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, James E. Nye
Name of the Holding Company Director and Official

President
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.

Signature of Holding Company Director and Official

3/26/2020
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2019
Month / Day / Year

549300LUOV7WW4BLH779
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Grand Bank Corporation
Legal Title of Holding Company

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

Marblehead	MA	01945
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Michael R. Spencer	Treasurer
Name	Title

781-797-7905
Area Code / Phone Number / Extension

781-639-2505
Area Code / FAX Number

mspencer@ngbank.com
E-mail Address

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

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

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID
C.I.

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."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Form FR Y-6

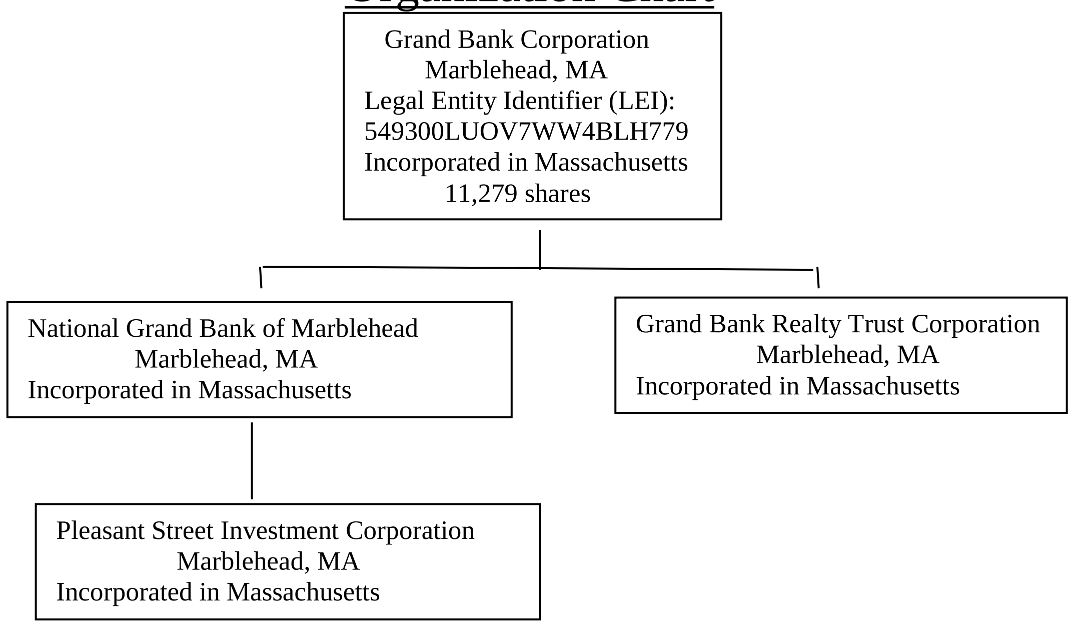
Grand Bank Corporation
Marblehead, Massachusetts
Fiscal Year Ending December 31, 2019

Report Item

1: Annual Report to Shareholders: the bank holding company prepares an annual report for its shareholders. An electronic copy has been included with this submission.

2a: Organization Chart – LEI N/A unless otherwise noted.

Grand Bank Corporation
Organization Chart



The National Grand Bank of Marblehead and Grand Bank Realty Trust are 100% owned by the Grand Bank Corporation. Pleasant Street Investment Corp is 100% owned by The National Grand Bank of Marblehead. All entities detailed above have the following address: 91 Pleasant Street, Marblehead, MA 01945.

Form FR Y-6

Grand Bank Corporation
Marblehead, Massachusetts
Fiscal Year Ending December 31, 2019

2b: Domestic Branch Listing – report submitted via Reporting Central on March 27, 2020.

3: Shareholders

Current Shareholders with ownership, control or holdings of 5% or more power to vote as of fiscal year ending December 31, 2019.

(1)(a) **Name & Address** **(City, State, Country)**	**(1)(b)** **Country of Citizenship** **or Incorporation**	**(1)(c)** **Number and Percentage of** **each Class of Voting securities**
Cede and Company (DTC)		2,728 shares 24.19%

Results: A list of branches for your depository institution: NATIONAL GRAND BANK OF MARBLEHEAD (ID_RSSD: 863607).
This depository institution is held by GRAND BANK CORPORATION (1115406) of MARBLEHEAD, MA.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

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)	863607	NATIONAL GRAND BANK OF MARBLEHEAD	91 PLEASANT ST	MARBLEHEAD	MA	01945	ESSEX	UNITED STATES	Not Required	Not Required	NATIONAL GRAND BANK OF MARBLEHEAD	863607	
OK		Limited Service	3145416	MARBLEHEAD HIGH SCHOOL BRANCH	2 HUMPHREY STREET	MARBLEHEAD	MA	01945	ESSEX	UNITED STATES	Not Required	Not Required	NATIONAL GRAND BANK OF MARBLEHEAD	863607	

Form FR Y-6
Grand Bank Corporation
Fiscal year Ending December 31, 2019

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

(1) Name & Address (City, State, Country)	**(2) Principal Occupation other than Holding Co.**	**(3)(a) Title & Position Holding Co.**	**(3)(b) Title & Position Subsidiaries**	**(3)(c) Title & Position other Businesses**	**(4)(a) Percentage Voting Shares Holding Co.**	**(4)(b) Percentage Voting Shares Subsidiaries**	**(4)(c) Names of other Companies if >25% or more of Voting Securities**
Ralph C. Anderson Marblehead, MA	Proprietor	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	Owner - Marblehead Trading Co. Owner - Marblehead Marine, Inc.	0.70%	N/A	N/A
Peter C. Brown Marblehead, MA	Proprietor	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	Owner - Beacon Hill Import	2.58%	N/A	N/A
Ralph W. Carlton Marblehead, MA	Retired CPA	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	N/A	3.38%	N/A	N/A
John C. Doub Marblehead, MA	Treasurer	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	Chairman - Market Collection Inc. d/b/a Irresistibles	1.94%	N/A	Market Collections Inc. d/b/a Irresistables
Paul G. Gregory Marblehead, MA	Executive	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	Vice President and General Manager - Rocket Software	1.71%	N/A	Doyle Sailmakers, Inc.
Kenneth G. Steadman Marblehead, MA	Proprietor	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	Owner - Bartlett & Steadman Co, Inc.	0.37%	N/A	N/A
James E. Nye Marblehead, MA	President	Chairman/President	President/Director - National Grand Bank President/Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	N/A	0.80%	N/A	N/A
Charles T. Ball Marblehead, MA	Senior Vice President	Vice President	Senior Vice President - National Grand Bank	N/A	0.66%	N/A	N/A
Michael R. Spencer Haverhill, MA	Vice President/ CFO	Treasurer	Vice President/ CFO - National Grand Bank Treasurer - Pleasant Street Investment Corp. Treasurer - Grand Bank Realty Trust Treasurer Grand Bank Corporation	N/A	0.29%	N/A	N/A

Grand Bank Corporation

Annual Report

2019

National Grand Bank
We Make Things Happen!

OFFICERS

James E. Nye
President

Carl R. Edwards
Executive Vice President & CLO

Michael R. Spencer
Vice President & CFO

Donna M. Goodwin
Vice President Human Resources

Joanne M. Franco
Vice President Credit Administration

Cynthia L. Latham
Asst. Vice President

Kathy M. Green
Asst. Vice President

Elizabeth Cronin
Asst. Vice President & Compliance Officer

Charles T. Ball
Senior Vice President

Laura C. Best
Vice President Credit/Debit & Cash Services

Timothy B. Thomas
Vice President Information Technology

Mark C. Dewling
Asst. Vice President

Michael J. Bartholomew
Asst. Vice President

Rory R. Richards
Asst. Vice President Deposit Operations

Kelly M. DaSilva
Controller

DIRECTORS

Ralph C. Anderson

Peter C. Brown

Ralph W. Carlton

John C. Doub

Paul G. Gregory

James E. Nye

Kenneth G. Steadman

To Our Shareholders:

What a difference a year makes. In 2019 the Federal Reserve cut interest rates three times reversing their direction of four interest rate hikes in 2018. In 2019 we had healthy gains in the Grand Bank Corporations investment portfolio, in 2018 the Corporations yearly investment gains were wiped out by historic declines in the fourth quarter. Tariffs, trade wars, democratic primaries and impeachment proceedings dominated the headlines. The economy grew at a moderate pace, unemployment stayed low and housing prices continued to soar. NGB navigated these obstacles to post strong earnings of $3.4 million from bank operations. Led by a 5.7% increase in total loans, 2.9% increase in deposits and a 5.2% increase in total assets to $374 million.

Because of the new *Mark to Market* accounting standards instituted in 2018, earnings at Grand Bank Corporation experienced another dramatic swing. Net income of $9.3 million increased $6.8 million or 272% when compared to 2018 net income of $2.5 million. As a reminder, this increase was due to the adoption of an accounting standard that requires the Corporation's equity investments be measured at fair value with changes in fair value recognized in net income, this change was posted to the balance sheet in previous years. This amounted to net unrealized gain of $6 million in 2019. Grand Bank Corporation share price increased 14% to **$6,719** per share with a total dividend of $120 per share. The quarterly dividend was increased to $30 per share in December.

Grand Bank Corporation repurchased one hundred ninety-five (195) shares of its stock in 2019. When stock is offered for sale, the Corporation may purchase additional shares. However, shareholders who wish to sell their shares are not obligated to sell them to the Corporation.

The Bank had great success running a mobile advent calendar daily during the Christmas Season. Our host, Matt Martin drove our 1951 Chevrolet truck, to 25 different merchants, promoting their business and encouraging our many Facebook followers to shop local. The businesses were very appreciative with many reporting direct sales increases because of the banks efforts. Shop, Eat, Stay and Bank Local!

On behalf of the Board of Directors, I would like to thank the officers, the staff and the shareholders for their advice, good work and continued support. It is truly appreciated.

Respectfully,

James E. Nye
President

BAKER NEWMAN NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grand Bank Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Grand Bank Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grand Bank Corporation and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Newman & Noyes LLC

Portsmouth, New Hampshire
February 25, 2020

GRAND BANK CORPORATION & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31, 2019 and 2018

(In Thousands, Except Share Data)

	2019	2018
ASSETS		
Cash, due from banks and money market mutual funds	$ 5,415	$ 9,734
Federal funds sold	1,304	4,310
Federal Home Loan Bank interest-bearing accounts	279	302
Cash and cash equivalents	6,998	14,346
Investments in available-for-sale securities, at fair value	59,052	58,177
Marketable equity securities, at fair value	32,501	22,010
Federal Reserve Bank stock, at cost	71	66
Federal Home Loan Bank stock, at cost	1,454	1,653
Loans, net	262,795	248,428
Premises and equipment, net	2,948	2,997
Investment in real estate	1,596	1,546
Accrued interest receivable	1,007	985
Cash surrender value of life insurance	5,326	5,194
Other assets	449	507
Total assets	$374,197	$355,909
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 83,448	$ 81,442
Interest-bearing	189,435	183,752
Total deposits	272,883	265,194
Federal Home Loan Bank advances	21,641	21,347
Other liabilities	3,892	2,103
Total liabilities	298,416	288,644
Stockholders' equity:		
Common stock, par value $10.00 per share, authorized 500,000 shares, issued 17,500 shares; outstanding 11,279 shares in 2019 and 11,380 shares in 2018	175	175
Paid-in capital	9,285	8,980
Retained earnings	80,488	72,524
Treasury stock, at cost (6,221 shares in 2019 and 6,120 shares in 2018)	(15,231)	(14,215)
Accumulated other comprehensive income (loss)	1,064	(199)
Total stockholders' equity	75,781	67,265
Total liabilities and stockholders' equity	$374,197	$355,909

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Income

Years Ended December 31, 2019 and 2018

(In Thousands, Except Share Data)

	2019	2018
Interest and dividend income:		
Interest and fees on loans	$ 10,785	$ 10,054
Interest and dividends on securities:		
Taxable	1,617	1,491
Tax-exempt	563	529
Other interest	244	234
Total interest and dividend income	13,209	12,308
Interest expense:		
Interest on deposits	1,905	1,149
Interest on Federal Home Loan Bank advances	631	481
Total interest expense	2,536	1,630
Net interest and dividend income	10,673	10,678
Benefit for loan losses	9	66
Net interest and dividend income after benefit for loan losses	10,682	10,744
Noninterest income:		
Trust department income	46	47
Service charges and fees	426	493
Gain on sale of available-for-sale securities, net	10	–
Gain (loss) on marketable equity securities, net	6,944	(1,822)
Mortgage banking activities, net	14	400
Credit card merchant processing fees	51	75
Increase in cash surrender value of life insurance	132	137
Other income	690	694
Total noninterest income	8,313	24
Noninterest expense:		
Salaries and employee benefits	3,930	4,054
Occupancy expense	391	392
Equipment expense	459	465
Data processing	802	754
Credit card processing	105	336
Consultant fees	276	253
FDIC assessment	23	92
Other expense	1,088	1,125
Total noninterest expense	7,074	7,471
Income before income tax expense	11,921	3,297
Income tax expense	2,596	788
Net income	$ 9,325	$ 2,509
Earnings per common share, basic	$ 821.62	$ 220.72
Earnings per common share, diluted	$ 818.18	$ 219.13

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Net income	$ 9,325	$ 2,509
Other comprehensive income (loss), net of tax:		
Change in net unrealized holding gain/loss on available-for-sale securities	1,263	(409)
Other comprehensive income (loss), net of tax	1,263	(409)
Comprehensive income	$ 10,588	$ 2,100

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2019 and 2018

(In Thousands, Except Share Data)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2017	$ 175	$ 8,643	$ 64,369	$ (13,927)	$ 7,334	$ 66,594
Cumulative effect of change in accounting principle (note 3)	–	–	7,124	–	(7,124)	–
Net income	–	–	2,509	–	–	2,509
Other comprehensive loss, net of tax	–	–	–	–	(409)	(409)
Dividends declared on common stock ($130 per share)	–	–	(1,478)	–	–	(1,478)
Purchases of 95 shares of treasury stock	–	–	–	(555)	–	(555)
Issuance of 91 shares on exercise of stock options	–	227	–	205	–	432
28 shares vested	–	106	–	62	–	168
Stock-based compensation – options	–	4	–	–	–	4
Balance, December 31, 2018	175	8,980	72,524	(14,215)	(199)	67,265
Net income	–	–	9,325	–	–	9,325
Other comprehensive income, net of tax	–	–	–	–	1,263	1,263
Dividends declared on common stock ($120 per share)	–	–	(1,361)	–	–	(1,361)
Purchases of 195 shares of treasury stock	–	–	–	(1,233)	–	(1,233)
Issuance of 63 shares on exercise of stock options	–	167	–	141	–	308
32 shares vested	–	133	–	76	–	209
Stock-based compensation – options	–	5	–	–	–	5
Balance, December 31, 2019	$ 175	$ 9,285	$ 80,488	$ (15,231)	$ 1,064	$ 75,781

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

Years Ended December 31, 2019 and 2018

(In Thousands)

	2019	2018
Cash flows from operating activities:		
Net income	$ 9,325	$ 2,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	124	150
Gain on sale of available-for-sale securities, net	(10)	–
(Gain) loss on marketable equity securities, net	(6,944)	1,822
Change in deferred origination costs, net	(2)	(7)
Benefit for loan losses	(9)	(66)
Depreciation and amortization	242	236
Increase in accrued interest receivable	(22)	(33)
Decrease in other assets	54	2,084
Change in mortgage servicing rights, net	4	7
Gain on sale of credit card loan portfolio	–	(387)
Increase in cash surrender value of life insurance policies	(132)	(137)
Increase (decrease) in other liabilities	91	(245)
Deferred tax expense (benefit)	1,306	(418)
Stock awards granted	209	168
Stock-based compensation expense - options	5	4
Net cash provided by operating activities	4,241	5,687
Cash flows from investing activities:		
Purchases of available-for-sale securities	(13,312)	(10,234)
Proceeds from sales of available-for-sale securities	1,320	–
Proceeds from paydowns, maturities and calls of available-for-sale securities	12,658	11,038
Purchases of equity securities	(7,553)	(2,928)
Proceeds from sales of equity securities	4,006	5,328
Purchases of Federal Reserve Bank stock	(5)	(2)
Purchases of Federal Home Loan Bank stock	(271)	(464)
Redemption of Federal Home Loan Bank stock	470	576
Proceeds from sale of credit card loan portfolio	–	1,888
Loan originations and principal collections, net	(14,396)	(15,100)
Recoveries of loans previously charged off	40	46
Capital expenditures	(243)	(206)
Net cash used in investing activities	(17,286)	(10,058)

(In Thousands)

	2019	2018
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	$ (2,597)	$ 1,611
Net increase in time deposits	10,286	11,932
Net change in short-term Federal Home Loan Bank advances	(1,500)	(500)
Long-term advances from Federal Home Loan Bank	14,010	18,652
Payments on long-term advances from Federal Home Loan Bank	(12,216)	(22,236)
Dividends paid to common stockholders	(1,361)	(1,478)
Proceeds from exercise of stock options	308	432
Purchases of treasury stock	(1,233)	(555)
Net cash provided by financing activities	5,697	7,858
Net (decrease) increase in cash and cash equivalents	(7,348)	3,487
Cash and cash equivalents at beginning of year	14,346	10,859
Cash and cash equivalents at end of year	$ 6,998	$ 14,346
Supplemental disclosures:		
Interest paid	$ 2,551	$ 1,634
Income taxes paid	1,862	1,486
Securities reclassified from available-for-sale to equity from adoption of Accounting Standards Update 2016-01		17,185

NOTE 1 - NATURE OF OPERATIONS

Grand Bank Corporation (Corporation) is a Massachusetts corporation that was organized in 1984 to become the holding company of National Grand Bank of Marblehead (Bank). The Corporation's primary activity is to act as the holding company for the Bank. The Bank is a federally chartered bank, which was incorporated in 1831 and is headquartered in Marblehead, Massachusetts. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Corporation and its subsidiaries conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of 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.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, the Bank and Grand Bank Realty Trust, whose primary function is to hold real estate, and the Bank's wholly-owned subsidiary, Pleasant Street Investment Corporation. Pleasant Street Investment Corporation's primary function is to hold securities. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, money market mutual funds, federal funds sold and Federal Home Loan Bank interest-bearing accounts.

At times the Corporation is required to maintain a certain reserve balance in the form of cash or deposits with the Federal Reserve Bank. The required reserve at December 31, 2019 and 2018 was $3,502,000 and $3,578,000, respectively.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

On January 1, 2018, the Corporation adopted Accounting Standards Update (ASU) 2016-01, *Financial Instruments,* which requires 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. The adoption of this guidance, recognized as a cumulative effect of change in accounting principle, resulted in a $7,124,000 increase to beginning retained earnings and a $7,124,000 decrease to beginning accumulated other comprehensive income.

The Corporation classifies debt securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Corporation has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital; they are merely disclosed in the notes to the consolidated financial statements.

- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of stockholders' equity until realized.

- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

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 resulting from observable price changes in orderly transactions for the identical or a similar investment.

For any debt security with a fair value less than its amortized cost basis, the Corporation will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Corporation will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income.

FEDERAL RESERVE BANK (FRB) STOCK:

The Corporation is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

FEDERAL HOME LOAN BANK STOCK:

Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. Management evaluates the Corporation's investment in FHLB stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB as of December 31, 2019, management deems its investment in FHLB stock to be not other-than-temporarily impaired.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Corporation is amortizing these amounts over the contractual lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity lines in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged off upon reaching 120 or 180 days past due depending on the type of loan.

Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

LOAN SERVICING:
Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights according to predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

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 uncollectibility 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 collectibility 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, commercial real estate, commercial and consumer. 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 Corporation's policies or methodology pertaining to the general component of the allowance for loan losses during 2019.

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: The Corporation generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. Loans in this segment are collateralized primarily 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.

Commercial real estate: Loans in this segment are primarily income-producing properties throughout Massachusetts. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Commercial and industrial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer: Loans in this segment are generally unsecured or secured by automobiles 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 on a loan by loan basis for commercial and commercial real estate loans 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 are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation 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 Corporation 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 Corporation 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.

UNALLOCATED COMPONENT:
An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

PREMISES AND EQUIPMENT:
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

INVESTMENT IN REAL ESTATE:
Investment in real estate is carried at the lower of cost or estimated fair value. The building and land are located adjacent to the Bank parking lot. Lease income is included in other income and expenses for maintaining these assets are included in other expense. The building is being depreciated over its estimated useful life.

ADVERTISING:

The Corporation directly expenses costs associated with advertising as they are incurred. Advertising expenses totaled approximately $88,000 and $103,000 in 2019 and 2018, respectively.

INCOME TAXES:

The Corporation recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Corporation's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Any interest and penalties resulting from the underpayment of income taxes are recorded in other expense.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense.

The Corporation has evaluated the positions taken on its tax returns filed and the potential impact on its tax status as of December 31, 2019. The Corporation has concluded no material uncertain income tax positions exist at December 31, 2019.

STOCK-BASED COMPENSATION:

At December 31, 2019, the Corporation has three stock-based employee compensation plans which are described more fully in note 11. In addition, the Corporation awards shares of stock to key employees and directors. The Corporation accounts for all stock-based compensation arrangements under Accounting Standards Codification (ASC) 718-10, *Compensation – Stock Compensation – Overall,* and any shares issued upon share option exercise and stock awards are issued from treasury. Forfeitures are recognized as they occur.

Stock-based compensation represents the cost related to stock-based awards to employees and directors. The Corporation measures stock-based compensation cost at the grant date based upon the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of forfeitures as they occur) over the employee requisite service period. The Corporation estimates the fair value of stock options using the Black-Scholes valuation method.

EARNINGS PER SHARE:

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

REVENUE RECOGNITION:

On January 1, 2018, the Corporation adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities and certain noninterest income such as fees associated with mortgage banking and certain credit card fees. Revenue from trust services, customer service fees (i.e. deposit related fees), interchange fees, and merchant income are within the scope of this guidance. The implementation of this standard did not have a material impact on the timing, measurement or recognition of the Corporation's revenue.

RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current U.S. generally accepted accounting principles (U.S. GAAP) with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a reporting entity's portfolio. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In November 2019, the FASB issued ASU 2019-10, which delayed the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Corporation does not intend to early adopt. The Corporation is currently reviewing the amendments in this ASU to determine the impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The objective of this update is to improve the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statements, including the consideration of costs and benefits. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for removal or modification of disclosures upon issuance of this update and delayed adoption of the additional disclosures until their effective date. The adoption of this ASU is not expected to have a material effect on the Corporation's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software* (Subtopic 350-40). This ASU is meant to address the diversity in practice in accounting for the costs of implementation activities performed in a cloud computing arrangement that is a service contract that resulted from the issuance of ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.* The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Corporation anticipates the adoption of this guidance will not have a material impact on its consolidated financial statements.

NOTE 3 - INVESTMENTS IN SECURITIES

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of December 31:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
2019				
Debt securities:				
Political and state obligations	$17,075	$ 889	$ –	$17,964
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	3,659	30	28	3,661
Corporate debt securities	3,022	75	–	3,097
Mortgage-backed securities	33,909	483	62	34,330
Total available-for-sale debt securities	$57,665	$ 1,477	$ 90	$59,052
2018				
Debt securities:				
Political and state obligations	$17,377	$ 239	$ 72	$17,544
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,527	17	97	4,447
Corporate debt securities	3,018	–	50	2,968
Mortgage-backed securities	33,523	181	486	33,218
Total available-for-sale debt securities	$58,445	$ 437	$ 705	$58,177

The scheduled maturities of debt securities were as follows as of December 31, 2019:

	Fair Value (In Thousands)
Due within one year	$ 1,152
Due after one year through five years	11,520
Due after five years through ten years	8,788
Due after ten years	3,262
Mortgage-backed securities	34,330
	$59,052

Expected maturities may differ from contractual maturities because the issuer, in certain instances, has the right to call or prepay obligations with or without call or prepayment penalties.

During 2019, proceeds from sales of available-for-sale securities amounted to $1,320,000. Gross realized gains and losses in the year ended December 31, 2019 were $10,000 and $0, respectively. There were no sales of available-for-sale securities during 2018.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2019 and 2018.

At December 31, 2019, there were no pledged securities. At December 31, 2018, 50% of a debt security with a carrying value of $1,366,000, was pledged to test the Corporation's borrowing capabilities at the Federal Reserve Bank Discount Window.

Effective January 1, 2018, the Corporation adopted ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, that requires equity investments (other than equity method investments) be measured at fair value with changes in fair value recognized in net income. At December 31, 2017, the Corporation's securities portfolio included equity securities with an amortized cost of $17,185,000 and a fair value of $26,232,000. Accordingly, upon adoption of this guidance, a cumulative – effect transition adjustment, representing the cumulative unrealized gain (net of tax) within accumulated other comprehensive income, was recorded which served to increase opening retained earnings by $7,124,000. For the year ended December 31, 2018, the Corporation recorded unrealized losses of $2,177,000, included in non-interest income in the consolidated statements of income, relating to the change in fair value of its equity securities.

The portion of unrealized gains and losses for the years ended December 31, 2019 and 2018 related to equity securities still held at the reporting date is as follows (in thousands):

	2019	2018
Net gains (losses) during the period on equity securities	$ 6,944	$ (1,822)
Less: net gains recognized on equity securities sold during the period	(915)	(355)
Net unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 6,029	$ (2,177)

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more, and are not other-than-temporarily impaired, are as follows as of December 31:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2019						
Debt securities:						
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	$ –	$ –	$ 2,512	$ 28	$ 2,512	$ 28
Mortgage-backed securities	5,595	14	3,771	48	9,366	62
Total available-for-sale debt securities	$ 5,595	$ 14	$ 6,283	$ 76	$ 11,878	$ 90
2018						
Debt securities:						
Political and state obligations	$ 3,465	$ 70	$ 314	$ 2	$ 3,779	$ 72
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	743	14	2,647	83	3,390	97
Corporate debt securities	1,972	25	996	25	2,968	50
Mortgage-backed securities	4,862	48	20,711	438	25,573	486
Total available-for-sale debt securities	$ 11,042	$ 157	$ 24,668	$ 548	$ 35,710	$ 705

The declines in the fair value of twenty-four available-for-sale debt securities below amortized cost (0.75% of amortized cost basis) are deemed temporary, and result from market price volatility caused by interest rate movements. Corporation management does not intend to sell impaired securities in the near term, and has the ability to hold these securities until recovery to cost basis occurs.

The Corporation did not record any other-than-temporary impairment losses during the years ending December 31, 2019 and 2018.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2019	2018
	(In Thousands)	
Real estate:		
Residential	$238,513	$222,320
Commercial	16,780	20,347
Construction and land development	3,906	256
Commercial and industrial	3,530	5,286
Consumer	1,546	1,690
	264,275	249,899
Allowance for loan losses	(1,693)	(1,682)
Deferred origination costs, net	213	211
Net loans	$262,795	$248,428

Certain directors and executive officers of the Corporation and companies in which they have significant ownership interest were customers of the Bank. Total loans to such persons and their companies amounted to $4,312,000 and $4,483,000 as of December 31, 2019 and 2018, respectively.

The following tables set forth information regarding the allowance for loan losses and loans by portfolio segment as of and for the years ended December 31.

	Real Estate		Commercial		Un-	
	Residential	Commercial	and Industrial	Consumer	allocated	Total
			(In Thousands)			
2019						
Allowance for loan losses						
Beginning balance	$ 1,359	$ 164	$ 108	$ 39	$ 12	$ 1,682
Charge-offs	–	–	(8)	(12)	–	(20)
Recoveries	–	–	36	4	–	40
Provision (benefit)	128	(38)	(68)	(19)	(12)	(9)
Ending balance	$ 1,487	$ 126	$ 68	$ 12	$ –	$ 1,693
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	1,487	126	68	12	–	1,693
Total allowance for loan losses ending balance	$ 1,487	$ 126	$ 68	$ 12	$ –	$ 1,693
Loans						
Ending balance:						
Individually evaluated for impairment	$ 1,782	$ –	$ –	$ 5	$ –	$ 1,787
Collectively evaluated for impairment	240,637	16,780	3,530	1,541	–	262,488
Total loans ending balance	$ 242,419	$ 16,780	$ 3,530	$ 1,546	$ –	$ 264,275

	Real Estate		Commercial		Un-	
	Residential	Commercial	and Industrial	Consumer	allocated	Total
			(In Thousands)			
2018						
Allowance for loan losses						
Beginning balance	$ 1,168	$ 227	$ 113	$ 144	$ 99	$ 1,751
Charge-offs	–	–	(33)	(16)	–	(49)
Recoveries	–	–	34	12	–	46
Provision (benefit)	191	(63)	(6)	(101)	(87)	(66)
Ending balance	$ 1,359	$ 164	$ 108	$ 39	$ 12	$ 1,682
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	1,359	164	108	39	12	1,682
Total allowance for loan losses ending balance	$ 1,359	$ 164	$ 108	$ 39	$ 12	$ 1,682
Loans						
Ending balance:						
Individually evaluated for impairment	$ 1,345	$ –	$ –	$ 9	$ –	$ 1,354
Collectively evaluated for impairment	221,231	20,347	5,286	1,681	–	248,545
Total loans ending balance	$ 222,576	$ 20,347	$ 5,286	$ 1,690	$ –	$ 249,899

Construction loans are allocated in the allowance for loan losses tables above based on their nature as residential or commercial.

The following table sets forth information regarding nonaccrual loans and past-due loans as of December 31:

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
				(In Thousands)				
2019								
Real estate:								
Residential	$ –	$ –	$ –	$	$ 238,513	$ 238,513	$ –	$ –
Commercial		–	–		16,780	16,780	–	–
Construction and land development	–	–	–	–	3,906	3,906	–	–
Commercial and industrial	–	–	–	–	3,530	3,530	–	–
Consumer	3	–	3	6	1,540	1,546	–	3
	$ 3	$ –	$ 3	$ 6	$ 264,269	$ 264,275	$ –	$ 3
2018								
Real estate:								
Residential	$ 374	$ –	$ –	$ 374	$ 221,946	$ 222,320	$ –	$ –
Commercial	391	–	–	391	19,956	20,347	–	–
Construction and land development	–	–	–	–	256	256	–	–
Commercial and industrial	–	–	–	–	5,286	5,286	–	–
Consumer	4	–	1	5	1,685	1,690	–	1
	$ 769	$ –	$ 1	$ 770	$ 249,129	$ 249,899	$ –	$ 1

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of and for the years ended December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2019					
With no related allowance recorded:					
Real estate:					
Residential	$ 1,782	$ 1,782	$ –	$ 1,417	$ 72
Commercial	–	–	–	–	–
Consumer	5	5	–	7	1
Total impaired with no related allowance	1,787	1,787	–	1,424	73
With an allowance recorded:					
Real estate:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Commercial and industrial	–	–	–	–	–
Consumer	–	–	–	–	–
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate:					
Residential	$ 1,782	$ 1,782	$ –	$ 1,417	$ 72
Commercial	–	–	–	–	–
Consumer	5	5	–	7	1
Total impaired loans	$ 1,787	$ 1,787	$ –	$ 1,424	$ 73

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2018					
With no related allowance recorded:					
Real estate:					
Residential	$ 1,345	$ 1,345	$ –	$ 1,464	$ 58
Commercial	–	–	–	–	–
Commercial and industrial	–	90	–	6	7
Consumer	9	9	–	9	1
Total impaired with no related allowance	1,354	1,444	–	1,479	66
With an allowance recorded:					
Real estate:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Commercial and industrial	–	–	–	–	–
Consumer	–	–	–	–	–
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate:					
Residential	$ 1,345	$ 1,345	$ –	$ 1,464	$ 58
Commercial	–	–	–	–	–
Commercial and industrial	–	90	–	6	7
Consumer	9	9	–	9	1
Total impaired loans	$ 1,354	$ 1,444	$ –	$ 1,479	$ 66

Loans modified in troubled debt restructurings during 2019 and 2018 were not significant. During the years ended December 31, 2019 and 2018, there were no loans modified in troubled debt restructurings that have subsequently defaulted within one year of modification. As of December 31, 2019 and 2018, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

As of December 31, 2019 and 2018 there were no related allowances for loans that were modified in troubled debt restructurings. As of December 31, 2019 and 2018, there were no troubled debt restructured loans on nonaccrual.

At December 31, 2019 and 2018, there were no loans collateralized by residential real estate property in the process of foreclosure.

The following table presents the Corporation's loans by risk rating as of December 31:

	Real Estate: Residential	Real Estate: Commercial	Real Estate: Construction and Land Development	Commercial and Industrial	Consumer	Total
			(In Thousands)			
2019						
Grade:						
Pass (1-3)	$ –	$ 16,400	$ 3,906	$ 3,332	$ –	$ 23,638
Special mention (4)	–	–	–	198	–	198
Substandard (5)	–	380	–	–	–	380
Not formally rated	238,513	–	–	–	1,546	240,059
	$ 238,513	$ 16,780	$ 3,906	$ 3,530	$ 1,546	$ 264,275
2018						
Grade:						
Pass (1-3)	$ –	$ 19,538	$ 256	$ 4,920	$ –	$ 24,714
Special mention (4)	–	391	–	316	–	707
Substandard (5)	–	418	–	50	–	468
Not formally rated	222,320	–	–	–	1,690	224,010
	$ 222,320	$ 20,347	$ 256	$ 5,286	$ 1,690	$ 249,899

CREDIT QUALITY INFORMATION

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

Loans rated 1 - 3: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 4: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: 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 Corporation will sustain some loss if the weakness is not corrected.

Loans rated 6: 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.

Loans rated 7: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Corporation formally reviews the ratings on all commercial real estate, construction and commercial loans with aggregate potential outstanding balances of $250,000 or more.

Loans serviced for others are not included in the accompanying consolidated balance sheets. As of December 31, 2019 and 2018, the Corporation serviced loans for others with unpaid principal balances of $6,411,000 and $8,745,000, respectively.

The balance of capitalized mortgage servicing rights included in other assets at December 31, 2019 and 2018 was an immaterial $29,000 and $33,000, respectively. Management estimates that the fair value of those rights at December 31, 2019 and 2018 approximates carrying value.

In 2018, the Corporation sold its credit card loan portfolio with a carrying value of $1,501,000 for $1,888,000, which resulted in a realized gain of $387,000. The Corporation currently retains the servicing of these loans.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2019	2018
	(In Thousands)	
Land	$ 1,559	$ 1,559
Buildings and improvements	2,670	2,608
Furniture and equipment	942	896
Leasehold improvements	85	83
	5,256	5,146
Accumulated depreciation and amortization	(2,308)	(2,149)
	$ 2,948	$ 2,997

NOTE 6 - INVESTMENT IN REAL ESTATE

The balance in investment in real estate consisted of the following as of December 31:

	2019	2018
	(In Thousands)	
Land	$ 1,328	$ 1,328
Buildings	345	277
	1,673	1,605
Accumulated depreciation	(77)	(59)
	$ 1,596	$ 1,546

Rental income from investment in real estate amounted to $94,000 and $93,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - DEPOSITS

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit (currently $250,000) at December 31, 2019 and 2018 amounted to $21,696,000 and $16,520,000, respectively.

For time deposits as of December 31, 2019, the scheduled maturities for each of the following five years ended December 31 are (in thousands):

2020	$44,878
2021	6,366
2022	3,820
2023	326
2024	526
	$55,916

Deposits from related parties held by the Corporation as of December 31, 2019 and 2018 amounted to $2,091,000 and $2,188,000, respectively.

The Corporation has one customer with deposits amounting to $20,090,000, or 7.36% of total deposits, as of December 31, 2019. The Corporation had one customer with deposits amounting to $17,946,000, or 6.77% of total deposits, as of December 31, 2018.

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

Maturities of advances from the FHLB for the years ending after December 31, 2019 are summarized as follows (in thousands):

2020	$14,952
2021	5,200
2022	1,489
	$21,641

At December 31, 2019, the interest rates on FHLB advances ranged from 1.70% to 2.95%, and the weighted average interest rate on FHLB advances was 2.35%. At December 31, 2018, the interest rates on FHLB advances ranged from 1.62% to 2.95%, and the weighted average interest rate on FHLB advances was 2.56%.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets. The Bank also has an agreement with FHLB where it can borrow $3,095,000 under the Ideal Way line of credit. At December 31, 2019 and 2018, there were no amounts borrowed under the Ideal Way line of credit.

NOTE 9 - INCOME TAXES

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

	2019	2018
	(In Thousands)	
Current:		
Federal	$ 957	$ 860
State	333	346
	1,290	1,206
Deferred:		
Federal	1,284	(420)
State	22	2
	1,306	(418)
Total income tax expense	$ 2,596	$ 788

The reasons for the differences between the tax at the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2019 % of Income	2018 % of Income
Federal income tax at statutory rate	21.0%	21.0%
Increase (decrease) in tax rates resulting from:		
Tax exempt income	(1.6)	(5.4)
State tax, net of federal tax benefit	2.4	8.3
Effective tax rates	21.8%	23.9%

The Corporation had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	2019	2018
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 351	$ 343
Accrued deferred compensation	145	151
Other	10	7
Gross deferred tax assets	506	501
Deferred tax liabilities:		
Loan origination costs, net	(60)	(59)
Depreciation	(179)	(156)
Mortgage servicing rights	(8)	(9)
Net unrealized holding gain on investment securities	(3,065)	(1,392)
Gross deferred tax liabilities	(3,312)	(1,616)
Net deferred tax liability, included in other liabilities	$ (2,806)	$ (1,115)

As of December 31, 2019 and 2018, the Corporation had no operating loss tax credit carryovers for tax purposes.

NOTE 10 - EMPLOYEE BENEFITS

The Corporation maintains three Executive Supplemental Compensation Agreements with one current executive and two former executives. Under the agreements, upon reaching the normal retirement date (as defined in the agreements), each executive shall receive a normal retirement benefit, payable monthly during his lifetime, equal to a specified percentage of his benefit computation base less other certain benefits received under social security and defined contribution plans.

As of December 31, 2019 and 2018, the liability for the above agreements was $514,000 and $536,000, respectively. The Corporation recorded a (benefit) expense for the agreements of ($8,000) in 2019 and $21,000 in 2018.

The Corporation has a Profit Sharing Plan with a 401(k) feature for all employees who have attained age 21 and completed one year of service with the Corporation. Under this plan, employees may make voluntary contributions to the plan under salary reduction agreements and the Corporation will match these contributions by an amount equal to 50% of each participant's contribution on the first 4% of eligible compensation. In addition, the Corporation, at the discretion of its Board of Directors, can make annual contributions to this plan which will be allocated to a separate account for each employee based on the employee's compensation. Total expense for this plan for the years ended December 31, 2019 and 2018 was $151,000 and $148,000, respectively.

The Corporation adopted ASC 715-60, *Compensation – Retirement Benefits – Defined Benefit Plans –Other Postretirement*, and recognized a liability for the Corporation's future postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The total liability for the arrangements included in other liabilities was $115,000 and $117,000 in 2019 and 2018, respectively. Benefits for these arrangements amounted to $2,000 and $0 in 2019 and 2018, respectively.

The Corporation has change in control agreements with certain executives. Under the agreements, upon a change in control, as defined in the agreements, the executives would receive a lump sum equal to one to three years of their annual base compensation as of the date of termination plus any bonus paid to the executive in the immediately preceding year.

NOTE 11 - STOCK COMPENSATION PLANS

Stock Option Plans

The Corporation has three stock-based employee compensation plans: the Grand Bank Corporation 2006 and 2016 Directors' Plans (Directors' Plans) and the Grand Bank Corporation 2011 Incentive Stock Option Plans for Key Employees (Key Employees' Plan). The aggregate number of shares of common stock of the Corporation for which options may be granted is 525 per plan for employees and directors.

Under the Directors' Plans, the exercise price of each option is the price established by the Board of Directors on the date of the grant of the option. Under the Key Employees' Plan, the exercise price of each option is the fair market value of the common stock of the Corporation at the date of the grant of the option.

Under each plan, options expire ten years after the grant date. Each option granted shall be exercisable in such installment or installments as may be determined by the Board of Directors.

The fair value of each option granted in 2019 and 2018 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2019	2018
Expected volatility	3.84%	2.94%
Expected dividends	1.88	2.52%
Expected term (in years) for directors	5.00	5.00
Expected term (in years) for employees	6.00	6.00
Risk-free rate	1.42%	2.96%

A summary of the status of the Corporation's stock option plans as of December 31, 2019 and 2018 and changes during the years ending on those dates is presented below:

	2019		2018	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	311	$ 4,916	339	$ 4,672
Granted	71	6,389	67	5,917
Exercised	(63)	5,018	(93)	4,734
Forfeited	–	–	(2)	5,471
Outstanding at end of year	319	5,224	311	4,916
Options exercisable at year end	219	4,895	217	4,652
Weighted-average fair value of options granted during the year	$ 143		$ 209	

The following table summarizes information about fixed stock options outstanding as of December 31, 2019:

Options Outstanding			Options Exercisable	
Number Outstanding as of 12/31/19	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of 12/31/19	Weighted-Average Exercise Price
25	1.41 years	$ 4,004	25	$ 4,004
5	1.74 years	4,080	5	4,080
25	2.70 years	4,232	25	4,232
26	3.62 years	4,403	26	4,403
28	4.65 years	4,779	28	4,779
30	5.65 years	4,964	30	4,964
40	6.65 years	5,172	40	5,172
42	7.64 years	5,471	10	5,471
42	8.72 years	5,917	10	5,917
56	9.68 years	6,389	20	6,389
319	8.41 years	5,224	219	4,895

As of December 31, 2019, there was $10,000 of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 2.15 years.

Stock Awards

On an annual basis, the Board of Directors approves stock awards to be awarded to key employees of the Corporation that will vest over a period not to exceed five years. Recipients may also elect to receive cash in lieu of shares of Corporation stock.

For the years ended December 31, 2019 and 2018, the Corporation awarded 36 and 37 shares, respectively, to be vested over periods ranging from three to five years.

On an annual basis, the Board of Directors also receives awards that are vested immediately. For each of the years ended December 31, 2019 and 2018, the Corporation awarded 7 shares.

As of December 31, 2019, there was $316,000 of unrecognized compensation cost related to nonvested stock awards granted. The cost is expected to be recognized over a weighted-average period of 1.46 years. Total expenses related to these stock awards totaled $232,000 and $252,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 12 - FINANCIAL INSTRUMENTS

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2019 and 2018, the maximum potential amount of the Corporation's obligation was $216,000 and 320,000, respectively, for financial and standby letters of credit. If a letter of credit is drawn upon, the Corporation may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Corporation may take possession of the collateral, if any, securing the line of credit.

Financial instruments with off-balance sheet credit risk are as follows as of December 31:

	2019	2018
	(In Thousands)	
Commitments to originate loans	$ 2,678	$ 4,390
Standby letters of credit	216	320
Unadvanced portions of loans:		
Home equity loans	13,672	14,012
Construction loans	1,938	393
Other lines of credit	11,352	9,140
	$29,856	$28,255

NOTE 13 - FAIR VALUE MEASUREMENTS

ASC 820-10, F*air Value Measurement – Overall*, provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Corporation groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Corporation's financial assets and financial liabilities carried at fair value for December 31, 2019 and 2018. The Corporation did not have any significant transfers of assets between Levels 1 and 2 of the fair value hierarchy during the years ended December 31, 2019 and 2018.

The Corporation's investments in marketable equity securities are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Corporation's investments in political and state obligations, corporate debt, debt securities issued by the U.S. Treasury and U.S. government corporations and agencies and mortgage-backed securities available-for-sale are generally classified within Level 2 of the fair value hierarchy. For these securities, fair value measurements are obtained from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Corporation's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party. For Level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral or the present value of the expected cash flows.

The following summarizes assets measured at fair value on a recurring basis as of December 31:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2019				
Debt securities:				
Political and state obligations	$ 17,964	$ –	$ 17,964	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	3,661	–	3,661	–
Corporate debt securities	3,097	–	3,097	–
Mortgage-backed securities	34,330	–	34,330	–
Total securities available-for-sale	59,052	–	59,052	–
Marketable equity securities	32,501	32,501	–	–
Total securities	$ 91,553	$ 32,501	$ 59,052	$ –

	Total	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
2018				
Debt securities:				
Political and state obligations	$17,544	$ –	$17,544	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,447	–	4,447	–
Corporate debt securities	2,968	–	2,968	–
Mortgage-backed securities	33,218	–	33,218	–
Total securities available-for-sale	58,177	–	58,177	–
Marketable equity securities	22,010	22,010	–	–
Total securities	$80,187	$22,010	$58,177	$ –

The estimated fair values of the Corporation's financial instruments are as follows as of December 31:

	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
		(In Thousands)			
2019					
Financial assets:					
Cash and cash equivalents	$ 6,998	$ 6,998	$ –	$ –	$ 6,998
Investments in available-for-sale securities	59,052	–	59,052	–	59,052
Marketable equity securities	32,501	32,501	–	–	32,501
Federal Reserve Bank stock	71	–	71	–	71
Federal Home Loan Bank stock	1,454	–	1,454	–	1,454
Loans, net	262,795	–	–	266,727	266,727
Accrued interest receivable	1,007	1,007	–	–	1,007
Financial liabilities:					
Deposits	272,883	–	274,086	–	274,086
Federal Home Loan Bank advances	21,641	–	21,740	–	21,740
2018					
Financial assets:					
Cash and cash equivalents	$ 14,346	$14,346	$ –	$ –	$ 14,346
Investments in available-for-sale securities	58,177	–	58,177	–	58,177
Marketable equity securities	22,010	22,010	–	–	22,010
Federal Reserve Bank stock	66	–	66	–	66
Federal Home Loan Bank stock	1,653	–	1,653	–	1,653
Loans, net	248,428	–	–	235,435	235,435
Accrued interest receivable	985	985	–	–	985
Financial liabilities:					
Deposits	265,194	–	266,294	–	266,294
Federal Home Loan Bank advances	21,347	–	21,325	–	21,325

Under certain circumstances the Corporation makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. At December 31, 2019 and 2018, there were no assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded.

NOTE 14 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Corporation's business activity is with customers located within the Commonwealth of Massachusetts. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Corporation's loan portfolio is comprised of loans collateralized by real estate located in the Commonwealth of Massachusetts.

NOTE 15 - OTHER 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 stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income (loss) included in stockholders' equity are as follows for the years ended December 31:

	2019	2018
	(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 1,665	$ (534)
Reclassification adjustment for realized gains on available-for-sale securities	(10)	–
Other comprehensive income (loss) before income tax effect	1,655	(534)
Income tax (expense) benefit	(392)	125
Other comprehensive income (loss), net of tax	$ 1,263	$ (409)

A summary of the reclassification adjustments out of accumulated other comprehensive income included in net income is as follows for the year ended December 31, 2019:

Reclassification Adjustment	(In Thousands)	Affected Line Item in Consolidated Statements of Income
Realized gains on securities	$ (10)	Gain on sale of available-for-sale securities, net
	(10)	Income before income tax expense
	2	Income tax expense
	$ (8)	Net income

The tax effects of each component of other comprehensive income (loss) are as follows for the years ended December 31:

	2019	2018
	(In Thousands)	
Tax effect related to:		
Unrealized (gains) losses on available-for-sale securities:		
Unrealized holding (gains) losses arising during the year	$ (394)	$ 125
Reclassification adjustment for net realized gains on available-for-sale securities included in net income	2	–
Income tax (expense) benefit related to items of other comprehensive income (loss)	$ (392)	$ 125

Accumulated other comprehensive income (loss) as of December 31, 2019 and 2018 consists of net unrealized holding gains (losses) on available-for-sale securities of $1,388,000 and ($267,000), respectively, net of taxes of ($324,000) and $68,000, respectively.

NOTE 16 - REGULATORY MATTERS

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 its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is subject to capital regulations adopted by the Board of Governors of the Federal Reserve System (FRB) and the FDIC, pursuant to Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The regulations require a common equity Tier 1 (CET1) capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0%, and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8.0%, a total risk based capital ratio of 10.0% and a Tier 1 leverage ratio of 5.0%.

In addition to the minimum capital requirements, the Bank is subject to a capital conservation buffer of 2.5%, above the required capital ratios. The requirement limits capital distributions, share repurchases and certain discretionary bonus payments to management if the Bank does not maintain the minimum capital conservation buffer.

Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject, including the capital conservation buffer.

As of December 31, 2019, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 and Tier 1 leverage capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the table as of December 31:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
2019						
Total Capital (to risk-weighted assets)	$41,080	22.0%	$14,962	8.0%	$18,702	10.0%
Tier 1 Capital (to risk-weighted assets)	39,366	21.0	11,221	6.0	14,962	8.0
Common Equity Tier 1 Capital (to risk-weighted assets)	39,366	21.0	8,416	4.5	12,156	6.5
Tier 1 Capital (to average assets)	39,366	11.5	13,730	4.0	17,162	5.0
2018						
Total Capital (to risk-weighted assets)	$39,911	21.7%	$14,713	8.0%	$18,391	10.0%
Tier 1 Capital (to risk-weighted assets)	38,208	20.8	11,035	6.0	14,713	8.0
Common Equity Tier 1 Capital (to risk-weighted assets)	38,208	20.8	8,276	4.5	11,954	6.5
Tier 1 Capital (to average assets)	38,208	11.4	13,418	4.0	16,772	5.0

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2019, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to $3,908,000.

NOTE 17 - EARNINGS PER SHARE (EPS)

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income are as follows for the years ended December 31:

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in Thousands, Except Per Share Data)		
2019			
Basic EPS:			
Net income and income available to common stockholders	$ 9,325	11,349	$ 821.62
Effect of dilutive securities, options	–	48	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 9,325	11,397	$ 818.18
2018			
Basic EPS:			
Net income and income available to common stockholders	$ 2,509	11,369	$ 220.72
Effect of dilutive securities, options	–	83	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 2,509	11,452	$ 219.13

NOTE 18 - LEGAL AND OTHER CONTINGENCIES

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

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 25, 2020, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

NOTE 20 - RECLASSIFICATIONS

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.

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- Remote Deposit Capture
- Revolving Credit Loans
- Safe Deposit Boxes
- Savings Accounts
- Savings Bond Redemptions
- Signature Guarantees
- Travelers Checks
- Trust Services
- Wire Transfers

ATM LOCATIONS IN MARBLEHEAD

(Full Service*)

91 Pleasant Street Main Office
Main Lobby Front Vestibule*
Drive up ATM*

214 Beacon Street at the Community Store*
114 Washington Street at Haley's Market*
40 Leggs Hill Road at the Lynch/van Otterloo YMCA*
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