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, David Rotatori
Name of the Holding Company Director and Official

President and CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/16/2020
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______

C.I. ______

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

December 31, 2019
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Ion Financial MHC
Legal Title of Holding Company

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

Naugatuck	CT	06770
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Dana Silva	EVP, CAO & Secretary
Name	Title

203-720-2530
Area Code / Phone Number / Extension

2036-720-5304
Area Code / FAX Number

dsilva@ionbank.com
E-mail Address

Address (URL) for the Holding Company's web page

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

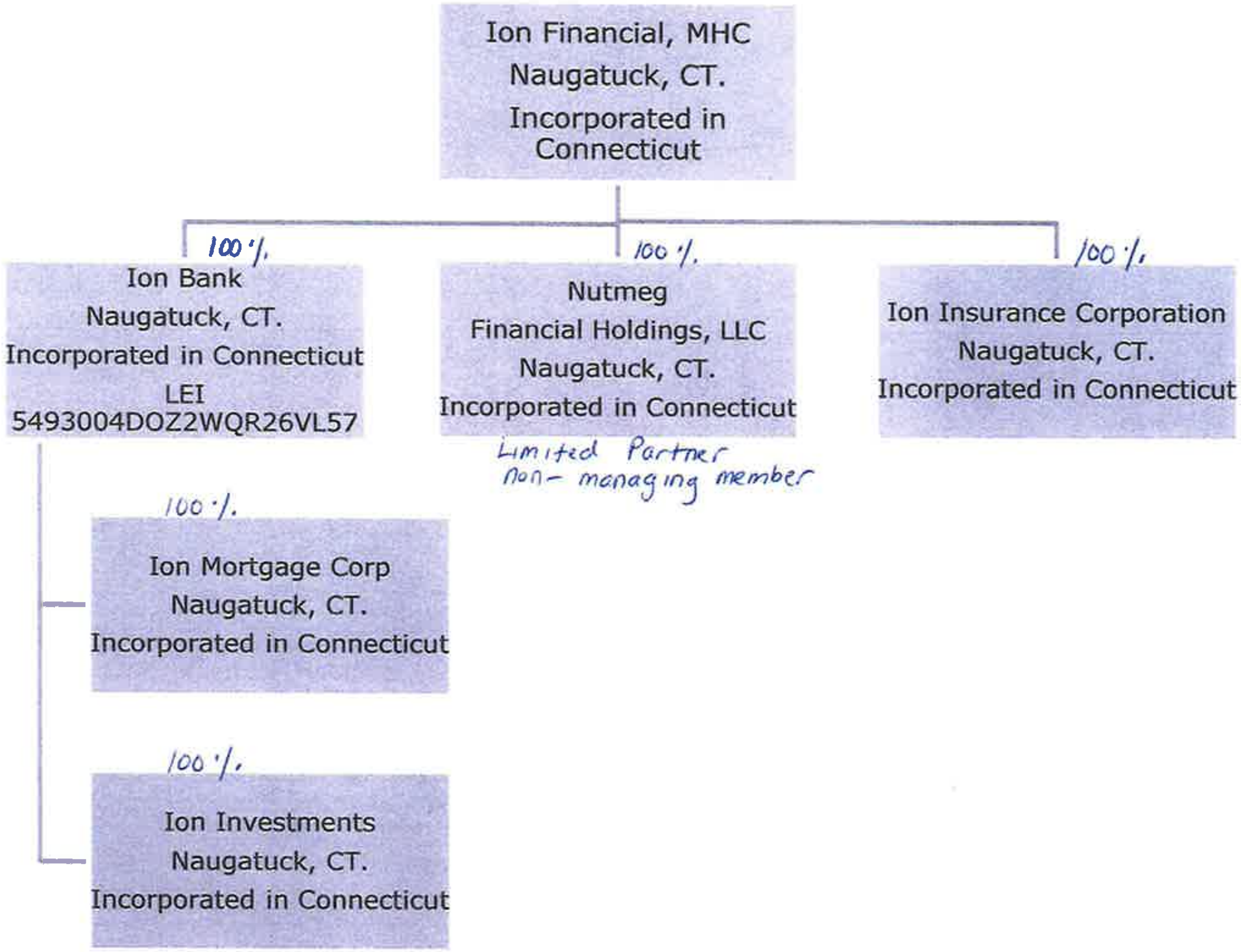
In accordance with the General Instructions for this report (check only one),

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

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

Ion Financial, MHC Overview

Report Item 2a: Organizational Chart



LEI not applicable unless otherwise noted.

Results: A list of branches for your depository institution: ION BANK (ID_RSSD: 407506).
This depository institution is held by ION FINANCIAL MHC (3912766) of NAUGATUCK, CT.
The data are as of 12/31/2019. Data reflects information that was received and processed through 01/07/2020.

Reconciliation and Verification Steps

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

Actions

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

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

Submission Procedure

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	407506	ION BANK	251 CHURCH STREET, BOX 370	NAUGATUCK	CT	06770	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	3139853	ANSONIA BRANCH	75 TREMONT STREET	ANSONIA	CT	06401	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	2757595	CHESHIRE BRANCH	218 MAPLE AVENUE	CHESHIRE	CT	06410	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	5338034	FARMINGTON BRANCH	4 MAIN STREET	FARMINGTON	CT	06032	HARTFORD	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	4291646	HAMDEN BRANCH	2989 WHITNEY AVENUE	HAMDEN	CT	06518	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	2799399	MERIDEN EAST MAIN OFFICE BRANCH	1336 EAST MAIN STREET	MERIDEN	CT	06450	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	4302814	MERIDEN WEST BRANCH	500 WEST MAIN STREET	MERIDEN	CT	06451	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	529800	MIDDLEBURY BRANCH	600 MIDDLEBURY ROAD ROUTE 64	MIDDLEBURY	CT	06762	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	1357617	NAUGATUCK BRANCH	87 CHURCH STREET	NAUGATUCK	CT	06770	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Limited Service	4327255	NAUGATUCK HIGH SCHOOL BRANCH	543 RUBBER AVENUE	NAUGATUCK	CT	06770	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	3471218	NEW HAVEN ROAD BRANCH	1430 NEW HAVEN ROAD	NAUGATUCK	CT	06770	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	591704	PLAZA BRANCH	727 RUBBER AVENUE	NAUGATUCK	CT	06770	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	264307	OXFORD BRANCH	71 OXFORD RD ROUTE 67	OXFORD	CT	06478	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	3107076	PROSPECT BRANCH	24 WATERBURY ROAD	PROSPECT	CT	06712	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	2879723	SOUTHBURY BRANCH	363 MAIN STREET SOUTH	SOUTHBURY	CT	06488	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	4460929	WALLINGFORD BRANCH	665 NORTH COLONY ROAD	WALLINGFORD	CT	06492	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	4413907	WATERBURY EAST BRANCH	3670 EAST MAIN STREET	WATERBURY	CT	06705	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	3300895	WATERBURY WEST BRANCH	910 WOLCOTT STREET	WATERBURY	CT	06705	NEW HAVEN	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	2979977	WATERTOWN BRANCH	565 STRAITS TURNPIKE	WATERTOWN	CT	06795	LITCHFIELD	UNITED STATES	Not Required	Not Required	ION BANK	407506	
OK		Full Service	1400746	WOODBURY BRANCH	670 MAIN STREET SOUTH	WOODBURY	CT	06798	LITCHFIELD	UNITED STATES	Not Required	Not Required	ION BANK	407506	

Ion Financial Mutual Holding Company

FR Y-6

December 31, 2019

Report Item 3. Securities Holders

NOT APPLICABLE

Ion Financial, MHC

Report Item 4 – Insiders

12/31/2019

1. Name, City and State

Charles J. Boulier III	Wolcott, CT.
Patrick A. Charmel	Hamden, CT.
Lucille Janatka	Woodbury, CT.
David W. Nurnberger	Woodbury, CT.
Gary B. O'Connor	Woodbury, CT.
Andrew K. Skipp	Middlebury, CT.
Stephen C. Widman	Middlebury, CT.
Mark C. Yanarella	Naugatuck, CT.
David J. Rotatori	Naugatuck, CT.
Dana M. Silva	Southbury, CT.
Ginger Y. Fennell	Naugatuck, CT.
Anthony Denniston	Waterford, CT.
Suzanne Hardy	Prospect, CT.

2. Principal Occupation, if other than with the holding company

Charles J. Boulier, III	Retired – CEO, Ion Bank – Naugatuck, CT.
Patrick A. Charmel	President & CEO, Griffin Hospital – Derby, CT.
Lucille Janatka	Retired - President; Central Region; Hartford Healthcare, New Britain, CT.
David W. Nurnberger	Retired - Sr. VP – Boehringer Ingelheim Corp – Ridgefield, CT
Gary B. O'Connor	Partner, Pullman & Comley – Hartford, CT.
Andrew K. Skipp	Principal, Simon, Hill & Skipp, LLC – Middlebury, CT.
Stephen C. Widman	M.D., Cardiology Associates – Waterbury, CT
Mark C. Yanarella	Retired President & CEO – Naugatuck Savings Bank – Naugatuck, CT.

3. Title or position with:

a. holding company;

Charles J. Boulier, III	Board of Trustees
David J. Rotatori	President & CEO; Board of Trustees
Patrick A. Charmel	Board of Trustees
Lucille Janatka	Board of Trustees
David W. Nurnberger	Board of Trustees

Gary B. O'Connor	Board of Trustees
Andrew K. Skipp	Board of Trustees
Stephen C. Widman	Board of Trustees
Mark C. Yanarella	Board of Trustees; Chair of the Board
Dana M. Silva	Senior Vice President, Secretary
Ginger Y. Fennell	Senior Vice President, Treasurer
Anthony Denniston	Senior Vice President
Suzanne Hardy	Vice President

b. **all direct & indirect subsidiaries**

Charles J. Boulier, III	Ion Bank	Chair of the Board
	Ion Insurance Corp	Director, Chair
David J. Rotatori	Ion Bank	Director, President & CEO
	Nutmeg Financial Holdings LLC	Director, President & CEO
	Ion Insurance Corp	Director, Exec Vice President
	Ion Mortgage Corp	Director, President
	Ion Investment Holding Co	Director, President
Dana M. Silva	Ion Bank	EVP, CAO, Corporate Secretary
	Nutmeg Financial Holdings, LLC	SVP, Secretary
	Ion Insurance Corp	Secretary
	Ion Mortgage Corp	Director, Secretary
	Ion Investment Holding Co.	Director, Secretary
Ginger Y. Fennell	Ion Bank	EVP, CRO, Treasurer
	Nutmeg Financial Holdings, LLC	SVP, Treasurer
	Ion Insurance Corp	SVP, Treasurer
	Ion Mortgage Corp	Treasurer
	Ion Investment Holding Co.	Director, Treasurer
Anthony Denniston	Ion Bank	EVP, Chief Human Resources Officer
Suzanne Hardy	Ion Bank	SVP, Controller
	Nutmeg Financial Holdings, LLC	SVP
Mark C. Yanarella	Ion Bank	Board of Director
Patrick A. Charmel	Ion Bank	Board of Director
Lucille Janatka	Ion Bank	Board of Director
David W. Nurnberger	Ion Bank	Board of Director
Gary B. O'Connor	Ion Bank	Board of Director
Andrew K. Skipp	Ion Bank	Board of Director

Stephen C. Widman	Ion Bank	Board of Director

c. Any other company in which the person is a director, trustee, partner or exec.

Charles J. Boulier, III	Director (Chair) – American Savings Foundation Director – St. Mary's Hospital Foundation Director – Waterbury Regional Chamber of Commerce Corporator – Griffin Health Director - United Way of Greater Waterbury Director – Ion Bank Foundation
David J. Rotatori	Director – Naugatuck Economic Development Committee Director – Simply Smiles, Inc. Corporator – Griffin Health Director – United Way of Naugatuck & Beacon Falls President & CEO – Ion Bank Foundation
Patrick A. Charmel	Board of Governors – Quinnipiac University Alumni Assoc. Advisory Committee – Quinnipiac University Director – Greater Valley Chamber of Commerce Director – Ion Bank Foundation
David W. Nurnberger	Director – Western CT State University Director – Ann's Place, The Home of I Can Director – Simply Smiles Director – Ion Bank Foundation
Gary B. O'Connor	Co-Chair – State Brownfield's Working Group Director & Secretary – Loyola Development, Inc. Director – Waterbury Regional Chamber of Commerce Director – Ion Bank Foundation
Mark C. Yanarella	Director – Ion Bank Foundation
Andrew K. Skipp	Director - Flanders Nature Center & Land Trust Director – Ion Bank Foundation
Stephen C. Widman	Director - St. Mary's Hospital Foundation CT Chapter Member - American College of Cardiology Director – Ion Bank Foundation
Dana Silva	Director & Treasurer – United Way of Naugatuck & Beacon Falls Director – Post College Foundation SVP, Secretary – Ion Bank Foundation

Ginger Y Fennell	Director & Treasurer – Rotary Club of Naugatuck Director & Treasurer – Rotary Club of Naugatuck Foundation Finance Committee – Waterbury Symphony Orchestra SVP, Treasurer – Ion Bank Foundation

4. Percentage of each class of voting securities owned, controlled or held with power to vote in:

a. The holding company

Not applicable

b. Direct and indirect subsidiaries

Not applicable

c. Any other company if 25% or more of its outstanding voting securities or proportionate interest in a partnership are held; list the name of the company and percentage of voting securities

Mark C. Yanarella	Wedgewood Investments Inc	50%
David J. Rotatori	Equity Property Management LLC	100%
Gary O'Connor	Garden Hill Associates	50%
Andrew K. Skipp	Simon, Hill & Skipp, LLC.	100%

ion FINANCIAL, MHC

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Ion Financial, MHC

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Holyoke, MA 01040
Tel: 413.536.3970

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Ion Financial, MHC
Naugatuck, Connecticut

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ion Financial, MHC and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in retained income and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 Ion Financial, MHC as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, in the year ended December 31, 2019, the Company adopted new accounting guidance related to changes in the fair value of equity securities. Our opinion is not modified with respect to this matter.

Report on Internal Control over Financial Reporting
We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2019, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 25, 2020, expressed an unmodified opinion.

Whittlesey PC

Hartford, Connecticut
February 25, 2020

Ion Financial, MHC

CONSOLIDATED BALANCE SHEETS

December 31, 2019 and 2018

(In thousands)	2019	2018
Assets		
Cash and due from banks	$ 70,369	$ 67,370
Federal funds sold	52	50
Overnight money market investments	2,613	3,428
Total cash and cash equivalents	73,034	70,848
Investment securities available for sale, at fair value (amortized cost of $69,866 in 2019 and $88,340 in 2018)	70,625	88,433
Equity Securities, at fair value	21,342	-
Loan accounted for at fair value	-	6,780
Loans	1,155,841	1,091,676
Less: Allowance for loan losses	12,293	11,312
Total net loans	1,143,548	1,080,364
Premises and equipment, net	15,329	15,112
Federal Home Loan Bank stock, at cost	4,368	5,090
Accrued income receivable	7,528	6,394
Deferred income taxes, net	7,474	6,652
Goodwill and intangibles	9,280	9,739
Other real estate owned	474	327
Cash surrender value of bank-owned life insurance	7,175	6,258
Other assets	12,392	12,633
Total assets	$ 1,372,569	$ 1,308,630
Liabilities and Retained Income		
Deposits		
Savings and interest-bearing checking	$ 577,036	$ 539,857
Demand	297,636	262,082
Time	224,725	246,639
Total deposits	1,099,397	1,048,578
Borrowed funds	99,675	94,557
Mortgagors' escrow accounts	8,000	7,934
Pension and other postretirement benefits	15,943	16,409
Other liabilities	26,665	23,235
Total liabilities	1,249,680	1,190,713
Commitments and contingent liabilities (Note 13)		
Retained income		
Undivided profits	143,026	134,428
Accumulated other comprehensive loss	(20,137)	(16,511)
Total retained income	122,889	117,917
Total liabilities and retained income	$ 1,372,569	$ 1,308,630

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

Ion Financial, MHC

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2019 and 2018

(In thousands)	2019	2018
Interest and dividend income		
Interest and fees on loans	$ 49,590	$ 45,946
Interest on investments	3,943	2,990
Dividends on investments	1,254	1,109
Total interest and dividend income	54,787	50,045
Interest expense		
Deposits	8,652	6,807
Borrowed funds	2,850	2,508
Escrow	12	6
Total interest expense	11,514	9,321
Net interest and dividend income	43,273	40,724
Provision for loan losses	2,140	1,227
Net interest income after provision for loan losses	41,133	39,497
Noninterest income		
Service charges, fees and other	7,083	6,648
Brokerage commissions	1,756	1,458
Insurance commissions	4,967	4,567
Net gains on investment securities	2,536	87
Other than temporary impairment on investment securities	-	(156)
Gain on sales of loans	317	68
Total noninterest income	16,659	12,672
Noninterest expense		
Salaries and employee benefits	28,497	27,069
Fees and services	6,107	5,234
Occupancy	3,799	3,856
Equipment	3,475	2,971
Office	1,137	1,113
Marketing	1,767	1,550
Other	2,734	1,000
Total noninterest expense	47,516	42,793
Income before provision for income taxes	10,276	9,376
Provision for income taxes	1,976	1,938
Net income	$ 8,300	$ 7,438

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

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2019 and 2018

(In thousands)	2019	2018
Net income	$ 8,300	$ 7,438
Other comprehensive income before tax		
Unrealized gains (losses) on securities:		
Net unrealized holding gains (losses) arising during the period	1,121	(2,146)
Less: Reclassification adjustment for (gains) losses included in net income	(78)	69
Net unrealized gain (loss) on securities	1,043	(2,077)
Net unrealized (loss) gain on derivative hedges	(3,898)	41
Change in pension and postretirement liabilities	(1,358)	(2,696)
Other comprehensive (loss) before tax	(4,213)	(4,732)
Income taxes	885	994
Other comprehensive (loss), net of tax	(3,328)	(3,738)
Total comprehensive income	$ 4,972	$ 3,700

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

Ion Financial, MHC

Consolidated Statements of Changes in Retained Income

For the Years Ended December 31, 2019 and 2018

(In thousands)	Undivided Profits	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	$ 126,990	$ (12,773)	$ 114,217
Net income	7,438	-	7,438
Change in pension and postretirement liabilities, net of taxes	-	(2,129)	(2,129)
Change in derivative hedges, net of taxes	-	32	32
Change in net unrealized gains on available for sale securities, net of taxes	-	(1,641)	(1,641)
Balance, December 31, 2018	134,428	(16,511)	117,917
Adoption of ASU No. 2016-01 related to equity securities	298	(298)	-
Net income	8,300	-	8,300
Change in pension and postretirement liabilities, net of taxes	-	(1,073)	(1,073)
Change in derivative hedges, net of taxes	-	(3,079)	(3,079)
Change in net unrealized gains on available for sale securities, net of taxes	-	824	824
Balance, December 31, 2019	$ 143,026	$ (20,137)	$ 122,889

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

Ion Financial, MHC

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

(In thousands)	2019	2018
Operating activities		
Net income	$ 8,300	$ 7,438
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,140	1,227
Depreciation and amortization	2,804	2,589
Amortization and accretion of loan fees and discounts, net	(2,198)	(1,957)
Gain on sales of loans	(317)	(68)
Net gains on investment securities	(2,536)	(87)
Other than temporary impairment on investment securities	-	156
Net loss from sales and writedowns on other real estate owned	99	132
Bank owned life insurance income	(154)	(17)
Limited partnership income	(36)	(450)
Deferred income taxes	63	(165)
Amortization and accretion of investment securities premiums and discounts, net	161	301
Increase in accrued income receivable	(1,134)	(491)
(Increase) decrease in other assets	(255)	3,006
Decrease in pension and other postretirement benefits	(1,824)	(947)
Increase in other liabilities	573	3,421
Net cash provided by operating activities	5,686	14,088
Investing activities		
Proceeds from sales, maturities and principal repayments of investment securities	21,105	21,086
Purchase of investment securities	(21,221)	(14,609)
Net increase in loans	(57,086)	(56,380)
Purchase of FHLB stock	(787)	-
Proceeds from redemption of FHLB stock	1,509	268
Investment in bank owned life insurance	(762)	(762)
Proceeds from settlement of bank owned life insurance	-	573
Proceeds from sales of foreclosed real estate	811	796
Investment in limited partnership investments	-	(127)
Proceeds from limited partnership investments	99	60
Investment in SBA loan fund	(610)	(1,330)
Purchase of premises and equipment, net	(2,443)	(2,720)
Cash paid for acquisition, net	-	(4,124)
Net cash used in investing activities	(59,385)	(57,269)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS – (CONTINUED)

For the Years Ended December 31, 2019 and 2018

(In thousands)	2019	2018
Financing activities		
Decrease in time deposits	(21,914)	(3,458)
Increase in savings, interest-bearing checking and demand deposits	72,733	34,878
Net increase in Federal funds purchased	5,000	5,000
FHLB advances	65,000	5,000
FHLB repayments	(65,000)	(15,125)
Net increase in mortgagors' escrow accounts	66	252
Net cash provided by financing activities	55,885	26,547
Change in cash and cash equivalents	2,186	(16,634)
Beginning of year	70,848	87,482
End of year	$ 73,034	$ 70,848
Supplemental disclosures		
Cash paid during the year for:		
Interest	$ 11,494	$ 9,368
Income taxes	1,508	2,810
Non-cash investing and financing transactions:		
Loans transferred to other real estate owned	1,057	680
Loan at fair value transferred to loans receivable	6,545	-
Decrease (increase) in other assets for hedge derivatives	1,040	(415)
Increase in other liabilities for hedge derivatives	2,858	477

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

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Ion Financial, MHC ("MHC" or the "Company"), a Mutual Holding Company, has investments in several wholly-owned subsidiaries including Ion Bank (the "Bank") and Ion Insurance, Inc. (collectively, the "Company").

MHC's primary subsidiary is the Bank. The Bank's main office is located in Naugatuck, Connecticut. The Bank operates through its main corporate office, eighteen retail branches and one limited-service high school branch located primarily in the Western half of Connecticut. The Bank's primary source of income is interest received on loans to customers, which include small and middle market businesses and individuals residing primarily within the Bank's service area.

The Bank, in turn, has multiple wholly-owned subsidiaries including Ion Investment Holding Company, which holds the Company's investment in Infinex Financial Services, a registered broker-dealer.

Principles of Consolidation

The consolidated financial statements include the accounts of MHC and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make extensive use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting periods. Estimates that are particularly critical and are susceptible to change are the allowance for loan losses, income taxes, pension and other postretirement benefits, other real estate owned, valuation of derivative financial instruments and goodwill impairment. Operating results in the future could vary from the amounts derived from management's estimates and assumptions.

As of February 25, 2020, the date in which the consolidated financial statements were available for issuance, management has determined that no subsequent events have occurred following the balance sheet date of December 31, 2019, which require recognition or disclosure in the consolidated financial statements.

Investments

Equity securities are recorded at fair value, and beginning on January 1, 2019, unrealized gains and losses are reported in earnings. Prior to January 1, 2019, unrealized gains and losses were excluded from earnings, similar to the reporting for debt securities described below.

Marketable debt securities are classified as trading, available for sale, or held to maturity. Management determines the appropriate classifications of securities at the time of purchase. Held to maturity securities, if any, are debt securities for which the Company has the ability and intent to hold until maturity, and are recorded at amortized cost. Trading securities, if any, are recorded at fair value, with unrealized gains and losses included in earnings. All other securities not included in held to maturity or trading are classified as available for sale, and are recorded at fair value, with unrealized gains and losses recorded through other comprehensive income.

Premiums and discounts on debt securities are amortized or accreted into interest income over the term of the securities using the level yield method.

A decline in fair value of a debt security below amortized cost that is deemed other than temporary is charged to earnings for the credit related other than temporary impairment ("OTTI") resulting in the establishment of a new cost basis for the security. The non-credit related OTTI is recognized in other comprehensive income if the Company does not have the intent to sell or will not be required to sell the security. Prior to Januaray 1, 2019, if an equity security was deemed other-than-temporarily impaired, the full impairment was considered to be credit-related and a charge to earnings would be recorded.

Gains and losses on sales of securities are recognized at the time of sale on a specific identification basis.

The Bank has a minority interest investment of less than 5% in a limited liability partnership. Through December 31, 2019, the Bank's investment is $2.2 million, which is included in other assets. This investment is being accounted for by the equity method.

Loan accounted for at fair value

The Company had one loan at December 31, 2018, which was accounted for at fair value using the fair value option allowed under GAAP. Changes in the fair value related to this loan were recorded as income or expense.

Loans

Loans are stated at unpaid principal balance net of deferred origination fees and costs. Interest on loans is accrued and recognized based on contractual rates applied to principal amounts outstanding. Loan origination and commitment fees, net of certain direct costs, are deferred and recognized as an adjustment to interest income primarily using the level yield method over the contractual life of the related loan. When loans are repaid, sold or participated out, the unamortized portion of fees and costs are recognized as income or expenses at that time.

The Company's loan portfolio segments are residential, commercial real estate, construction, commercial and industrial, and consumer loans.

In determining income recognition on loans, generally no interest is recognized with respect to loans on which a default of interest or principal has occurred for a period of 90 days or more. A loan is placed on nonaccrual status when it is 90 days or more past due or sooner if management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that the presumption of collectability of interest no longer is prudent. When a loan is placed on nonaccrual status, previously accrued interest deemed uncollectible is reversed from interest income. A nonaccrual loan may be restored to accrual status when payments have resumed and prospects for future payments are no longer in doubt. Interest payments on nonaccrual loans are recognized as interest income on a cash basis.

Loans are fully or partially charged off when deemed uncollectible or when they reach a predetermined number of days past due. Loans are considered past due when payments are behind based on the contractual terms of the loan.

The Company has the ability to sell fixed rate residential real estate loans to government-sponsored entities. Such loans held for sale are carried at the lower of cost or fair value. There were no loans held for sale as of December 31, 2019 or 2018.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level determined by management to be the best estimate of losses incurred in the loan portfolio as of the date of the consolidated financial statements. The allowance is increased or decreased by a provision or credit reflected in operations, which represents an estimate of losses that occurred during the period and a change in estimated losses recorded in prior periods. Loan losses are charged against the allowance when management believes the collectability of principal is unlikely. Recoveries of charged off loans are credited to the allowance.

The determination of the adequacy of the allowance for loan losses by management is based on an assessment of risk elements in the portfolio, identified factors affecting specific loans and available information about the current economic environment in which the Company and its borrowers operate. Management reviews overall portfolio quality through an evaluation of individual performing and impaired loans, the risk characteristics of each component of the loan portfolio, an analysis of current levels and trends in charge offs, delinquency and non-accruing loan data, and the credit risk profile of each component of the portfolio, among other factors.

The allowance for loan losses consists of a formula reserve based on a variety of factors including historical loss experience, for various loan portfolio classifications and a valuation allowance for specific loans identified as impaired. An additional unallocated reserve may also be provided to reflect the complexity of the lending portfolio and the degree of estimation involved in assessing the overall adequacy of the allowance for loan losses. The allowance is an estimate and ultimate losses may vary from management's estimate. Changes in the estimate are recorded in the results of operations in the period in which they become known, along with provisions for estimated losses incurred during that period.

A loan is considered to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans, as defined, may be measured based on 1) the present value of expected future cash flows, discounted at the loan's original effective interest rate or 2) the loan's observable market price or 3) the fair value of the collateral if the loan is collateral-dependent. When the measurement of the impaired loan as described above is less than the recorded investment in the loan, an impairment is recorded through the allowance for loan losses.

Mortgage Servicing Rights

The Company capitalizes servicing rights for loans sold based on the relative fair value which is allocated between the servicing rights and the loans sold. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income and are evaluated for impairment based on their fair value. Fair value is determined using a discounted value of future cash flows estimation model. The most important assumptions used in the valuation model are the anticipated rate of loan prepayments and discount rates. Assumptions are based on standards used by market participants.

Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Other real estate owned is initially recorded at the fair value of the property, less estimated selling costs, which establishes a new cost basis. Loan losses from the acquisition of such properties are charged against the allowance for loan losses. Subsequent to foreclosure, other real estate owned is carried at the lower of cost or fair value less estimated selling costs. Subsequent reductions in the carrying value of such properties are charged to noninterest expense.

Other real estate owned expenses and write-downs are charged to noninterest expense, and realized gains and losses from sales and dispositions are reflected in noninterest income.

Premises and Equipment
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are charged to expense using straight-line and declining-balance methods over the estimated useful lives of the related assets, 3 to 39 years, or, for leasehold improvements, at rates based on the terms of the leases, if shorter.

Goodwill and Identifiable Intangible Assets
The assets (including identifiable intangible assets) and liabilities acquired in a business combination are recorded at fair value at the date of acquisition. Goodwill is recognized for the excess of the acquisition cost over the fair values of the net assets acquired. Identifiable intangible finite lived assets are subsequently amortized on a straight-line or accelerated basis, over their estimated lives. Management assesses the recoverability of goodwill at least annually and all intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount exceeds fair value an impairment charge is recorded to income. There were no such impairments for the years ended December 31, 2019 and 2018.

Derivative Instruments and Hedging Activities
The Company enters into interest rate swap agreements as part of the Company's interest rate risk management strategy for certain assets and liabilities. Based on the Company's intended use for the interest rate swap at inception, the Company designates the derivative as either an economic hedge of an asset or liability or a hedging instrument subject to the hedge accounting provisions of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Topic 815, "*Derivatives and Hedging.*"

Interest rate swaps designated as economic hedges are recorded at fair value within other assets or liabilities. Changes in the fair value of these derivatives are recorded directly through earnings.

For interest rate swaps that management intends to apply the hedge accounting provisions of Topic 815, the Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the various hedges. Additionally, the Company uses dollar offset or regression analysis at the hedge's inception and for each reporting period thereafter, to assess whether the derivative used in its hedging transaction is expected to be and has been highly effective in offsetting changes in the fair value or cash flows of the hedged item. The Company discontinues hedge accounting when it is determined that a derivative is not expected to be or has ceased to be highly effective as a hedge, and then reflects changes in fair value of the derivative in earnings after termination of the hedge relationship.

The Company has characterized all of its interest rate swaps that qualify for hedge accounting under Topic 815 as cash flow hedges. Cash flow hedges are used to minimize the variability in cash flows of assets or liabilities, or forecasted transactions caused by interest rate fluctuations, and are recorded at fair value in other assets or liabilities within the Company's consolidated balance sheets. The effective portion of the changes in the fair value of these cash flow hedges is initially recorded in accumulated other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. On January 1, 2018, the Company adopted FASB ASU No. 2017-12 (see Recent Accounting Pronouncements) whereby any hedge ineffectiveness is no longer measured and recorded periodically, and all changes in fair value are recorded in accumulated other comprehensive income.

Income Taxes
Items of income and expense recognized in different time periods for financial reporting purposes and for purposes of computing income taxes currently payable (temporary differences) give rise to deferred income taxes which are reflected in the consolidated financial statements. A deferred tax asset or liability is recognized for the estimated future tax effects, based upon enacted law, attributed to temporary differences. Deferred income tax assets are reduced for that portion not expected to be realized. As of December 31, 2019 and 2018, management believed that all deferred income tax assets would be realized.

The Company examines its significant income tax positions annually to determine whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2019 and 2018, the Company has no significant uncertain tax positions. The tax years 2016 and subsequent, are subject to examination by federal and state taxing authorities. The statute of limitations has expired on the years before 2016. No examinations are currently in process.

The Company recognizes interest and penalties arising from income tax settlements as part of its provision for income taxes.

Cash Flows
For purposes of reporting cash flows, cash and due from banks, federal funds sold, balances due from the Federal Reserve Bank, overnight deposits with the Federal Home Loan Bank (“FHLB”), certificate of deposits and overnight money market investments are included in cash and cash equivalents.

Reclassification
Certain amounts in prior periods have been reclassified to conform with current year presentation. These reclassifications changed only the reporting categories and did not affect the Company’s operating results or financial position.

Recent Accounting Pronouncements
The following section includes changes in accounting principles and potential effects of new accounting pronouncements.

Accounting Standards Update (“ASU”) No. 2014-09 – Revenue from Contracts with Customers (Topic 606): The ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidance, to clarify and converge revenue recognition principles under US GAAP and IFRS. The update outlines five steps to recognizing revenue: (i) identify the contracts with the customer; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the separate performance obligations; (v) recognize revenue when each performance obligation is satisfied. The update requires more comprehensive disclosures, relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue, and cash flows arising from contracts with customers, which will mainly impact construction and high-tech industries. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The amendments in ASU 2015-14 deferred the effective date of ASU 2014-09 for all entities by one year. Accordingly, the amendments were effective for annual and interim periods beginning after December 15, 2018. The Company adopted this guidance on January 1, 2019 and there was no material impact on the Company's consolidated financial statements.

ASU No. 2016-01 – Financial Instruments – Overall (Subtopic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU has been issued to improve the recognition and measurement of financial instruments by requiring 1) 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; 2) separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 3) the use of the exit price notion when measuring fair value of financial instruments for disclosure purposes; and 4) separate presentation by the reporting organization in other comprehensive income the portion of the total change in the fair value of a liability resulting from the change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The standard is effective for the Company beginning on December 31, 2019. Non-public entities can early adopt the provision allowing for the omission of fair value disclosures for financial instruments at amortized cost. The Company elected to early-adopt the provision that eliminates fair value disclosures for financial instruments measured at amortized cost in 2016. The Company adopted the provisions related to the accounting for equity securities as of January 1, 2019, and as a result, a cumulative effect adjustment was made to reclassify $297,374 of unrealized gains on equity securities from accumulated other comprehensive loss to undivided profits. In addition, beginning on January 1, 2019, all changes in the fair value of equity securities are recognized in net income.

ASU No. 2016-02 – Leases (Topic 842): The amendments in this update require lessees to recognize, on the balance sheet, assets and liabilities for the rights and obligations created by leases. Accounting by lessors will remain largely unchanged. The guidance will be effective for the Company for the year ending December 31, 2021, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11 which allows a modified retrospective transition where the lessees and lessors may elect to recognize and measure leases at the beginning of the earliest period presented, or as a cumulative effect adjustment as of the date of adoption. Management is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

ASU No. 2016-13 – Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected credit losses for financial assets held. The amendments in this update will be effective for fiscal years beginning after December 15, 2022. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is currently evaluating the impact of this guidance on the Company's consolidated financial statements.

ASU No. 2017-07 – Compensation – Retirement Benefits (Topic 715): "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires an employer to report the service cost component of net benefit costs in the same income statement line item as other compensation costs arising from services rendered by employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The other components of net benefit cost should be presented in a separate income statement line item or items, and if a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The ASU also allows only the service cost component to be eligible for capitalization when applicable. The guidance was effective for the Company for the year ending December 31, 2019. The impact of adopting this guidance on the Company's consolidated financial statements was not significant.

ASU No. 2017-12 – Derivatives and Hedging (Topic 815): "Targeted Improvements to Accounting for Hedging Activities." The purpose of this ASU is to better align a Company's financial reporting for hedging activities with the economic objectives of those activities. The guidance will be effective for the Company on December 31, 2020, with early adoption permitted. Management elected to early adopt the provisions of ASU 2017-12 in 2018, and as a result, the Company is no longer required to measure and record in earnings the ineffective portion of its cash flow hedges, and all changes in fair value of the cash flow hedges are recorded in other comprehensive income and reclassified to earnings when the hedged items affect earnings. The adoption of ASU 2017-12 on January 1, 2018 did not have a material effect on the Company's financial statements.

ASU No. 2018-14, Compensation – Retirement Benefits (Topic 715): "Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans." The amendments in the ASU remove disclosures that no longer are considered cost beneficial, clarify the specific requirments of certain disclosures, and add disclosure requirements identified as relevant. The guidance is effective for the Company for the year ending December 31, 2021, and requires retrospective restatements to all periods presented.

2. REGULATORY MATTERS

The Federal Reserve, the FDIC and the other federal and state bank regulatory agencies establish regulatory capital guidelines for U.S. banking organizations.

The Company and the Bank are subject to capital rules set forth by the Federal Reserve, the FDIC and the other federal and state bank regulatory agencies (the Basel III Capital Rules).

The Basel III Capital Rules require a minimum common equity Tier 1 capital requirement of 4.5% of risk-weighted assets; a minimum leverage ratio of 4% of total assets; a minimum Tier 1 capital to risk-weighted assets requirement of 6%; and a minimum total capital to risk-weighted assets requirement of 8.0%. A ‘‘well-capitalized" institution must generally maintain capital ratios 200 basis points higher than the minimum guidelines.

The Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments to executive officers if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Management believes, as of December 31, 2019, the Company and the Bank meet all capital adequacy requirements to which they are subject. There are no conditions or events since then that management believes have changed this conclusion.

The capital amounts and ratios for the Bank at December 31, 2019 and 2018 were as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Bank			(Dollars in thousands)			
December 31, 2019						
Common Equity Tier I Capital to Risk-Weighted Assets	$ 142,211	12.59%	$ 50,833	4.50%	$ 73,426	6.50%
Tier I Leverage Capital to Total Average Assets	142,211	10.52%	54,077	4.00%	67,596	5.00%
Tier I Capital to Risk-Weighted Assets	142,211	12.59%	67,778	6.00%	90,371	8.00%
Total Capital to Risk-Weighted Assets	154,501	13.68%	90,371	8.00%	112,963	10.00%
December 31, 2018						
Common Equity Tier I Capital to Risk-Weighted Assets	$ 135,152	12.84%	$ 47,377	4.50%	$ 68,434	6.50%
Tier I Leverage Capital to Total Average Assets	135,152	10.42%	51,901	4.00%	64,877	5.00%
Tier I Capital to Risk-Weighted Assets	135,152	12.84%	63,170	6.00%	84,226	8.00%
Total Capital to Risk-Weighted Assets	146,630	13.93%	84,226	8.00%	105,283	10.00%

3. INVESTMENT SECURITIES

The tables below present the amortized cost and fair values of investment securities:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Available for sale:				
U.S. Treasury securities	$ -	$ -	$ -	$ -
U.S. Government and agency obligations	6,449	1	(72)	6,378
Municipal debt securities	15,644	169	(2)	15,811
Corporate debt securities	13,526	152	-	13,678
Government mortgage-backed securities	34,247	578	(67)	34,758
Total available for sale	$ 69,866	$ 900	$ (141)	$ 70,625
December 31, 2018				
Available for sale:				
U.S. Treasury securities	$ 1,996	$ -	$ (16)	$ 1,980
U.S. Government and agency obligations	9,387	1	(86)	9,302
Municipal debt securities	17,343	33	(181)	17,195
Corporate debt securities	12,912	14	(173)	12,753
Government mortgage-backed securities	30,515	347	(223)	30,639
Marketable equity securities	16,187	1,430	(1,053)	16,564
Total available for sale	$ 88,340	$ 1,825	$ (1,732)	$ 88,433

As of December 31, 2019, net unrealized gains on securities available for sale of $600,000, were included in accumulated other comprehensive loss, representing the gross net unrealized gains on securities available for sale of $759,000, less deferred income taxes of $159,000.

As of December 31, 2018, net unrealized gains on securities available for sale of $73,000, were included in accumulated other comprehensive loss, representing the gross net unrealized gains on securities available for sale of $93,000, less deferred income taxes of $20,000.

The following table discloses investment securities with unrealized losses for less than 12 months or for 12 months or more:

	Less Than 12 Months		12 Months or More		Total	
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Available for sale:						
U.S. Government and agency obligations	$ 3,019	$ (3)	$ 2,683	$ (69)	$ 5,702	$ (72)
Municipal debt securities	1,173	(2)	-	-	1,173	(2)
Government mortgage-backed securities	4,137	(15)	4,423	(52)	8,560	(67)
Total temporarily-impaired securities	$ 8,329	$ (20)	$ 7,106	$ (121)	$ 15,435	$ (141)
December 31, 2018						
Available for sale:						
U.S. Treasury securities	$ -	$ -	1,980	$ (16)	$ 1,980	$ (16)
U.S. Government and agency obligations	3,584	(10)	4,654	(76)	8,238	(86)
Municipal debt securities	2,147	(5)	11,254	(176)	13,401	(181)
Corporate debt securities	5,374	(171)	1,516	(2)	6,890	(173)
Government mortgage-backed securities	4,627	(20)	9,852	(203)	14,479	(223)
Marketable equity securities	12,883	(934)	1,131	(119)	14,014	(1,053)
Total temporarily-impaired securities	$ 28,615	$ (1,140)	$ 30,387	$ (592)	$ 59,002	$ (1,732)

The fair value and unrealized losses representing 9 investment securities in a continuous loss position for less than 12 months as of December 31, 2019 was $8,329,000 and $20,000, respectively. These investments consisted of U.S. Government and agency obligations, municipal debt securities and government mortgage-backed securities. The fair value and unrealized losses representing 17 investment securities in a continuous loss position for 12 months or more as of December 31, 2019 was $7,106,000 and $121,000, respectively. These investments consist of U.S. Government and agency obligations and government mortgage-backed securities. Management does not believe any individual unrealized loss as of December 31, 2019 represents an other-than-temporary impairment. The Company has both the intent and ability to hold these securities for a time necessary to recover the amortized cost.

Investment securities with fair values of $12,120,000 and $11,171,000 as of December 31, 2019 and 2018, respectively, were pledged as security for municipal deposits held by the Company and available Federal Reserve Bank discount window borrowings.

As of December 31, 2019, the amortized cost and fair values of fixed-income debt securities, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties:

	December 31, 2019	
(In thousands)	Amortized Cost	Fair Value
Maturity		
One year or less	$ 5,434	$ 5,457
After one year through five years	21,333	21,609
After five years through ten years	3,675	3,694
After ten years	5,177	5,107
	35,619	35,867
Government mortgage-backed securities	34,247	34,758
Total	$ 69,866	$ 70,625

For the year ended December 31, 2019, there were gross realized gains of $1.5 million recognized on investment security sales.

For the year ended December 31, 2018, gross realized gains of $86,611 were recognized on investment security sales. Additionally, the Company recorded a $156,000 other than temporary impairment writedown on a corporate debt security for which there was intent to sell.

The following is information related to unrealized gains on equity securities for the year ended December 31, 2019:

(In thousands)	2019
Net gains and losses recognized during the year on equity securities	$ 2,458
Less: Net gains and losses recognized during the year on equity securities sold during the period	1,429
Unrealized gains and losses recognized during the year on equity securities still held at December 31, 2019	$ 1,029

4. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

In 2018, Ion Insurance, Inc. acquired the assets and business of CPM Insurance Services, LLC located in Cheshire, Connecticut for approximately $4.2 million. The acquisition was effective January 1, 2018 and accounted for by the acquisition method. The purpose of the acquisition was to expand and further develop the insurance agency business.

A summary of the purchase price and the allocation of the purchase price is as follows (In thousands):

Purchase price:	
Cash	$ 4,000
Contingent consideration	177
	$ 4,177
Allocation:	
Cash	$ 54
Receivables	345
Customer relationship intangible	2,359
Current liabilities	(154)
Goodwill	1,573
	$ 4,177

The contingent consideration was paid to the seller in 2018, and there are no further contingent purchase considerations. The customer relationship intangible is being amortized over ten years.

Changes in the carrying amount of goodwill and finite-lived identifiable intangible assets are summarized as follows:

(In thousands)	Goodwill	Customer Relationship Intangible	Total
Balance, December 31, 2017	$ 4,364	$ 1,903	$ 6,267
CPM Insurance Acquisition	1,573	2,359	$ 3,932
Amortization expense	-	(460)	(460)
Balance, December 31, 2018	5,937	3,802	9,739
Amortization expense	-	(459)	(459)
Balance, December 31, 2019	$ 5,937	$ 3,343	$ 9,280

There was no impairment of goodwill for the years ended December 31, 2019 and 2018.

Estimated amortization expense of identifiable intangible assets for years subsequent to December 31, 2019 is as follows:

(In thousands)	Customer Relationships
2020	$ 398
2021	377
2022	377
2023	377
2024	377
Thereafter	1,437
Total	$ 3,343

The weighted average amortization period for the customer relationships is thirteen years (straight-line basis).

5. FEDERAL HOME LOAN BANK STOCK

The Company, which is a member of the Federal Home Loan Bank of Boston ("FHLB"), held $4,367,900 and $5,090,300 of FHLB capital stock as of December 31, 2019 and 2018, respectively, which is in excess of the minimum required amount.

6. LOANS

The Company grants commercial, residential and consumer loans to customers primarily in the Western half of Connecticut. Although the Company has a diversified loan portfolio, a substantial portion of its loan collateral is dependent upon the real estate sector of the economy.

The Company's loan portfolio consisted of:

	December 31,	
(In thousands)	2019	2018
Real estate mortgage loans		
Residential	$ 356,616	$ 376,752
Commercial	339,040	294,783
Construction	77,658	74,421
Commercial	139,017	101,658
Consumer	237,180	237,109
	1,149,511	1,084,723
Unamortized deferred loan costs, net	6,330	6,953
Gross loans	$ 1,155,841	$ 1,091,676

Risk Management

The Company has established credit policies applicable to each type of lending activity in which it engages. The Company evaluates the creditworthiness of each customer and, in most cases, extends credit of up to 80% of the fair value of the collateral at the date of the credit extension, depending on the borrowers' creditworthiness and the type of collateral. The fair value of collateral is monitored on an ongoing basis and additional collateral is obtained when warranted. Real estate is the primary form of collateral. Other important forms of collateral are business assets, time deposits, and marketable securities. While collateral provides assurance as a secondary source of repayment, the Company ordinarily requires the primary source of repayment to be based on the borrower's ability to generate continuing cash flows. Private mortgage insurance on residential loans is required for that portion of the loan in excess of 80% of the appraised value of the property.

Credit Quality of Loans and the Allowance for Loan Losses

Management segregates the loan portfolio into portfolio segments to document a systematic method for determining its allowance for loan losses. The portfolio segments are based on loan collateral and the underlying risk factors present in each loan type. Such risk factors are periodically reviewed by management and revised as deemed appropriate.

The Company's loan portfolio is segregated into the following portfolio segments:

Residential Real Estate. This portfolio segment consists of the origination of first mortgage loans secured by residential dwellings for personal use located in our market area.

Commercial Real Estate. This portfolio segment includes loans secured by commercial real estate, non-owner occupied one-to-four family and multi-family dwellings for property owners and businesses in our market area. Loans secured by commercial real estate generally have larger loan balances and more credit risk than owner occupied one-to-four family mortgage loans.

Construction. This portfolio segment includes commercial construction loans for commercial development projects, including condominiums, apartment buildings, and single family subdivisions as well as office buildings, retail and other income producing properties and land loans, which are loans made with land as security. It also includes residential construction loans to individuals to finance the construction of residential dwellings for personal use located in the Company's market area. Construction and land development financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project proves to be inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment. Construction loans also expose the Company to the risks that improvements will not be completed on time in accordance with specifications and projected costs and that repayment will depend on the successful operation or sale of the properties, which may cause some borrowers to be unable to continue with debt service.

Commercial. This portfolio segment includes commercial business loans secured by real estate, assignments of corporate assets, and personal guarantees of the business owners. Commercial business loans generally have higher interest rates and shorter terms than other loans, but they also may involve higher average balances, increased difficulty of loan monitoring and a higher risk of default since their repayment generally depends on the successful operation of the borrower's business.

Consumer Loans. This portfolio segment includes home equity loans, home equity lines of credit, purchased consumer loans, loans secured by passbook or certificate accounts, automobiles, as well as unsecured personal loans and lines of credit. This type of loan may entail greater risk than do residential mortgage loans, particularly in the case of loans that are unsecured or secured by assets that depreciate rapidly.

Allowance for Loan Losses

The following table sets forth activity in the allowance for loan losses and loan balances by portfolio segment, disaggregated by impairment methodology:

	Allowance for Loan Losses						
(In thousands)	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Unallocated	Total
December 31, 2019							
Beginning balance	$ 2,884	$ 3,325	$ 673	$ 1,683	$ 2,701	$ 46	$ 11,312
Charge-offs	(91)	(400)	-	(543)	(3,466)	-	(4,500)
Recoveries	5	49	-	192	3,095	-	3,341
Provisions	(789)	1,111	(80)	1,059	852	(13)	2,140
Ending balance	$ 2,009	$ 4,085	$ 593	$ 2,391	$ 3,182	$ 33	$ 12,293
individually evaluated for impairment	$ 399	$ 408	$ -	$ 97	$ 90	$ -	$ 994
collectively evaluated for impairment	1,610	3,677	593	2,294	3,092	33	11,299
Total allowance	$ 2,009	$ 4,085	$ 593	$ 2,391	$ 3,182	$ 33	$ 12,293
individually evaluated for impairment	$ 6,556	$ 12,309	$ -	$ 652	$ 915	$ -	$ 20,432
collectively evaluated for impairment	350,060	326,731	77,658	138,365	236,265	-	1,129,079
Total loans	$ 356,616	$ 339,040	$ 77,658	$ 139,017	$ 237,180	$ -	$ 1,149,511
December 31, 2018							
Beginning balance	$ 2,382	$ 3,059	$ 629	$ 1,521	$ 2,770	$ 24	$ 10,385
Charge-offs	(36)	(10)	-	(244)	(3,594)	-	(3,884)
Recoveries	2	178		269	3,135	-	3,584
Provisions	536	98	44	137	390	22	1,227
Ending balance	$ 2,884	$ 3,325	$ 673	$ 1,683	$ 2,701	$ 46	$ 11,312
individually evaluated for impairment	$ 609	$ 156	$ -	$ 29	$ 107	$ -	$ 901
collectively evaluated for impairment	2,275	3,169	673	1,654	2,594	46	10,411
Total allowance	$ 2,884	$ 3,325	$ 673	$ 1,683	$ 2,701	$ 46	$ 11,312
individually evaluated for impairment	$ 6,607	$ 10,815		$ 827	$ 1,784	$ -	$ 20,033
collectively evaluated for impairment	370,145	283,968	74,421	100,831	235,325	-	1,064,690
Total loans	$ 376,752	$ 294,783	$ 74,421	$ 101,658	$ 237,109	$ -	$ 1,084,723

The allowance for loan losses allocated to each portfolio segment is not necessarily indicative of future losses in any particular portfolio segment and does not restrict the use of the allowance to absorb losses in other portfolio segments.

Credit Quality Indicators

The Company's policies provide for the classification of commercial loans into the following categories: pass, special mention, substandard, doubtful and loss. Consistent with regulatory guidelines, loans that are considered to be of lesser quality are classified as substandard, doubtful, or loss. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those loans characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Loans classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans (or portions of loans) classified as loss are those considered uncollectible and of such little value that their continuance as loans is not warranted. Loans that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve close attention, are required to be designated as special mention.

When loans are classified as special mention, substandard or doubtful, the Company disaggregates these loans and allocates a portion of the related general loss allowances to such loans as the Company deems prudent. The Company might also separately identify certain loans as impaired and allocate specific reserves on an individual loan basis. Determinations as to the classification of loans and the amount of loss allowances are subject to review by the Company's federal and state regulators, which can require that we down-grade loans and/or establish additional loss allowances. The Company regularly reviews its loan portfolio to determine whether any loans require classification in accordance with applicable regulations.

The following tables are a summary of the loan portfolio credit quality indicators by loan class:

	December 31, 2019			December 31, 2018		
(In thousands)	Commercial Real Estate	Commercial	Commercial Construction	Commercial Real Estate	Commercial	Commercial Construction
Grade:						
Pass	$ 311,257	$ 130,154	$ 70,294	$ 264,399	$ 93,761	$ 65,957
Special Mention	17,303	8,332	3,555	17,883	6,009	2,382
Substandard	10,480	531	-	12,501	1,888	
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$ 339,040	$ 139,017	$ 73,849	$ 294,783	$ 101,658	$ 68,339

Residential and consumer loans are generally not risk rated and the credit risk profile is based on payment activity. If a residential or consumer loan were to be classified as impaired, it would be risk rated at that time.

The following table represents the credit risk profile of these loans:

	December 31, 2019			December 31, 2018		
(In thousands)	Residential Real Estate	Residential Construction	Consumer	Residential Real Estate	Residential Construction	Consumer
Performing	$ 350,259	$ 3,809	$ 236,352	$370,984	$ 6,082	$235,857
Nonperforming	6,357	-	828	5,768	-	1,252
Total	$ 356,616	$ 3,809	$ 237,180	$376,752	$ 6,082	$237,109

<u>*Loan Portfolio Aging Analysis*</u>

When a loan is past the grace period, an automatic late notice is generated and mailed to the customer. Within three business days the first collection letter is generated and mailed to the customer and phone calls commence. Phone contact and collection letters are continual in attempts to contact the customer to determine the reason for the delinquency in order to ensure that the borrower understands the terms of the loan and the importance of making payments on or before the due date. If there is no contact from the borrower, arrangement to make payments or other reasonable arrangement, at 90 days the Company will determine if a demand letter and further legal action may need to be taken. A summary report of all Bank loans 30 days or more past due is provided to the Board of Directors each month.

The following tables set forth certain information with respect to the Company's loan portfolio delinquencies by portfolio segment and amounts:

(In thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Loans
December 31, 2019					
Residential real estate	$ 352,650	$ 2,006	$ -	$ 1,960	$ 356,616
Commercial real estate	339,002	-	-	38	339,040
Construction	77,658	-	-	-	77,658
Commercial	139,002	15	-	-	139,017
Consumer	234,292	1,528	867	493	237,180
Total	$ 1,142,604	$ 3,549	$ 867	$ 2,491	$ 1,149,511
December 31, 2018					
Residential real estate	$ 371,815	$ 3,120	$ 112	$ 1,705	$ 376,752
Commercial real estate	294,220	150	-	413	294,783
Construction	74,421	-	-	-	74,421
Commercial	101,658	-	-	-	101,658
Consumer	234,165	1,387	675	882	237,109
Total	$ 1,076,279	$ 4,657	$ 787	$ 3,000	$ 1,084,723

At December 31, 2019 and 2018, there were no loans 90 days or greater past due and still accruing interest.

Loans on Nonaccrual Status
The following table is a summary of nonaccrual loans by portfolio segment:

	December 31,	
(In thousands)	2019	2018
Residential real estate	$ 6,357	$ 5,768
Commercial real estate	4,635	1,346
Construction	557	317
Commercial	406	468
Consumer	828	1,252
Total	$ 12,783	$ 9,151

The amount of income that was contractually due but not recognized on nonperforming loans totaled $282,000 and $274,000 in 2019 and 2018, respectively.

Impaired Loans
An impaired loan generally is one for which it is probable, based on current information, that the Company will not collect all the amounts due under the contractual terms of the loan. Loans are individually evaluated for impairment. When the Company classifies a loan as impaired, it provides a specific allowance for that portion of the asset that is deemed uncollectible.

The following is a summary of impaired loans by portfolio segment:

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
December 31, 2019					
Impaired loans with					
no specific allowance recorded:					
Residential real estate	$ 2,060	$ 2,070	$ -	$ 2,065	$ 7
Commercial real estate	9,086	10,905	-	9,243	610
Construction	-	-	-	-	-
Commercial	268	268	-	288	13
Consumer	487	487	-	487	-
Total impaired loans with					
no specific allowance recorded	11,901	13,730	-	12,083	630
Impaired loans with					
a specific allowance recorded:					
Residential real estate	$ 4,496	$ 4,582	$ 399	$ 4,567	$ 209
Commercial real estate	3,223	3,223	408	3,290	188
Construction	-	-	-	-	-
Commercial	384	384	97	411	27
Consumer	428	528	90	501	26
Total impaired loans with					
a specific allowance recorded	8,531	8,717	994	8,769	450
Total impaired loans	$ 20,432	$ 22,447	$ 994	$ 20,852	$ 1,080

(In thousands)	Carrying Amount	Unpaid Principal Balance	Associated Allowance	Average Carrying Amount	Interest Income Recognized
December 31, 2018					
Impaired loans with no specific allowance recorded:					
Residential real estate	$ 1,832	$ 1,842	$ -	$ 1,834	$ 5
Commercial real estate	5,865	7,685	-	5,992	349
Construction	-	-	-	-	-
Commercial	30	64	-	56	5
Consumer	937	1,087	-	959	16
Total impaired loans with no specific allowance recorded	8,664	10,678	-	8,841	375
Impaired loans with a specific allowance recorded:					
Residential real estate	4,775	4,861	609	4,848	202
Commercial real estate	4,950	4,950	156	5,038	275
Construction	-	-	-	-	-
Commercial	797	797	29	846	48
Consumer	847	847	107	785	44
Total impaired loans with a specific allowance recorded	11,369	11,455	901	11,517	569
Total impaired loans	$ 20,033	$ 22,133	$ 901	$ 20,358	$ 944

Troubled Debt Restructurings ("TDRs")

The following table presents loans whose terms were modified under TDRs:

(Dollars in thousands)	Number of Loans	Recorded Investment
December 31, 2019		
Residential real estate	20	$ 3,008
Commercial real estate	12	10,625
Construction	2	363
Commercial	3	605
Consumer	7	278
Total	44	$ 14,879
Nonaccrual TDR's	22	$ 6,716
December 31, 2018		
Residential real estate	20	$ 3,106
Commercial real estate	13	8,610
Construction	-	-
Commercial	3	707
Consumer	10	714
Total	46	$ 13,137
Nonaccrual TDR's	20	$ 2,736

Related Party Loans
In the normal course of business, the Company grants loans to officers, trustees and other related parties. Changes in loans to such related parties were as follows:

	December 31,	
(In thousands)	2019	2018
Balance at beginning of the year	$ 6,471	$ 6,383
New loans/additions	860	516
Change in related party status	(1,608)	-
Repayments	(1,160)	(428)
Balance at end of year	$ 4,563	$ 6,471

These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-related party customers, and did not involve more than the normal risk of collectability. For the years ended December 31, 2019 and 2018, all related party loans were performing. Interest income related to these loans totaled $161,896 and $230,195 in 2019 and 2018, respectively.

7. PREMISES AND EQUIPMENT

The Company's premises and equipment consisted of:

	December 31,	
(In thousands)	2019	2018
Premises and improvements	$ 21,094	$ 20,662
Furniture and fixtures	13,106	12,263
	34,200	32,925
Less accumulated depreciation and amortization	18,871	17,813
Total	$ 15,329	$ 15,112

8. MORTGAGE SERVICING RIGHTS

Components of mortgage servicing rights included in other assets and changes therein were as follows:

	December 31,	
(In thousands)	2019	2018
Mortgage servicing rights:		
Balance at beginning of year	$ 1,140	$ 1,258
Additions	163	147
Amortization	(267)	(265)
Balance at end of year	$ 1,036	$ 1,140
Valuation allowance:		
Balance beginning of year	$ -	$ -
Change in valuation allowance	-	-
Balance at end of year	$ -	$ -
Unpaid principal balance of loans serviced for others	$ 186,068	$ 193,018
Fair value of mortgage servicing rights at end of year	$ 1,507	$ 1,679

9. DEPOSITS

The Company's deposits are set forth in the table below:

	December 31,	
(In thousands)	2019	2018
Regular savings	$ 279,521	$ 265,264
Money market	152,166	171,248
NOW & Interest bearing demand deposits	145,349	103,345
Noninterest-bearing demand deposits	297,636	262,082
	874,672	801,939
Time deposits maturing in:		
Three months or less	88,727	71,418
Three months to one year	68,189	112,204
One year to three years	63,629	57,159
Over three years	4,180	5,858
	224,725	246,639
Total deposits	$ 1,099,397	$ 1,048,578

As of December 31, 2019 and 2018, time deposits in denominations greater than $250,000 were $15,352,000 and $20,420,000, respectively.

10. BORROWED FUNDS

At December 31, 2019, borrowed funds consisted of FHLB advances, subordinated debt and Federal Funds purchased.

FHLB advances aggregated $75,000,000 at December 31, 2019 and 2018. In accordance with an agreement with the FHLB, the Company is required to maintain qualified collateral for the advances. As of December 31, 2019 and 2018, the Company was in compliance with the collateral requirements.

As of December 31, 2019, the FHLB advances have a weighted average interest rate of 1.80% and mature within one year or less.

As a member of the FHLB, the Company has immediate availability to borrow $124,253,173 as of December 31, 2019. The credit line at the FHLB, as of December 31, 2019, was $9,786,000, none of which was outstanding.

In 2017, the Company completed a private placement of $15,000,000 in subordinated debt to certain institutional investors. The debt was issued at a fixed rate of 6.00% for five years and will convert to a floating rate thereafter. The debt is callable in five years and has a stated maturity date of September 30, 2027. At December 31, 2019 and 2018, the balance reported in borrowed funds was $14,674,785 and $14,556,525, respectively, net of deferred debt issuance costs of $325,215 and $443,475, respectively.

The Company has available federal fund lines of credit with correspondent banks totaling $62,000,000. As of December 31, 2019 and 2018, $10,000,000 and $5,000,000, respectively, was outstanding against these lines with an interest rate of 1.80% and 2.70%, respectively.

11. EMPLOYEE BENEFITS

Pension and Other Postretirement Benefits

The Company has a noncontributory defined benefit pension plan (the "Plan") covering certain employees. Effective September 1, 2005, only employees who were employed by the Company on August 31, 2005 are eligible to receive benefits from the Plan. The benefits are based on an employee's years of service and average compensation during the three highest of the final ten years of employment, as defined. Contributions are intended to provide not only for benefits attributable to service to date but also for those benefits expected to be earned in the future. On October 21, 2013, the Plan was amended to reflect a "hard freeze," effective December 31, 2013. Under this "hard freeze", employees and retirees receive the benefits already accrued, but no new benefits are accrued after December 31, 2013. Although the freeze did not reduce the Plan's already-accrued obligations, it reduces future costs. The assets will remain in the Plan, and benefits will ultimately be paid out to participants consistent with the provisions of the Plan. The Bank's funding policy is to contribute annually the amount recommended by the Bank's actuary, while meeting the minimum funding standards established by ERISA.

The Bank's obligation to contribute to the Plan does not change after the pension freeze. Both ERISA and the Internal Revenue Code require employers to make minimum annual contributions to defined benefit plans, including frozen plans. The amount of annual contributions required by minimum funding standards is determined in part by the total accrued benefit liability for which the employer is responsible and the Plan's funded status.

Medical, dental and life insurance plans are offered to retiring employees, except employees hired after April 27, 2001, who are not eligible for medical benefits. A retired employee receives life insurance coverage equal to his/her final salary. When a retiree reaches age 70, his/her life insurance coverage is reduced by 33-1/3% and by an additional 33-1/3% upon attaining age 75. Any individual who retired prior to January 1, 1993 will not be required to contribute toward the cost of his or her coverage for medical, dental and life insurance plans. Employees who retire after January 1, 1993 are required to contribute as follows:

- Retirees with less than 15 years of service will pay 100% of the cost of their coverage;
- Retirees with 15 years of service will contribute 52.5% of the cost of their coverage (decreasing by 3.5% for each additional year of service over 15 years); and
- Retirees with at least 30 years of service will not be required to contribute toward the cost of their coverage as long as they elect basic coverage.

Information about the benefit obligations, plan assets and the funded status of these plans and the amounts recognized as liabilities on the consolidated financial statements was as follows:

	Pension Benefits		Other Benefits	
(In thousands)	2019	2018	2019	2018
Benefit obligation	$ (68,223)	$ (59,044)	$ (13,129)	$ (12,427)
Fair value of plan assets	65,409	55,062	-	-
Funded status recognized in other liabilities	$ (2,814)	$ (3,982)	$ (13,129)	$ (12,427)
Accumulated benefit obligation	$ 68,223	$ 59,044	$ 13,129	$ 12,427
Amounts included in accumulated other comprehensive loss:				
Prior service cost	$ -	$ -	$ -	$ (865)
Net loss	17,559	17,036	5,037	5,067
	$ 17,559	$ 17,036	$ 5,037	$ 4,202

Other information related to these plans for the years ended December 31, 2019 and 2018 are represented in the table below. The service cost component is recognized in salaries and employee benefits and the other net benefit (income) costs are recognized in other non interest expense on the Consolidated Statements of Income.

	Pension Benefits		Other Benefits	
(In thousands)	2019	2018	2019	2018
Sevice cost	$ 24	$ 23	$ 148	$ 226
Other net benefit (income) cost	(214)	(1,328)	27	406
Net periodic benefit (income) cost	$ (190)	$ (1,305)	$ 175	$ 632
Benefits paid	$ 1,999	$ 1,758	$ 345	$ 300
Employer contributions	$ 1,500	$ -	$ 308	$ 275
Participant contributions	$ -	$ -	$ 37	$ 25
Amounts recognized in other comprehensive income for the period:				
Prior service cost	$ -	$ -	$ (865)	$ (1,010)
Net (loss) gain	(523)	(3,693)	30	2,007
	$ (523)	$ (3,693)	$ (835)	$ 997

At December 31, 2019, the amounts of accumulated other comprehensive (loss) income expected to be recognized in net periodic benefit cost in the next year for the pension and other benefit plans are $(724,796) and $660,223, respectively.

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Weighted-average assumptions used in determining the actuarial present value of the projected obligation as of December 31,				
Discount rate	3.25%	4.25%	3.30%	4.30%
Rate of compensation increase	N/A	N/A	4.50%	4.50%
Weighted-average assumptions used in determining the actuarial present value of the net periodic benefit costs				
Discount rate	4.25%	3.60%	4.30%	3.60%
Expected return on plan assets	7.00%	7.75%	-	-
Rate of compensation increase	N/A	N/A	4.50%	4.50%
Ultimate medical trend rate	N/A	N/A	4.75%	4.50%
Year ultimate trend is achieved	N/A	N/A	2026	2026

The expected return on assets was determined based upon past investment experience and the expectation for future experience. It is expected that a diversified asset portfolio, with significant equity exposure, should be able to return approximately 7% per year over long term investment periods.

For the medical and dental plans, the following healthcare cost trend rates were assumed for 2019 and thereafter: 7.75%, decreasing .5% per year to 4.75% by 2026 for all ages. A 1% increase in assumed health care cost trend rates will increase total service and interest costs by $106,688 and the accumulated postretirement benefit obligation by $2,299,574. A 1% decrease in assumed health care cost trend rates will decrease total service and interest costs by $84,924 and the accumulated postretirement benefit obligation by $1,827,985.

The Company has not yet determined whether a contribution to the Plan will be made in 2020.

Since the postretirement benefit plans are unfunded, the expected employer contribution in 2020 is equal to the Bank's estimated future benefit payment liability, net of any participant contributions.

At December 31, 2019, benefit payments expected to be paid by the noncontributory defined benefit plan and postretirement plans over the next 10 years are as follows:

(In thousands)	Pension Benefits	Other Benefits
2020	$ 2,092	$ 385
2021	2,296	413
2022	2,482	466
2023	2,596	509
2024	2,924	498
Years 2025- 2029	16,459	2,936

Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. In accordance with GAAP the fair value estimates are measured within the fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The Company's investment goal is to obtain a competitive risk adjustment return on the Pension Plan assets commensurate with prudent investment practices and the Plan's responsibility to provide retirement benefits for its participants, retirees and their beneficiaries. The 2019 target range allocations are as follows: large cap growth and value equities, 40% to 60%; small and mid-cap growth and value equities, 0% to 15%; international equities, 0% to 20%; long term bonds, 0% to 20%; intermediate term bonds, 0% to 30%; and short term bonds, 0% to 20%. The Pension Plan's investment policy designates allowable and prohibited investments that provide guidance regarding investment diversification and other prudent investment practices to limit the risk of loss. The Plan's asset allocation targets are strategic and long-term in nature and are designated to take advantage of the risk reducing impacts of asset class diversification.

Plan assets are periodically rebalanced to their asset class targets to reduce risk and to retain the portfolio's strategic risk/return profile. Investments within each asset category are further diversified with regard to investment style and concentration of holdings.

The fair value of the Company's noncontributory defined benefit pension plan assets by category are listed in the tables below:

(Dollars in thousands)	Total	% of Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019					
Cash equivalents	$ 5	0.1 %	$ 5	$ -	$ -
Money market funds	1,764	2.6	1,764	-	-
Bond funds	16,144	24.7	16,144	-	-
Equity mutual funds	43,642	66.7	43,642	-	-
Value of interest in pooled separate account	347	0.5	-	347	-
Funds held in insurance company general account	3,507	5.4	-	3,508	-
Total investments, at fair value	$ 65,409	100.0 %	$ 61,555	$ 3,855	$ -
December 31, 2018					
Cash equivalents	$ 1	0.0 %	$ 1	$ -	$ -
Money market funds	2,620	4.7	2,620	-	-
Bond funds	14,920	27.1	14,920	-	-
Equity mutual funds	35,626	64.7	35,626	-	-
Value of interest in pooled separate account	310	0.6	-	310	-
Funds held in insurance company general account	1,585	2.9	-	1,585	-
Total investments, at fair value	$ 55,062	100.0 %	$ 53,167	$ 1,895	$ -

The primary custodian of plan assets is Bank of America (Merrill Lynch Trust Company). The pooled separate account and investment contract with insurance company is maintained with Aetna Life Insurance Company.

The following is a description of the valuation methodologies used for Plan assets measured at fair value:

Cash Equivalents, Money Market Funds, Bond Funds and Equity Mutual Funds: Values are based on quoted market prices in active markets and are classified as Level 1 assets in the fair value hierarchy.

Value of Interest in Pooled Separate Account: A portion of the Plan's investments are held in a separate account for benefit payment purposes. This disbursement payment account is an unallocated fund stated at withdrawal value. Withdrawal value approximates fair value and represents the amount which is available for withdrawal in a lump sum on the period-end date, and would be reduced by outstanding service fees. This investment is classified as a Level 2 asset within the fair value hierarchy.

Funds Held in Insurance Company General Account: A portion of the Plan's investments consist of an immediate participation guarantee contract, which participates in the investment results of a fund that consists of an annuity allocation and an unallocated fund balance. Investments in the annuity allocation portion of the fund account are stated at contract value. Contract value approximates fair value and represents contributions, plus interest at the contract rate, less distributions for benefits and administrative expenses. The contract rate is adjusted periodically based on changes in market rates. The unallocated fund balance of the Plan's regular account fund is stated at withdrawal value. Withdrawal value approximates fair value and represents the amount which is available for withdrawal in a lump sum on the period-end date, and would be reduced by outstanding service fees. This investment is classified as a Level 2 asset within the fair value hierarchy.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values.

401(k) Savings Plan

The Company's employees may participate in a 401(k) savings plan. All full-time employees, eighteen years and older, are eligible to participate in the savings plan. Under terms of the savings plan, an employee may contribute from 2% to 40% of his/her annual pretax salary. The Company contributes 50% of each participant's contribution, limited to the first 6% of the participant's salary. Additionally, all full-time employees, eighteen years and older, are eligible for an additional discretionary 5% employer contribution into their 401(k) Savings Plan. The Company's contributions to this plan were $1,413,141 and $1,307,266 for 2019 and 2018, respectively.

Supplemental Executive Retirement Plans

The Company has entered into various agreements with certain current and retired officers to provide supplemental retirement benefits. The present value of these future payments has been accrued for in accordance with the terms of the various agreements. As of December 31, 2019 and 2018, the total accrued supplemental retirement liabilities were $6,834,222 and $5,531,972, respectively. For 2019 and 2018, net expense for these supplemental retirement benefits amounted to $1,419,250 and $1,059,121, respectively.

12. INCOME TAXES

The provision for income taxes, which primarily relates to federal income taxes, consisted of:

	December 31,	
(In thousands)	2019	2018
Current	$ 1,913	$ 2,103
Deferred	63	(165)
Total	$ 1,976	$ 1,938

A reconciliation of the income taxes computed using the federal statutory rate (21%) to those shown in the provision for income taxes follows:

	December 31,	
(In thousands)	2019	2018
Tax provision at statutory rate	$ 2,158	$ 1,969
State taxes (net of federal benefit)	1	1
Decrease in tax resulting from		
Dividends received deduction	(100)	(88)
Other, net	(83)	56
Provision for income taxes	$ 1,976	$ 1,938

The components of the net deferred income tax asset were as follows:

	December 31,	
(In thousands)	2019	2018
Deferred tax assets:		
Pension benefits	$ 1,649	$ 1,720
Other retirement benefits	4,110	3,807
Allowance for loan losses	2,582	2,375
Derivatives	767	-
Other	65	93
Total deferred tax assets	9,173	7,995
Deferred tax liabilities:		
Premises and equipment	695	592
Investment securities	454	19
Derivatives	-	52
Other	550	680
Total deferred tax liabilities	1,699	1,343
Net deferred tax asset	$ 7,474	$ 6,652

The Bank has a wholly-owned subsidiary which operates as a "passive investment company" ("PIC") in accordance with Connecticut statutes. The PIC's activities are limited in scope to holding and managing loans that are collateralized by real estate. Income earned by a PIC is exempt from Connecticut income tax. In addition, any dividends paid by the PIC to the Bank are not taxable income for Connecticut income tax purposes. The Bank regularly transfers qualifying real estate loans that it originates to the PIC to eliminate income otherwise subject to Connecticut income tax. Accordingly, no state tax provision and no state net deferred tax asset or liability has been recorded with respect to the Bank and the PIC. Other subsidiaries included in the consolidated financial statements are subject to Connecticut income tax.

The allocation of deferred income tax expense involving items charged to current year income and items charged directly to capital are as follows:

(In thousands)	2019	2018
Deferred income tax benefit allocated to capital	$ (885)	$ (994)
Deferred income tax expense (benefit) allocated to income	63	(165)
Total change in net deferred tax asset	$ (822)	$ (1,159)

The Company has not provided deferred taxes for the tax reserves for bad debts, of approximately $3,028,000, that arose in tax years beginning before 1988 because it is expected that the requirements of Section 593, as amended by the Small Business Protection Act of 1996, will be met in the foreseeable future.

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash and Due from Banks Withdrawal and Usage Restrictions
The Company is required to maintain non-interest earning reserves with the Federal Reserve Bank against its transaction accounts offset by the Company's average vault cash. As of December 31, 2019 and 2018, the Company was required to have cash and liquid assets of approximately $6,900,000 and $1,500,000, respectively, to meet those requirements.

Lease Commitments
The Company leases certain branches under operating leases which contain renewal options for periods up to five years at the then fair market rents. Rent expense under these leases was approximately $1,165,000 and $1,037,000 for 2019 and 2018, respectively.

As of December 31, 2019, future minimum lease payments under non-cancelable leases were:

Year (In thousands)	Amount
2020	$ 1,256
2021	1,153
2022	874
2023	499
2024	305
Thereafter	1,251
Total	$ 5,338

Off-Balance Sheet Financial Instruments
The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These instruments expose the Company to credit risk in excess of the amount recognized in the Consolidated Balance Sheets.

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

	December 31,	
(In thousands)	2019	2018
Unadvanced portions of home equity lines of credit	$ 47,725	$ 44,980
Approved residential commitments	3,532	1,222
Approved commercial commitments	40,877	9,227
Unadvanced portions of residential construction loans	1,423	2,159
Unadvanced portions of commercial lines of credit	185,487	130,422
Standby letters of credit	5,796	5,827
Unused portion of overdraft program	13,347	12,941
Unadvanced portions of consumer lines of credit	15,424	14,499
Total commitments	$ 313,611	$ 221,277

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments could expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held is primarily residential property. Interest rates on the Company's loan commitments are both fixed and variable.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in existing loans. The Company holds real estate and marketable securities as collateral supporting those commitments for which collateral is deemed necessary.

Legal Proceedings

The Company is involved in routine legal proceedings occurring in the ordinary course of business, which in the aggregate management believes to be immaterial to the financial condition and results of its operations.

14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Information about interest rate swap agreements at December 31, 2019 and 2018, are as follows:

(Dollars in thousands)	Notional Amount	Weighted Average Maturity (Years)	Weighted Average Rate Received	Weighted Average Rate Paid	Estimated Fair Value of Asset (Liability)
December 31, 2019					
Cash flow hedges:					
Interest rate swap positions on FHLB borrowings	$ 75,000	6	1.76%	2.31%	$ (3,653)
Total cash flow hedges	75,000				(3,653)
Economic hedges:					
Forward-starting interest rate swaps with commercial loan customers	$ 27,008	11	3.59%	3.92%	$ 683
Reverse forward-starting interest rate swaps with counter party	27,008	11	3.92%	3.59%	(683)
Interest rate swap positions on loans with commercial loan customers	61,591	10	3.84%	4.20%	1,617
Reverse interest rate swap positions with counter party	61,591	10	4.20%	3.84%	(1,617)
Total economic hedges	177,198				-
Total	$ 252,198				$ (3,653)
December 31, 2018					
Cash flow hedges:					
Forward-starting interest rate swaps on FHLB borrowings	$ 15,000	10	2.50%	3.07%	$ (548)
Interest rate swap positions on FHLB borrowings	75,000	8	2.50%	1.89%	793
Total cash flow hedges	90,000				245
Economic hedges:					
Interest rate swap positions on loans with commercial loan customers	$ 61,360	10	4.53%	4.30%	$ (1,633)
Reverse interest rate swap positions with counter party	61,360	10	4.30%	4.53%	1,633
Interest rate swap position with counter party	6,840	19	3.94%	4.13%	27
Total economic hedges	129,560				27
Total	$ 219,560				$ 272

Interest rate swap agreements involve the risk of dealing with Bank customers and/or institutional derivative counterparties and their ability to meet contractual terms. The agreements are entered into with counterparties that meet established credit standards and contain master netting and collateral provisions protecting the at-risk party. Based on adherence to the Company's credit standards and the presence of the netting and collateral provisions, the Company believes that the credit risk inherent in these contracts was not significant at December 31, 2019.

As of December 31, 2019, the Company pledged collateral in the form of cash totaling $6,860,000 to derivative counterparties. The Company does not typically require its commercial loan customers to post cash or securities as collateral on its program of back-to-back economic hedges discussed in more detail below. However certain language is written into the International Swaps and Derivatives Association Agreement ("ISDA") and loan documents where, in default situations, the Company is allowed to access collateral supporting the loan relationship to recover any losses suffered on the derivative asset or liability. The Company or the counterparties may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

Cash Flow Hedges

The unrealized changes in the fair value of derivatives accounted for as cash flow hedges is reported in accumulated other comprehensive income and subsequently reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

This hedge strategy converts the LIBOR based rate of interest on certain FHLB advances to fixed interest rates, thereby protecting the Company from floating interest rate variability.

Changes in the Consolidated Statements of Comprehensive Income related to interest rate derivatives designated as hedges of cash flows, were as follows:

	Years Ended December 31,	
(In thousands)	2019	2018
Interest rate swaps on FHLB borrowings:		
Unrealized (loss) gain recognized in other comprehensive income	$ (3,898)	$ 41
Net tax benefit (expense) on items recognized in other comprehensive loss	819	(9)
Other comprehensive (loss) income recorded in other comprehensive income, net of reclassification adjustments and tax effects	$ (3,079)	$ 32
Net interest expense recognized in interest expense on hedged FHLB borrowings	$ 1,623	$ 1,381

Economic Hedges

The Company offers certain derivative products directly to qualified commercial borrowers. The Company economically hedges derivative transactions executed with commercial borrowers by entering into mirror-image, offsetting derivatives with third-party financial institutions. The transaction allows the Company's customer to convert a variable-rate loan to a fixed rate loan. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts mostly offset each other in earnings. The credit risk associated with the interest rate swap derivatives executed with these customers is essentially the same as that involved in extending loans and is subject to the Company's normal credit policies. The Company obtains collateral, if needed, based upon its assessment of the customers' credit quality. For every variable interest rate swap agreement entered into with a commercial customer, the Company's mirror-image, offsetting derivative is with PNC Bank.

The Company also enters into derivatives with third-party financial institutions to swap a fixed rate of cash flows with variable that are not hedged with mirror-image derivative transactions executed with commercial borrowers. The hedge item in these instances is the entire loan that is also adjusted to fair value. Changes in the fair value of the underlying derivative contract and the related loan mostly offset each other in earnings.

Amounts included in the Consolidated Statements of Income related to economic hedge derivatives, were as follows:

	Years Ended December 31,	
(In thousands)	2019	2018
Economic hedges:		
Interest rate swaps on loans with commercial loan customers:		
Unrealized gain (loss) recognized in other non-interest income	$ 3,933	$ (378)
Reverse interest rate swaps on loans with counter party:		
Unrealized (loss) gain recognized in other non-interest income	(3,933)	378
Interest rate swap positions with counter party:		
Unrealized (loss) gain recognized in other non-interest income	(186)	200
Commercial loan designated as a hedged item:		
Unrealized gain (loss) recognized in other non-interest income	184	(151)

15. FAIR VALUE MEASUREMENTS

The Company reports certain assets at fair value in accordance with GAAP, which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Basis of Fair Value Measurements

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Financial Instruments Measured at Fair Value on a Recurring Basis

The Company's equity securities, available for sale investment securities, a loan accounted for at fair value and derivative financial instruments are measured at fair value on a recurring basis. Where quoted prices are available in an active market, financial instruments are classified within Level 1 of the valuation hierarchy. Level 1 financial instruments include exchange-traded equities. If quoted prices are not available, then fair values are estimated by using pricing models (i.e. matrix pricing) or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments would include agency mortgage-backed securities and municipal obligations.

The Company utilizes a third party, nationally recognized pricing service ("pricing service") to estimate fair value measurements for its marketable investments (i.e. bonds and stocks). The pricing service evaluates each asset class based on relevant market information considering observable data that may include dealer quotes, reported trades, market spreads, cash flows, the U.S. Treasury yield curve, the LIBOR swap yield curve, trade execution data, market prepayment speeds, credit information and the bond's terms and conditions, among other things. The fair value prices on all investment securities are reviewed for reasonableness by management. Also, management assessed the valuation techniques used by the pricing service based on a review of their pricing methodology to ensure proper hierarchy classifications.

The valuation of the Company's loan accounted for at fair value is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows. The pricing analysis is based on observable inputs for the contractual terms of the loan, including the period to maturity and interest rate curves. The Company also incorporates credit valuation adjustments to appropriately reflect nonperformance risk of the borrower. Although the Company has determined that the majority of the inputs used to value this loan fall within Level 2 of the fair value hierarchy, the credit valuation adjustment associated with its loan accounted for at fair value utilize Level 3 inputs that are not observable and these inputs are significant to the valuation. As a result, the Company has determined that its loan accounted for at fair value in its entirety is classified in Level 3 of the fair value hierarchy.

The valuation of the Company's interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings. The Company has determined that the inputs used to value its interest rate derivatives fall within Level 2 of the fair value hierarchy. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following table details the financial instruments carried at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine the fair value:

(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments securities available for sale:				
U.S. Government and agency obligations	$ 6,378	$ -	$ 6,378	$ -
Municipal debt securities	15,811	-	15,811	-
Corporate debt securities	13,678	-	13,678	-
Government mortgage-backed securities	34,758	-	34,758	-
Marketable equity securities	21,342	21,342	-	-
Derivative assets	3,252	-	3,252	-
Derivative liabilities	(6,905)	-	(6,905)	-
December 31, 2018				
Investments securities available for sale:				
U.S. Treasury securities	$ 1,980	$ 1,980	$ -	$ -
U.S. Government and agency obligations	9,302	-	9,302	-
Municipal debt securities	17,195	-	17,195	-
Corporate debt securities	12,753	-	12,753	-
Government mortgage-backed securities	30,639	-	30,639	-
Marketable equity securities	16,564	16,564	-	-
Loan accounted for at fair value	6,780	-	-	6,780
Derivative assets	3,613	-	3,613	-
Derivative liabilities	(3,341)	-	(3,341)	-

The following table shows a reconciliation of the beginning and ending balances of Level 3 financial instruments:

(In thousands)	Loan Accounted for at Fair Value
Balance at December 31, 2018	$ 6,780
Payments received	(235)
Termination of swap	(6,545)
Balance at December 31, 2019	$ -

There was no movement of financial instruments carried at fair value on a recurring basis between Levels during the years ended December 31, 2019 and 2018.

Financial Instruments Measured at Fair Value on a Nonrecurring Basis
The Company's impaired loans and other real estate owned are measured at fair value on a nonrecurring basis.

Impaired loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records nonrecurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Nonrecurring adjustments also include certain impairment amounts for collateral-dependent loans calculated in accordance with GAAP when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or other assumptions. Estimates of fair value based on collateral are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Certain assets are measured at the lower of cost or fair value that were recognized at fair value which is below cost at the end of the period. Additionally, assets that are not measured at fair value on an ongoing basis are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The Company classifies property acquired through foreclosure or acceptance of deed-in-lieu of foreclosure as other real estate owned in its consolidated financial statements. Upon foreclosure, the property securing the loan is written down to fair value less estimated selling costs. The amount of the write down is measured based upon differences between the appraised value less estimated selling costs and the book value. Appraisals are based upon observable market data such as comparable sale within the real estate market, however assumptions made in determining comparability are unobservable and therefore these assets are classified as Level 3 within the valuation hierarchy.

The following table details the financial instruments carried at fair value on a nonrecurring basis and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine the fair value:

(In thousands)	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019			
Impaired loans	$ -	$ -	$ 7,673
Other real estate owned	-	-	474
December 31, 2018			
Impaired loans	$ -	$ -	$ 4,624
Other real estate owned	-	-	327

The following tables present the valuation methodology and unobservable inputs for Level 3 financial instruments measured at fair value on a nonrecurring basis:

(Dollars in thousands)

Asset Type	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
December 31, 2019				
Impaired loans	$ 7,673	Real estate appraisals	Discount for dated appraisals or condition of property	10%-20%
			Discount for appraisal type	0-10%
		Asset appraisals	Discount for payment status	25%-30%
			Discount to inventory	25%-35%
			Discount for accounts receivable	50%-65%
Other real estate owned	$ 474	Real estate appraisals	Discount for dated appraisals or condition of property	10%-20%

(Dollars in thousands)

Asset Type	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
December 31, 2018				
Impaired loans	$ 4,624	Real estate appraisals	Discount for dated appraisals or condition of property	10%-20%
			Discount for appraisal type	0-10%
		Asset appraisals	Discount for payment status	25%-30%
			Discount to inventory	25%-35%
			Discount for accounts receivable	50%-65%
Other real estate owned	$ 327	Real estate appraisals	Discount for dated appraisals or condition of property	10%-20%

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of the changes in the components of accumulated other comprehensive loss on an after tax basis for the years ended December 31, 2019 and 2018:

(In thousands)	Pension and Postretirement Plan Liabilities	Net Unrealized Gains on Investment Securities Available for Sale	Net Unrealized Losses on Derivative Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2017	$ (14,648)	$ 1,714	$ 161	$ (12,773)
Other comprehensive loss before reclassifications	(2,129)	(1,695)	32	(3,792)
Amounts reclassified	-	54	-	54
Current period other comprehensive loss	(2,129)	(1,641)	32	(3,738)
Balance at December 31, 2018	(16,777)	73	193	(16,511)
Other comprehensive loss before reclassifications	(1,073)	886	(3,079)	(3,266)
Amounts reclassified	-	(62)	-	(62)
Current period other comprehensive loss	(1,073)	824	(3,079)	(3,328)
Adoption of ASU No. 2016-01 related to equity securities	-	(298)	-	(298)
Balance at December 31, 2019	$ (17,850)	$ 599	$ (2,886)	$ (20,137)