously. The fair value methodology for held-to-maturity debt securities is similar to the methodology for available-for-sale debt 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 market 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 and have been excluded from the tables.

12. 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%, 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.

The Bank has elected the 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% 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.

Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which they are subject. As of December 31, 2022, 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:

	2022			
	Actual		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio
Tier 1 (core) capital (to average assets)	$ 37,736	9.7 %	$ 35,074	9.0 %
	2021			
Tier 1 (core) capital (to average assets)	$ 35,142	9.3 %	$ 32,214	8.5 %

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 $3,103,000 at December 31, 2022.

13. Dividend Reinvestment and Optional Cash Purchase Plan

The Company has 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 787,500 shares of its unissued 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 41,919 shares of common stock in 2022 and 42,015 shares of common stock in 2021 directly from authorized but unissued shares of the Company, plus the Company sold 14,965 shares of treasury stock in 2022 and 12,728 shares of treasury stock in 2021 for a total of 56,884 and 54,743 shares in 2022 and 2021, respectively. As of December 31, 2022, there were 107,001 shares available for future issuance.

DELHI BANK CORP. & SUBSIDIARY

Delhi Bank Corp.

DIRECTORS

Paul J. Roach - Chairman of the Board

Bruce J. McKeegan

Peter V. Gioffe

Kristen L. Baxter

Kurt R. Mable

Michelle D. Catan

Jason J. Miller

Barbara J.D. Davis

OFFICERS

Peter V. Gioffe - President & CEO

Gretchen E. Rossley - Vice President

Bryan R. Boyer - Treasurer

Robin L. Hultenius - 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

Elliott C. Townsend - Vice President, Senior Trust Officer