Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This report is required by law: Section 5(c)(1) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)); section 10(b)(2) of the Home Owners' Loan Act (12 U.S.C. § 1467a(b)(2)); sections 102 (a)(1), 165, and 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. §§ 5311(a)(1), 5365, and 1850a(c)(1)); and sections 8(a) and 13(a) of the International Banking Act of 1978 (12 U.S.C. §§ 3106(a) and 3108(a)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Michael G. McAuliffe
Name of the Holding Company Director and Official

Chairman & CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter __*and*__ *individual consent to public release of all details in the report concerning that individual.*

Michael G. McAuliffe
Signature of Holding Company Director and Official

03/31/2023
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2022
Month / Day / Year

Reporter's Name, Street, and Mailing Address

Middlesex Bancorp, MHC
Legal Title of Holding Company

6 Main Street
(Mailing Address of the Holding Company) Street / P.O. Box

Natick	MA	
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Gina Mazzaro	VP/Financial Reporting Mgr
Name	Title

508-315-5313
Area Code / Phone Number / Extension

Area Code / FAX Number

gina.mazzaro@middlesexbank.com
E-mail Address

www.middlesexbank.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

For Federal Reserve Bank Use Only

RSSD ID ____________________

C.I. ____________

Report Item 1: Annual Report to Shareholders

For holding companies not registered with the SEC, **indicate status of Annual Report to Shareholders:**

☒ is included with the FR Y-6 report

☐ will be sent under separate cover

☐ is not prepared

Checklist

The checklist below is provided to assist the holding company in filing all the necessary responses and verifying changes from the prior year to the various report items. The completed checklist should be submitted with the report. Please see section A of the General Instructions for additional guidance.

Verification of Changes

All Reporters must respond to the following questions by checking the Yes or No box below, as appropriate.

Did the holding company have changes to any reportable FR Y-6 items (2a, 2b, 3, or 4) from the prior year?

☒ Yes ☐ No

If checked Yes, complete the remaining checklist for Report Items 2a, 2b, 3, and 4. For each Report Item, indicate whether there are changes from the prior year by checking Yes or No below. See section A of the General Instructions for additional information.

Report Item 2a: Organization Chart

☐ Yes ☒ No

If checked Yes, the Reporter must submit the organization chart as specified in Report Item 2.a instructions.

Report Item 2b: Domestic Branch Listing

☐ Yes ☒ No

If checked Yes, the Reporter must submit the domestic branch listing as specified in Report Item 2.b instructions.

Report Item 3: Securities Holders

☐ Yes ☒ No

If checked Yes, the Reporter must submit the information as specified in Report Item 3 instructions.

Report Item 4: Insiders

☒ Yes ☐ No

If checked Yes, the Reporter must submit the information as specified in Report Item 4 instructions.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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City | State | Zip Code

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Middlesex Bancorp, MHC and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

Table of Contents

Independent Auditor's Report

To the Board of Trustees of Middlesex Bancorp, MHC:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Middlesex Bancorp, MHC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of net income, comprehensive income (loss), changes in retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying 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 their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 3, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the 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 for a period of within one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 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.

Wolf & Company, P.C.

Boston, Massachusetts
March 3, 2023

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Balance Sheets

December 31, 2022 and 2021

(Dollars in Thousands)

Assets

	2022	2021
Cash and due from banks	$ 56,444	$ 34,546
Interest-bearing deposits	52,566	406,813
Total cash and cash equivalents	109,010	441,359
Investment securities available for sale, at fair value	2,093,317	2,319,682
Marketable equity securities, at fair value	50,454	72,099
Loans	3,638,164	3,091,852
Less allowance for loan losses	(33,084)	(32,822)
Loans, net	3,605,080	3,059,030
Stock in Federal Home Loan Bank of Boston, at cost	18,289	4,922
Banking premises and equipment, net	65,528	69,590
Accrued interest receivable	15,403	11,023
Cash surrender value of bank-owned life insurance	87,645	87,786
Deferred income tax asset, net	52,838	6,775
Goodwill	14,062	14,062
Prepaid pension expense	33,232	28,336
Other assets	56,034	48,584
	$ 6,200,892	$ 6,163,248

Liabilities and Retained Earnings

	2022	2021
Liabilities:		
Deposits	$ 5,093,242	$ 5,348,270
Short-term advances from Federal Home Loan Bank of Boston	375,000	-
Long-term advances from Federal Home Loan Bank of Boston	158	168
Repurchase agreements	44,430	45,348
Official checks outstanding	18,142	14,920
Accrued benefits payable	9,107	9,541
Escrow deposits of borrowers	8,580	8,129
Other liabilities	49,414	30,042
Total liabilities	5,598,073	5,456,418
Commitments and contingencies (Note 12)		
Retained earnings:		
Undistributed earnings	764,087	737,724
Accumulated other comprehensive loss	(161,268)	(30,894)
Total retained earnings	602,819	706,830
	$ 6,200,892	$ 6,163,248

See accompanying notes to consolidated financial statements.

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Statements of Net Income

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Interest and dividend income:		
Mortgage loans	$ 101,252	$ 88,038
Commercial loans	19,960	21,464
Consumer loans	5,388	4,309
Debt securities	33,408	20,698
Marketable equity securities	3,353	3,955
Other	1,466	582
Total interest and dividend income	164,827	139,046
Interest expense:		
Deposits	21,635	12,957
Advances from Federal Home Loan Bank of Boston	3,961	5
Repurchase agreements	166	20
Total interest expense	25,762	12,982
Net interest and dividend income	139,065	126,064
(Credit) provision for loan losses	-	(4,500)
Net interest and dividend income after (credit) provision for loan losses	139,065	130,564
Non-interest income:		
Deposit account fees	2,394	2,373
Gains on securities available for sale	16	277
(Loss) gain on marketable equity securities, net	(6,665)	(1,459)
Bank-owned life insurance	(141)	3,256
ATM/debit card income	7,198	7,170
Investment services	1,029	1,067
Interest rate swap fees	139	278
Other	2,554	4,377
Total non-interest income	6,524	17,339
Non-interest expense:		
Salaries and employee benefits	69,271	68,734
Occupancy and equipment	14,392	13,856
Advertising	2,849	1,826
Information technology	12,591	11,610
Postage and office supplies	848	744
FDIC/DIF insurance	1,853	1,786
Loan workout and other real estate owned	42	231
ATM/debit card expense	4,048	3,693
Contributions	1,311	1,269
Other operating expenses	4,459	4,627
Total non-interest expense	111,664	108,376
Income before income taxes	33,925	39,527
Income tax expense	7,562	6,668
Net income	$ 26,363	$ 32,859

See accompanying notes to consolidated financial statements.

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Net income	$ 26,363	$ 32,859
Other comprehensive (loss) income:		
Investment securities available for sale:		
Unrealized holding losses	(184,055)	(29,979)
Reclassification adjustment for gains realized in income	(16)	(277)
Net unrealized losses	(184,071)	(30,256)
Tax effect	48,520	7,735
Net-of-tax amount	(135,551)	(22,521)
Defined benefit pension plan:		
Reclassification adjustment for net actuarial losses recognized in net periodic benefit cost	3,436	5,450
Actuarial gains arising during period	3,765	14,669
Net change	7,201	20,119
Tax effect	(2,024)	(5,656)
Net-of-tax amount	5,177	14,463
Total other comprehensive loss	(130,374)	(8,058)
Comprehensive income (loss)	$ (104,011)	$ 24,801

Realized gains on securities available for sale are included in gains on securities available for sale in the consolidated statements of net income, and the related income tax expense for the years ended December 31, 2022 and 2021 was $4 and $78, respectively. Amortization of net actuarial losses is included in other operating expenses, and the related income tax benefit for the years ended December 31, 2022 and 2021 was $962 and $1,526, respectively.

See accompanying notes to consolidated financial statements.

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Statements of Changes in Retained Earnings

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	Undistributed Earnings	Accumulated Other Comprehensive Loss	Total Retained Earnings
Balance at December 31, 2020	$ 704,865	$ (22,836)	$ 682,029
Comprehensive income (loss)	32,859	(8,058)	24,801
Balance at December 31, 2021	737,724	(30,894)	706,830
Comprehensive income (loss)	26,363	(130,374)	(104,011)
Balance at December 31, 2022	$ 764,087	$ (161,268)	$ 602,819

See accompanying notes to consolidated financial statements.

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Cash flows from operating activities:		
Net income	$ 26,363	$ 32,859
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) provision for loan losses	-	(4,500)
Depreciation and amortization	7,921	8,263
Gain on sale of other real estate owned	(104)	(961)
Deferred income tax expense	434	2,380
Gains on securities available for sale	(16)	(277)
Loss on marketable equity securities	6,665	1,459
Amortization of investment securities, net	942	1,008
(Increase) decrease in accrued interest receivable	(4,380)	242
Decrease (increase) in cash surrender value of bank-owned life insurance	141	(3,256)
Net change in:		
Other assets	(7,450)	14,308
Official checks outstanding	3,222	(414)
Accrued benefits payable and prepaid pension expense	1,871	3,457
Escrow deposits of borrowers	451	595
Other liabilities	19,372	(9,370)
Net cash provided by operating activities	55,432	45,793
Cash flows from investing activities:		
Proceeds from calls and maturities of investment securities available for sale	187,516	379,773
Principal paydowns of investment securities available for sale	111,882	216,208
Purchase of investment securities available for sale	(258,051)	(1,289,924)
Proceeds from calls of preferred stock	15,000	10,000
Proceeds from distribution of bank-owned life insurance	-	1,316
Proceeds from sale of other real estate owned	207	1,200
Net loan originations	(546,050)	186,456
Purchase of Federal Home Loan Bank of Boston stock	(25,942)	(291)
Sales of Federal Home Loan Bank of Boston stock	12,575	-
Capital expenditures	(3,962)	(7,557)
Net cash used by investing activities	(506,825)	(502,819)

(continued)

See accompanying notes to consolidated financial statements.

Middlesex Bancorp, MHC and Subsidiaries

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Cash flows from financing activities:		
Net decrease in time deposit accounts	(197,173)	(145,559)
Net (decrease) increase in other deposit accounts	(57,855)	538,914
Repayment of Federal Home Loan Bank of Boston advances	(10)	(10)
Net change in short-term borrowings	375,000	-
Net (decrease) increase in repurchase agreements	(918)	3,082
Net cash provided by financing activities	119,044	396,427
Net change in cash and cash equivalents	(332,349)	(60,599)
Cash and cash equivalents, beginning of year	441,359	501,958
Cash and cash equivalents, end of year	$ 109,010	$ 441,359
Supplemental cash flow information:		
Cash paid (refunded) during the period for:		
Interest	$ 24,903	$ 12,987
Income taxes	7,455	(2,670)

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Middlesex Bancorp, MHC (the "Company") is a state-chartered mutual holding company. The Company and its subsidiaries provide a variety of loan, deposit, and other financial services to customers and are subject to competition from other financial service companies, including commercial banks, savings banks, credit unions, mortgage banking companies, insurance agencies, and investment companies. The Company is also subject to the regulations of, and periodic examination by, the Federal Reserve Bank, the Federal Deposit Insurance Corporation ("FDIC") and the Massachusetts Division of Banks. Interest-bearing, non-transaction account deposits up to $250 per owner or beneficiary, including retirement accounts, are insured by the Bank Insurance Fund of the FDIC.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Middlesex Savings Bank (the "Bank"), Middlesex Securities Corp. and First Evergreen Properties, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the consolidated balance sheet date and income and expenses for the year. 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 and the determination of post-retirement benefit liabilities.

Intangible Assets

Goodwill of $14,062 is not amortized but is evaluated for impairment. Management assesses the recoverability of goodwill on at least an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment test for goodwill uses a combined qualitative and quantitative approach. The initial qualitative approach assesses whether the existence of events or circumstances led to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after this assessment, the Company determines that it is more likely than not that the fair value is less than the carrying value, a quantitative impairment test is performed. The quantitative impairment test compares book value to the fair value of the reporting unit. If the carrying amount exceeds fair value, an impairment charge is recorded through earnings. No impairment adjustments have been recorded to date. Identified intangible assets include core deposit premiums.

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which they are traded and the reliability of the assumptions used to determine fair value. Fair value is defined as the price which a seller would receive in an orderly transaction between market participants (an exit price).

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities and are obtained from readily available pricing sources.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

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

Reclassification

Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation.

Securities

Marketable equity securities are measured at fair value with changes in fair value reported on the Company's consolidated statements of net income as a component of non-interest income.

Debt securities are classified as available for sale and reported at fair value, with unrealized gains and losses (net of related income taxes) excluded from earnings and reported as other comprehensive income/loss.

Purchase discounts are recognized in interest income using the interest method over the terms of the securities. Purchase premiums are recognized in interest income using the interest method through the earliest call date. The Company records security transactions on a trade-date basis. Gains and losses on sales of securities are recognized at the time of sale using the specific-identification method.

The Company continually reviews securities available for sale for the existence of other-than-temporary impairment ("OTTI"). The term "other-than-temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the security.

Management prepares an estimate of the expected cash flows for debt securities that potentially may be deemed to have OTTI. This estimate begins with the contractual cash flows of the security. This amount is then reduced by an estimate of probable credit losses associated with the security. When estimating the extent of probable losses on the securities, management considers the strength of the underlying issuers. Indicators of diminished credit quality of the issuers include defaults, interest deferrals, or "payments in kind." The resulting estimate of cash flows after considering credit is then subject to a present value computation using a discount rate equal to the current yield used to accrete the beneficial interest or the effective interest rate implicit in the security at the date of acquisition. If the present value of the estimated cash flows is less than the current amortized cost basis, OTTI is considered to have occurred. As part of the analysis, management considers whether it intends to sell the security or whether it is more than likely that it would be required to sell the security before the recovery of its amortized cost basis. A charge to income is recognized on investment securities when a decline in value is considered other than temporary. For all impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, only the portion related to credit loss is recognized through earnings. Noncredit-related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes.

Derivatives

The Company is a party to interest rate swap agreements to manage interest rate risk for certain commercial loans and not for speculative purposes. These derivatives are not designated as hedging instruments and are accounted for at fair value with changes in fair value recognized through earnings.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB of Boston. Based on redemption provisions of the FHLB of Boston, the stock has no quoted market value and is carried at cost. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2022, no impairment has been recognized.

Loans

The Company's loan portfolio includes residential mortgage; equity and second mortgage; commercial mortgage; commercial; construction and development; and consumer segments. Consumer loans include classes for collateral and personal loans.

Loans are reported at the principal balance outstanding, net of deferred loan origination costs and fees. Loan origination costs, net of certain origination fees, are considered adjustments of interest rate yield and amortized into interest income over the loan term.

Loans held for sale are carried at the lower of aggregate cost or fair value. Calculations are done on an individual loan basis. Net unrealized losses are recognized through a valuation allowance by charges to earnings. Gains on the sale of loans are recognized on the date the transaction is settled and are included in other non-interest income.

Non-accrual loans are those on which the accrual of interest is discontinued when collectibility of principal or interest is uncertain or payments of principal or interest have become contractually past due 90 days. Upon such discontinuance, all unpaid accrued interest is reversed. A loan may remain on accrual status if both the value of any collateral securing the loan is sufficient to cover principal and accrued interest and the loan is in the process of collection. Interest received on impaired loans is recognized in income on a cash basis when the remaining recorded investment is deemed to be fully collectible.

Non-accrual loans are returned to accrual status when the loan is brought current, there no longer exists concern over collectibility, and the borrower has demonstrated, over time, both the intent and ability to repay the loan.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Commercial, construction and development, commercial mortgage, and non-performing residential mortgage loans exceeding certain dollar amounts are individually evaluated for impairment, and deemed impaired when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors generally considered by management in determining impairment classification include payment status and terms and, to a lesser extent, collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows to be derived from the loan, using the original contractual interest rate, and its recorded value, or, as a practical expedient in the case of collateral dependent loans, the difference between the fair value of the collateral and the recorded amount of the loan.

When foreclosure is probable, impairment is measured based on the fair value of the collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Loans that experience insignificant payment delays and insignificant shortfalls in payment amounts 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 record, and the amount of the shortfall in relation to the principal and interest owed.

Loans over 90 days delinquent, those with a risk rating of substandard, doubtful or loss and/or are deemed impaired are reviewed on a quarterly basis and amounts deemed uncollectible are charged off as appropriate after an evaluation of estimated cash flows, or collateral values less estimated costs to sell.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level believed by management to be adequate to meet reasonably foreseeable loan losses on the basis of many factors, including the risk characteristics of the portfolio, underlying collateral, economic conditions that may affect the borrower's ability to pay, and trends in loan delinquencies and charge-offs. The allowance is increased (decreased) by provisions (credits) reflected in earnings, and reduced by loan charge-offs, net of recoveries.

The allowance for loan losses is determined using a systematic analysis based on historical experience, product types, and industry data. The allowance is segregated into three components: "general," "specific," and "unallocated." The general component is determined by applying coverage percentages to groups of loans based on risk. Coverage percentages applied are determined based on evaluation of historical loss rates adjusted for other qualitative and environmental factors consistent with industry practice. The specific component is established by allocating a portion of the allowance for loan losses to individual impaired loans on the basis of specific circumstances and assessments. A system of periodic loan reviews is performed to assess the inherent risk and assign risk ratings to each loan individually. The unallocated component supplements the first two components based on management's judgement of the effect of current economic conditions and trends on the borrower's abilities to repay, and other factors, and helps to minimize the risk related to the margin of imprecision associated with estimating general and specific losses in the portfolio.

While this evaluation process utilizes historical and other objective information, the classification of loans and the establishment of the allowance for loan losses rely to a great extent on the judgment and experience of management. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different from those of management.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential mortgage – Loans in this segment are secured by first liens on owner-occupied residential real estate. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant loans that would be classified as subprime upon origination. Repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Equity and second mortgage – Loans in this segment are secured by owner-occupied residential real estate. The Company has first or second liens on equity lines of credit. Second mortgages are term loans. Repayment is dependent on the credit quality of the individual borrower.

Commercial real estate – Loans in this segment are primarily income-producing properties throughout Massachusetts, New Hampshire and Rhode Island. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy due to increased vacancy rates, which in turn, would have an effect on the credit quality in this segment. Management obtains rent rolls and financial information annually and continually monitors the cash flow of these loans. There is a small subset of exception monitoring loans (total risk exposure $350 or less) where annual reporting is not required.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and resulting decreased consumer spending will have an effect on the credit quality in this segment. In addition, this segment includes loans issued under the United States Small Business Administration's ("SBA") Paycheck Protection Program ("PPP").

Construction and development – Loans in this segment primarily include speculative real estate development loans for which payment is derived from the sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price and market conditions.

Consumer – Loans in this segment include unsecured and secured personal loans and repayment is dependent on the credit quality of the individual borrower.

Allowance for Off-Balance-Sheet Credit Risk

The Company maintains an allowance for reasonably foreseeable credit losses related to off-balance-sheet credit risk, amounting to $1,007 and $1,220 at December 31, 2022 and 2021, respectively, in other liabilities. The measurement of loss is consistent with the general component of the allowance for loan losses and is based on credit risk.

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received in excess of cash surrender values, are reflected in non-interest income on the consolidated statements of net income and are not subject to income taxes.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Banking Premises and Equipment

Banking premises and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed to approximate the straight-line method over the estimated useful lives of the assets or expected terms of related leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Leases

The Company determines if an arrangement is a lease at inception. Operating and finance lease right-of-use (“ROU”) assets are included in other assets and operating lease liabilities are included in other liabilities in the consolidated balance sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which is generally the Federal Home Loan Bank classic advance rate, based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The operating lease ROU asset is net of lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

The Company has elected to adopt the lease guidance retrospectively at the beginning of 2022. The adoption did not result in any cumulative-effect adjustment to beginning retained earnings. The Company has elected certain practical expedients upon adoption and therefore has not reassessed whether any expired or existing contracts contain leases, has not reassessed the lease classification for any expired or existing leases and has not reassessed initial direct costs for any existing leases.

Cash and Cash Equivalents

Cash and cash equivalents are defined to include cash and due from banks and interest-bearing deposits. The Company is required to maintain average balances on hand or with the Federal Reserve Bank. There was no reserve balance required at December 31, 2022 and 2021. See also Note 14.

Services Charges on Deposit Accounts

The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering an ACH fees, are recognized at the time the transaction is executed and that is the point in time the Company fulfill's the customers request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. To the extent that current available evidence about the future raises doubt about the realization of a deferred tax asset, a valuation allowance must be established.

The Company does not have any uncertain tax positions at December 31, 2022 or 2021 which require accrual or disclosure. The Company records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2022 and 2021.

(Dollars in Thousands)

Pension Benefits

The Company provides pension benefits to its employees under a noncontributory, defined benefit plan, which is funded on a current basis in compliance with the requirements of the Employee Retirement Income Security Act of 1974.

The Company accounts for its defined benefit pension plan using an actuarial model that allocates pension costs over the service period of employees in the plan. The Company accounts for the over-funded or under-funded status of its defined benefit plan as an asset or liability in its consolidated balance sheet and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income or loss.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported as a separate component of the retained earnings section of the balance sheet and such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive loss included in retained earnings at December 31, 2022 and 2021 are as follows:

	2022	2021
Investment securities available for sale:		
Net unrealized loss	$ (192,484)	$ (8,413)
Tax effect	50,885	2,365
Net-of-tax amount	(141,599)	(6,048)
Defined benefit pension plan:		
Unrecognized net actuarial loss	(27,359)	(34,560)
Tax effect	7,690	9,714
Net-of-tax amount	(19,669)	(24,846)
	$ (161,268)	$ (30,894)

Recent Accounting Pronouncements

Effective January 1, 2022, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). See Note 6.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This Update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company determined that a $919 adjustment to decrease the allowance for credit losses and increase retained earnings was required upon adoption on January 1, 2023 (unaudited).

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This Update provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as SOFR. The amendments in this Update are effective for all entities as of March 12, 2020 through December 31, 2024.

In January 2021, ASU 2021-01, *Reference Rate Reform (Topic 848): Scope* was subsequently issued and expanded application of the optional expedients to derivative transactions affected by the discounting transition. The Company does not anticipate that the adoption of these updates will have a material impact on the Company's financial statements.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this Update eliminate the existing accounting guidance for troubled debt restructures ("TDRs") by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors and instead requires that an entity evaluate whether a modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. All amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently assessing the impact of the adoption of this standard on the Company's financial statements.

(Dollars in Thousands)

2. SECURITIES

Investment Securities Available for Sale

The cost and fair value of investment securities available for sale at December 31, 2022 and 2021 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2022				
Residential mortgage-backed securities	$ 672,966	$ 127	$ (57,657)	$ 615,436
U.S. government-sponsored agency obligations	781,740	-	(65,792)	715,948
U.S. treasury obligations	154,410	-	(5,812)	148,598
Corporate bonds	628,678	62	(57,278)	571,462
Hybrid capital securities	48,007	-	(6,134)	41,873
Total investment securities available for sale	$ 2,285,801	$ 189	$(192,673)	$ 2,093,317
2021				
Residential mortgage-backed securities	$ 685,120	$ 6,506	$ (1,056)	$ 690,570
U.S. government-sponsored agency obligations	856,740	82	(10,681)	846,141
U.S. treasury obligations	79,863	-	(610)	79,253
Corporate bonds	664,890	6,285	(6,592)	664,583
Hybrid capital securities	41,482	293	(2,640)	39,135
Total investment securities available for sale	$ 2,328,095	$ 13,166	$ (21,579)	$ 2,319,682

At December 31, 2022 and 2021, the Company has a concentration in financial sector corporate bonds and hybrid capital securities, with a fair value of $241,947 and $297,676, respectively.

At December 31, 2022 and 2021, residential mortgage-backed securities consist of securities issued by government-sponsored enterprises and federal agencies.

(Dollars in Thousands)

The cost and fair value of debt and hybrid capital securities at December 31, 2022, by final contractual maturity, are shown below. Actual maturities may differ from contractual maturities due to prepayments.

	Cost	Fair Value
Within one year	$ 269,942	$ 263,355
1 - 2 years	315,167	296,618
2 - 5 years	930,934	834,874
5 - 10 years	89,981	80,290
Over 10 years	679,777	618,180
	$ 2,285,801	$ 2,093,317

At December 31, 2022 and 2021, included in investment securities available for sale are investments with a cost basis of $1,327,364 and $1,412,039 respectively, that could be called prior to the contractual maturity date.

There were no sales of investment securities available for sale in fiscal years 2022 and 2021. During the years ended December 31, 2022 and 2021, the Company recorded gains in the amount of $16 and $277, respectively, on called securities with make-whole provisions whereby the proceeds are greater than par amounts if called.

At December 31, 2022, the Company pledged debt securities with a fair value of $18,216 as collateral for the discount window at the Federal Reserve Bank (See Note 4) and debt securities with a fair value of $64,803 as collateral for repurchase agreements (See Note 8). All securities pledged as collateral are U.S. government-sponsored agency obligations and residential mortgage-backed securities.

(Dollars in Thousands)

Gross unrealized losses on investment securities available for sale and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021 are as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
Residential mortgage-backed securities	$ 392,603	$ (22,007)	$ 207,169	$ (35,650)	$ 599,772	$ (57,657)
U.S. government-sponsored agency obligations	-	-	715,948	(65,792)	715,948	(65,792)
U.S. treasury obligations	71,216	(3,254)	77,382	(2,558)	148,598	(5,812)
Corporate bonds	260,682	(15,680)	305,744	(41,598)	566,426	(57,278)
Hybrid capital securities	17,019	(1,481)	24,854	(4,653)	41,873	(6,134)
Total	$ 741,520	$ (42,422)	$ 1,331,097	$ (150,251)	$ 2,072,617	$ (192,673)
2021						
Residential mortgage-backed securities	$ 267,601	$ (1,055)	$ 924	$ (1)	$ 268,525	$ (1,056)
U.S. government-sponsored agency obligations	751,907	(9,394)	84,153	(1,287)	836,060	(10,681)
U.S. treasury obligations	79,253	(610)	-	-	79,253	(610)
Corporate bonds	337,016	(6,303)	9,692	(289)	346,708	(6,592)
Hybrid capital securities	-	-	29,342	(2,640)	29,342	(2,640)
Total	$ 1,435,777	$ (17,362)	$ 124,111	$ (4,217)	$ 1,559,888	$ (21,579)

At December 31, 2022, 139 debt securities have unrealized losses with aggregate deprecation of 8% from the Company's amortized cost basis. The unrealized losses in the Company's investment in residential mortgage-backed seucrities, U.S. government sponosored agency obligation and U.S. treasuary obligations were primarily caused by interest rate risk. Many of these investments are guaranteed by the U.S. government or an agency thereof. All of these debt obligations in an unrealized loss position at December 31, 2022 are rated investment grade or higher and are performing according to the contractual terms of the securities. The Company does not consider such losses to be other than temporary at December 31, 2022. In addition, the Company does not intend to, and it is more likely than not that it will not be required to, sell the related investment securities prior to a market price recovery or maturity.

At December 31, 2022, 121 corporate bonds have aggregrate unrealized losses equal to 9% of the Company's amortized cost basis. The unrealized losses on the corporate bonds were primarily caused by general market concerns related to interest rate risk. The corporate bonds in an unrealized loss position at December 31, 2022 are rated investment grade or higher and are performing according to the contractual terms of the securities. The Company does not consider such losses to be other than temporary at December 31, 2022. In addition, the Company does not intend to, and it is more likely than not that it will not be required to, sell the related investment securities prior to a market price recovery or maturity.

At December 31, 2022, 8 hybrid capital securities have aggregate unrealized losses equal to 13% of the Company's amortized cost basis. These are long-term variable trust preferred securities issued by financial institutions. The unrealized losses on the hybrid capital securities were caused by general market concerns related to interest rate risk, market volatility, market illiquidity and not a fundamental deterioration in the issuer. The Company continually reviews these securities for the existence of OTTI, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, the credit worthiness of the obligor of the security, and volatility of earnings. At December 31, 2022, the unrealized losses on these securities were considered to be temporary based on analysis of the financial soundness of the issuers. In addition, the Company does not intend to, and it is more likely than not that it will not be required to, sell the related investment securities prior to a market price recovery or maturity.

Marketable Equity Securities

Marketable equity securities consist of preferred stock and mutual funds. The Company held marketable equity securities with an aggregate fair value of $50,454 and $72,099 at December 31, 2022 and 2021, respectively. Net unrealized gains (losses) recognized on marketable equity securities still held at December 31, 2022 and 2021 amounted to ($4,532) and $2,134, respectively.

(Dollars in Thousands)

3. LOANS

Major classifications of loans are as follows:

	2022	2021
Mortgage loans:		
Residential	$ 1,277,745	$ 1,169,064
Equity and second mortgage	120,583	97,166
Commercial	1,267,190	993,219
Total mortgage loans	2,665,518	2,259,449
Commercial loans	406,634	403,322
Construction and development loans	560,659	424,016
Consumer loans:		
Collateral	3,902	3,671
Personal	3,811	3,604
Total consumer loans	7,713	7,275
Total loans	3,640,524	3,094,062
Deferred loan (fees) costs, net	(2,360)	(2,210)
Allowance for loan losses	(33,084)	(32,822)
Net loans	$ 3,605,080	$ 3,059,030

There were no loans held for sale at December 31, 2022 and 2021.

Loans and available credit made to trustees and senior management of the Company in the ordinary course of business amounted to $11,691 and $10,904 at December 31, 2022 and 2021, respectively. Principal paydowns amounted to $571 and additions amounted to $1,358 during 2022. All loans and commitments included in such amounts were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility or present other unfavorable features.

The Company has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments on a pro-rata basis (net of servicing fees) to participating lenders, and disburses required escrow funds to relevant parties. At December 31, 2022 and 2021, the Company was servicing loans for participants aggregating $54,492 and $37,634, respectively.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP. The SBA guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and at least 60% of the requested forgiveness amount are used for payroll expenses, with the remaining 40% used for other qualifying expenses. At December 31, 2022 and 2021, PPP loans outstanding amounted to $1,492 and $29,036, respectively.

(Dollars in Thousands)

Activity of the allowance for loan losses for the years ended December 31, 2022 and 2021 and allocation of the allowance to loan segments as of December 31, 2022 and 2021 follows:

	Residential Mortgage	Equity and Second Mortgage	Commercial Mortgage	Commercial	Construction and Development	Consumer	Unallocated	Total
2022								
Allowance for loan losses:								
Balance, beginning of year	$ 1,464	$ 740	$ 16,014	$ 8,134	$ 2,511	$ 55	$ 3,904	$ 32,822
Provision (credit) for loan losses	(28)	230	449	405	1,019	62	(2,137)	-
Loans charged-off	-	-	-	(411)	-	(60)	-	(471)
Recoveries of loans previously charged-off	21	7	174	526	-	5	-	733
Balance, end of year	$ 1,457	$ 977	$ 16,637	$ 8,654	$ 3,530	$ 62	$ 1,767	$ 33,084
December 31, 2022								
Amount of allowance for impaired loans	$ -	$ -	$ -	$ 1,431	$ -	$ -	$ -	$ 1,431
Amount of allowance for non-impaired loans	1,457	977	16,637	7,223	3,530	62	1,767	31,653
Total allowance for loan losses	$ 1,457	$ 977	$ 16,637	$ 8,654	$ 3,530	$ 62	$ 1,767	$ 33,084
Impaired loans	$ 1,512	$ 44	$ 2,731	$ 2,828	$ -	$ -	$ -	$ 7,115
Non-impaired loans	1,276,233	120,539	1,264,459	403,806	560,659	7,713	-	3,633,409
Total loans	$ 1,277,745	$ 120,583	$ 1,267,190	$ 406,634	$ 560,659	$ 7,713	$ -	$ 3,640,524

	Residential Mortgage	Equity and Second Mortgage	Commercial Mortgage	Commercial	Construction and Development	Consumer	Unallocated	Total
2021								
Allowance for loan losses:								
Balance, beginning of year	$ 1,505	$ 882	$ 18,479	$ 7,968	$ 2,180	$ 64	$ 6,252	$ 37,330
Provision (credit) for loan losses	(19)	(121)	(1,437)	(909)	331	3	(2,348)	(4,500)
Loans charged-off	(40)	(38)	(1,028)	(927)	-	(28)	-	(2,061)
Recoveries of loans previously charged-off	18	17	-	2,002	-	16	-	2,053
Balance, end of year	$ 1,464	$ 740	$ 16,014	$ 8,134	$ 2,511	$ 55	$ 3,904	$ 32,822
December 31, 2021								
Amount of allowance for impaired loans	$ -	$ -	$ 243	$ 708	$ -	$ -	$ -	$ 951
Amount of allowance for non-impaired loans	1,464	740	15,771	7,426	2,511	55	3,904	31,871
Total allowance for loan losses	$ 1,464	$ 740	$ 16,014	$ 8,134	$ 2,511	$ 55	$ 3,904	$ 32,822
Impaired loans	$ 1,032	$ 48	$ 32,525	$ 802	$ 87	$ -	$ -	$ 34,494
Non-impaired loans	1,168,032	97,118	960,694	402,520	423,929	7,275	-	3,059,568
Total loans	$ 1,169,064	$ 97,166	$ 993,219	$ 403,322	$ 424,016	$ 7,275	$ -	$ 3,094,062

(Dollars in Thousands)

The following is a summary of past due and non-accrual loans at December 31, 2022 and 2021:

2022	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Past Due > 90 Days and Still Accruing	Loans on Non-accrual
Residential mortgage	$ 2,195	$ 177	$ 234	$ 2,606	$ -	$ 2,414
Equity and second mortgage	72	-	123	195	-	180
Commercial mortgage	64	254	-	318	-	2,474
Commercial	-	3	855	858	-	1,432
Consumer:						
Personal	11	11	21	43	-	23
Total	$ 2,342	$ 445	$ 1,233	$ 4,020	$ -	$ 6,523

2021	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Past Due > 90 Days and Still Accruing	Loans on Non-accrual
Residential mortgage	$ 1,291	$ 473	$ 971	$ 2,735	$ -	$ 3,565
Equity and second mortgage	217	-	100	317	-	174
Commercial mortgage	132	-	3	135	-	32,185
Commercial	107	27	112	246	-	802
Construction and development	-	-	87	87	-	87
Consumer:						
Personal	5	8	13	26	-	14
Total	$ 1,752	$ 508	$ 1,286	$ 3,546	$ -	$ 36,827

(Dollars in Thousands)

The following is information pertaining to impaired loans:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2022			
Impaired loans without a valuation allowance:			
Mortgage loans:			
Residential	$ 1,512	$ 1,876	$ -
Equity and second mortgage	44	92	-
Commercial	2,731	2,945	-
Commercial loans	1,397	1,397	-
Total	5,684	6,310	-
Impaired loans with a valuation allowance:			
Commercial loans	1,431	1,799	1,431
Total impaired loans	$ 7,115	$ 8,109	$ 1,431

	Average Recorded Investment	Interest Income Recognized	Income Recognized on Cash Basis
Year Ended December 31, 2022			
Residential mortgage	$ 1,145	$ 47	$ 47
Equity and second mortgage	44	-	-
Commercial mortgage	10,905	14	14
Commercial	2,230	129	129
Total	$ 14,324	$ 190	$ 190

(Dollars in Thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
December 31, 2021			
Impaired loans without a valuation allowance:			
Mortgage loans:			
Residential	$ 1,032	$ 1,404	$ -
Equity and second mortgage	48	100	-
Commercial	24,248	24,598	-
Commercial loans	94	439	-
Construction and development loans	87	98	-
Total	25,509	26,639	-
Impaired loans with a valuation allowance:			
Commercial mortgage	8,276	8,488	243
Commercial loans	709	743	708
Total	8,985	9,231	951
Total impaired loans	$ 34,494	$ 35,870	$ 951

	Average Recorded Investment	Interest Income Recognized	Income Recognized on Cash Basis
Year Ended December 31, 2021			
Residential mortgage	$ 1,065	$ -	$ -
Equity and second mortgage	56	-	-
Commercial mortgage	38,876	-	-
Commercial	857	2,213	2,213
Construction and development	88	-	-
Total	$ 40,942	$ 2,213	$ 2,213

Funds committed to be advanced in connection with impaired loans at December 31, 2022 and 2021 amounted to $1,398 and $251, respectively.

During fiscal 2022, there were three loans modified in troubled debt restructurings. Two commercial loans with a recorded balance of $1,397 were restructured to amend quarterly reporting covenants. One residential mortgage with a recorded balance of $548 was restructured for a forbearance of principal, interest and escrow payment for a 3 month period.

During fiscal 2022 and 2021, there were no material trouble debt restructurings that defaulted within one year of modification.

Credit quality information

The Company utilizes a nine-grade internal loan rating system for commercial mortgage, construction and development, commercial, and certain non-performing residential mortgage loans as follows:

Loans rated 1 – 6 are considered "pass" rated loans with low to average risk.

Loans rated 7 are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 8 are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 9 are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

On an annual basis, or more often if needed, the Company formally reviews the ratings on substantially all commercial mortgage loans, construction and development loans and commercial loans. Annually, the Company engages an independent third party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

(Dollars in Thousands)

The Company does not assign risk ratings to residential mortgage, equity and second mortgage, consumer, and small-balance commercial loans, unless they have a well-defined weakness that may jeopardize collection. The construction and development loans include non-speculative residential mortgage construction loans which are not rated. Non-rated loans are monitored on an exception basis with emphasis placed on debt repayment performance.

The following table presents the Company's loans by risk rating at December 31, 2022 and 2021:

	Residential Mortgage	Equity and Second Mortgage	Commercial Mortgage	Commercial	Construction and Development	Consumer
2022						
Loans rated 1 - 6	$ -	$ -	$ 1,223,995	$ 339,740	$ 542,821	$ -
Loans rated 7	-	-	39,497	55,041	-	-
Loans rated 8	2,537	180	3,698	10,943	-	22
Loans rated 9	-	-	-	-	-	-
Loans not rated	1,275,208	120,403	-	910	17,838	7,691
Total	$ 1,277,745	$ 120,583	$ 1,267,190	$ 406,634	$ 560,659	$ 7,713

	Residential Mortgage	Equity and Second Mortgage	Commercial Mortgage	Commercial	Construction and Development	Consumer
2021						
Loans rated 1 - 6	$ -	$ -	$ 898,649	$ 360,879	$ 393,109	$ -
Loans rated 7	-	-	44,961	11,884	-	-
Loans rated 8	4,149	174	49,609	29,651	87	13
Loans rated 9	-	-	-	5	-	-
Loans not rated	1,164,915	96,992	-	903	30,820	7,262
Total	$ 1,169,064	$ 97,166	$ 993,219	$ 403,322	$ 424,016	$ 7,275

4. STOCK IN AND ADVANCES FROM FEDERAL HOME LOAN BANK OF BOSTON AND OTHER BORROWINGS

Stock in Federal Home Loan Bank Boston

As a voluntary member of the Federal Home Loan Bank of Boston ("FHLB Boston"), the Company is required to purchase stock of FHLB Boston to meet (1) a basic membership requirement generally based on the amount of mortgage-related collateral eligible to secure advances, or total assets owned by the member and (2) an activity requirement based on the member's outstanding advances, typically in the range of 4% to 5% of the member's outstanding advance amount and any other business activity as determined by the FHLB Boston in their capital plans.

At December 31, 2022 and 2021, the Company's investment in FHLB Boston stock exceeded its minimum investment by $200 and $30, respectively. No market exists for shares of this stock. The Company's cost for FHLB Boston stock is equal to its par value. Upon redemption of the stock, which is at the discretion of the FHLB Boston, the Company would receive an amount equal to the par value of the stock.

At the discretion of its Board of Directors, the FHLB Boston may declare and pay dividends in either cash or capital stock.

Short-term Debt

At December 31, 2022, FHLB Boston advances with an orginal maturity date of less than one year amounted to $375,000, with a weighted average rate of 4.32%. There were no short-term advances outstanding as of December 31, 2021.

Long-term Debt

At December 31, 2022 and 2021, FHLB Boston advances consist of one amortizing advance in the amount of $158 and $168, respectively, with a rate of 2.50% and which matures in 2026.

All borrowings from the FHLB Boston are secured by a blanket lien on qualified collateral based on a percentage of the carrying value of first mortgage loans on owner-occupied residential property.

Other Borrowing Arrangements

The Company has $19,660 in available lines-of-credit with the FHLB Boston and another correspondent financial institution at interest rates that adjust daily. There were no advances outstanding under these lines-of-credit at December 31, 2022 and 2021.

(Dollars in Thousands)

The Company has an agreement with the Federal Reserve Bank of Boston for borrowings at the discount window. The terms of this agreement call for the pledging of assets as security for any and all obligations of the Company under this agreement (See Note 2). At December 31, 2022 and 2021, there were no borrowings outstanding under this agreement.

5. BANKING PREMISES AND EQUIPMENT

The following table shows banking premises and equipment at December 31, 2022 and 2021:

	2022	2021
Land	$ 11,704	$ 11,806
Buildings and leasehold improvements	72,067	69,357
Furniture, fixtures and equipment	37,632	36,638
Fixed assets in process	168	544
	121,571	118,345
Accumulated depreciation and amortization	(56,043)	(48,755)
	$ 65,528	$ 69,590

Depreciation and amortization expense related to premises and equipment was $7,921 and $8,263 for the year ended December 31, 2022 and 2021, respectively. The estimated useful lives for leasehold improvements and buildings are 5 to 20 years and 40 years, respectively. The estimated useful life for furniture, fixtures and equipment is 2 to 10 years, with the exception of computer software and equipment, which is 2 to 5 years.

There were no outstanding construction commitments as of December 31, 2022.

6. LEASES

At December 31, 2022, the Company has 22 operating leases related to 16 branches, 1 loan center, 3 remote ATM locations and 2 parking lots. The Company has 5 finance leases related to 3 branchs and 2 pieces of equipment. The leases expire at various dates, with options for renewal, and contain several provisions and clauses providing for increased rentals based on, among other things, increases in common area maintenance.

(Dollars in Thousands)

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

	Balance Sheet Classification	December 31, 2022
Right-of-use assets:		
Operating leases	Other assets	$ 12,595
Finance leases	Other assets	8,035
Total right-of-use assets		$ 20,630
Lease liabilites:		
Operating leases	Other liabilites	$ 13,715
Finance leases	Other liabilites	8,602
Total lease liabilities		$ 22,317

The components of total lease cost were as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Finance lease cost		
Right-of-use asset amortization	$ 416	$ 475
Interest expense	233	328
Operating lease cost	1,833	1,657
Variable lease cost	173	-
	$ 2,655	$ 2,460

(Dollars in Thousands)

Future lease payments for operating and finance leases with initial terms of one year or more as of December 31, 2022 are as follows:

	Operating Leases	Finance Leases
2023	$ 1,990	$ 645
2024	1,982	640
2025	1,858	633
2026	1,638	626
2027	1,422	536
Thereafter	6,890	7,975
Total undiscounted lease payments	15,780	11,055
Less: imputed interest	(3,185)	(3,020)
	12,595	8,035

Supplemental cash flow and other information related to leases as of and for the year ended December 31, 2022 is a follows:

Finance lease weighted average remaining lease term (years)	22.5
Finance lease weighted average discount rate	2.72%
Operating lease weighted average remaining lease term (years)	10.6
Operating lease weighted average discount rate	2.17%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 1,817
Operating cash flows from finance leases	229
Finance cash flows from finance leases	195
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 1,290

(Dollars in Thousands)

7. DEPOSITS

The following table shows deposits by type at December 31, 2022 and 2021:

	2022	2021
Demand deposit accounts	$ 1,590,539	$ 1,727,327
Interest-bearing transaction deposits:		
NOW	183,777	220,307
Regular savings	135,503	134,318
Money fund	2,115,570	2,140,610
Total interest-bearing transaction deposits	2,434,850	2,495,235
Time deposits:		
IRA/Keogh	262,430	277,908
Certificates of deposit	805,423	847,800
Total time deposits	1,067,853	1,125,708
Total deposits	$ 5,093,242	$ 5,348,270

Time deposits in denominations of $250 or more amounted to $262,668 and $263,008 at December 31, 2022 and 2021, respectively.

Scheduled maturities of time deposits at December 31, 2022 and 2021 are as follows:

	2022	2021
Within one year	$ 853,015	$ 823,739
Over 1 - 2 years	135,245	170,137
Over 2 - 3 years	26,787	89,547
Over 3 - 5 years	49,885	42,167
Over 5 years	2,921	118
	$ 1,067,853	$ 1,125,708

(Dollars in Thousands)

Interest expense for each category of deposits for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
NOW accounts	$ 181	$ 34
Regular savings	548	65
Money fund	10,941	1,678
Time deposits	9,965	11,180
	$ 21,635	$ 12,957

8. REPURCHASE AGREEMENTS

The following table discloses certain information regarding repurchase agreements as of and for the years ended December 31, 2022 and 2021:

	2022	2021
Balance outstanding at end of year	$ 44,430	$ 45,348
Maximum outstanding during year	56,579	53,084
Average amount outstanding during year	37,905	40,071
Amortized cost of collateral pledged as security for agreements	72,419	62,486
Fair value of collateral pledged as security for agreements	64,803	62,347
Weighted average interest rate at end of year	0.44%	0.05%

Repurchase agreements are collateralized by certain debt securities, which have been specifically identified within the portfolio (See Note 2). The obligations to repurchase the securities sold are reflected as a liability in the consolidated balance sheets. The dollar amounts of the securities underlying the agreements remain in the asset accounts. As these borrowings mature daily and are secured by the U.S. government-sponsored agency obligations and residential mortgage-backed securities, there is minimal risk of a significant decline in collateral.

(Dollars in Thousands)

9. INCOME TAXES

The components of income tax expense for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Current income tax expense:		
Federal	$ 5,308	$ 1,501
State	1,820	2,787
Total current expense	7,128	4,288
Deferred income tax expense (benefit):		
Federal	(91)	2,893
State	525	(513)
Total deferred expense	434	2,380
Total income tax expense	$ 7,562	$ 6,668

The Company had gross deferred income tax assets and liabilities at December 31, 2022 and 2021 as follows:

	2022	2021
Deferred income tax assets pertaining to:		
Allowance for loan losses	$ 9,583	$ 9,569
Pension liability	7,690	9,714
Unrealized loss on investment securities available for sale	50,885	2,365
Unrealized loss on marketable equity securities	1,126	-
Interest on non-accrual loans	1,767	2,064
Accrued expenses	920	1,091
Other	600	524
Gross deferred income tax assets	72,571	25,327
Deferred income tax liabilities pertaining to:		
Employee benefit plans	14,472	14,998
Depreciation and amortization	4,087	2,028
Deferred loan costs	1,108	987
Investments in partnerships	66	87
Unrealized gain on marketable equity securities	-	452
Gross deferred income tax liabilities	19,733	18,552
Net deferred tax asset	$ 52,838	$ 6,775

(Dollars in Thousands)

Based on the Company's historical and current pre-tax earnings, management believes it is more likely than not that the Company will realize the net deferred income tax asset existing at December 31, 2022. Management believes the existing net deductible temporary differences, which give rise to the net deferred tax asset at December 31, 2022, will reverse during periods in which the Company generates net taxable income. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. Factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income, and no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences.

The federal income tax reserve for loan losses at the Bank's base year is $13,731. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the fiscal year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred income tax liability of $3,860 has not been provided.

The Company's tax years ended December 31, 2019 through December 31, 2022 remain subject to examination by federal and state taxing authorities.

Income tax expense for the following periods differed from the expected expense, computed by applying the statutory federal income tax rate to income before income taxes, due to the following principal reasons:

	Amount		Effective Tax Rate	
	2022	2021	2022	2021
Expected tax expense at statutory rate	$ 7,124	$ 8,301	21.0%	21.0%
Differences resulting from:				
State income tax, net	1,853	1,796	5.5	4.5
Bank-owned life insurance	30	(684)	0.1	(1.7)
Tax-exempt interest	(873)	(783)	(2.6)	(2.0)
Dividends received deduction	(335)	(400)	(1.0)	(1.0)
Net operating tax loss benefit	-	(1,027)	-	(2.6)
Other	(237)	(535)	(0.7)	(1.3)
Income tax expense	$ 7,562	$ 6,668	22.3%	16.9%

The net operating loss tax benefit in the year ended December 31, 2021 results from a net operating loss carryback to a year when the tax rate was 35%, as opposed to the current 21% rate.

10. CAPITAL REQUIREMENTS

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

The regulations require minimum ratios of total capital, common equity Tier 1 capital and Tier 1 capital to risk-weighted assets and a minimum leverage ratio for all banking organizations as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

For regulatory capital purposes, loans made under the PPP are risk-weighted at 0% in risk-based capital calculations. PPP loans are included in total average assets for purposes of the Tier 1 leverage ratio calculation.

As of December 31, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes would cause a change in the Bank's categorization. Prompt corrective action provisions are not applicable to holding companies. The principal source of revenue for the Holding Company is dividends received from the Bank. The Bank cannot pay any dividends that would cause it to have insufficient capital under regulatory guidelines.

(Dollars in Thousands)

The regulatory capital ratios for the Bank are not materially different from the Company's ratios.

The Bank's actual capital amounts and ratios, with respective minimum requirements, are presented in the following table:

	Actual		Minimum for Capital Adequacy		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022:						
Total Capital to Risk-Weighted Assets	$ 784,116	16.52%	$ 379,720	8.00%	$ 474,650	10.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets	750,024	15.80	213,592	4.50	308,522	6.50
Tier 1 Capital to Risk-Weighted Assets	750,024	15.80	284,790	6.00	379,720	8.00
Tier 1 Capital to Average Assets	750,024	11.99	250,315	4.00	312,894	5.00
December 31, 2021:						
Total Capital to Risk-Weighted Assets	$ 757,704	18.03%	$ 336,240	8.00%	$ 420,300	10.00%
Common Equity Tier 1 Capital to Risk-Weighted Assets	723,662	17.22	189,135	4.50	273,195	6.50
Tier 1 Capital to Risk-Weighted Assets	723,662	17.22	252,180	6.00	336,240	8.00
Tier 1 Capital to Average Assets	723,662	11.87	243,896	4.00	304,870	5.00

11. EMPLOYEE BENEFITS

Pension Plan

The Company is a member of the Savings Banks Employees Retirement Association ("SBERA") within which it maintains a defined benefit pension plan. SBERA offers a common and collective trust as the underlying investment structure for its retirement plans. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 47% to 61% of total portfolio assets. The remainder of the portfolio is allocated to fixed income from 24% to 38% and other investments, including global asset allocation and hedge funds, from 9% to 21%. The trustees of SBERA, through the SBERA investment committee, select investment managers for the common and collective trust portfolio. A professional investment advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and to assist with manager searches. The overall investment objective is to diversify investments across a spectrum of investment types (e.g., small cap, large cap, international, etc.) and styles (e.g., growth, value, etc.) to limit risks from large market swings.

Assumptions for the expected return on plan assets and discount rates applicable to the Company's pension plan and other post-retirement agreements are periodically reviewed. As part of the review, management, in consultation with independent consulting actuaries, performs an analysis of expected returns based on the pension plan's asset allocation. This forecast reflects the Company's and SBERA's expected return on plan assets for each significant asset class or economic indicator. The range of returns developed relies on forecasts and on broad market historical benchmarks for expected return, correlation, and volatility for each asset class.

The discount rate was updated from 2.75% to 5.25% as of December 31, 2022. The change in discount rate resulted in a decrease in the projected benefit obligation. The discount rate was updated from 2.25% to 2.75% as of December 31, 2021. The change in the discount rate resulted in an decrease in the projected benefit obligation.

(Dollars in Thousands)

The following table presents the funded status of the Company's pension plan, and activity therein, as of and for the following periods, and amounts recognized in the Company's consolidated financial statements:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 151,612	$ 159,079
Service cost	7,048	7,539
Interest cost	4,006	3,437
Actuarial gain	(46,336)	(7,444)
Benefits paid	(8,523)	(10,999)
Benefit obligation at end of year	107,807	151,612
Change in plan assets:		
Fair value of plan assets at beginning of year	179,948	171,340
Actual return on plan assets	(30,386)	19,607
Employer contributions	-	-
Benefits paid	(8,523)	(10,999)
Fair value of plan assets at end of year	141,039	179,948
Funded status and prepaid pension at end of year	$ 33,232	$ 28,336
Accumulated benefit obligation at end of year	$ 88,681	$ 124,345

The components of net periodic pension cost for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Service cost	$ 7,048	$ 7,539
Interest cost	4,006	3,437
Expected return on assets	(12,186)	(12,381)
Recognized net actuarial loss	3,436	5,449
	$ 2,304	$ 4,044

The service cost component of net periodic pension cost is included in salaries and employee benefits and the remaining components are included in other operating expenses on the consolidated statements of net income.

(Dollars in Thousands)

Assumptions applicable to recognition of benefit obligations and related net periodic benefit costs are as follows:

	2022	2021
Weighted average assumptions used to determine the benefit obligation as of December 31:		
Discount rate	5.25%	2.75%
Rate of compensation increase	4.00%	4.00%
Weighted average assumptions used to determine net periodic benefit cost for the year ended December 31:		
Discount rate	2.75%	2.25%
Expected return on plan assets	7.00%	7.50%
Rate of compensation increase	4.00%	4.00%

Benefit payments for the pension plan, which reflect anticipated future service, as appropriate, are expected to be paid as follow:

Year	Amount
2023	$ 9,107
2024	10,235
2025	10,349
2026	9,675
2027	10,221
2028-2032	47,347

The Company expects to contribute $3,187 to the pension plan during the year ending December 31, 2023.

(Dollars in Thousands)

The fair values of the Company's pension plan assets follow:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Collective funds	$ 16,294	$ -	$ -	$ 16,294
Equity securities	31,620	-	-	31,620
Mutual funds	19,255	-	-	19,255
Other	150	-	-	150
	$ 67,319	$ -	$ -	67,319
Investments measured at net asset value*				73,720
				$ 141,039

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Collective funds	$ 19,877	$ -	$ -	$ 19,877
Equity securities	43,307	-	-	43,307
Mutual funds	21,738	-	-	21,738
	$ 84,922	$ -	$ -	84,922
Investments measured at net asset value*				95,026
				$ 179,948

*Investments measured at net asset value per share or its equivalent are not classified in the fair value hierarchy.

(Dollars in Thousands)

Investments measured using the net asset value per share as a practical expedient, are summarized below:

	December 31,	
	2022	2021
Collective funds	$ 66,938	$ 85,813
Limited partnerships	4,551	6,165
Hedge funds	2,231	3,048
	$ 73,720	$ 95,026

There are no participant redemption restrictions for these investments.

Other Post-retirement Plans

The Company has supplemental employee retirement plan ("SERP") agreements for certain senior officers. The SERP agreements provide additional compensation upon the participant's retirement and are either defined benefit or defined contribution plans. The SERP benefits are payable in accordance with the participant's election. For defined benefit SERPs, the discount rate assumption is the same rate used for the Company's pension plan and the present value of estimated future payments is provided over the remaining terms of the officers' employment. At December 31, 2022 and 2021, the liability recognized for SERPs amounted to $7,276 and $7,279, respectively. Expense related to these agreements for the years ended December 31, 2022 and 2021 amounted to $772 and $835, respectively.

Defined Contribution Plan

The Company maintains an employee savings plan under Section 401(k) of the Internal Revenue Code. Under the savings plan, the Company on an annual basis matches up to 50% of the first 6% of eligible compensation contributed by employees, with a limit of a 3% total match on an annual basis. Total expense recorded for the 401(k) plan amounted to $1,088 in fiscal 2022 and $1,086 in fiscal 2021.

(Dollars in Thousands)

12. OFF-BALANCE-SHEET RISK AND CONTINGENCIES

Financial Instruments

The Company is 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 originate loans, unused lines of credit, standby letters of credit, and unadvanced portions of construction loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Contractual amounts of financial instruments with off-balance-sheet risk at December 31, 2022 and 2021 are as follows:

	2022	2021
Commitments to originate loans	$ 39,910	$ 86,997
Unused lines of credit	362,031	395,475
Unused equity lines of credit	239,601	207,677
Standby letters of credit	8,150	8,846
Unadvanced portions of construction loans	299,991	206,333

Commitments to originate loans (including loans held for sale), unused lines of credit, and unadvanced portions of construction loans are agreements to lend to a customer provided 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 a portion of the commitments is expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments.

(Dollars in Thousands)

Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

13. FAIR VALUES OF ASSETS AND LIABILITIES

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

The following summarizes assets and liabilities measured at fair value at December 31, 2022 and 2021:

	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
2022				
Assets measured on a recurring basis:				
Investment securites available-for-sale	$ 2,093,317	$ 148,598	$ 1,944,719	$ -
Marketable equity securities	50,454	50,454	-	-
Derivative assets	10,151	-	10,151	-
Liabilities measured on a recurring basis:				
Derivative liabilities	10,152	-	10,152	-
Assets measured on a non-recurring basis:				
Impaired loans	349	-	-	349
2021				
Assets measured on a recurring basis:				
Investment securites available-for-sale	$ 2,319,682	$ 79,253	$ 2,240,429	$ -
Marketable equity securities	72,099	72,099	-	-
Derivative assets	12,762	-	12,762	-
Liabilities measured on a recurring basis:				
Derivative liabilities	12,774	-	12,774	-
Assets measured on a non-recurring basis:				
Impaired loans	8,565	-	-	8,565

Securities

Fair value measurements are obtained from a third-party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 are based on quoted market prices or per share net asset values in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Derivative Assets and Liabilities

Interest rate swaps are stated at estimated fair value based on their notional amount, amortization, tenor, payment frequency, day count fraction, fixed and floating rates, and other factors. The present value of expected cash flow differences is calculated based on prevailing market and contractual swap rates. The valuations of interest rate swaps are reviewed on a frequent basis. These valuations are performed by an independent appraiser consistent with market practice of the valuation derivatives.

The fair value of the risk participation agreements is based on the fair value of the interest rate swap and the probability of default. Significant increases (decreases) in probability of default would result in a significantly higher (lower) fair value measurement.

Impaired Loans and Other Real Estate Owned

Certain impaired loans are adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses. Fair value for such impaired loans and other real estate owned is measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. Losses on impaired loans for the years ended December 31, 2022 and 2021 were $912 and $138, respectively.

Certain properties in other real estate owned are adjusted to the fair value using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. The loss on other real estate owned represents adjustments in valuation recorded during the time period indicated and not for losses incurred on sales. There were no fair value write-downs for properties taken into other real estate owned and still held at the end of the year during the years ended December 31, 2022 and 2021.

14. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

The Company is a party to interest rate derivatives that are not designated as hedging instruments. These derivatives relate to interest rate swaps that the Company enters into with borrowers to allow borrowers to convert variable rate loans to a fixed rate. The Company pays interest to the borrower at a floating rate on the notional amount and receives interest from the borrower at a fixed rate for the same notional amount. At the same time the interest rate swap is entered into with the borrower, an offsetting interest rate swap is entered into with another financial institution. The Company pays the other financial institution interest at the same fixed rate on the same notional amount as the swap entered into with the borrower, and receives interest from the financial institution for the same floating rate on the same notional amount. The changes in the fair value of the swaps offset each other, except for the credit risk of the counterparties, which is determined by taking into consideration the risk rating, probability of default and loss given default for all counterparties. Transaction fees received are recognized in earnings at the time of the transaction. The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in a net receiving position. The Company anticipates that the counterparties will be able to satisfy their obligations under the agreements.

As of December 31, 2022 and 2021, respectively, the Company had 21 and 31 outstanding interest rate swaps with customers and a correspondent bank associated with its lending activities that are not designated as hedges.

At December 31, 2021, the Company had interest-bearing deposits amounting to $14,310 pledged as collateral for the benefit of the correspondent bank on its interest rate swaps. There were no interest-bearing deposits pledged for collateral at December 31, 2022.

At December 31, 2022, the correspondent bank had interest-bearing deposits amounts to $9,100 pledged as collateral for the benefit of the Company on its interest rate swaps.

(Dollars in Thousands)

At December 31, 2022 and 2021, the following floating interest rate swaps were outstanding with customers:

	2022	2021
Notional amount	$ 166,545	$ 238,616
Receive fixed rate (annual weighted average)	4.22%	4.16%
Pay variable rate (annual weighted average)	3.44%	1.99%
Weighted average remaining term	5.1 years	5.2 years
Unrealized fair value gain	$ -	$ 13,283
Unrealized fair value loss	$ (10,151)	$ (521)

At December 31, 2022 and 2021 the following offsetting fixed interest rate swaps were outstanding with a correspondent bank:

	2022	2021
Notional amount	$ 166,545	$ 238,616
Pay fixed rate (annual weighted average)	4.22%	4.16%
Receive variable rate (annual weighted average)	3.44%	1.99%
Weighted average remaining term	5.1 years	5.2 years
Unrealized fair value loss	$ -	$ (13,283)
Unrealized fair value gain	$ 10,151	$ 521

Risk Participation Agreements

The Company has risk participation agreements that obligate the Company to make payments under these agreements if the customers default on their obligation to perform under derivative swap contracts with a third party. The following is a summary of risk participation agreements sold at December 31, 2022 and 2021:

	2022	2021
Notional amount	$ 85,886	$ 78,461
Unrealized fair value loss	$ (1)	$ (12)
Weighted average remaining term	8.4 years	9.5 years

Based on the internal risk rating process of underlying third parties to swap contracts, the risk participation agreements were all performing at December 31, 2022 and 2021, which indicates the expected risk of default is currently low. Assuming all of the underlying swap counterparties defaulted at December 31, 2022, the exposure from risk participation agreements would be $133 based on the Company’s obligation for the fair value of the underlying swaps.

15. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 3, 2023, the date the consolidated financial statements were available to be issued.

Form FR Y-6
Middlesex Bancorp, MHC
Fiscal Year Ending December 31, 2022

Report Item 4: Insiders
(1), (2), (3)(a,b,c), and (4)(a,b,c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held. (list names of companies and percentage of voting securities held)
Peter M. Burke Natick, Ma	Developer Real Estate Broker	Trustee	Director Middlesex Savings Bank	McB LLC Partner	N/A	N/A	McB LLC 50% McB Realty Trust 50% Navy Yard Realty Trust 50% Thula Thula Realty Trust 50%
Arthur J. Chaves Natick, MA	Accountant	Trustee	Director Middlesex Savings Bank	Treasurer/COO Coan, Inc.	N/A	N/A	N/A
Arthur B. Fair III Natick, MA	Insurance Agent	Trustee	Director Middlesex Savings Bank	President Fair & Yeager Insurance Agency, Inc.	N/A	N/A	Fair Realty LLC
Carolyn Hatch Flood Concord, MA	Manager	Trustee	Director Middlesex Savings Bank	Mass Audubon Drumlin Farm Wildlife Sanctuary	N/A	N/A	N/A
Donna M. Gallo Natick, MA	Professor	Trustee	Director Middlesex Savings Bank	Clark University	N/A	N/A	N/A
Paul J. Gerry, Jr. Natick, MA	CPA	Trustee	Director Middlesex Savings Bank	Partner Gray, Gray & Gray, LLP	N/A	N/A	Gray Private Wealth LLC 11.25% Gray, Gray, & Gray, LLP 12.5%
Kenneth C. A. Isaacs Lincoln, MA	Investment Advisor	Trustee	Director Middlesex Savings Bank	Investment Advisor Massachusetts Finance Group	N/A	N/A	Massachusetts Finance Group 100%
Kelly A. Kober Medway, MA	Food Broker	Trustee	Director Middlesex Savings Bank	Director of Customer Svc & Administration Old Colony Foods, Inc.	N/A	N/A	N/A
Brian D. Lanigan Concord, MA	Retired	Trustee	Director Middlesex Savings Bank	N/A	N/A	N/A	N/A
Michael G. McAuliffe Framingham, MA	N/A	Chairman, President & CEO	Chairman, President & CEO Middlesex Savings Bank	N/A	N/A	N/A	
Ian E. Rubin Wayland, MA	Consultant	Trustee	Director Middlesex Savings Bank	Forrester - Solutions Partner	N/A	N/A	N/A
Sean F. Burke Townsend, MA	N/A	Executive Vice President Chief Technology Officer	Executive Vice President Chief Technology Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A
Cheryl Corman Millis, MA	N/A	Executive Vice President Chief Human Resources Officer	Executive Vice President Chief Human Resources Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A
Dana Neshe Framingham, MA	N/A	Executive Vice President Chief Operating Officer	Executive Vice President Chief Operating Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (include partnerships) if 25% or more of voting securities are held. (list names of companies and percentage of voting securities held)
Brian D. Stewart Walpole, MA	N/A	Executive Vice President Chief Financial Officer	Executive Vice President Chief Financial Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A
Jon Auger Grafton, MA	N/A	Executive Vice President Chief Retail Lending Officer	Executive Vice President Chief Retail Lending Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A
Ian D. Hecker Wayland, MA	N/A	Executive Vice President General Counsel	Executive Vice President General Counsel Middlesex Savings Bank	N/A	N/A	N/A	N/A
Michael J. O'Riordan Franklin, MA	N/A	Senior Vice President Senior Credit Officer	Senior Vice President Senior Credit Officer Middlesex Savings Bank	N/A	N/A	N/A	N/A
Michael Sullivan North Attleboro, MA	N/A	Senior Vice President Director of Internal Audit	Senior Vice President Director of Internal Audit Middlesex Savings Bank	N/A	N/A	N/A	N/A