2019 FORM Y-6

ASSABET VALLEY BANCORP
42 MAIN STREET
HUDSON, MA 01749
FISCAL YEAR ENDING DECEMBER 31, 2019

Report Item 1A *Form 10-K*

N/A

Report Item 1B *Annual Reports*

Enclosed

Report Item 2 *Organizational Chart*

Enclosed

Report Item 2bDomestic Branch Listing

Enclosed

Report Item 3 *Shareholders*

Assabet Valley Bancorp is a mutually owned holding company. There are no shareholders.

Report Item 4 *Directors and Officers*

Enclosed report

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)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, Mark E. O'Connell
Name of the Holding Company Director and Official

President & 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.

mark o'connell
mark o'connell (May 26, 2020 13:21 EDT)
Signature of Holding Company Director and Official

03/30/2020
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

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

December 31, 2019
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Assabet Valley Bancorp
Legal Title of Holding Company

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

Hudson	Massachusetts	01749
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Karen E. Moe	VP Financial Analyst
Name	Title

978-567-3582
Area Code / Phone Number / Extension

978-567-3601
Area Code / FAX Number

k.moe@avidiabank.com
E-mail Address

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 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

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

City | State | Zip Code

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Physical Location (if different from mailing address)

Assabet Valley Bancorp and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Table of Contents

Board of Directors and Audit Committee
Assabet Valley Bancorp and Subsidiary

We have audited the accompanying consolidated financial statements of Assabet Valley Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of net income, comprehensive income, changes in capital and cash flows for the year then ended, and the related notes to the consolidated financial statements. We also have audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions), as of December 31, 2019, based on criteria established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of consolidated financial statements also includes evaluating the circumstances circumstances. An audit of consolidated financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act, our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with U.S. generally accepted accounting principles and with the call report instructions. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Assabet Valley Bancorp and Subsidiary as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Also in our opinion, Assabet Valley Bancorp and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in the Internal Control—Integrated Framework issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-01, *Financial Instruments*. This new accounting guidance requires equity securities to be measured at fair value with changes in fair value recognized in net income. Our opinion is not modified with respect to this matter.

Other Matter

We did not perform auditing procedures on Management's Assessment of Compliance with Designated Laws and Regulations, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Financial Statements

The consolidated financial statements of Assabet Valley Bancorp and Subsidiary as of and for the year ended December 31, 2018 were audited by other auditors whose report dated March 29, 2019, expressed an unmodified opinion on those statements.

Portland, Maine

March 26, 2020

MANAGEMENT REPORT REGARDING STATEMENT OF MANAGEMENT'S RESPONSIBILITIES, COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS, AND MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Statement of Management's Responsibilities

The management of Assabet Valley Bancorp and Subsidiary (the Company) is responsible for preparing the Company's annual consolidated financial statements in accordance with U.S. generally accepted accounting principles; for designing, implementing, and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2019. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2019.

Management's Assessment of Internal Control over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with

U.S. generally accepted accounting principles and financial statements for regulatory purposes, i.e., call report instructions. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and financial statements for regulatory reporting purposes, and that receipts and expenditures of the

Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

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

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of December 31, 2019, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control - Integrated Framework* (COSO). Based upon its assessment, management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, is effective based on the criteria established in COSO.

The Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of December 31, 2019, has been audited by Berry Dunn McNeil & Parker, LLC, an independent public accounting firm, as stated in their report dated March 26, 2020.

Assabet Valley Bancorp and Subsidiary

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands)

	2019	2018
Assets		
Cash and due from banks	$ 54,932	$ 32,708
Federal funds sold	5,654	265
Cash and cash equivalents	60,586	32,973
Securities available for sale, at fair value	226,711	257,249
Equity securities, at fair value	20,097	-
Securities held to maturity, at amortized cost (fair value $1,455 in 2019 and $1,423 in 2018)	1,514	1,533
Federal Home Loan Bank stock, at cost	2,741	5,330
Loans held for sale	2,704	297
Loans, net of allowance for loan losses of $12,340 in 2019 and $12,512 in 2018	1,274,629	1,221,678
Premises and equipment, net	20,088	19,389
Bank-owned life insurance	25,614	25,078
Accrued interest receivable	4,815	4,805
Net deferred tax asset	3,478	5,897
Foreclosed assets	-	1,958
Goodwill	11,936	11,936
Mortgage servicing rights	2,247	2,966
Other assets	7,207	6,021
	$1,664,367	$1,597,110
Liabilities and Capital		
Deposits	$1,432,797	$1,338,526
Federal Home Loan Bank advances	30,000	72,983
Subordinated debt	24,757	24,664
Mortgagors' escrow accounts	2,771	2,516
Due to broker	-	2,010
Accrued expenses and other liabilities	17,113	16,075
Total liabilities	1,507,438	1,456,774
Commitments and contingencies (Notes 3, 8, 9, 11 and 12)		
Capital:		
Retained earnings	155,028	140,719
Accumulated other comprehensive income (loss)	1,901	(383)
Total capital	156,929	140,336
	$1,664,367	$1,597,110

The accompanying notes are an integral part of these consolidated financial statements.

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Net Income

Years Ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Interest and dividend income:		
Loans, including fees	$ 63,234	$ 60,730
Securities	6,514	5,270
Other	745	431
Total interest and dividend income	70,493	66,431
Interest expense:		
Deposits	8,805	6,298
Federal Home Loan Bank advances	1,722	2,507
Repurchase agreements	-	100
Subordinated debt	1,469	1,483
Total interest expense	11,996	10,388
Net interest income	58,497	56,043
Provision for loan losses	2,825	3,700
Net interest income, after provision for loan losses	55,672	52,343
Non-interest income:		
Customer service fees	1,503	1,449
Net gain on sale of securities available for sale	102	1,130
Gain on restricted stock	-	314
Net recognized gains on equity securities	4,769	-
Merchant processing fees	3,974	2,994
Income on cash surrender value of bank-owned life insurance	535	538
Mortgage banking income	1,266	2,613
Investment commissions	965	1,040
Debit card income	1,593	1,399
Credit card income	1,363	794
Other	1,966	1,962
Total non-interest income	18,036	14,233
Non-interest expense:		
Salaries and employee benefits	26,220	24,848
Occupancy and equipment	5,396	5,160
Data processing	9,903	6,809
Professional fees	2,025	2,012
Merchant processing	3,398	2,576
Deposit insurance	883	1,125
Advertising	1,227	795
Telecommunications	460	501
Problem loan and foreclosed real estate, net	206	385
Other general and administrative	7,864	6,355
Total non-interest expense	57,582	50,566
Income before income tax expense	16,126	16,010
Income tax expense	3,789	4,414
Net income	$ 12,337	$ 11,596

The accompanying notes are an integral part of these consolidated financial statements.

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Net income	$ 12,337	$ 11,596
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized holding gains (losses) arising during period	5,954	(2,776)
Reclassification adjustment for gains realized in income [1]	(102)	(1,130)
	5,852	(3,906)
Tax effect	(1,596)	969
Other comprehensive income (loss)	4,256	(2,937)
Comprehensive income	$ 16,593	$ 8,659

[1] Amounts are included in net gain on sale of securities available for sale on the Consolidated Statements of Net Income. Income tax expense associated with the reclassification adjustment for the years ended December 31, 2019 and 2018 was $29,000 and $316,000, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Changes in Capital

Years Ended December 31, 2019 and 2018

(In thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2017	$ 129,123	$ 2,554	$ 131,677
Comprehensive income	11,596	(2,937)	8,659
Balance at December 31, 2018	140,719	(383)	140,336
Change in accounting principle, net of tax (see note	1,972	(1,972)	-
Comprehensive income	12,337	4,256	16,593
Balance at December 31, 2019	$ 155,028	$ 1,901	$ 156,929

The accompanying notes are an integral part of these consolidated financial statements.

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Net income	$ 12,337	$ 11,596
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	2,107	1,972
Provision for loan losses	2,825	3,700
Deferred income tax expense (benefit)	887	(225)
Net realized gain on securities available for sale	(102)	(1,130)
Gain on restricted stock	-	(314)
Net recognized gains on equity securities	(4,769)	-
Gain on sale of loans	(1,472)	(1,179)
Loss on sale of bank premises and equipment	1	-
(Gain) loss on sale of foreclosed real estate	(174)	75
Net amortization of securities	142	154
Proceeds from sale of loans	20,617	51,777
Loans originated for sale	(21,552)	(47,086)
Amortization of subordinated debt issuance costs	93	71
Increase in cash surrender value of bank-owned life insurance	(535)	(538)
Net change in:		
Interest receivable	(10)	(365)
Other, net	598	(1,819)
Net cash provided by operating activities	10,993	16,689
Cash flows from investing activities:		
Securities available for sale		
Maturities, principal payments, calls and sales	128,151	43,658
Purchases	(108,131)	(94,773)
Equity securities		
Proceeds from sales	8,170	-
Purchases	(7,149)	-
Increase in low income housing investment	(2,255)	(169)
Redemption of Federal Home Loan Bank stock	7,559	4,377
Purchases of Federal Home Loan Bank stock	(4,970)	-
Loan originations, net of principal payments	(56,290)	(46,012)
Death benefit proceeds from bank-owned life insurance	-	434
Purchases of premises and equipment	(2,807)	(1,834)
Proceeds from sale of foreclosed real estate	2,799	455
Net cash used in investing activities	(34,923)	(93,864)

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from financing activities:		
Net change in deposits	94,271	234,586
Net change in repurchase agreements	-	(54,410)
Net change in short-term Federal Home Loan Bank advances	-	(36,854)
Proceeds from issuance of long-term Federal Home Loan Bank advances	10,000	72,983
Repayment of long-term Federal Home Loan Bank advances	(52,983)	(146,719)
Net change in mortgagors' escrow account	255	477
Net cash provided by financing activities	51,543	70,063
Net change in cash and cash equivalents	27,613	(7,112)
Cash and cash equivalents at beginning of year	32,973	40,085
Cash and cash equivalents at end of year	$ 60,586	$ 32,973
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	$ 11,901	$ 10,416
Income taxes paid, net of refunds	1,740	5,404
Loans transferred to foreclosed assets	667	1,708
Common stock received in NRS exchange for CBU	-	153

The accompanying notes are an integral part of these consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Assabet Valley Bancorp (the "Company"), a mutual holding company, and its wholly-owned subsidiary, Avidia Bank (the "Bank") and its subsidiaries, Hudson Security Corporation, Eli Whitney Securities Corporation and 42 Main Street Corporation. The Bank is a state-chartered savings bank that provides depository and loan products to individual and corporate customers primarily in the central Massachusetts region. Hudson Security Corporation and Eli Whitney Securities Corporation engage in the investment of securities. 42 Main Street Corporation was established to hold, manage and sell the Bank's foreclosed real estate property. All significant intercompany balances and transactions have been eliminated in consolidation.

Management has evaluated subsequent events through March 26, 2020, which is the date the financial statements were available to be issued. Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management expects this matter may have a material financial impact on the Company's financial position and results of future operations, such potential impact cannot be reasonably estimated as of March 26, 2020.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the realizability of deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days.

Reclassification

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Equity securities prior to 2019 and debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax. Effective January 1, 2019, equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resorting from observable price changes in orderly transactions for the identical or a similar investment.

Purchase premiums are recognized in interest income using the interest method over the lesser of the expected terms or the period to the earliest call date of the securities. Purchase discounts are recognized in interest income using the interest method through the maturity of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Company evaluates all securities classified as available for sale or held to maturity with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary ("OTTI").

OTTI is required to be recognized if (1) the Company intends to sell the security; (2) it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For 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, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income (loss), net of applicable taxes.

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. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. At its discretion, the FHLB may declare dividends on the stock. As of December 31, 2019 and 2018, no impairment has been recognized.

Tax Credit Investments

The Company invests in qualified affordable housing projects through limited liability entities to obtain tax benefits and to contribute to its local community. The Company has elected to account for these investments using the proportional amortization method whereby the amortization of the investment in the limited liability entity is in proportion to the tax credits utilized each year and amortization is recognized in the consolidated statement of net income as a component of income tax expense. These investments are reported in other assets on the consolidated balance sheets in the amounts of $3,745,000 and $1,506,000 at December 31, 2019 and 2018, respectively.

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout central Massachusetts. The ability of the Company's debtors to honor their contracts is dependent upon real estate values and general economic conditions in this area.

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

The accrual of interest on loans, excluding credit card loans, is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Credit cards are typically charged off no later than 120 days past due.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, home equity lines of credit ("HELOC") and second mortgages, commercial real estate, construction, commercial, personal, and credit cards. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2019 or 2018.

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 real estate – Loans in this segment consist of 1-4 family residential real estate loans. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. Loans in this segment are collateralized by owner-occupied residential real estate and 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 in this segment.

HELOC and second mortgages – The Company generally has first or second liens on the property securing the loans in this segment and repayment is dependent on the credit quality of the individual borrower.

Commercial real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties are impacted by the economy and vacancy rates, which thus will have an effect on the credit quality in this segment.

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

Commercial loans – 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. The economy and consumer spending have an effect on the credit quality in this segment.

Personal and credit card loans – Loans in these segments consist of personal loans and credit cards. These loans may be secured or unsecured and repayment is dependent on the credit quality of the individual borrower.

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. A substantial majority of the Company's loans which have been identified as impaired have been measured by the fair value of the existing collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures unless such loans are subject to a troubled debt restructuring agreement.

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

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.

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in non-interest income on the consolidated statement of net income and are not subject to income taxes.

Credit-Related Financial Instruments

In the ordinary course of business, the Company enters into commitments to extend credit. Such financial instruments are recorded as assets when they are funded.

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the estimated proceeds to be received, less cost to sell. To the extent that impairment is identified, the Company would reduce the carrying value of such assets. To date, the Company has not experienced any such impairment.

Premises and Equipment

Land is carried at cost. Buildings, leasehold improvements and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write downs are included in problem loan and foreclosed real estate, net on the consolidated statement of net income.

Goodwill

Avidia Bank was created by a merger between Hudson Savings Bank and Westborough Bank in 2007. Goodwill of $11,936,000 resulting from the merger is not amortized but is evaluated for impairment on an annual basis. Impairment of goodwill is recognized in earnings. As of December 31, 2019, no impairment has been recognized.

Loan Servicing

Servicing rights are recognized as separate assets when rights are acquired through sale of financial assets and recorded at fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Capitalized servicing rights are reported in other assets. Changes in fair value are reported in mortgage banking income.

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 loan. In order to be eligible for sales treatment, the transferred 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 representations and warranties and no loan holder may have the right to pledge or exchange the entire loan.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws in the period of enactment. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company does not have any uncertain tax positions at December 31, 2019 and 2018 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, 2019 and 2018.

Comprehensive Income (Loss)

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

The components of accumulated other comprehensive income (loss), included in capital at December 31, 2019 and 2018, are as follows:

	December 31,	
	2019	2018
	(In thousands)	
Net unrealized gain (loss) on securities available for sale	$ 2,620	$ (684)
Tax effect	(719)	301
Net-of-tax amount	$ 1,901	$ (383)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606).* The amendments in this ASU create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this ASU and related guidance at January 1, 2019, and there was no impact to the consolidated financial statements as of and for the year ended December 31, 2019.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to GAAP include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. On January 1, 2019 the Company adopted this ASU. Upon adoption, equity securities previously classified as available for sale are presented separately on the balance sheet as equity securities. Net unrealized gains of approximately $1,972,000, net of tax, related to these securities were reclassified from accumulated other comprehensive loss to retained earnings as of January 1, 2019. Upon adoption, the amendments related to equity securities without readily determinable fair value (including disclosure requirements) are being applied prospectively to equity investments that existed at January 1, 2019.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU is intended to improve financial reporting about leasing transactions and the key provision impacting the Company is the requirement for a lessee to record a right-to-use asset and a liability representing the obligation to make lessee payments for long-term operating leases. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

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. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Management is currently evaluating the need for an outside vendor, the data available and the potential impact this ASU will have on its consolidated financial statements which could be material.

2. SECURITIES

The amortized cost and fair value of securities available for sale and held to maturity, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2019				
Securities Available for Sale				
Debt securities:				
U.S. Government and government-sponsored enterprise obligations	$ 90,879	$ 1,900	$ (107)	$ 92,672
Municipal securities	4,104	77	(11)	4,170
Residential mortgage-backed securities[1]	125,947	1,454	(637)	126,764
Other	3,161	44	(100)	3,105
Total securities available for sale	$224,091	$ 3,475	$ (855)	$ 226,711
Securities Held to Maturity				
Corporate bonds	$ 1,514	$ 3	$ (62)	$ 1,455

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2018				
Securities Available for Sale				
Debt securities:				
U.S. Government and government-sponsored enterprise obligations	$ 96,526	$ 239	$ (882)	$ 95,883
Municipal securities	10,106	49	(109)	10,046
Residential mortgage-backed securities[1]	134,453	445	(2,775)	132,123
Other	3,047	-	(199)	2,848
Equity securities:				
Common stock	13,801	3,592	(1,044)	16,349
Total securities available for sale	$257,933	$ 4,325	$ (5,009)	$ 257,249
Securities Held to Maturity				
Corporate bonds	$ 1,533	$ -	$ (110)	$ 1,423

[1] Residential mortgage-backed securities are issued by government-sponsored enterprises or federal agencies.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2019 follows. Expected maturities will differ from contractual maturities because the issuers have in certain instances, the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within 1 year	$ 20,901	$ 20,860	$ 1,011	$ 1,015
After 1 year through 5 years	37,451	37,985	-	-
After 5 years through 10 years	36,124	37,442	-	-
Over 10 years	507	555	503	440
	94,983	96,842	1,514	1,455
Other	3,161	3,105		
Mortgage-backed securities	125,947	126,764	-	-
	$ 224,091	$ 226,711	$ 1,514	$ 1,455

At December 31, 2019, government-sponsored enterprise obligations with a carrying value of $19,800,000 and $18,500,000 at December 31, 2018, were pledged as collateral for borrowings available through the Federal Reserve Bank of Boston discount window. (See Note 6)

For the years ended December 31, 2019 and 2018, proceeds from sales of securities available for sale amounted to $69,855,000 and $14,789,000, respectively. Gross realized gains amounted to $422,000 and $1,696,000, respectively. Gross realized losses amounted to $320,000 and $566,000, respectively.

For the year ended December 31, 2018, the Company received cash proceeds and stock shares from its investment in Northeast Retirement Services, Inc. (“NRS”) as a result of Community Bank System, Inc. acquiring NRS. The Company recorded a gain based on the fair value of cash and stock received in the amount of $314,000, which is reported in gain on restricted stock. No proceeds were received for the year ended December 31, 2019.

Information pertaining to securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2019				
Securities Available for Sale				
Debt securities:				
Government-sponsored enterprise obligations	$ 77	$ 14,577	$ 30	$ 11,971
Municipal securities	2	1,318	9	451
Residential mortgage-backed securities	227	36,888	410	26,776
Other	-	-	100	1,901
	$ 306	$ 52,783	$ 549	$ 41,099
Securities Held to Maturity				
Corporate bonds	$ 62	$ 440	$ -	$ -

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2018				
Securities Available for Sale				
Debt securities:				
Government-sponsored enterprise obligations	$ 45	$ 9,435	$ 837	$ 61,633
Municipal securities	5	926	104	5,026
Residential mortgage-backed securities	386	23,968	2,389	70,909
Other	43	1,003	156	1,845
Total debt securities	479	35,332	3,486	139,413
Equity securities:				
Common stock	984	4,715	60	198
	$ 1,463	$ 40,047	$ 3,546	$139,611
Securities Held to Maturity				
Corporate bonds	$ 12	$ 1,018	$ 98	$ 405

The Company's unrealized losses on investments in debt securities at December 31, 2019 relates to 65 investments within the financial services sector with aggregate depreciation of .82% from the Company's amortized cost basis. The Company's unrealized loss on investments in corporate bonds held to maturity relates to one investment within the financial services sector with aggregate depreciation of 12.4% from the Company's amortized cost basis at December 31, 2019. The Company's unrealized losses on investments in municipal bonds relates to four investments with aggregate depreciation of .62% from the Company's amortized cost basis at December 31, 2019. The contractual terms of these investments do not permit the issuers to settle the security at a price less than the par value of the investments. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the securities would not be settled at a price less than the par value of the investments. The unrealized losses on investments in debt securities is attributable to changes in market interest rates. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of the amortized cost bases, it does not consider these investments to be other-than-temporarily impaired at December 31, 2019.

A summary of unrealized gains related to equity securities as of and for the year ended December 31, 2019 is as follows:

	(In thousands)
Net gains recognized during the year	$ 4,769
Less: Net gains recognized during the year on equity securities sold during the year	(655)
Net unrealized gains recognized during the year on equity securites still held at December 31, 2019	$ 4,114

3. LOANS

A summary of the balances of loans is as follows:

	December 31,	
	2019	2018
	(In thousands)	
Residential real estate:		
1-4 family	$ 321,210	$ 321,554
HELOC and second mortgages	59,362	56,494
Commercial real estate	341,489	336,872
Construction	16,868	20,011
Total mortgage loans on real estate	738,929	734,931
Commercial loans	533,824	486,235
Consumer loans:		
Personal	9,596	8,649
Credit cards	2,837	2,745
Total consumer loans	12,433	11,394
Total loans	1,285,186	1,232,560
Allowance for loan losses	(12,340)	(12,512)
Net deferred loan costs	1,783	1,630
Loans, net	$1,274,629	$1,221,678

The Company has transferred a portion of its originated commercial mortgage 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 (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2019 and 2018, the Company was servicing commercial and commercial mortgage loans for participants aggregating $138,319,000 and $132,557,000, respectively.

Residential real estate mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans serviced for others were $283,135,000 and $317,764,000 at December 31, 2019 and 2018, respectively. Servicing fee income was $952,000 and $959,000 for years ended December 31, 2019 and 2018, respectively. Certain of these loans were sold with recourse provisions. At December 31, 2019, the related maximum contingent recourse liability was $3,259,000, which is not recorded in the consolidated financial statements.

The Company records servicing rights ("MSRs") on residential real estate loans sold and serviced for others. The risks inherent in MSRs relate primarily to changes in prepayments that result from shifts in mortgage interest rates. Effective January 1, 2017, the Company elected to account for MSRs at fair value. The Company obtains valuations from independent third parties to determine the fair value of servicing rights. Key assumptions and inputs used in the estimation of fair value include prepayment speeds, discount rates, default rates, cost to service, and contractual servicing fees. At December 31, 2019, the following weighted average assumptions were used in the calculation of fair value of MSRs: prepayment speed 12.32%, discount rate 10% to 14%, and default rate 0.14%. The following summarizes changes to MSRs during the year ended December 31:

	2019	2018
	(In thousands)	
Balance, beginning of year	$ 2,966	$ 2,517
(Payoffs) additions.	(268)	143
Changes in fair value	(451)	306
Balance, end of year	$ 2,247	$ 2,966

Activity in the allowance for loan losses and allocation of the allowance to loan segments follow:

	Residential Real Estate (In thousands)	HELOC & Second Mtgs	Commercial Real Estate	Construction	Commercial	Consumer & Credit Card	Total
Year Ended December 31, 2019							
Allowance for loan losses:							
Beginning balance	$ 1,028	$ 144	$ 2,450	$ 76	$ 8,406	$ 408	$ 12,512
Provision (credit) for loan losses	33	65	130	50	2,617	(70)	2,825
Loans charged-off	-	(14)	-	-	(3,025)	(312)	(3,351)
Recoveries of loans previously charged-off	2	25	3	-	202	122	354
Ending balance	$ 1,063	$ 220	$ 2,583	$ 126	$ 8,200	$ 148	$ 12,340
At December 31, 2019							
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ 1,048	$ -	$ 1,048
Allowance for non-impaired loans	1,063	220	2,583	126	7,152	148	11,292
Total allowance for loan losses	$ 1,063	$ 220	$ 2,583	$ 126	$ 8,200	$ 148	$ 12,340
Impaired loans	$ 1,891	$ -	$ 1,310	$ -	$ 13,602	$ -	$ 16,803
Non-impaired loans	319,319	59,362	340,179	16,868	520,222	12,433	1,268,383
Total loans	$ 321,210	$ 59,362	$ 341,489	$ 16,868	$ 533,824	$ 12,433	$ 1,285,186
Year Ended December 31, 2018							
Allowance for loan losses:							
Beginning balance	$ 1,351	$ 341	$ 2,246	$ 220	$ 7,397	$ 197	$ 11,752
Provision (credit) for loan losses	(367)	(223)	204	(148)	3,596	638	3,700
Loans charged-off	(21)	-	-	-	(2,650)	(586)	(3,257)
Recoveries of loans previously charged-off	65	26	-	4	63	159	317
Ending balance	$ 1,028	$ 144	$ 2,450	$ 76	$ 8,406	$ 408	$ 12,512
At December 31, 2018							
Allowance for impaired loans	$ -	$ -	$ 1	$ -	$ 1,682	$ -	$ 1,683
Allowance for non-impaired loans	1,028	144	2,449	76	6,724	408	10,829
Total allowance for loan losses	$ 1,028	$ 144	$ 2,450	$ 76	$ 8,406	$ 408	$ 12,512
Impaired loans	$ 1,937	$ 33	$ 2,686	$ -	$ 9,090	$ -	$ 13,746
Non-impaired loans	319,617	56,461	334,186	20,011	477,145	11,394	1,218,814
Total loans	$ 321,554	$ 56,494	$ 336,872	$ 20,011	$ 486,235	$ 11,394	$ 1,232,560

The following is a summary of information pertaining to impaired loans. No additional funds are committed to be advanced in connection with impaired loans at December 31, 2019 or 2018.

	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ 1,891	$ 1,904	
Commercial	1,310	1,651	
Commercial loans	8,301	10,298	
Total	11,502	13,853	
Impaired loans with a valuation allowance:			
Commercial loans	$ 5,301	5,372	$ 1,048
Total	5,301	5,372	1,048
Total impaired loans	$ 16,803	$ 19,225	$ 1,048

	Year Ended December 31, 2019		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Residential real estate:			
Residential 1-4 family	$ 1,913	$ 305	$ -
HELOC and second mortgages	13	2	2
Commercial real estate	1,317	27	17
Commercial loans	12,214	27	255
Total	$ 15,457	$ 361	$ 274

	December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ 1,937	$ 1,948	
HELOC and second mortgages	33	45	
Commercial	1,601	1,877	
Commercial loans	6,092	6,574	
Total	9,663	10,444	
Impaired loans with a valuation allowance:			
Loans secured by real estate:			
Commercial	1,085	1,085	$ 1
Commercial loans	2,998	3,024	1,682
Total	4,083	4,109	1,683
Total impaired loans	$ 13,746	$ 14,553	$ 1,683

	Year Ended December 31, 2018		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Residential real estate:			
Residential 1-4 family	$ 2,470	$ 303	$ 31
HELOC and second mortgages	142	2	11
Commercial real estate	2,659	36	-
Construction	13	1	-
Commercial loans	6,986	84	6
Total	$ 12,270	$ 426	$ 48

Commercial loans include factored accounts receivable in the recorded amount of $4,994,000 and $8,370,000 at December 31, 2019 and 2018, respectively, which is gross of cash reserves. At December 31, 2019 and 2018, cash reserves established from purchase price adjustments in total were $1,317,000 and $1,409,000, respectively. The aging status of these loans and underlying receivables is not presented in the delinquency and nonaccrual disclosure tables. The financing agreements permit the Company to create and maintain from the purchase price of funded receivables a cash reserve in an operating deposit account controlled by the Company. The amount of the cash reserve is determined based on the risk profile of the borrower ad the aging of outstanding funded accounts receivable. The Company may require borrowers to repurchase any funded account receivable that remains unpaid following 120 days after its invoice date. At December 31, 2019, 160 funded accounts receivable unpaid 120 days or more totaled $2,060,000. At December 31, 2018, 141 funded accounts receivable unpaid 120 days or more totaled $1,751,000. One loan in the amount of $806,000 was deemed impaired with no specific reserve in the allowance for loan losses as of December 31, 2018. There were no impairments at December 31, 2019.

The following is a summary of past due and non-accrual loans at December 31, 2019 and 2018:

	December 31, 2019				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Past Due 90 Days or More, Still Accruing	Loans on Non-accrual
			(In thousands)		
Residential real estate:					
Residential 1-4 family	$ -	$ 765	$ 765	$ -	$ 765
HELOC and second mortgages	101	104	205	-	104
Commercial real estate	2,110	546	2,656	-	546
Commercial	1,053	8,130	9,183	-	10,846
Consumer:					
Personal	46	-	46	-	-
Credit cards	25	-	25	-	-
Total	$ 3,335	$ 9,545	$ 12,880	$ -	$ 12,261

	December 31, 2018				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Past Due 90 Days or More, Still Accruing	Loans on Non-accrual
			(In thousands)		
Residential real estate:					
Residential 1-4 family	$ 1,081	$ 981	$ 2,062	$ -	$ 981
HELOC and second mortgages	298	83	381	-	83
Commercial real estate	1,774	1,367	3,141	-	1,947
Commercial	1,092	5,708	6,800	-	6,159
Consumer:					
Personal	6	3	9	-	3
Credit cards	41	-	41	-	-
Total	$ 4,292	$ 8,142	$ 12,434	$ -	$ 9,173

The terms for loan modifications are determined on a loan-by-loan basis. In connection with TDRs, terms may be modified to fit the ability of the borrower to repay in line with their current financial status, which may include a reduction in the interest rate to market rate or below, a change in the term or movement of past due amounts to the back-end of the loan or refinancing. The borrower must meet minimum underwriting criteria to qualify for capitalization of the payment arrearage into the principal balance. TDRs are reported as impaired and nonaccrual loans unless the loan qualified for accruing status at the time of the restructure, or the loan has performed according to the new contractual terms for at least six months. To qualify for accruing status at the time of the restructure, the original loan must have been less than 90 days past due at the time of the restructure and the modification must not have resulted in an impairment loss. Management performs a discounted cash flow calculation to determine the amount of the impairment reserve required on each of the troubled debt restructurings and exercises judgment in determining the amounts and timing of cash flows. Any reserve required is recorded through the provision for loan losses. At December 31, 2019, no additional funds are committed to be advanced in connection with troubled debt restructurings.

Loans that were modified as TDRs during 2019 had a balance of $2,781,000 at December 31, 2019 and loans modified as TDRs during 2018 had a balance of $2,838,000 at December 31, 2018.

There were no residential real estate loans in process of foreclosure at December 31, 2019.

Credit Quality Information

The Company utilizes a ten grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1 – 5: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated M: Loans in this category are typically smaller loans that have met the Company’s underwriting criteria and are monitored based on repayment history. Financial statements and other data may or may not be requested from the borrower.

Loans rated 6-7: Loans in this category are considered “marginally acceptable” and “special mention” respectively. These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 8: Loans in this category 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: Loans in this category 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. All loans rated 9 are impaired and individually evaluated.

Loans rated 10: Loans in this category are considered uncollectible and of such little value that their continuance as a loan is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on substantially all commercial real estate, construction 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. Loans considered transactional in nature, such as residential and consumer, are reviewed on an exception basis with emphasis placed on debt repayment performance. Factored accounts receivable and credit card loans included in commercial loans are not risk rated unless determined to be impaired.

The following tables present the Company's loans by risk rating:

	December 31, 2019		
	Commercial Real Estate	Commercial	Construction
		(In thousands)	
Pass	$ 330,481	$ 494,840	$ 16,528
Special Mention	2,324	12,895	340
Substandard	8,684	14,729	-
Doubtful	-	6,247	-
Loss	-	82	-
Not rated	-	5,031	-
	$ 341,489	$ 533,824	$ 16,868

	December 31, 2018		
	Commercial Real Estate	Commercial	Construction
		(In thousands)	
Pass	$ 316,412	$ 460,815	$ 20,011
Special Mention	6,700	6,951	-
Substandard	13,760	9,030	-
Doubtful	-	4,400	-
Loss	-	149	-
Not rated	-	4,890	-
	$ 336,872	$ 486,235	$ 20,011

Management monitors residential real estate and consumer loans based on delinquency reports.

4. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment is as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Cost:		
Land	$ 2,735	$ 1,964
Buildings	13,926	14,601
Leasehold improvements	9,112	8,571
Furniture and equipment	19,300	18,317
Construction in process	937	931
	46,010	44,384
Accumulated depreciation and amortization	(25,922)	(24,995)
	$ 20,088	$ 19,389

Construction in process primarily represents the build out of a new location as of December 31, 2019. Depreciation and amortization expense for the years ended December 31, 2019 and 2018 amounted to $2,107,000 and $1,972,000, respectively.

5. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
NOW and demand	$ 451,191	$ 406,846
Money market	268,828	330,246
Regular and other savings	127,628	128,800
Brokered deposits	367,747	258,920
Total non-certificate accounts	1,215,394	1,124,812
Term certificate accounts of $250,000 and greater	65,300	61,768
Term certificate accounts less than $250,000	152,103	151,946
Term certificate accounts	217,403	213,714
Total deposits	$ 1,432,797	$ 1,338,526

A summary of the weighted average rate of certificate accounts by maturity is as follows:

	December 31, 2019		December 31, 2018	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 108,275	1.78%	$ 99,376	1.42%
Over 1 year to 2 years	66,274	2.43	39,842	1.81
Over 2 years to 3 years	13,832	2.12	39,983	2.54
Over 3 years to 4 years	22,752	2.37	8,972	2.08
Over 4 years to 5 years	6,270	2.60	25,541	2.36
	$ 217,403	2.08%	$ 213,714	1.84%

Brokered deposits in non-certificate accounts consist of health savings and demand deposit accounts at market interest rates.

6. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Federal Home Loan Bank of Boston advances consist of the following:

	December 31, 2019		December 31, 2018	
Maturity	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 10,000	2.64%	$ 9,237	2.46%
Over 1 year to 2 years	-	-	13,235	1.77
Over 2 years to 3 years [1]	10,000	3.06	10,000	1.47
Over 3 years to 4 years	-	-	26,613	1.61
Over 4 years to 5 years	-	-	-	-
Thereafter [2]	10,000	1.21	13,898	1.53
Subtotal FHLB advances	$ 30,000	2.30%	$ 72,983	1.71%

[1] At December 31, 2019, includes one advance amounting to $10,000,000 with a weighted average rate of 3.06% that is callable by the FHLB during fiscal year 2020.

[2] At December 31, 2019, includes one advance amounting to $10,000,000 with a rate of 1.21% that is callable by the FHLB during fiscal year 2021.

The Bank also has an available $500,000 line-of-credit with the FHLB at an interest rate that adjusts daily. There were no advances outstanding under this line-of-credit at December 31, 2019 and 2018. Borrowings under the line are limited to 2% of the Bank's total assets. All borrowings from the FHLB are secured by a blanket lien on the Company's residential real estate loans and certain commercial real estate loans in accordance with the FHLB's policy requirements for qualified collateral.

The Bank also has $18,000,000 in available lines-of-credit with correspondent banks. There were no advances outstanding under these lines-of-credit at December 31, 2019 and 2018.

The Bank 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 Bank under this agreement (See Note 2). At December 31, 2019 and 2018, there were no borrowings outstanding under this agreement.

7. SUBORDINATED DEBT

On July 31, 2017, the Company issued $25,000,000 of subordinated debt to institutional investors. The subordinated debt is unsecured and subordinated on liquidation as to principal and interest to all claims against the Company that have the same or higher priority as deposit accounts. The subordinated debt is included in capital of the Bank. At the Company, the subordinated debt is classified as a liability but included in Tier 2 capital for regulatory capital. The Company used the subordinated debt to infuse capital into the Bank in the form of common equity to support capital levels and further growth and for general corporate purposes. The subordinated debt is payable in full by August 2027; earlier prepayment is permitted after five years. Interest is paid semi-annually at a fixed rate of 5.50% until August 2, 2022 and thereafter is variable with quarterly adjustments equal to LIBOR plus 360 basis points. A comparable alternative to LIBOR has already been determined for when updates to the index are no longer available. For the years ended December 31, 2019 and 2018, interest expense on the subordinated debt amounted to $1,376,000 and $1,390,000, respectively, and amortization of debt issuance cost was $93,000 and $93,000, respectively. At December 31, 2019 and 2018, the recorded balance of this debt is $24,757,000 and $24,664,000, respectively, which is net of debt issuance costs. Debt issuance costs are being amortized to interest expense over a five-year period.

8. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31, 2019	2018
	(In thousands)	
Current tax provision:		
Federal	$ 1,995	$ 3,240
State	907	1,399
	2,902	4,639
Deferred tax expense (benefit):		
Federal	865	(109)
State	22	(92)
Change in valuation allowance	-	(24)
	887	(225)
Total income tax expense	$ 3,789	$ 4,414

The reasons for the differences between tax expense computed at the statutory federal income tax rate and the recorded tax expense are summarized as follows:

	Years Ended December 31, 2019	2018
	(In thousands)	
Income tax expense at statutory federal tax rate of 21% in 2019 and 2018	$ 3,387	$ 3,362
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	734	1,032
Tax exempt income	(146)	(152)
Dividends received deduction	(42)	(39)
Life insurance income	(112)	(132)
Change in valuation allowance	-	(16)
Other, net	(32)	359
Income tax expense	$ 3,789	$ 4,414

The components of the net deferred tax asset are as follows:

	December 31,	
	2019	2018
	(In thousands)	
Allowance for loan losses	$ 3,469	$ 3,517
Employee benefit plans	2,643	2,319
Accrued expenses	873	1,226
Non-accrual interest	61	85
Depreciation and amortization	5	87
Net unrealized loss on securities	-	301
Impairment loss on securities	52	52
	7,103	7,587
Valuation allowance	(20)	(20)
Deferred tax assets	7,083	7,567
Net unrealized gain on debt securities	(719)	-
Deferred loan costs, net	(501)	(458)
Mortgage servicing rights	(750)	(926)
Partnership investments	(199)	(147)
Net unrealized gain on equity securities	(1,353)	-
Other	(83)	(139)
Deferred tax liabilities	(3,605)	(1,670)
Net deferred tax asset	$ 3,478	$ 5,897

A valuation allowance is provided when it is more likely than not that some portion of the gross deferred tax asset will not be realized. At December 31, 2019 and 2018, a valuation allowance was recorded related to the federal and state deferred tax asset on unrealized capital losses in the form of other than temporarily impaired write-downs of securities. Management believes that the remaining net deductible temporary differences which give rise to the net deferred tax asset 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.

For each of the years ended December 31, 2019 and 2018, the Company recognized $271,000 in tax benefits related to affordable housing tax credits.

At December 31, 2019, the Company's retained earnings includes approximately $3,528,000 of allowance for loan losses, representing the base year amount, for which income taxes have not been provided. 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 subjected to taxation in the fiscal year in which used. As the Company intends to use the reserve solely to absorb loan losses, a deferred tax liability of approximately $992,000 has not been provided.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under applicable statutes of limitations by the Internal Revenue Service and the Massachusetts Department of Revenue Administration for years ended December 31, 2016 through 2019.

9. OTHER COMMITMENTS AND CONTINGENCIES

Leases

Pursuant to the terms of noncancelable lease agreements pertaining to banking premises, the Company had the following operating lease obligations at December 31, 2019:

Years Ending	Lease Obligations (In thousands)
2020	$ 478
2021	479
2022	440
2023	386
2024	364
Thereafter	2,986
	$ 5,133

Certain leases contain renewal options and obligate the Company for common building maintenance. Rent expense for the years ended December 31, 2019 and 2018 amounted to $478,000 and $488,000, respectively, and is included in occupancy and equipment expenses in the accompanying consolidated statements of net income.

Reserve Balance

The Bank is required to maintain reserve balances with the Federal Reserve Bank. At December 31, 2019 and 2018, the reserve requirement for the Bank was $35,585,000 and $22,605,000, respectively.

Employment Agreements

The Company has entered into employment agreements with certain executives. The agreements generally provide for specified minimum levels of annual compensation and benefits for a certain period of time. In addition, the agreements provide for specified lump sum payments and the continuation of benefits upon certain events of termination, as defined.

Litigation

The Company is involved in various legal proceedings arising in the normal course of business, none of which is believed by management to have merit. Based on the advice of legal counsel, management believes that these matters are not material to the financial condition or operations of the Company.

Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the accompanying consolidated balance sheets.

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

Off-balance-sheet financial instruments whose contract amounts represent credit risk include the following:

	December 31,	
	2019	2018
	(In thousands)	
Unadvanced lines of credit	$ 166,628	$ 181,362
Unadvanced construction loans	13,214	16,365
Residential mortgage loan commitments	8,765	19,933
Commercial and mortgage loan commitments	4,337	6,568
Standby letters of credit	2,672	1,477

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of the credit is based on management's credit evaluation of the customer. Collateral held varies but may include residential real estate, inventory, property, plant and equipment, and income-producing commercial real estate.

Letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Substantially all letters-of-credit have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company fully collateralized those commitments for which collateral is deemed necessary.

10. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to $1,744,000 and $3,473,000 at December 31, 2019 and 2018, respectively. Such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated customers, and did not involve more than normal risk of collectability. Deposits from related parties held by the Company at December 31, 2019 and 2018 amounted to $4,136,000 and $3,011,000, respectively.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

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. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets were phased in over several years. The required minimum conservation buffer was 1.875% on December 31, 2018 and 2.5% on December 31, 2019. The Bank's capital conservation buffer was 5.6% and 5.1% at December 31, 2019 and 2018, respectively.

Capital ratios and requirements of the Company approximate those of the Bank. As of December 31, 2019 and 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank must maintain minimum Total Risk-Based Capital, 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 the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2019 and 2018 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2019:						
Total Risk-Based Capital:	$ 175,225	13.6%	$ 103,209	8.0%	$ 129,011	10.0%
Common Equity Tier 1 Risk-Based Capital:	162,885	12.6%	58,055	4.5%	83,857	6.5%
Tier 1 Risk-Based Capital:	162,885	12.6%	77,407	6.0%	103,209	8.0%
Tier 1 Leverage Capital:	162,885	9.9%	65,908	4.0%	82,385	5.0%
December 31, 2018:						
Total Risk-Based Capital:	162,583	13.1%	99,491	8.0%	124,363	10.0%
Common Equity Tier 1 Risk-Based Capital:	148,977	12.0%	55,963	4.5%	80,836	6.5%
Tier 1 Risk-Based Capital:	148,977	12.0%	74,618	6.0%	99,491	8.0%
Tier 1 Leverage Capital:	148,977	9.4%	63,253	4.0%	79,066	5.0%

The Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Board of Governors of the Federal Deposit Insurance Corporation.

12. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Company offers a 401(k) Plan to employees. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100% of the first 5% of an employee's compensation contributed to the Plan. For the years ended December 31, 2019 and 2018, expense attributable to the Plan amounted to $852,000 and $822,000, respectively.

Director and Executive Retirement Plans

The Company has adopted retirement benefit plans for the benefit of all members of the Board of Trustees of the Company and certain senior executives. Benefits are being accrued over the directors' and executives' required service periods. At December 31, 2019 and 2018, the Company accrued $9,402,000 and $8,250,000, respectively, related to these plans. For the years ended December 31, 2019 and 2018, expenses related to these plans amounted to $1,140,000 and $1,167,000, respectively.

Incentive Compensation Plan

The Company has an Employee Bonus and Management Incentive Compensation Plan (the "Bonus Plan") in which employees are eligible to participate. The Bonus Plan provides for awards based on a combination of Company and individual performance objectives being met subject to the approval of the Board of Trustees. The amount charged to expense under the Bonus Plan amounted to $1,000,000 and $2,000,000 for the years ended December 31, 2019 and 2018, respectively.

Phantom Stock Plan

The Company maintains a Long-term Incentive Plan (the "Plan"). The Plan allows for the awarding of phantom stock appreciation shares which increase in value based on the Company's Tier 1 capital. Shares are granted at the discretion of the Board and vest over four years, with expenses recognized annually over the vesting period based on the increase in phantom share value as defined in the Plan. For the years ended December 31, 2019 and 2018, expense related to the Plan amounted to $871,000 and $655,000, respectively.

13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets. The fair value of a financial instrument 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 financial instruments. 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 instrument.

Fair Value Hierarchy

The Company groups its assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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.

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. Level 3 assets include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities				
Debt securities	$ -	$ 226,711	$ -	$ 226,711
Common stock	20,097	-	-	20,097
Mortgage servicing rights	-	2,247	-	2,247
	$ 20,097	$ 228,958	$ -	$ 249,055

	December 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities				
Debt securities	$ -	$ 240,900	$ -	$ 240,900
Common stock	16,349	-	-	16,349
Mortgage servicing rights	-	2,966	-	2,966
	$ 16,349	$ 243,866	$ -	$ 260,215

<u>Securities</u> - 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 in an active exchange market. The securities measured at fair value in Level 2 are based on net asset value per share for equity securities and 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 for debt securities.

<u>Servicing Rights</u>- Fair value is based on the present value of estimated future servicing income.

There are no liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018. There were no transfers between level 1 and level 2 assets during the years ended December 31, 2019 and 2018.

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2019 or 2018.

The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2019 and 2018.

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Impaired loans	-	-	$ 3,487	$ 3,487
	-	-	$ 3,487	$ 3,487

	December 31, 2018			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Foreclosed assets	$ -	$ -	$ 1,958	$ 1,958
Impaired loans	-	-	2,400	2,400
	-	-	$ 4,358	$ 4,358

Certain impaired loans were 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 was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. Losses on collateral based impaired loans outstanding at December 31, 2019 and 2018 were $836,000 and $1,779,000, respectively.

Certain foreclosed assets were adjusted to fair value using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. The loss on foreclosed assets represents adjustments in valuation recorded during the time period indicated and not for losses incurred on sales. At December 31, 2019 there were no recorded losses in valuation. The Bank recorded losses in valuation of $78,000 at December 31, 2018.

FORM FR Y-6
ASSABET VALLEY BANCORP
42 MAIN STREET
HUDSON, MA 01749

Report Item

1. The savings and loan holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the responsible Reserve Bank, 2 copies are enclosed.

2a: Organizational Chart

2b: Domestic branch listing provided to the Federal Reserve Bank

Fiscal Year ending December 31, 2019

ASSABET VALLEY BANCORP
Mutual Holding Company
Hudson, MA 01749
Incorporated in Massachusetts
LEIs do not exist in the organization unless otherwise noted

100%

AVIDIA BANK
LEI549300SZBQMYMAL3OM08
Wholly Owned
Hudson, MA 01749
Incorporated in Massachusetts

100%

HUDSON SECURITY CORP.
Non-depository Institution
Wholly Owned
Hudson, MA 01749
Incorporated in Massachusetts

100%

ELI WHITNEY SECURITY CORP
Non-depository Institution
Wholly Owned
Hudson, MA 01749
Incorporated in Massachusetts

100%

42 MAIN STREET RLTY TR
Non-depository Institution
Wholly Owned
Hudson, MA 01749
Incorporated in Massachusetts

100%

THE HUNDRETH CORP.
Non-depository Institution
(INACTIVE)
Wholly Owned
Hudson, MA 01749
Incorporated in Massachusetts

Results: A list of branches for your depository institution: AVIDIA BANK (ID_RSSD: 619701).
This depository institution is held by ASSABET VALLEY BANCORP (2465528) of HUDSON, MA.
The data are as of 12/31/2019. Data reflects information that was received and processed through 01/07/2020.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
ok		Full Service (Head Office)	619701	AVIDIA BANK	42 MAIN STREET	HUDSON	MA	01749	MIDDLESEX	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	3148882	CLINTON MAIN STREET BRANCH	1073 MAIN STREET, WOODRUFF PLAZA	CLINTON	MA	01510	WORCESTER	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	5193868	FRAMINGHAM BRANCH	270 COCHITUATE ROAD	FRAMINGHAM	MA	01701	MIDDLESEX	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	684204	HUDSON SHOPPING CENTER BRANCH	221 WASHINGTON STREET	HUDSON	MA	01749	MIDDLESEX	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	5115392	POPE STREET FINANCIAL CENTER BRANCH	17 POPE STREET	HUDSON	MA	01749	MIDDLESEX	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	3374104	LEOMINSTER BRANCH	470 LANCASTER STREET	LEOMINSTER	MA	01453	WORCESTER	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	2572444	MARLBOROUGH BRANCH	256 MAPLE STREET	MARLBOROUGH	MA	01752	MIDDLESEX	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	891703	NORTHBOROUGH BRANCH	53 W MAIN ST	NORTHBOROUGH	MA	01532	WORCESTER	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	2616414	SHREWSBURY BRANCH	23 MAPLE AVENUE	SHREWSBURY	MA	01545	WORCESTER	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	
ok		Full Service	704906	WESTBOROUGH EAST BRANCH	100 EAST MAIN STREET	WESTBOROUGH	MA	01581	WORCESTER	UNITED STATES	Not Required	Not Required	AVIDIA BANK	619701	

Assabet Valley Bancorp

Name	Address	Principal Occupation	Title w/BHC (3a)	Title w/subsidiaries (3b)	Title w/other businesses (3c)	Shares w/BHC (4a)	Shares w/subsidiaries (4b)	Shares w/other businesses (4c)
Arthur E Lemire	Southboro, MA 01772	Contractor	Trustee	Director	none	n/a	n/a	n/a
Benjamin H. Colonero Jr	Shrewsbury, MA 01545	Community Outreach	Trustee	Director	none	n/a	n/a	n/a
Brian Parker	Marlboro, MA 01752	Retired	Trustee	Director	None	n/a	n/a	n/a
James Ball	Westboro, MA 01581	Financial Advisor	Trustee	Director	President	n/a	n/a	100%
Jeff Leland	Northboro, MA 01532	Attorney	Trustee	Director	President - Leland Law Assoc.	n/a	n/a	50%
Jeff Leland		Vice President/Leland Insurance Agency	Trustee	Director	Vice President - Leland Insurance Agency	n/a	n/a	9%
Jeff Leland		Vice President/South Street Inc	Trustee	Director	Vice President - South Street Inc	n/a	n/a	40%
Joseph Grimaldo	Marlboro, MA 01752	CPA	Trustee	Director	CPA / O'Connor Maloney & Co	n/a	n/a	40%
Joseph MacDonough	Westboro, MA 01581	Retired	Trustee	Director	none	n/a	n/a	n/a
Lona Lamson	Hudson, MA 01749	Retired	Trustee	Director	none	n/a	n/a	n/a
M Neil Flanigan	Ashland, MA 01721	Certified Public Accountant	Trustee	Director	Partner / Flanigan, Cotillo & Mainzer, LLP	n/a	n/a	33.00%
Michael Girard, DC	Hudson, MA 01749	Chiropractor	Trustee	Director	Owner / Hudson Chiropractic	n/a	n/a	n/a
Nancy Carlson	Grafton, MA 01519	Retired	Trustee	Director	none	n/a	n/a	n/a
Michael D. Murphy	Bolton, MA 01740	Insurance	Trustee	Director	President/Murphy Group LLC & D&M Financial	n/a	n/a	25%
Paul W Blazar	Hudson, MA 01749	Retired	Trustee	Director	none	n/a	n/a	n/a
Paul McGrath	Westboro, MA 01581	CPA	Trustee	Director	none	n/a	n/a	n/a
Mark R O'Connell	Hudson, MA 01749	President of Avidia Bank	Trustee	Director	none	n/a	n/a	n/a
Margaret Sullivan	Hudson, MA 01749	CFO of Avidia Bank	None	Executive Vice President-CFO	none	n/a	n/a	n/a
Lee Thompson	Maynard, MA 01754	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Thomas J. Allain	Leominster, MA 01453	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Joseph G. Sova	Sterling, MA 01564	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Bartholomew H. Murphy	Holden, MA 01520	EVP Avidia Bank	None	EVP Avidia Bank	none	n/a	n/a	n/a
Stephen J McAndrew	Holden, MA 01520	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Gerald Curley	Bolton, MA 01740	EVP of Avidia Bank	None	Excecutive Vice President	none	n/a	n/a	n/a
Robert Conery	Acton, MA 01720	EVP Avidia Bank	None	Executive Vice President - COO	none	n/a	n/a	n/a
Neil Buckley	Leominster, MA 01453	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Andrew Miller	Needham, MA 02492	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Thomas Doane	Auburn, MA 01501	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Donald J. Frost III	Walpole, MA 02081	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Sharon Quinn	Medway, MA 02053	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
James D. Wilkins	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Daniel J Serafin Sr	Millbury, MA 01527	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Nicolas Karmelek	Southboro, MA 01772	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Rita M Janeiro	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Charles Budd	Ashland, MA 01721	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Emily Braga	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Jocelyn Arsenault	Douglas, MA 01516	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Philip Maio	Auburn, MA 01501	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Janel Maysonet	Hudson, NH 03051	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a

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Final Audit Report 2020-05-26

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