December 31, 2020

Bank of Utica

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Mazars USA LLP
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Independent Auditors' Report

**To the Board of Directors and Stockholders
of Bank of Utica and Subsidiary**

We have audited the accompanying consolidated financial statements of Bank of Utica and Subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2020 and 2019, and the related consolidated statements of 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 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 auditor's 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 Bank of Utica and Subsidiary as of December 31, 2020 and 2019, 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.

Other Matter

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the internal control over financial reporting of Bank of Utica and Subsidiary as of December 31, 2020, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 1, 2021 expressed an unqualified opinion thereon.

Mazars USA LLP

Mazars USA LLP
New York, New York
February 1, 2021

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Independent Auditors' Report

To the Board of Directors and Stockholders of Bank of Utica and Subsidiary

We have audited the internal control over financial reporting of Bank of Utica and Subsidiary as of December 31, 2020, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control over Financial Reporting
Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying "Management Report Regarding Combined Statement of Management's Responsibilities, Report on Management's Assessment of Compliance with Designated Laws and Regulations, and Report on Management's Assessment of Internal Control Over Financial Reporting."

Auditors' Responsibility
Our responsibility is to express an opinion on the Institution's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting
An institution's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Bank of Utica and subsidiary internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). An institution's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the institution's assets that could have a material effect on the consolidated financial statements.

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

Opinion
In our opinion, Bank of Utica and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the 2013 *Internal Control – Integrated Framework* issued by COSO.

Report on Financial Statements
We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of Bank of Utica and subsidiary as of and for the year ended December 31, 2020, and our report dated February 1, 2021 expressed an unqualified opinion on those consolidated financial statements.

Mazars USA LLP

Mazars USA LLP
New York, New York
February 1, 2021

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION DECEMBER 31,

ASSETS

	2020	2019
Assets:		
Cash and Cash Equivalents	$ 27,261,607	$ 17,606,529
Investment Securities - Held to Maturity	1,038,168,930	920,574,660
Investment Securities - Available for Sale Securities	127,075,687	86,491,015
Loans Receivable - Net	120,065,492	88,270,611
Property and Equipment - Net	19,540,320	20,900,807
Accrued Interest Receivable	10,154,976	8,570,817
Other Assets	3,147,284	1,969,498
TOTAL ASSETS	$ 1,345,414,296	$ 1,144,383,937

LIABILITIES AND SHAREHOLDERS' EQUITY

	2020	2019
Liabilities:		
Deposits	$ 1,063,377,891	$ 885,922,413
Deferred Tax Liability - Net	16,289,515	13,231,390
Accrued Interest Payable	1,070,480	1,171,039
Other Liabilities	3,068,229	2,635,136
Total Liabilities	1,083,806,115	902,959,978
Shareholders' Equity:		
Voting Common Stock - $20 Par Value, Authorized 50,000 Shares Issued and Outstanding	1,000,000	1,000,000
Nonvoting Common Stock - $20 Par Value, Authorized 200,000 Shares Issued and Outstanding	4,000,000	4,000,000
Capital Surplus	211,160,000	208,900,000
Retained Earnings	45,448,181	27,523,959
Total Shareholders' Equity	261,608,181	241,423,959
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,345,414,296	$ 1,144,383,937

See Accompanying Notes to Consolidated Financial Statments

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED DECEMBER 31,

		2020		2019
Interest and Dividend Income:				
Investment Securities:				
Taxable	$	27,034,089	$	23,639,098
Exempt from Federal Income Tax		2,262,269		2,371,073
Dividend Income		2,912,799		2,236,256
Loans		4,713,094		4,239,455
Interest Bearing Deposits in Banks		488		300
Federal Loan Processing Fees		1,043,841		-
Federal Funds Sold		84,967		583,745
Total Interest and Dividend Income		38,051,547		33,069,927
Interest Expense:				
Interest on Deposits & Borrowed Funds		14,728,004		14,963,256
Net Interest Income		23,323,543		18,106,671
Non-Interest Income:				
Net Gain on Unrealized Gain/Loss of Investment Securities		14,124,697		15,051,445
Net Gain on Disposal of Investment Securities		1,940,115		1,141,793
Service Charges on Deposit Accounts		217,716		349,010
Service Charges and Fees		-		2,700
Other		41,612		287,516
Total Non-interest Income		16,324,140		16,832,464
Non-Interest Expense				
Salaries, Employee Benefits and Training		4,116,548		3,779,847
Occupancy and Information Technology		2,929,701		2,872,502
Regulatory - FDIC and NYS Banking Department		418,128		155,423
Provision for Loan Loss Reserves		482,211		-
Other		1,884,230		2,017,230
Total Non-Interest Expense		9,830,818		8,825,002
Income Before Income Taxes		29,816,865		26,114,133
Income Tax Expense		5,632,643		4,850,561
NET INCOME	$	24,184,222	$	21,263,572
NET INCOME PER SHARE OF COMMON STOCK	$	97	$	85
SHARES OUTSTANDING		250,000		250,000

See Accompanying Notes to Consolidated Financial Statements

BANK OF UTICA AND SUBSIDIARY

UTICA, NEW YORK

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31,

		Voting Common Stock		Non-Voting Common Stock		Capital Surplus		Retained Earnings		Total Shareholders' Equity
Balance at December 31, 2018	$	1,000,000		4,000,000		193,600,000		25,372,887	$	223,972,887
Net Income		-		-		-		21,263,572		21,263,572
Dividends Declared		-		-		-		(3,812,500)		(3,812,500)
Transfer		-		-		15,300,000		(15,300,000)		-
Balance at December 31, 2019		1,000,000		4,000,000		208,900,000		27,523,959		241,423,959
Net Income		-		-		-		24,184,222		24,184,222
Dividends Declared		-		-		-		(4,000,000)		(4,000,000)
Transfer		-		-		2,260,000		(2,260,000)		
Balance at December 31, 2020	$	1,000,000	$	4,000,000	$	211,160,000	$	45,448,181	$	261,608,181

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31,

		2020		2019
Cash Flows from Operating Activities:				
Net Income	$	24,184,222	$	21,263,572
Adjustments to Reconcile Net Income to				
Net Cash Provided by Operating Activities				
Depreciation and Amortization		1,558,625		1,565,192
Deferred Income Tax (Benefit)		3,058,125		3,431,051
Investment Securities Amortization - Net		4,295,907		4,771,904
Impairment of Securities		117,000		-
Realized (Gain) Loss on Investment Securities		(1,940,115)		(1,141,793)
Unrealized (Gain) Loss on Investment Securities		(14,124,697)		(15,051,445)
Donation of Available for Sale Securities		1,037,275		1,114,120
(Increase) Decrease in Assets:				
Accrued Interest Receivable and Other Assets		(2,761,945)		303,976
Increase (Decrease) in Liabilities:				
Accrued Interest Payable and Other Liabilities		332,534		297,333
NET CASH FROM OPERATING ACTIVITES		15,756,931		16,553,910
Cash Flows from Investing Activities:				
Proceeds from Redemptions, Principal Payments,				
Maturities and Sales of Securities Held to Maturity		230,081,751		188,465,068
Purchase of Securities Held to Maturity		(350,271,367)		(252,405,109)
Purchase of Available for Sale Securities		(27,382,164)		-
Proceeds from Sales of Available for Sale Securities		7,467		54,145
Increase in Loans - Net		(31,794,881)		(14,417,761)
Purchases of Property and Equipment		(198,137)		(617,616)
NET CASH USED BY INVESTING ACTIVITES		(179,557,331)		(78,921,273)
Cash Flows from Financing Activities:				
Increase in Deposits - Net		177,455,478		50,464,603
Dividends Paid		(4,000,000)		(3,750,000)
NET CASH FROM FINANCING ACTIVITES		173,455,478		46,714,603
NET INCREASE (DECREASE) IN CASH		9,655,078		(15,652,760)
Cash Balance - January 1		17,606,529		33,259,289
Cash Balance - December 31	$	27,261,607	$	17,606,529
Supplemental Disclosures:				
Cash Paid for Interest	$	14,727,965	$	14,610,585
Cash Paid for Taxes	$	1,951,802	$	67,093
Non Cash Financing Activities				
Dividends Declared and Payable	$	2,062,500	$	1,937,500

See Accompanying Notes to Consolidated Financial Statements

NOTE 1 – Summary of Significant Accounting Policies:

A. Principals of Consolidation and Nature of Operations – The accompanying consolidated financial statements include the accounts of the Bank of Utica and Bank of Utica Investment Subsidiary, Ltd., its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

The Bank of Utica (the "Bank") is a privately held full service commercial Bank and accepts deposits, and generates loans primarily in the Utica, New York region, and invests in securities.

B. Basis of Accounting – The accompanying consolidated financial statements have been prepared in all material respects in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and practices within the Banking industry.

C. Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the fair value of financial instruments, and other-than-temporary impairments of securities.

D. Cash and Cash Equivalents – For the purposes of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and due from banks. Cash and cash equivalents have original maturities of three months or less, and accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value.

E. Investment Securities – Investments in securities are designated as available for sale or held-to-maturity, depending on the nature, and the intent and ability to hold the securities. The initial designation is made at the time of purchase. Available for sale are equity securities and the Bank did not hold a trading securities portfolio as of December 31, 2020 and 2019.

ASU 2016-01 affects all entities that hold financial assets or owe financial liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial statements. For commercial banks, the new guidance primarily affected the measurement of available for sale investments that are at fair value. Changes in fair value are recognized in net income rather than through other comprehensive income as in prior practice. Debt securities that management has both the intent and ability to hold to maturity are carried at amortized cost, adjusted for amortization of premium and accretion of discount computed by the average yield method over their contractual lives.

Management conducts periodic evaluations of securities held-to-maturity to determine if the amortized cost basis of a security has been other-than-temporarily impaired. These evaluations of other than temporary impairment (OTTI) consider numerous factors and their relative significance will vary from case to case. The evaluations consider all attributes of a particular security. Debt

NOTE 1 – Summary of Significant Accounting Policies (continued):

securities are deemed to be OTTI if (1) management has the intent to sell the security at a loss, (2) it is more likely than not it will have to sell the security before recovery of its amortized cost, (3) a credit loss has been incurred, or (4) there is a probability that a credit loss will be incurred. Credit loss is measured by reference to the present value of expected cash flows discounted at the security's effective interest rate. If a debt security is deemed to be OTTI, the debt security is written down to fair value by a charge to non-interest income for the credit loss component with any other component of loss recognized through income (loss), net of tax.

Premiums (discounts) on debt securities are amortized (accreted) to income using the level yield method to the contractual maturity date adjusted for actual prepayment experience.

Realized gains and losses are determined using the specific identification method and are reported in noninterest income.

F. Loans Receivable – The Bank's loan balance is comprised of loans held in the portfolio, including commercial loans, consumer loans, and residential mortgage loans. Loans are reported at their outstanding principal balances adjusted for the allowance for loan losses. Interest income on all types of loans, except those classified as nonaccrual, is accrued based upon the outstanding principal amounts.

The accrual of interest on loans is discontinued after 90 days delinquent unless such loans are well secured and are in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Upon discontinuance of accrual of interest, all unpaid accrued interest is reversed. Subsequent receipts of interest are recorded as interest income on a cash basis unless collectability is in doubt, in which case cash payments are applied to principal. Loans may be returned to accrual status, if and when borrowers demonstrate the ability to repay a loan in accordance with the contractual terms.

G. Allowance for Loan Losses – The allowance for loan losses has been determined in accordance with U.S. GAAP, principally FASB ASC 450, "Contingencies", ("ASC 450") and FASB ASC 310, "Receivables", ("ASC 310"). Under the above accounting principles, management is required to maintain an allowance for probable losses at the balance sheet date. Management is responsible for the timely and periodic determination of the amount of the allowance required. Management believes that the allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in the portfolio for which certain losses are probable but not specifically identifiable.

The allowance is maintained at a level adequate to absorb losses that have occurred. Management determines the adequacy of the allowance based upon reviews of individual credits, recent loss experience, current economic conditions, the risk characteristics of the various segmentations of loans and other pertinent factors. Credits deemed uncollectible are charged against the allowance. Provisions for credit losses, if any, and recoveries on loans previously charged-off are added to the allowance.

The determination of the adequacy of the provision for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. The Bank's charge-off policy meets or is more stringent than regulatory minimums.

NOTE 1 – Summary of Significant Accounting Policies (continued):

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 local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated loan losses.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows or observable market price or collateral value less liquidation costs, for collateral dependent loans, of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical charge-off experience and expected loss derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Certain consumer, residential mortgage, and commercial loans whose terms have been modified in troubled debt restructurings ("TDR") are individually evaluated for impairment.

TDR's are loans in which the borrower is experiencing financial difficulty and the Bank has granted an economic concession to the borrower that it would not otherwise consider. When loans are modified under the terms of a TDR, the Bank typically offers the borrower an extension of the loan maturity date and a reduction in the original contractual interest rate.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief from Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings ("TDR") for a limited period of time to account for the effects of the COVID-19 pandemic. Additionally, on April 7, 2020, the banking agencies, including the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, issued a statement, "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus (Revised)" ("Interagency Statement"), to encourage banks to work prudently with borrowers and to describe the agencies' interpretation of how accounting rules under ASC 310-40, "Troubled Debt Restructurings by Creditors," apply to certain of the COVID-19 pandemic related modifications. Further, on August 3, 2020, the Federal Financial Institutions Examination Council issued a Joint Statement on Additional Loan Accommodations related to COVID-19, to provide prudent risk management and consumer protection principles for financial institutions to consider while working with borrowers as loans near the end of initial loan accommodation periods.

Under the CARES Act and related Interagency Statement, the Bank may temporarily suspend its delinquency and nonperforming treatment for certain loans that have been granted a payment accommodation that facilitates borrowers' ability to work through the immediate impact of the pandemic. Borrowers who were current prior to becoming affected by the COVID-19 pandemic, then receive payment accommodations as a result of the effects of the COVID-19 pandemic and if all payments are current in accordance with the revised terms of the loan, generally would not be reported as past due. The Bank has chosen to utilize this part of the CARES Act as it relates to delinquencies and nonperforming loans and will not report these loans as past due.

NOTE 1 – Summary of Significant Accounting Policies (continued):

Under Section 4013 of the CARES Act, modifications of loan terms do not automatically result in TDRs and the Bank generally does not need to categorize the COVID-19 pandemic related modifications as TDRs. The Bank may elect not to categorize loan modifications as TDRs if they are (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020. For all other loan modifications, the federal banking agencies have confirmed with staff of the Financial Accounting Standards Board ("FASB") that short-term modifications made on a good faith basis in response to the COVID-19 pandemic to borrowers who were current prior to any relief, are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Financial institutions accounting for eligible loans under Section 4013 are not required to apply ASC Subtopic 310-40 to the Section 4013 loans for the term of the loan modification. Financial institutions do not have to report Section 4013 loans as TDRs in regulatory reports. The Bank has chosen to utilize this section of the CARES Act and will not report the COVID-19 pandemic related modifications as TDRs.

H. Property and Equipment – Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed by the straight-line and accelerated methods.

Depreciation is charged to operations over the estimated useful lives of the assets. The estimated useful lives and methods of depreciation for the principal items are as follows:

Buildings and Improvements	10-40	Straight-Line
Furniture and Equipment	3-10	Straight-Line

Maintenance and repairs of premises and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of premises and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain, or loss is included in operations.

I. Profit Sharing Plan – Profit sharing costs are charged to employee benefits expense as accrued.

J. Postretirement Benefits – Postretirement health insurance benefits are charged to employee benefits expense when paid. Although not under contractual obligation, the Bank currently provides certain health care benefits to retired employees. At the option of the Bank, retirees may continue to receive certain health insurance benefits if they meet age and service requirements while working for the Bank. The health care plans can be contributory with participant contributions adjusted annually. The Bank reserves the right to amend or terminate any of the benefits at any time. The amounts paid for such benefits in 2020 and 2019 were $43,170 and $39,460, respectively.

NOTE 1 – Summary of Significant Accounting Policies (continued):

K. Income Taxes – There are two components of income tax expense: current and deferred. Current income tax expense (benefit) approximates cash to be paid (refunded) for income taxes for the applicable period. Deferred income tax expense (benefit) is determined by recognizing deferred tax assets and liabilities for the future tax consequences attributable to differences in the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The principal timing differences are the provision for loan losses, depreciation and amortization, and unrealized gain (loss) on available for sale securities.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The realization of deferred tax assets is assessed and a valuation allowance is recognized for that portion of the asset, if any, for which it is not more likely than not that the tax benefits will be realized. Management generally considers the character and timing of taxable temporary differences, tax planning strategies and the expectation of future taxable income of the appropriate character when evaluating the need for a valuation allowance.

When measuring the amount of current taxes to be paid (or refunded) management considers the merit of various tax treatments in the context of statutory, judicial and regulatory guidance. The Bank also considers the results of recent tax audits and historical experience. While management considers the amount of income taxes payable (or receivable) to be appropriate based on information currently available, future additions and reductions to such amounts may be necessary due to unanticipated events or changes in circumstances. Management has not taken, and does not expect to take, any position in a tax return which position it deems to be uncertain. The bank is no longer subject to U.S. Federal and State tax examinations by tax authorities for years prior to 2017.

Interest and penalties, if any, related to the underpayment of income taxes are recorded as a component of non-interest expense in the consolidated statements of income.

L. Net Income per Share of Common Stock – Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. The weighted average number of common shares, including voting and non-voting, was 250,000 for the years ended December 31, 2020 and 2019.

M. Off-Balance-Sheet Financial Instruments – In the ordinary course of business, the Bank has entered into off-balance-sheet financial commitments to extend credit, such as lines and letters of credit. Such financial commitments are recorded in the consolidated financial statements when these loans are made.

N. Reclassifications – Reclassifications are made to prior year's financial statements whenever necessary to conform to the current year's presentation.

O. Advertising Costs – Advertising costs are charged to non-interest expense in the statements of income when incurred. Advertising costs for 2020 and 2019 were $161,483 and $311,586, respectively.

NOTE 1 – Summary of Significant Accounting Policies (continued):

P. New Accounting Pronouncements - In June of 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 affects all entities that hold financial assets that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, and any other financial assets that have the contractual right to receive cash. For non-SEC public entities, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2022. For commercial banks, the new guidance will primarily affect the presentation of assets measured at amortized cost to be at the net amount expected to be collected. Allowance for credit losses valuation accounts will be established for assets measured at amortized cost, and available-for-sale debt securities. The Bank is evaluating the impact of the guidance on the Bank's consolidated financial statements.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles – Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU. For commercial banks, the new guidance primarily affects the accounting for non-interest income and sales of foreclosed assets. The Bank adopted ASU 2014-09 on January 1, 2019 with no material impact on the Bank's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments.*" This ASU reportedly is intended to reduce diversity in how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The Bank adopted ASU 2016-15 on January 1, 2019 with no material impact on the Bank's consolidated financial statements.

In March 2017, the FASB issued ASU 2017 07 "*Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.*" The ASU requires that an employer report the service cost component with other compensation cost arising from services rendered by the pertinent employees during the period. The amendment also requires the components of net benefit cost to be presented separately in the income statement from the service cost component and not within income from operations. The Bank adopted ASU 2017-07 on January 1, 2019 with no material impact on the Bank's consolidated financial statements.

In February 2018, the Financial Accounting Standards Board issued Accounting Standards Update 2018-02, "Income Statement –Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This amendment allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The Bank adopted ASU 2018-02 on January 1, 2019 with no material impact on the Bank's consolidated financial statements.

NOTE 1 – Summary of Significant Accounting Policies (continued):

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. The Bank adopted ASU 2018-13 on January 1, 2020 with no material impact on the Bank's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying and amending existing guidance. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption of the amendments is permitted, including adoption in any interim period for (1) public business entities for periods for which financial statements have not yet been issued and (2) all other entities for periods for which financial statements have not yet been made available for issuance. An entity that elects to early adopt the amendments in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Bank does not expect adoption of ASU 2019-12 to materially impact the Bank's consolidated financial statements.

Q. Risks and Uncertainties - We considered the impacts of the COVID-19 pandemic on our business, results of operations and financial condition. The COVID-19 pandemic has created economic and financial disruptions globally and has led governmental authorities to take unprecedented measures to mitigate the spread of the disease, including travel bans, border closings, business closures, quarantines, and shelter-in-place orders, and to take actions designed to stabilize markets and promote economic growth. From an operational perspective, our business has remained open and we do not have any plans to close our business operations. The extent of the impact of the pandemic on our business will depend largely on future developments, including the duration and spread of the outbreak, its severity and the actions taken to contain the disease or treat its impact. We continue to monitor the dynamic situation, including guidance and regulations issued by the U.S. and other governmental authorities. In light of the rapidly evolving nature of the COVID-19 outbreak, we are not able at this time to estimate the ultimate effect of the pandemic on our business, results of operations or financial condition in the future.

NOTE 2 – Restriction on Cash and Cash Equivalents:

The Bank is required at times to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. As of December 31, 2020 and 2019, the Bank was not required to maintain a reserve balance.

NOTE 3 – Investment Securities:

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

	December 31, 2020			
Securities Being Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State & Municipal Debt Securities	$ 137,598,771	$ 4,276,980	$ 84,363	$ 141,791,388
Mortgage Backed Securities	124,728	12,430		137,158
Other Domestic & Foreign Debt Securities	900,445,431	41,108,715	248,864	941,305,282
Total Held to Maturity	$ 1,038,168,930	$ 45,398,125	$ 333,227	$ 1,083,233,828
Available for Sale Securities	$ 54,902,502	$ 72,602,786	$ 429,601	$ 127,075,687

	December 31, 2019			
Securities Being Held to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State & Municipal Debt Securities	$ 132,072,723	$ 3,083,576	$ 3,809	$ 135,152,490
Mortgage Backed Securities	186,247	12,682	-	198,929
Other Domestic & Foreign Debt Securities	788,315,690	13,509,583	314,499	801,510,774
Total Held to Maturity	$ 920,574,660	$ 16,605,841	$ 318,308	$ 936,862,193
Available for Sale Securities	$ 28,442,527	$ 58,163,790	$ 115,302	$ 86,491,015

Securities carried at approximately $280,040,115 on December 31, 2020 and $234,434,568 at December 31, 2019, were pledged to secure public deposits and for other purposes required or permitted by law.

NOTE 3 – Investment Securities (continued):

The following summarizes the amortized cost and fair value of securities held-to-maturity by contractual maturity at December 31, 2020. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Due:	Amortized Cost	Fair Value
Within One Year	$ 167,697,912	$ 169,178,486
From One to Five Years	641,052,879	675,211,814
From Five to Ten Years	203,432,324	212,747,380
After Ten Years	25,985,815	26,096,148
	$ 1,038,168,930	$ 1,083,233,828

As held-to-maturity securities, the difference between amortized cost and fair value is not expected to be realized because of the Bank's ability and intent to hold these securities until due.

During 2019, the Bank sold held-to-maturity securities with a book value of $1,318,260 for $1,254,500, resulting in losses of $(63,760). These sales were the result of isolated circumstances involving deterioration in the issuer's creditworthiness, and as such are permitted under FASB guidance. The sales were not inconsistent with their original classification of held to maturity. During 2020, the Bank did not sell any held-to-maturity securities.

Gross realized gains and losses on sales of available for sale securities, held to maturity securities and optional calls of held to maturity securities are summarized as follows:

	December 31,	
	2020	2019
Realized Gains	$ 2,231,815	$ 1,243,339
Realized Losses	(291,700)	(101,546)
	$ 1,940,115	$ 1,141,793

NOTE 3 – Investment Securities (continued):

The following summarizes the fair value and gross unrealized losses for those available for sale securities which are temporarily impaired. The Bank owned 8 and 1 individual securities that have been in a continuous unrealized loss position for less than twelve months as of December 31, 2020 and 2019, respectively. The Bank owned 2 individual securities that have been in a continuous unrealized loss position for twelve months or longer at both December 31, 2020 and 2019.

	December 31, 2020					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale Securities	$ 4,097,174	$ (324,455)	$ 345,600	$ (105,146)	$ 4,442,774	$ (429,601)

	December 31, 2019					
	Less Than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale Securities	$ 52,110	$ (5,408)	$ 446,250	$ (109,894)	$ 498,360	$ (115,302)

The following summarizes the fair value and unrealized losses for those held to maturity securities which are temporarily impaired. The Bank owned 25 and 27 individual securities that have been in continuous unrealized loss position for less than twelve months and 0 and 44 individual securities that have been in a continuous unrealized loss position for twelve months or longer as of December 31, 2020 and 2019, respectively.

	December 31, 2020								
	Less Than Twelve Months			Twelve Months or Longer			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
Mortgage Backed	$ 374	$ 374	$ -	$ -	$ -	$ -	$ 374	$ 374	$ -
Municipal Securities	11,686,660	11,602,297	(84,363)	-	-	-	11,686,660	11,602,297	(84,363)
Corporate Bonds	25,018,327	24,769,463	(248,864)	-	-	-	25,018,327	24,769,463	(248,864)
	$ 36,705,361	$36,372,134	$ (333,227)	$ -	$ -	$ -	$ 36,705,361	$ 36,372,134	$ (333,227)

	December 31, 2019								
	Less Than Twelve Months			Twelve Months or Longer			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
Mortgage Backed	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Municipal Securities	-	-	-	2,915,511	2,911,702	(3,809)	2,915,511	2,911,702	(3,809)
Corporate Bonds	45,309,538	45,143,356	(166,182)	70,951,353	70,803,036	(148,317)	116,260,891	115,946,392	(314,499)
	$ 45,309,538	$45,143,356	$ (166,182)	$ 73,866,864	$73,714,738	$ (152,126)	$ 119,176,402	$ 118,858,094	$ (318,308)

NOTE 3 – Investment Securities (continued):

The temporary impairment of securities held-to-maturity is primarily attributable to changes in overall market interest rates and/or changes in credit spreads since the investments were acquired. In general, as market interest rates rise and/or credit spreads widen, the fair value of fixed rate securities will decrease, and as market interest rates fall and/or credit spreads tighten, the fair value of fixed rate securities will increase. As of December 31, 2020, the Bank has the ability and intent to hold these securities to maturity or until such time as they are called or prepaid. As of December 31, 2020, management expects to collect all amounts due according to the contractual terms of these securities and does not believe that there are any cases of unrecorded OTTI as of December 31, 2020.

During 2020, the Bank recognized $232,314 of other-than-temporary impairment losses (charged against income) related to available for sale securities, there were no such occurrences in 2019 .

NOTE 4 – Loans Receivable and Allowance for Loan Losses:

The components of loans in the consolidated statements of financial condition were as follows:

	2020	2019
Commercial Loans	$ 34,415,569	$ 41,875,007
Commercial Real Estate Loans	46,965,179	35,863,674
Residential Real Estate Loans	1,766,768	1,967,498
Consumer Loans	4,728,041	4,658,230
Government Guaranteed Loans (1)	33,759,034	4,746,958
Overdrafts	84,731	449,973
	$ 121,719,322	$ 89,561,340

(1) As of December 31, 2020, Government Guaranteed Loans include $15,335,131 of Paycheck Protection Program (PPP) Loans

During 2020, the Bank had received U.S. Small Business Administration ("SBA") approval for over 188 PPP applications of which it made 184 loans totaling $26,844,097. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances and are 100% guaranteed by the SBA. PPP loans have either a two-year or five-year term, provide for fees of up to 5% of the loan amount and earn interest at an annual rate of 1%. As of December 31, 2020, $15,335,131 of loans under this program were included in receivables.

The Bank evaluates the credit quality of its loan portfolio based on internal credit risk ratings using numerous factors, including rating agency information, collateral, collection experience, and other internal metrics. Ratings are updated at least annually or more frequently if there is a material change in creditworthiness.

The rating classifications in use by the Bank are as follows:

Pass – Primary source of loan repayment is satisfactory or better, with secondary sources very likely to be realized if necessary; loan within normal credit standards.

Special Mention – An asset classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

NOTE 4 – Loans Receivable and Allowance for Loan Losses (continued):

Substandard – A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – An asset classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – An asset classified loss is considered uncollectable and of such little value that continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing-off this basically worthless asset even though partial recovery may be affected in the future.

The following table sets forth the loans by credit quality indicator:

	December 31, 2020						
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Government Guaranteed	Overdrafts	Total
Credit Rating:							
Pass	$ 33,846,205	$ 45,501,006	$ 1,766,768	$ 4,728,041	$ 33,759,034	$ 84,731	$119,685,785
Special Mention	-	-	-	-	-	-	-
Substandard	569,364	1,464,173	-	-	-	-	2,033,537
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
	$ 34,415,569	$ 46,965,179	$ 1,766,768	$ 4,728,041	$ 33,759,034	$ 84,731	$121,719,322

	December 31, 2019						
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Government Guaranteed	Overdrafts	Total
Credit Rating:							
Pass	$ 41,305,434	$ 34,388,101	$ 1,967,498	$ 4,658,230	$ 4,746,958	$ 449,973	$ 87,516,194
Special Mention	-	-	-	-	-	-	-
Substandard	569,573	1,475,573	-	-	-	-	2,045,146
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
	$ 41,875,007	$ 35,863,674	$ 1,967,498	$ 4,658,230	$ 4,746,958	$ 449,973	$ 89,561,340

NOTE 4 – Loans Receivable and Allowance for Loan Losses (continued):

The Bank tracks loan payment activity for the loan portfolio. The payment status for the loan portfolio at December 31, 2020 and 2019 is shown in the table below:

	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Commercial Loans	$ -	$ 504,904	$ 504,904	$ 33,910,665	$ 34,415,569
Commercial Real Estate Loans	-	644,661	644,661	46,320,518	46,965,179
Residential Real Estate Loans	40,580	-	40,580	1,726,188	1,766,768
Consumer Loans	1,453	-	1,453	4,726,588	4,728,041
Government Guaranteed Loans	-	-	-	33,759,034	33,759,034
Overdrafts	1,045	5,416	6,461	78,270	84,731
	$ 43,078	$ 1,154,981	$ 1,198,059	$ 120,521,263	$ 121,719,322

	December 31, 2019				
	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Commercial Loans	$ 226,960	$ 298,904	$ 525,864	$ 41,349,143	$ 41,875,007
Commercial Real Estate Loans	-	684,870	684,870	35,178,804	35,863,674
Residential Real Estate Loans	162,588	-	162,588	1,804,910	1,967,498
Consumer Loans	20,068	800	20,868	4,637,362	4,658,230
Government Guaranteed Loans	-	-	-	4,746,958	4,746,958
Overdrafts	219,806	152,498	372,304	77,669	449,973
	$ 629,422	$ 1,137,072	$ 1,766,494	$ 87,794,846	$ 89,561,340

Performing and non-performing assets are shown in the following table:

	December 31, 2020		December 31, 2019	
	Accrual	Non-Accrual	Accrual	Non-Accrual
Commercial Loans	$ 33,910,665	$ 504,904	$ 41,370,102	$ 504,905
Commercial Real Estate Loans	46,320,518	644,661	35,178,804	684,870
Residential Real Estate Loans	1,766,768	-	1,967,498	-
Consumer Loans	4,728,041	-	4,657,430	800
Government Guaranteed Loans	33,759,034	-	4,746,958	-
Overdrafts	84,731	-	449,973	-
	$ 120,569,757	$ 1,149,565	$ 88,370,765	$ 1,190,575

NOTE 4 – Loans Receivable and Allowance for Loan Losses (continued):

A loan is considered impaired when it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Certain Commercial and Residential loans and those loans whose terms have been modified in a TDR are individually evaluated for impairment. Smaller balance homogenous loans are collectively evaluated for impairment.

	As of December 31, 2020			Year Ended December 31, 2020		
	Unpaid Principal Balance	Allowance Recorded	Average Recorded Loan	Interest Income Recognized Total	Interest Income Recognized Cash Basis	Interest Income Foregone
Impaired Loans With No Related Allowance Recorded:						
Commercial & Commercial Real Estate	$ 2,053,171	$ -	$ 2,072,747	$ 71,696	$ 72,574	$ 29,550
Residential	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
	2,053,171	-	2,072,747	71,696	72,574	29,550
Impaired Loans With An Allowance Recorded:						
Commercial & Commercial Real Estate	986,074	255,087	1,002,764	13,888	17,774	36,391
Residential	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
	986,074	255,087	1,002,764	13,888	17,774	36,391
Total Impaired Loans	$ 3,039,245	$ 255,087	$ 3,075,511	$ 85,584	$ 90,348	$ 65,941

	As of December 31, 2019			Year Ended December 31, 2019		
	Unpaid Principal Balance	Allowance Recorded	Average Recorded Loan	Interest Income Recognized Total	Interest Income Recognized Cash Basis	Interest Income Foregone
Impaired Loans With No Related Allowance Recorded:						
Commercial & Commercial Real Estate	$ 2,598,142	$ -	$ 2,950,032	$ 100,713	$ 110,560	$ 115,091
Residential	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
	2,598,142	-	2,950,032	100,713	110,560	115,091
Impaired Loans With An Allowance Recorded:						
Commercial & Commercial Real Estate	517,301	19,813	533,322	18,925	18,974	-
Residential	-	-	-	-	-	-
Overdrafts	-	-	-	-	-	-
	517,301	19,813	533,322	18,925	18,974	-
Total Impaired Loans	$ 3,115,443	$ 19,813	$ 3,483,354	$ 119,638	$ 129,534	$ 115,091

NOTE 4 – Loans Receivable and Allowance for Loan Losses (continued):

During the normal course of business, the Bank modifies loans to maximize recovery efforts. If the borrower is experiencing financial difficulty and a concession is granted, the Bank considers such modifications as troubled debt restructuring (TDR's). The types of concessions that the Bank grants typically include forgiveness of principal and interest rate concessions.

The following table summarizes the Bank's loan modification activities that were considered to be troubled debt restructurings during the year ended December 31, 2019:

Loan Type	Number	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Commercial & Commercial Real Estate	6	$ 1,149,565	$ 1,149,565

The Bank had no loan modification activities that were considered troubled debt restructurings for the year ended December 31, 2020.

As of December 31, 2020 and 2019, the Bank had commercial loans of $3,039,245 and $3,115,443 that were considered TDR's with recorded allowances of $255,087 and $19,813, respectively.

The Bank does not have a significant concentration of risk to any individual client. However, a geographic concentration arises because the Bank operates primarily in the Central New York region. The Bank does not engage in any international banking activities.

In its normal course of business, the Bank does not offer interest only loans, other than demand notes typically secured by quick collateral, or loans with other features that may increase the Bank's exposure to credit risk and result in a concentration of credit risk.

The allowance for loan losses is composed of specific allowances for certain loans and general allowances grouped into loan pools based on similar characteristics. The allowance for loan losses is allocated at year end based on the ALLL Reserve Adequacy Report of required reserves. Additionally, the Bank does not record an allowance for loans that are guaranteed by government agencies, as there is nominal risk of principal loss.

An analysis of the change in the allowance for credit losses follows:

	December 31, 2020			
	Commercial & Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 1,263,154	$ -	$ 27,575	$ 1,290,729
ALLL Allocation	(175,088)	171,882	3,206	-
Charge-Offs	(900)	(126,828)	(14,248)	(141,976)
Provision for Loss Reserves	482,211	-	-	482,211
Recoveries	15,000	-	7,866	22,866
Ending Balance	$ 1,584,377	$ 45,054	$ 24,399	$ 1,653,830

NOTE 4 – Loans Receivable and Allowance for Loan Losses (continued):

	December 31, 2019			
	Commercial & Commercial Real Estate	Residential	Consumer	Total
Beginning Balance	$ 1,769,324	$ 16,024	$ 19,436	$ 1,804,784
ALLL Allocation	(18,361)	(16,024)	34,385	-
Charge-Offs	(500,909)	-	(28,621)	(529,530)
Provision for Loss Reserves	-	-	-	-
Recoveries	13,100	-	2,375	15,475
Ending Balance	$ 1,263,154	$ -	$ 27,575	$ 1,290,729

The Bank's loan portfolio and related allowance for loan losses at December 31, 2020 and 2019 are shown in the tables below:

	December 31, 2020							
	Commercial & Commercial Real Estate		Residential		Consumer		Total	
	Book Value	Allowance	Book Value	Allowance	Book Value	Allowance	Book Value	Allowance
Loans individually evaluated for impairment	$ 5,039,245	$ 255,087	$ -	$ -	$ -	$ -	$ 5,039,245	$ 255,087
Loans collectively evaluated for impairment	76,426,234	1,329,290	1,766,768	45,054	4,728,641	24,399	82,921,643	1,398,743
Total loans evaluated for impairment	$ 81,465,479	$ 1,584,377	$ 1,766,768	$ 45,054	$ 4,728,641	$ 24,399	$ 87,960,888	$ 1,653,830

	December 31, 2019							
	Commercial & Commercial Real Estate		Residential		Consumer		Total	
	Book Value	Allowance	Book Value	Allowance	Book Value	Allowance	Book Value	Allowance
Loans individually evaluated for impairment	$ 3,115,443	$ 19,813	$	$ -	$ -	$ -	$ 3,115,443	$ 19,813
Loans collectively evaluated for impairment	75,073,209	1,243,341	1,967,498	-	4,658,231	27,575	81,698,938	1,270,916
Total loans evaluated for impairment	$ 78,188,652	$ 1,263,154	$ 1,967,498	$ -	$ 4,658,231	$ 27,575	$ 84,814,381	$ 1,290,729

NOTE 5 – Property and Equipment:

Components of premises and equipment included in the consolidated statements of financial condition at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Cost:		
Land	$ 79,541	$ 79,541
Bank Building & Improvements	25,074,744	25,074,744
Furniture & Equipment	4,680,345	4,482,209
Total Cost	29,834,630	29,636,494
Less Accumulated Depreciation	10,294,310	8,735,687
Net Book Value	$ 19,540,320	$ 20,900,807

Depreciation and amortization charged to equipment and occupancy expense amounted to $1,558,625 in 2020 and $1,565,192 in 2019.

NOTE 6 – Deposits:

Components of deposits included in the consolidated statements of financial condition at December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Demand Deposit Accounts	$ 191,034,643	$ 152,331,569
Savings & Other Time	135,608,743	92,112,008
Money Market	238,341,641	184,705,571
Certificates of Deposit of Under $250,000	392,729,308	381,899,206
Certificates of Deposit of $250,000 and Over	105,663,556	74,874,059
Total Deposits	$ 1,063,377,891	$ 885,922,413

Certificates of deposit maturing in years ending December 31:

	$ 215,034,853
2021	88,723,141
2022	81,865,932
2023	89,715,214
2024	23,053,724
2025	$ 498,392,864

NOTE 6 – Deposits (continued):

Interest expense by deposit type is as follows:

	December 31, 2020	December 31, 2019
Demand Deposit Accounts	$ 137,368	$ 455,969
Savings & Other Time	818,475	986,473
Money Market	1,336,900	1,878,761
Certificates of Deposit of Under $250,000	10,063,896	9,719,152
Certificates of Deposit of $250,000 and Over	2,371,326	1,922,256
Total Expense	$ 14,727,965	$ 14,962,611

NOTE 7 – Borrowed Funds:

At December 31, 2020 and 2019, borrowed funds consist of overnight borrowings from the Federal Reserve Bank Discount Window and are collateralized by a pledge of securities. The following table summarizes certain information regarding borrowed funds as of and for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
As of December 31:		
Carrying Value	$ -	$ -
Fair Value of Underlying Collateral	$ -	$ -
Weighted Average Stated Interest Rate	0.25%	2.38%
During the Year Ended December 31:		
Average Balance During the Year	$ 15,600	$ 27,000
Maximum Month-End Balance During the Year	$ -	$ -
Interest Expense	$ 39	$ 645

As of December 31, 2020 and 2019, there were no assets and associated liabilities related to transfers of financial assets accounted for as secured borrowings.

NOTE 8 – Income Taxes:

The provision for income taxes consisted of the following:

	December 31, 2020	December 31, 2019
Current		
Federal	$ 2,610,901	$ 1,314,989
State	188,623	104,521
	2,799,524	1,419,510
Deferred		
Federal	2,656,103	3,246,576
State	177,016	184,475
	2,833,119	3,431,051
	$ 5,632,643	$ 4,850,561

The provision for income taxes is less than that computed by applying the federal statutory rate of 21%, as indicated in the following analysis:

	December 31, 2020	December 31, 2019
Taxes Based on Statutory Rate	$ 6,261,542	$ 5,483,968
State Income Tax, Net of Tax Benefit	273,820	245,104
Effect of Tax-Exempt Income	(475,076)	(497,925)
Dividends Received Deduction	(305,844)	(234,807)
Effect of Federal & State Tax Law Changes	86,834	35,334
Other	(208,633)	(181,113)
	$ 5,632,643	$ 4,850,561

NOTE 8 – Income Taxes (continued):

The net cumulative effects of the temporary differences are as follows:

	December 31, 2020	December 31, 2019
Deferred Tax Assets		
Allowance for Loan Losses	$ 364,028	$ 283,939
Interest on Nonaccrual Loans	25,411	8,847
	389,439	292,786
Deferred Tax Liabilities		
Net Unrealized Gain on Securities Available for Sale	15,835,038	12,769,720
Depreciation and Amortization	843,916	754,456
	16,678,954	13,524,176
Net Deferred Tax (Liabilities)	$ (16,289,515)	$ (13,231,390)

The Bank has performed an evaluation of its tax positions and has concluded that as of December 31, 2020, there were no significant uncertain tax positions requiring additional recognition in its consolidated financial statements.

The Bank is subject to regular examination by Federal and State taxing authorities. As of December 31, 2020, the tax years ended December 31, 2017, 2018, 2019 and 2020 remain subject to examination by all of the Bank's relevant tax jurisdictions.

NOTE 9 – Employee Benefits:

The Bank has a cash profit sharing and defined contribution pension plan in effect for substantially all full-time employees. These expenses totaled $691,082 in 2020 and $586,712 in 2019, and are included within salaries and employee benefits. Contributions are made annually at the discretion of the Board of Directors.

NOTE 10 – Related Parties:

The Bank has entered into transactions and commitments to extend credit with its directors, officers, and their affiliations, including companies under their control. Such transactions were made in the ordinary course of business, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans and commitments to such related parties at December 31, 2020 and 2019 was approximately $480,058 and $357,000, and related party deposits amounted to approximately $7,944,051 and $6,982,000, respectively.

NOTE 11 – Contingent Liabilities and Commitments:

The Bank's consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. A summary of the Bank's commitments and contingent liabilities at December 31, 2020 and 2019, is as follows:

	2020	2019
Commitments to Extend Credit (Commercial)	$ 48,670,000	$ 40,483,000
Open Letters of Credit	$ 1,209,000	$ 6,413,000
Unused Check Credit Lines	$ 2,072,000	$ 2,093,000

The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extension of credit that are recorded on the statement of condition. The commitments to extend credit are non-contractual in nature. Because letters of credit have fixed maturity dates, and they almost always expire without being drawn upon, they do not generally present any significant liquidity risk to the Bank.

As of December 31, 2020 and 2019, the Bank had no reserves related to credit risk inherent in off balance sheet credit commitments and financial guarantees.

The Bank can often be party to litigation and claims arising in the normal course of business. Management, after consultation with legal counsel, believes at December 31, 2020 and 2019 that the liabilities, if any, arising from such litigation and claims will not be material to its financial position.

NOTE 12 – Concentrations of Credit Risk:

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. Although the Bank's portfolio of financial instruments is broadly diversified along industry, product, and geographic lines, material transactions are completed with other financial institutions, particularly in the securities business.

In connection with the Bank's efforts to maintain a diversified portfolio, the Bank limits its exposure to any one geographic region, country or individual creditor and monitors this exposure on a continuous basis. The consolidated Bank's investment policy includes segment limits that prescribe the maximum investment in each market segment based on a percentage of Bank assets or capital. At December 31, 2020, the Bank's most significant concentration of credit risk was with United States and foreign corporations. The Bank's exposure, which primarily results from debt securities issued by United States and foreign corporations, amounted to approximately $900,445,000 and $788,316,000 at December 31, 2020 and 2019, respectively. All debt securities are rated investment grade at the time of acquisition and the Bank was well below the maximum percentage allowed by bank policy for investments in United States and foreign corporate debt as of December 31, 2020 and 2019.

NOTE 13 – Fair Value of Financial Instruments:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy established under ASC 820-10 is summarized as follows:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 - Significant other observable inputs such as any of the following: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in markets that are not active, (3) inputs other than quoted prices that are observable for the asset or liability (*e.g.*, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates), or (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Level 3 - Significant unobservable inputs for the asset or liability. Significant unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Significant unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following tables present the assets that are reported on the consolidated statements of financial condition at fair value as of the date indicated by level within the fair value hierarchy. Financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2020

	Fair Value	Level 1	Level 2	Level 3
Available for Sale Securities	$ 127,075,687	$ 127,059,817	$ 15,870	$ -

Assets Measured at Fair Value on a Recurring Basis at December 31, 2019

	Fair Value	Level 1	Level 2	Level 3
Available for Sale Securities	$ 86,491,015	$ 86,475,145	$ 15,870	$ -

During the years ended December 31, 2020 and 2019, there were no transfers of financial instruments between Level 1 and Level 2. The Bank had no Level 3 securities measured on a recurring basis as of December 31, 2020 and 2019.

NOTE 13 – Fair Value of Financial Instruments (continued):

Assets Measured at Fair Value on a Non-Recurring Basis at December 31, 2020

	Fair Value	Level 1	Level 2	Level 3
Impaired Loans				
Commercial & Commercial Real Estate	$ 2,784,158	$ -	$ -	$ 2,784,158
Residential Real Estate	$ -	$ -	$ -	$ -

Assets Measured at Fair Value on a Non- Recurring Basis at December 31, 2019

	Fair Value	Level 1	Level 2	Level 3
Impaired Loans				
Commercial & Commercial Real Estate	$ 3,095,630	$ -	$ -	$ 3,095,630
Residential Real Estate	$ -	$ -	$ -	$ -

Impaired Loans - Loans with certain characteristics are evaluated individually for impairment. A loan is considered impaired when, based upon existing information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. The Bank's impaired loans at December 31, 2020 and 2019 were collateralized by real estate and were thus carried at the lower of the outstanding principal balance or the estimated fair value of the collateral. Fair value is estimated through either a negotiated note sale value (Level 2 input), or, more commonly, a recent real estate appraisal (Level 3 input). These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

An appraisal is generally ordered when an impaired commercial real estate or residential real estate loan is determined to be impaired. Adjustments for potential disposal costs are also considered when determining the final appraised value.

The following table presents quantitative information about significant unobservable inputs used in the fair value measurements for Level 3 assets and liabilities at December 31, 2020:

	Fair Value at December 31, 2020	Valuation Technique	Input/ Assumption
Non-Recurring Fair Value Measurements Impaired Loans	$ 2,784,158	Underlying Collateral	Probability of Default Discount

NOTE 13 – Fair Value of Financial Instruments (continued):

The carrying amounts and estimated at fair values of financial instruments at December 31, 2020 and 2019 are as follows:

	December 31,			
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and Equivalents	$ 27,261,607	$ 27,261,607	$ 17,606,529	$ 17,606,529
Securities Held to Maturity	$ 1,038,168,930	$ 1,083,233,828	$ 920,574,660	$ 936,862,193
Securities Available for Sale	$ 127,075,687	$ 127,075,687	$ 86,491,015	$ 86,491,015
Loans Receivable	$ 121,719,322	$ 114,830,823	$ 89,561,340	$ 83,406,662
Accrued Interest Receivable	$ 10,154,976	$ 10,154,976	$ 8,570,817	$ 8,570,817
Financial Liabilities:				
Deposits	$ 1,063,377,891	$ 1,054,066,741	$ 885,922,413	$ 861,803,777
Accrued Interest Payable	$ 1,070,480	$ 1,070,480	$ 1,171,039	$ 1,171,039
Commitments to Extend Credit	$ 51,951,000	$ 51,951,000	$ 48,989,000	$ 48,989,000

The methods and assumptions used to estimate fair values for financial assets and liabilities other than those previously discussed were determined as follows:

Cash and equivalents, accrued interest receivable and accrued interest payable – due to the short-term nature of these assets and liabilities the Bank estimated that carrying value approximates fair value.

Securities held-to-maturity and available for sale securities – investment securities fair values were based on quoted market prices and significant other observable inputs, such as interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates.

Loans receivable – the estimated fair value for fixed rate loans is determined by discounting the estimated cash flows using the current rate at which similar loans would be made to borrowers with similar credit ratings and maturities. The estimated fair value of variable rate loans approximate carrying value as the portfolio reprices frequently.

Deposits – the estimated fair value of demand deposit, savings and money market accounts is, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amount). The fair value of certificates of deposits is estimated using a discounted cash flow calculation that applies current interest rates to aggregated expected maturities.

Borrowed funds – estimated fair value is based on carrying value because of the short-term nature of the borrowing.

NOTE 13 – Fair Value of Financial Instruments (continued):

Commitments to extend credit – The fair value of commitments to extend credit is estimated as the fully refundable fees charged as of the valuation date to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current interest rates and the committed rates.

NOTE 14 – Minimum Regulatory Capital Requirements:

On September 17, 2019, the federal banking agencies issued a final rule providing simplified capital requirements for certain community banking organizations (banks and holding companies) with less than $10 billion in total consolidated assets, implementing provisions of The Economic Growth, Regulatory Relief, and Consumer Protection Act ("EGRRCPA"). Under the proposal, a qualifying community banking organization would be eligible to elect the community bank leverage ratio framework or continue to measure capital under the existing Basel III requirements. The new rule was effective beginning January 1, 2020, and qualifying community banking organizations may elect to opt into the new community bank leverage ratio ("CBLR") in their call report beginning in the first quarter of 2020.

A qualifying community banking organization ("QCBO") is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- A leverage capital ratio of greater than 9.0%;
- Total consolidated assets of less than $10.0 billion;
- Total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25% or less of total consolidated assets; and
- Total trading assets and trading liabilities of 5% or less of total consolidated assets.

On April 6, 2020, the federal banking regulators, implementing the applicable provisions of the CARES Act, which modified the CBLR framework so that: (i) beginning in the second quarter 2020 and until the end of the year, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022, before the CBLR requirement is re-established at greater than 9%. Under the interim rules, the minimum CBLR will be 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The numerator of the CBLR is Tier 1 capital, as calculated under present rules. The denominator of the CBLR is the QCBO's average assets, calculated in accordance with the QCBO's Call Report instructions less assets deducted from Tier 1 capital.

The Bank has opted into the CBLR and will therefore not be required to comply with the Basel III capital requirements. As of December 31, 2020, the Bank's CBLR was 19.4%.

NOTE 14 – Minimum Regulatory Capital Requirements (continued):

The following table shows the CBLR ratio for the Bank for the period ended December 31, 2020, and the capital ratios for the Bank under Basel III requirements December 31, 2019:

	Actual	Required for Capital Adequacy Purposes	To Be Well-Capitalized Under Prompt Corrective Action Regulations
At December 31, 2020:			
CBLR	19.4%	8.0%	8.0%
At December 31, 2019:			
Leverage ratio	21.1%	5.0%	4.0%
CET1	20.0%	6.5%	4.5%
Tier I risk-based capital ratio	20.0%	8.0%	6.0%
Total risk-based capital ratio	20.1%	10.0%	8.0%

NOTE 15 – Subsequent Events:

The Bank has evaluated its December 31, 2020 consolidated financial statements for subsequent events through February 1, 2021 the date the consolidated financial statements were available to be issued. The Bank is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.