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, Nicholas M. Christ
Name of the Holding Company Director and Official

President, CEO and Trustee
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.

NM Christ
Signature of Holding Company Director and Official

3/24/20
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

Narragansett Financial Corp.
Legal Title of Holding Company

330 Swansea Mall Drive
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Swansea	MA	02777

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Marie Pellegrino	SVP & CFO

508-675-4346
Area Code / Phone Number / Extension

508-675-4343
Area Code / FAX Number

mpellegrino@baycoastbank.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

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

For Use By Tiered Holding Companies

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

BayCoast Bank
Legal Title of Subsidiary Holding Company

330 Swansea Mall Drive
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City	State	Zip Code
Swansea	MA	02777

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

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City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Report Item 2a.

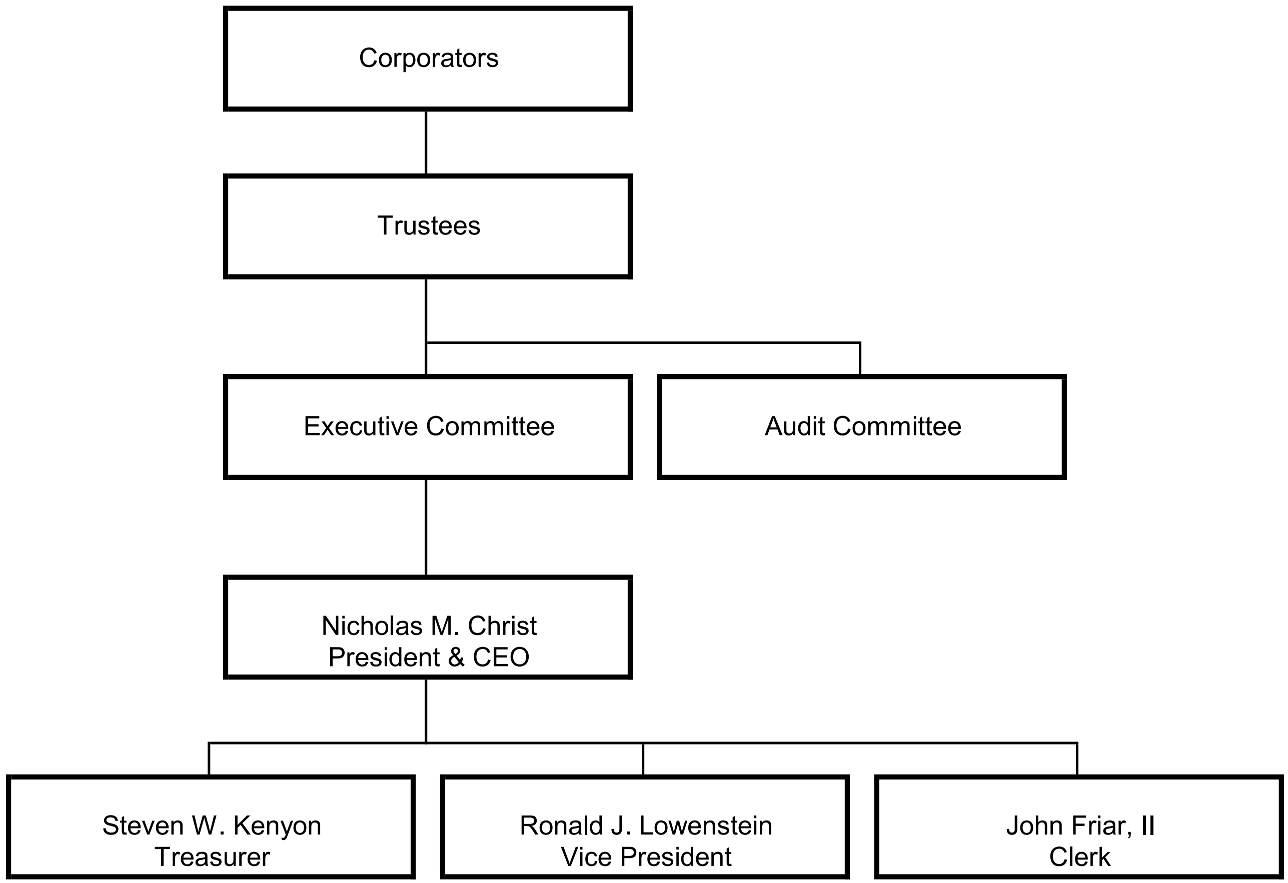
Narragansett Financial Corp.
Corporate Structure Chart
December 31, 2019

- Narragansett Financial Corp.
Swansea, Massachusetts
Incorporated in Massachusetts
  - 100%
BayCoast Bank
LEI # 549300OTLWFQPOOSC346
Swansea, Massachusetts
Incorporated in Massachusetts
    - 100% - Subsidiary
1851 Corporation
Swansea, Massachusetts
Incorporated in Massachusetts
    - 80% - General Partner
Plimoth Trust Company, LLC
Plymouth, Massachusetts
Organized as a Maine LLC
    - 100% - Single Member LLC
BayCoast Mortgage Company, LLC
Swansea, Massachusetts
Organized as a Massachusetts LLC
    - 100% - Single Member LLC
BayCoast Financial Services, LLC
Swansea, Massachusetts
Organized as a Massachusetts LLC
      - 100% - Single Member LLC
Partners Insurance Group, LLC
Swansea, Massachusetts
Organized as a Delaware LLC
    - 100% - Single Member LLC
Priority Funding, LLC
Northboro, Massachusetts
Organized as a Massachusetts LLC
    - 100% - Subsidiary
Troy Security Corporation
Swansea, Massachusetts
Incorporated in Massachusetts
    - 100% - Subsidiary
B.F.R. Corp.
Swansea, Massachusetts
Incorporated in Massachusetts

Note: LEI not applicable unless otherwise noted

Report Item 2a.

Narragansett Financial Corp.
Organizational Chart
December 31, 2019



Trustees

Richard K. Gunther - Chairperson

Nicholas M. Christ	David N Kelley, II
Maria Aguiar	Steven W. Kenyon
Lawrence R. Walsh	Donald F. LeSage
John Friar , II	Ronald J. Lowenstein
Kenneth D. Furtado	Christopher J. Rezendes
Mary Louise Nunes	Paul Joncas

Executive Committee

Richard K. Gunther - Chairperson
Nicholas M. Christ
John Friar, II
Ronald J. Lowenstein
Lawrence R. Walsh
Steven W. Kenyon

Audit Committee

Maria Aguiar - Chairperson
David N Kelley, II
Kenneth D. Furtado
Mary Louise Nunes

Report Item 2b.
Narragansett Financial Corp
Results: A list of branches for your holding company: NARRAGANSETT FINANCIAL CORP (2623430) of SWANSEA, MA.
The data are as of 12/31/2019. Data reflects information that was received and processed through 01/07/2020.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
		Full Service (Head Office)	771609	BAYCOAST BANK	330 SWANSEA MALL DRIVE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	5338883	BERKLEY BRANCH	2 LOCUST STREET	BERKLEY	MA	02779	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4861281	DARTMOUTH STREET	714 DARTMOUTH STREET	DARTMOUTH	MA	02748	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	2536370	FAIRHAVEN BRANCH	75 ALDEN ROAD	FAIRHAVEN	MA	02719	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4458627	AIRPORT BRANCH	310 AIRPORT ROAD	FALL RIVER	MA	02720	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	2298780	FALL RIVER BRANCH	1485 PLEASANT STREET	FALL RIVER	MA	02723	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	802307	FALL RIVER BRANCH	335 STAFFORD ROAD	FALL RIVER	MA	02721	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	894405	ROBESON STREET BRANCH	490 ROBESON STREET	FALL RIVER	MA	02720	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	209205	TROY STREET BRANCH	81 TROY STREET	FALL RIVER	MA	02721	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	5430675	FOXBOROUGH BRANCH	8 FOXBOROUGH BLVD	FOXBOROUGH	MA	02035	NORFOLK	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4220244	ASHLEY BOULEVARD BRANCH	1000 ASHLEY BOULEVARD	NEW BEDFORD	MA	02745	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	3390739	NEW BEDFORD BRANCH	23 ELM STREET	NEW BEDFORD	MA	02740	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4612568	DARTMOUTH BRANCH	299 STATE ROAD	NORTH DARTMOUTH	MA	02747	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	772802	NORTH DIGHTON BRANCH	438 SPRING STREET	NORTH DIGHTON	MA	02764	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	2726582	SEEKONK BRANCH	110 TAUNTON AVENUE	SEEKONK	MA	02771	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	832902	SOMERSET BRANCH	921 G A R HIGHWAY, SOMERSET PLAZA, ROUTE 6	SOMERSET	MA	02725	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4420482	BAYCOAST PLACE BRANCH	330 SWANSEA MALL DRIVE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	897004	SWANSEA BRANCH	554 WILBUR AVENUE	SWANSEA	MA	02777	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	4420464	WESTPORT MAIN ROAD BRANCH	787 MAIN ROAD	WESTPORT	MA	02790	BRISTOL	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	5371862	CRANSTON BRANCH	85 SOCKANOSSET CROSS ROAD	CRANSTON	RI	02920	PROVIDENCE	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	5213793	LITTLE COMPTON	1 MEETING HOUSE LANE	LTTLE COMPTON	RI	02837	NEWPORT	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	
		Full Service	3354106	CRANDALL ROAD BRANCH	ONE CRANDALL ROAD	TIVERTON	RI	02878	NEWPORT	UNITED STATES	Not Required	Not Required	BAYCOAST BANK	771609	

Form FR Y-6
Narragansett Financial Corp.
December 31, 2019

Report Item 3: Securities Holders
(1)(2)(3)(a)(b)(c) and (4)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2015			Securities holders not listed in 3(1)(a) through 3(1)(3) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-15		
(1)(a) Name City, State, Country	**(1)(b) Country of Citizenship or Incorporation**	**(1)(c) Number and Percentage of Each Class of Voting Securities**	**(2)(a) Name City, State, Country**	**(2)(b) Country of Citizenship or Incorporation**	**(2)(c) Number and Percentage of Each Class of Voting Securities**
None	N/A	N/A	None	N/A	N/A

Form FR Y-6
Narragansett Financial Corp.
December 31, 2019

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

(1) Name	(2) Principal Occupation if Other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Nicholas M. Christ	See attached organizational charts	President, CEO & Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Maria Aguiar	CPA Subcontractor/Principal, Kevin P. Martin & Associates, P.C.	Trustee	See attached organizational charts	Principal, Kevin P. Martin & Associates, P.C.	N/A	N/A	33% interest, w/voting interest Meyer, Regan & Wilner LLP, Partner 33% interest, w/voting interest - 111 Durfee St. LLC, Commercial Rental Activity
John Friar, II	Reitred, City of Fall River Water Department	Trustee	See attached organizational charts	John Friar, Sole Proprietor	N/A	N/A	50% owner John Friar, Sole Proprietor (other 50%, Donald S. Friar, brother) 50% partner Debbies Uniform and Supply
Kenneth D. Furtado	Chief Executive of software design, development and sales firm	Trustee	See attached organizational charts	President and CEO of Octernion Consultants, Inc. (dba OCI Software) President and CEO of Cedar Ledge Solutions, Inc.	N/A	N/A	100% owner OCI Software 100% owner Cedar Ledge Solutions, Inc.
Richard K. Gunther	Retired Account Vice President, UBS	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
David N Kelley, II	Former owner, D. N. Kelley & Sons	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Paul M. Joncas	President, MegaNet Communications/ MegaClec, Inc.	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Steven W. Kenyon	Vice President of Administration and Finance Bristol Community College	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A

Form FR Y-6
Narragansett Financial Corp.
December 31, 2019

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

(1) Name	(2) Principal Occupation if Other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (Include names of subsidiaries)	(3)(c) Title & Position with Other Businesses (Include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (Include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Donald F. LeSage	Retired store manager, Bridgestone Firestone, Inc.	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Ronald J. Lowenstein	Retired Attorney and Former Owner of Law Offices of Ronald J. Lowenstein	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A
Mary Louise Nunes	CPA/ Managing Member, Nunes & Charrier, LLC	Trustee	See attached organizational charts	N/A	N/A	N/A	50% Managing Member The Benjamin Almy House, LLC 75% owner CPA Firm
Christopher J. Rezendes	Strategy advisor to startup investors in companies developing or deploying Internet of Things	Trustee	See attached organizational charts	Founder, President and Owner of INEX Advisors, LLC	N/A	N/A	100% owner INEX Advisors, LLC 100% interest in ZED Wireless Inc. 77.5% interest in TRUERoad Corporation 33.0% interest LooseChange Inc.
Lawrence R. Walsh	Retired Chief Operating Officer, Riverdale Mills Corp	Trustee	See attached organizational charts	N/A	N/A	N/A	N/A

WOLF & COMPANY, P.C.

Report on Internal Controls Over Financial Reporting
Independent Auditor's Report

To the Audit & Risk Management Committee
Narragansett Financial Corp.

We have audited Narragansett Financial Corp.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in the *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report.*

Auditor's Responsibility

Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

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

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

Opinion

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the *Internal Control—Integrated Framework (2013),* issued by COSO.

Report on Consolidated Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the December 31, 2019 consolidated financial statements of Narragansett Financial Corp. and subsidiary, and our report dated March 23, 2020 expressed an unmodified opinion.

Report on Other Legal and Regulatory Requirements

We were not engaged to, and we have not performed any procedures with respect to management's assertion regarding compliance with laws and regulations included in the accompanying *Management's Report*. Accordingly, we do not express any opinion, or any other form of assurance, on management's assertion regarding compliance with designated laws and regulations.

Wolf & Company, P.C.

Boston, Massachusetts
March 23, 2020

Narragansett Financial Corp.

Management's Report

In this management report, the following subsidiary institution of the Narragansett Financial Corp. and Subsidiary (the "Company") that is subject to Part 363 is included in the statement of management's responsibilities; the report on management's assessment of compliance with designated laws and regulations; and the report on management's assessment of internal control over financial reporting: BayCoast Bank.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management of the Company is responsible for preparing the Company's annual financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income ("Call Report"); and for complying with the Federal and state laws and regulations pertaining to insider loans and dividend restrictions.

MANAGEMENT'S ASSESSMENT OF COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management of the Company has assessed the Company's compliance with the Federal and Massachusetts laws and regulations pertaining to insider loans and dividend restrictions during the fiscal year ended December 31, 2019. Based upon its assessment, management has concluded that the Company complied with the Federal and Massachusetts laws and regulations pertaining to insider loans and dividend restrictions during the fiscal year ended December 31, 2019, with the exception of two insider loans for one executive officer which was rectified by the end of December 2019.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e. Call Report. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and for regulatory reporting, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with Call Report instructions as of December 31, 2019 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework (2013)*.

Based upon its assessment, management has concluded that, as of December 31, 2019, the Company's internal control over the preparation of regulatory financial reporting, including controls over the preparation of regulatory financial statements in accordance with Call Report instructions is effective based on the criteria established in *Internal Control - Integrated Framework (2013)*.

The effectiveness of the Company's internal control over financial reporting, including controls over preparation of regulatory financial statements in accordance with call report instructions, as of December 31, 2019, has been audited by Wolf & Company, P.C., an independent public accounting firm, as stated in their report dated March 23, 2020.

Narragansett Financial Corp.

NMChrist

Nicholas M. Christ
President & Chief Executive Officer

Marie Pellegrino

Marie Pellegrino
Sr. Vice President & Chief Financial Officer

Narragansett Financial Corp.

Audit & Risk Management Committee Communication

December 31, 2019

Audit & Risk Management Committee Date: March 23, 2020

Presented by: Denise Toomey, CPA, Principal
Richard Fay, CPA, Principal

Required Communications

Purpose

This communication is intended to inform the Audit & Risk Management Committee of Narragansett Financial Corp. (the "Company") about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Audit & Risk Management Committee. This communication should be read in conjunction with the Company's December 31, 2019 consolidated financial statements.

Opinions and Other Reports

We rendered unmodified opinions on the Company's consolidated financial statements as of and for the year ended December 31, 2019 and internal control over financial reporting ("ICFR") as of December 31, 2019.

We will also issue the following reports in connection with BayCoast Mortgage Company, LLC's (the "Mortgage Company") Department of Housing and Urban Development ("HUD") program:

- Report on compliance and internal control over compliance with the requirements described in the *Consolidated Audit Guide for Audits of HUD Programs*
- Report on the Mortgage Company's compliance with laws and regulations
- Agreed-upon procedures report on the Mortgage Company's electronic filing with HUD

Auditor Responsibilities

- We conducted our integrated audit in accordance with auditing standards generally accepted in the United States of America. We also conducted our audit of the consolidated financial statements of the Company in accordance with *Government Auditing Standards*.

- Our integrated audit was designed to obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatements.

- Our integrated audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements.

- Our integrated audit included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Auditor Responsibilities (concluded)

- Our integrated audit included obtaining an understanding of ICFR, evaluating the design effectiveness of ICFR, and testing operating effectiveness of those controls in order for us to express an opinion on the effectiveness of the Company's internal control over financial reporting.

Accounting Policies, Principles and Technical Updates

The primary responsibility for establishing the Company's accounting policies and practices, applied in its consolidated financial statements, rests with management. The Company's significant accounting policies and practices are included in Note 1 to the consolidated financial statements. We believe that management's disclosures regarding such policies and practices are adequate.

During the year ended December 31, 2019, the Company adopted the following Accounting Standards Updates ("ASUs"), as further described in Note 1 to the consolidated financial statements:

- ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities.*

- ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).*

- ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.*

See Note 1 to the consolidated financial statements for a summary of ASUs that have been issued but are not yet effective and may have a significant effect on future financial reporting.

Management Judgments and Accounting Estimates

We have concluded that management's judgments and accounting estimates in the 2019 consolidated financial statements are reasonable. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us that they used all the relevant facts available to them at the time to make the best judgments about accounting estimates, and we considered this information in the scope of our audit.

Management Judgments and Accounting Estimates (continued)

Significant judgments and accounting estimates reflected in the Company's 2019 consolidated financial statements include:

Allowance for loan losses

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. There were no significant changes to the Company's allowance methodology during 2019 or 2018.

Overall coverage of the allowance to total loans at December 31, 2019 and 2018 was 0.78% and 0.69%, respectively. At December 31, 2019, and 2018, the unallocated portion of the allowance was $133,000 and $113,000, respectively, while the specific reserve on impaired loans was $108,000 and $113,000, respectively.

Deferred tax assets

Deferred taxes are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. If, in the judgment of management, a portion of such deferred tax assets will not be realized, a valuation allowance is established. Management assesses the realizability of deferred tax assets by assessing whether it is more likely than not that the temporary differences giving rise to deferred tax assets will reverse in a period in which there is sufficient taxable income to realize the related income tax benefit. No valuation allowance was recorded at December 31, 2019 or 2018.

Impairment of goodwill

Management assesses impairment of goodwill at least on an annual basis or whenever events or circumstances indicate that the carrying value may not be recoverable. Management prepared a qualitative impairment assessment for the goodwill related to the Priority Funding acquisition and concluded that it was more likely than not that the fair value of Priority Funding exceeds the $15 million carrying amount and no quantitative assessment was required in 2019.

Management Judgments and Accounting Estimates (concluded)

<u>Post-retirement benefit obligations</u>
Post-retirement benefit obligations rely on assumptions including discount rates, rates of compensation increase, expected rate of return on plan assets, mortality, and retirement and termination dates of participants. Assumptions are recommended by actuaries and benefit consultants and reviewed for reasonableness by management. At December 31, 2019 and 2018, the discount rate used to calculate the defined benefit pension plan obligation was 3.50% and 4.25%, respectively.

We have performed tests of these estimates to satisfy ourselves as to their reasonableness in relation to the consolidated financial statements taken as a whole, including disclosure.

Financial Statement Presentation

The Company's presentation of the consolidated financial statements and the related disclosures is in conformity with U.S. generally accepted accounting principles. We will discuss with you items as they relate to the quality of accounting principles and the neutrality, consistency, or clarity of the disclosures in the consolidated financial statements. Neutrality refers to disclosures designed to inform rather than influence the reader.

Audit Adjustments and Uncorrected Misstatements

For purposes of this communication, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were two audit adjustments made to the original trial balance presented to us to begin our audit. There was an adjustment to record the tax effect of the cumulative effect entry to adopt ASU 2016-01, which reduced retained earnings and the deferred tax asset by $684,000. In addition, there was an adjustment to record the tax effect of the unrealized loss on derivatives used for cash flow hedges, which decreased other comprehensive loss and increased the deferred tax asset by $240,000.

Required Communications (Continued)

Audit Adjustments and Uncorrected Misstatements (concluded)

Uncorrected misstatements at December 31, 2019 are as follows:

	Income (Expense)
Underaccrual of incentive compensation expense	$ (226,000)
Reverse prior year uncorrected misstatements	278,000
	52,000
Tax effect	(14,000)
2019 net income impact	$ 38,000

These uncorrected misstatements were discussed with management, and were determined by management, to be immaterial to the consolidated financial statements taken as a whole. Therefore these adjustments were not made to the consolidated financial statements.

Independence

Independence is crucial to the performance of the audit services, and our professional standards require that we communicate at least annually regarding all relationships between our Firm and the Company that may be reasonably thought to bear on our independence.

The Company has employed Ms. Diana Taxiera, a former employee of Wolf & Company, P.C., in a financial reporting oversight role. SEC independence rules prohibit our former employees, who are in financial reporting oversight roles with an audit client, from having financial arrangements with the Firm. The exception to this prohibition is an arrangement that provides for regular payment of a fixed dollar amount pursuant to a fully funded retirement plan. Ms. Taxiera continues to participate in Wolf's qualified defined benefit pension plan which, at a minimum, is funded in accordance with ERISA requirements, but is not fully funded. Per our communications with the FDIC and SEC staff they have not concluded on whether such funding is in compliance with the SEC independence rules, however they are not taking exception currently or retrospectively to the employment of Ms. Taxiera by the Company in such financial reporting oversight role in this specific circumstance.

All officers and employees are provided access to Wolf & Company's policies and procedures relating to independence and conflicts of interest. We publish a list of clients with publicly traded securities, in which investment by officers and employees of the Firm is forbidden. Annually, we obtain written affidavits from officers and employees about their adherence to these policies.

Independence (concluded)

As of the date of this communication, Wolf & Company, P.C. is independent with respect to the Company in compliance with the Public Company Accounting Oversight Board's Rule 3520, *Auditor Independence*, and with the applicable rules and regulations of the SEC under the federal securities laws.

We would like to remind you that our independence would be impaired if Wolf & Company, P.C. provided tax services to a person in a financial reporting oversight role, other than outside directors, at the Company, or to an immediate family member (spouse, spouse equivalent or dependent) of such person.

We also want to take this opportunity to remind you that our independence would be impaired if the Company were to hire, in a financial reporting oversight role, any officer or employee of our Firm who was a member of the audit engagement team during the current or immediately preceding audit period.

Other Services Provided and Related Fees

Non-audit services provided and related fees for the year ended December 31, 2019 are as follows:

Tax preparation	$	36,900
Plimoth Trust extended trust services		12,500
WolfPAC modules		31,100

Other Required Communications

There were no:

- Significant unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

- Documents that will contain the audited consolidated financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited financial statements of the Company.

Required Communications (Concluded)

Other Required Communications (concluded)

- Disagreements with management.
- Difficulties in dealing with management relating to the performance of the audit.
- Consultations by management with other accountants about accounting or auditing matters of which we are aware.
- Significant issues discussed with management that were a condition to our retention.
- Alternative treatments discussed with management within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
- Significant changes to the planned audit strategy or significant risks initially identified and communicated to the Audit & Risk Management Committee in our audit scope letter.

A copy of management's representation letters, the only material written communication between our Firm and management of the Company, are attached to this communication.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to Narragansett Financial Corp.

This communication is intended solely for the information and use of the Audit & Risk Management Committee, Board of Trustees, regulatory authorities and management, and is not intended to be and should not be used by anyone other than these specified parties.

Management Representation Letters

Narragansett Financial Corp.

March 23, 2020

Wolf & Company, PC.
99 High Street
Boston, MA 02110

This representation letter is provided in connection with your audits of the consolidated financial statements of Narragansett Financial Corp. and subsidiary (the "Company") which comprise the consolidated balance sheets as of December 31, 2019 and 2018 and the related consolidated statements of net income, comprehensive income (loss), retained earnings and cash flows for the years then ended, related notes to the consolidated financial statements, for the purpose of expressing an opinion on both the effectiveness of internal control over financial reporting and whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of March 23, 2020:

Financial Statements and Internal Control over Financial Reporting

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 25, 2019, for the preparation and fair presentation of the consolidated financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. We have performed an evaluation and made our assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

6. We did not use your procedures performed during the audits of internal control over financial reporting or the financial statements as part of the basis for our assessment of the effectiveness of internal control over financial reporting.

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Fall River, MA 02722-1311
Tel (508) 678-7641

7. The Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 and 2018 based on criteria established in Internal Control—Integrated Framework issued by the COSO in 2013.

8. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge of and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

9. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

10. All events subsequent to the date of the consolidated financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

11. There were, subsequent to December 31, 2019, no changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by us with regard to significant deficiencies and material weaknesses.

12. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

13. The methods and significant assumptions used to determine fair values of financial instruments are described in Notes 1 and 16 to the consolidated financial statements. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

14. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit or similar arrangements have been properly disclosed.

15. The following have been properly recorded and/or disclosed in the consolidated financial statements:

    a. Guarantees, whether written or oral, under which the institution is contingently liable.

    b. Arrangements with other financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

    c. Lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold.

    e. Security agreements in effect under the Uniform Commercial Code.

    f. All other liens or encumbrances on assets and all other pledges of assets.

    g. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.

h. Investments in debt and equity securities, including debt security classification as available for sale.

i. All liabilities that are subordinated to any other actual or possible liabilities of the Company.

j. All leases and material amounts of rental obligations under long-term leases.

k. All significant estimates and material concentrations known to management that are to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

l. Assets and liabilities measured at fair value in accordance with the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification.

m. All current and deferred assets and liabilities related to income taxes. Additionally, we have evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Tax Topic of the FASB Accounting Standards Codification.

n. Loans being held for sale.

o. Concentrations of credit risk.

p. Financial instruments with off-balance-sheet market or credit risk.

16. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the consolidated financial statements:

    a. The extent, nature and terms of financial instruments with off-balance-sheet risk;

    b. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments; and

    c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

17. We have evaluated all of our debt securities for which there has been a decline in fair value below the amortized cost. In that regard:

    a. We do not have the intent to sell any of the securities that are in an unrealized loss position.

    b. We have forecasted recovery of these securities and our liquidity and have concluded that it is not more likely than not that we will have to sell the securities prior to forecasted recovery.

c. We have evaluated these debt securities to determine whether we expect to recover the amortized cost basis of the securities. We have concluded in all cases that we will recover the amortized cost basis of the securities and recorded the entire unrealized loss in other comprehensive income.

d. Any sales of securities in a loss position are immaterial to the consolidated financial statements and the sale resulted from an overall portfolio evaluation and not as a result of the loss on the security.

18. As of and for the year ended December 31, 2019, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

    As of December 31, 2019, other liabilities are understated by $226,000 (pre-tax) related to an overstatement of salaries and employee benefits expense.

Information Provided

19. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audits;

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence;

    d. Minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared; and

    e. Reports and correspondence between the Company and regulatory examiners during the period under audit and all supervisory memoranda or agreements, if any, with any federal or state regulatory authority.

20. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

21. We have disclosed to you the results of our assessment of risk that the consolidated financial statements may be materially misstated as a result of fraud.

22. We have no knowledge of allegations of fraud or suspected fraud affecting the Company's financial statements involving:

a. Management.

b. Employees who have significant roles in internal control.

c. Others where the fraud could have a material effect on the financial statements.

23. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.

24. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

25. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing consolidated financial statements.

26. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.

27. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize, and report financial data.

28. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

    a. The Company has no significant amounts of idle property and equipment.

    b. The Company has no plans or intentions to discontinue the operations of any subsidiary or division or to discontinue any significant product lines.

    c. We consider the decline in fair value of debt securities classified as available for sale to be temporary.

    d. Provision has been made to reduce all assets that have permanently declined in value to their realizable values.

    e. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

29. We are responsible for making the accounting estimates included in the consolidated financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, where applicable, adequate provisions have been made:

    a. To maintain an adequate allowance for loan losses.

    b. To reduce deferred tax assets to amounts that are more likely than not to be realized.

c. For pension and profit sharing obligations, postretirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through December 31, 2019.

d. To reduce foreclosed assets to fair value less estimated costs to sell.

e. To adjust securities available for sale to fair value.

f. For environmental cleanup obligations.

g. To record loans held for sale at fair value.

30. There are no:

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

c. Development or construction arrangements which the Company has entered into, acquired participation, or renegotiated previous agreements resulting in arrangements in which the Company as lender, participates in expected residual profit through *(a)* sharing in the profit on sale of real estate projects; *(b)* a higher than normal interest rate; or *(c)* sharing in gross rents or net cash flows from the project.

d. Material recourse agreements on loans previously sold.

e. Regulatory examinations currently in progress or for which we have not received examination reports.

f. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any commitments to extend credit.

g. Obligations under any loan recourse provisions and the Company has complied with the technical default requirements of all agreements for loans and participations sold to others.

31. There have been no:

a. Communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

b. Unfavorable findings that materially affect mortgage operations or suspensions by the U.S. Department of Housing and Urban Development (HUD) or any investor or regulatory agency within the past 12 months.

32. The Company has satisfactory title to all owned assets.

33. We believe that the past due, watch, impaired, troubled debt restructuring, nonaccrual and loans held for sale listing are complete and accurate as of December 31, 2019.

34. We assert that loan participations sold as of December 31, 2019 qualify for sales treatment and that we are in compliance with the *Transfer and Servicing* Topic of the FASB Accounting Standards Codification.

35. We agree with the findings of specialists in evaluating pension plan liabilities and fair value of mortgage servicing rights and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the consolidated financial statements and underlying accounting records. We did not give instructions, or cause any instructions to be given, to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

36. We agree with the findings of appraisers used and have adequately considered the qualifications of the appraisers in determining the amounts and disclosures in the consolidated financial statements and underlying accounting records. We did not give or cause any instructions to be given to appraisers regarding the values or amounts derived to attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of these appraisers.

37. In considering the disclosures that should be made about risks and uncertainties, we have concluded that the following risk disclosures are required:

    a. Determination of the allowance for loan losses

    b. Goodwill impairment

    c. Realizability of deferred tax assets

    d. Valuation of post-retirement benefit obligations

38. No action has been taken, nor is any action contemplated, that would cause any portion of the accumulated bad debt deduction to be subjected to income tax.

39. As of December 31, 2019, the most recent notification from the Federal Depositors Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

40. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through the date of this letter have been recognized or disclosed in the consolidated financial statements. No events or transactions other than those disclosed in the financial statements have occurred subsequent to the balance sheet date and through the date of this letter that would require recognition or disclosure in, the consolidated financial statements. We further represent that as of the date of this letter, the consolidated financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America and all approvals necessary for issuance of the financial statements had been obtained.

41. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Supplementary Information

42. With respect to supplementary information presented in relation to the consolidated financial statements as a whole:

    a. We acknowledge our responsibility for the presentation of such information.

    b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

    d. When supplementary information is not presented with the audited consolidated financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the independent auditor's report thereon.

Narragansett Financial Corp.

NM Christ

Nicholas M. Christ
President & Chief Executive Officer

Marie Pellegrino

Marie Pellegrino
Sr. Vice President & Chief Financial Officer

Narragansett Financial Corp. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

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WOLF & COMPANY, P.C.

Independent Auditors' Report

To the Audit & Risk Management Committee of Narragansett Financial Corp.:

Report on the Financial Statements

We have audited the consolidated financial statements of Narragansett Financial Corp. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of net income, comprehensive income (loss), changes in retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Narragansett Financial Corp.'s internal control over financial reporting as of December 31, 2019, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report, dated March 23, 2020, expressed an unmodified opinion.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including the consolidating balance sheet and statement of net income, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Wolf & Company, P.C.

Boston, Massachusetts
March 23, 2020

Narragansett Financial Corp. and Subsidiary

Consolidated Balance Sheets

December 31, 2019 and 2018

Assets

	2019	2018
	(In thousands)	
Cash and cash equivalents	$ 20,144	$ 20,514
Securities available for sale, at fair value	97,994	179,528
Marketable equity securities, at fair value	40,525	-
Federal Home Loan Bank stock, at cost	7,329	9,723
Loans held for sale	31,629	9,650
Loans, net	1,430,146	1,337,386
Bank-owned life insurance	29,155	27,915
Premises and equipment, net	37,124	31,871
Accrued interest receivable	4,440	4,562
Net deferred tax asset	3,729	6,162
Goodwill and other intangible assets	20,192	20,306
Other assets	60,908	35,163
	$ 1,783,315	$ 1,682,780

Liabilities and Retained Earnings

	2019	2018
Deposits	$ 1,415,786	$ 1,309,133
Borrowings	165,863	181,157
Subordinated debt	44,155	43,903
Other liabilities	32,738	35,166
Total liabilities	1,658,542	1,569,359
Commitments and contingencies (Notes 5, 6 and 12)		
Retained earnings	135,398	121,874
Accumulated other comprehensive loss	(11,065)	(8,788)
Total retained earnings of Narragansett Financial Corp. and Subsidiary	124,333	113,086
Non-controlling interest in subsidiary	440	335
	124,773	113,421
	$ 1,783,315	$ 1,682,780

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Net Income

Years Ended December 31, 2019 and 2018

	2019	2018
	(In thousands)	
Interest and dividend income:		
Interest and fees on loans	$ 65,332	$ 55,052
Interest on debt securities	4,473	3,973
Dividend income	1,764	1,772
Interest on cash equivalents	134	41
Total interest and dividend income	71,703	60,838
Interest expense:		
Interest on deposits	14,671	7,259
Interest on borrowings	3,919	5,023
Interest on subordinated debt	3,005	3,005
Total interest expense	21,595	15,287
Net interest income	50,108	45,551
Provision for loan losses	3,493	2,215
Net interest income, after provision for loan losses	46,615	43,336
Other income:		
Customer service fees	7,845	6,621
Trust department fees	4,754	4,596
Insurance and brokerage commissions	5,548	5,414
Gain on securities available for sale, net	378	2,754
Gain on redemption of cost method investment	-	1,257
Gain on marketable equity securities	9,027	-
Gain on loans, net	11,243	5,325
Bank-owned life insurance income	785	722
Miscellaneous	747	548
Total other income	40,327	27,237
Operating expenses:		
Salaries and employee benefits	47,487	39,448
Occupancy and equipment	10,136	8,765
Professional fees	2,220	2,110
Data processing	2,964	2,674
Advertising costs	1,687	1,508
Deposit insurance	725	920
Amortization of intangible assets	115	331
Other general and administrative	6,083	6,609
Total operating expenses	71,417	62,365
Income before income taxes	15,525	8,208
Provision for income taxes	3,646	1,646
Net income	11,879	6,562
Net income attributed to non-controlling interest in subsidiary	105	54
Net income attributed to Narragansett Financial Corp. and Subsidiary	11,774	$ 6,508

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2019 and 2018

	2019	2018
	(In thousands)	
Net income	$ 11,879	$ 6,562
Other comprehensive loss:		
Securities available for sale:		
Unrealized holding gains (losses)	1,565	(4,526)
Reclassification adjustment for gains realized in income [1]	(378)	(2,754)
Net unrealized gains (losses)	1,187	(7,280)
Related tax effects	(324)	2,047
Net-of-tax amount	863	(5,233)
Derivative instruments used for cash flow hedges:		
Unrealized losses	(840)	(14)
Related tax effects	240	-
Net-of-tax amount	(600)	(14)
Defined benefit pension plans:		
Losses arising during the year	(2,234)	(3,964)
Reclassification adjustment for losses recognized in net periodic benefit cost [2]	1,135	944
Net defined benefit pension plan losses	(1,099)	(3,020)
Related tax effects	309	848
Net-of-tax amount	(790)	(2,172)
Total other comprehensive loss	(527)	(7,419)
Comprehensive income (loss)	$ 11,352	$ (857)

[1] Amounts are reclassified out of accumulated other comprehensive loss and are included in gain on securities available for sale, net on the consolidated statements of net income. Income tax expense associated with these gains for the years ended December 31, 2019 and 2018 was $106,000 and $771,000, respectively.

[2] Amounts are reclassified out of accumulated other comprehensive loss and are included in other general and administrative expense on the consolidated statements of net income. Income tax benefit associated with these expenses for the years ended December 31, 2019 and 2018 was $283,000 and $219,000, respectively.

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Changes in Retained Earnings

Years Ended December 31, 2019 and 2018

	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Retained Earnings
		(In thousands)		
Balance at December 31, 2017	$115,366	$ (1,369)	$ 281	$114,278
Comprehensive income (loss)	6,508	(7,419)	54	(857)
Balance at December 31, 2018	121,874	(8,788)	335	113,421
Cumulative effect of adopting ASU 2016-01 (See Note 1)	1,750	(1,750)	-	-
Comprehensive income (loss)	11,774	(527)	105	11,352
Balance at December 31, 2019	$135,398	$ (11,065)	$ 440	$124,773

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 11,879	$ 6,562
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization (accretion) of securities available for sale	(11)	402
Gain on securities available for sale, net	(378)	(2,754)
Gain on marketable equity securities, net	(9,027)	-
Gain on redemption of cost method investment	-	(1,257)
Gain on sales of portfolio loans	(239)	(151)
Gain on sales of foreclosed real estate	(70)	-
Amortization of loans and deposits from acquisition accounting, net	-	44
Provision for loan losses	3,493	2,215
Net change in loans held for sale	(21,677)	5,397
Mortgage servicing rights capitalized	(2,367)	(905)
Depreciation and amortization of premises and equipment, intangible assets and mortgage servicing rights	4,472	4,217
Increase in cash surrender value of life insurance	(785)	(722)
Deferred tax provision (benefit)	2,658	(949)
Net change in:		
Accrued interest receivable	122	(565)
Other assets and other liabilities	(28,934)	(3,184)
Net cash provided by (used in) operating activities	(40,864)	8,350
Cash flows from investing activities:		
Securities available for sale:		
Proceeds from sales	90,099	27,236
Proceeds from calls/maturities and principal payment	34,845	69,522
Purchases	(79,207)	(97,024)
Marketable equity securities:		
Proceeds from sales	16,182	-
Purchases	(10,308)	-
Purchase of FHLB stock	(14,243)	(10,333)
Redemption of FHLB stock	16,637	9,195
Purchase of bank-owned life insurance	(455)	(2,103)
Proceeds from sale of foreclosed real estate	2,012	32
Proceeds from sales of portfolio loans	134,121	22,361
Purchase of loans	-	(4,866)
Loan originations, net of amortization and payoffs	(231,918)	(225,142)
Additions to premises and equipment	(8,648)	(3,790)
Proceeds from the disposal of premises and equipment	18	24
Net cash used in investing activities	(50,865)	(214,888)

(continued)

See accompanying notes to consolidated financial statements.

Narragansett Financial Corp. and Subsidiary

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2019 and 2018

	2019	2018
	(In thousands)	
Cash flows from financing activities:		
Net change in non-brokered deposits	125,600	92,777
Net change in brokered deposits	(18,947)	97,632
Net change in borrowings with maturities of three months or less	47,750	51,900
Repayment of borrowings with maturities in excess of three months	(63,044)	(28,080)
Net cash provided by financing activities	91,359	214,229
Net change in cash and cash equivalents	(370)	7,691
Cash and cash equivalents at beginning of year	20,514	12,823
Cash and cash equivalents at end of year	$ 20,144	$ 20,514
Supplemental cash flow information:		
Interest paid on deposits	$ 14,479	$ 7,084
Interest paid on borrowings and subordinated debt	6,950	8,117
Income taxes paid, net	1,209	3,063
Transfer from loans to foreclosed real estate	1,481	461
Transfer from securities available for sale to marketable equity securities	37,346	-

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of Narragansett Financial Corp. (the "Company") and its wholly-owned subsidiary, BayCoast Bank (the "Bank"), and the Bank's subsidiaries. The Bank provides a variety of financial services to individuals and businesses through its offices in southeastern Massachusetts and Rhode Island. Its primary deposit products are checking, savings, money market and term certificates, and its primary lending products are residential, commercial and multi-family mortgages and commercial loans.

The Bank's wholly-owned subsidiaries include BayCoast Financial Services ("BFS"), which sells non-deposit investment products to individuals and entities; Troy Security Corporation and B.F.R. Corp., which buy, hold, and sell securities on their own behalf; 1851 Corporation, which holds investments and real estate property; Partners Insurance Group, LLC ("Partners"), a wholly-owned subsidiary of BFS, which provides insurance products to consumers and businesses; BayCoast Mortgage Company, LLC ("BCMC"), which originates and sells conforming and jumbo residential mortgages; and Priority Funding, LLC ("Priority Funding") which originates and sells manufactured home loans.

Plimoth Trust Company, LLC, d/b/a Plimoth Investment Advisors ("Plimoth") is an 80%-owned subsidiary of the Bank, which provides investment management and trust services. Plimoth acts as a fiduciary and provides portfolio and/or trust services to its clients. The remaining 20% of Plimoth is owned by an unrelated third party and is reported as a non-controlling interest in the consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, post-retirement benefit obligations, goodwill impairment and the realizability of deferred tax assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant group concentrations of credit and other risks

Most of the Company's activities are with customers located in southeastern Massachusetts and Rhode Island. Note 4 includes the types of lending in which the Company engages. The Company does not have any significant concentrations to any one industry or customer.

Fair value hierarchy

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

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

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads, and new issue data for substantially the full term of the assets and liabilities.

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

Reclassifications

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

Cash equivalents

Cash and cash equivalents include balances due from banks and short-term investments, which consist of interest-bearing deposits and federal funds sold, which mature overnight or on demand and are carried at cost. The Company normally maintains balances on deposit with other financial institutions in excess of federally insured limits.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Consequently, marketable equity securities are measured at fair value with changes in fair value reported on the Company's consolidated statements of net income as a component of other income, regardless of whether such gains and losses are realized. On January 1, 2019, the net unrealized gain on marketable equity securities, net of tax, of $1,750,000 was reclassified from accumulated other comprehensive loss to retained earnings. Prior to January 1, 2019, marketable equity securities were classified as "available for sale" and were recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of tax effects.

Debt securities available for sale are reflected at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income/loss.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Premiums on callable bonds are amortized through the earliest call date. Gains and losses on the sale of securities available for sale are recorded on the trade date and determined using the specific identification method, except for mutual funds, prior to the adoption of ASU 2016-01, which were determined using the average cost method.

Each reporting period, the Company evaluates all securities available for sale with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other than temporary ("OTTI"). OTTI is required to be recognized (1) if the Company intends to sell the security; (2) if it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) if the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income/loss, net of applicable taxes. Prior to January 1, 2019, marketable equity securities were evaluated for OTTI based on the severity and duration of the impairment and if deemed to be other than temporary, the declines in fair value were reflected in earnings as realized losses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Home Loan Bank stock

The Company, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB of Boston. Based on the redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2019 and 2018, no impairment has been recognized.

Loans held for sale

The Company utilizes the fair value option for its loans being held for sale in the secondary market. Fair value is determined based on either commitments in effect from investors or prevailing market prices and includes the value of mortgage servicing rights. The Company elected the fair value option to better match the accounting method with management's strategies for managing the risks of loans held for sale. Changes in fair value are recorded in gains on loans, net on the consolidated statements of net income.

Loans

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

The accrual of interest on all loans is discontinued at the time a loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual earlier if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses

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

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the Company's loan segments. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting; experience, ability and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2019 and 2018. The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent without private mortgage insurance and does not generally grant loans that would be classified as sub-prime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial and multi-family real estate – Loans in this segment include owner-occupied multi-family and income-producing properties throughout New England. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General component (concluded)

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

Home equity lines of credit ("HELOC") and second mortgages – Loans in this segment are collateralized by residential real estate and payment is dependent on the credit quality of the individual borrower. The Company has first and second liens on property securing these loans.

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

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

Allocated component

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for loan losses (concluded)

Allocated component (concluded)

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

Unallocated component

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

Loan servicing

Capitalized mortgage servicing rights are reported in other assets and are amortized into miscellaneous other income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights compared to amortized cost. Impairment is determined by stratifying rights by predominate risk characteristics, such as interest rates and terms. Impairment, if material, is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the carrying amount of the stratum. Changes in the valuation allowance are reported in miscellaneous income. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income, using certain prepayment assumptions that may not be observable in the market place.

Foreclosed real estate

Real estate acquired through, or in lieu of, loan foreclosure is held for sale and is initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write-downs are included in other general and administrative expense. Gains and losses on sales are included in miscellaneous income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and equipment

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

Bank-owned life insurance

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

Transfers of financial assets

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheet, measured at fair value and recorded in other assets and other liabilities.

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements to provide for the needs of its customers or to manage the interest rate risk of its balance sheet. An interest rate swap is an agreement whereby one party agrees to pay a fixed rate of interest on a notional principal amount in exchange for receiving a floating rate of interest on the same notional amount for a predetermined period of time from the second party. In the case of customer based transactions, derivatives are offset with matching derivatives with other correspondent bank counterparties in order to minimize interest rate risk to the Company.

The customer based interest rate derivative instruments are recorded on the consolidated balance sheets as either an asset or liability measured at fair value. These derivatives do not qualify for hedge accounting. As such, all changes in fair value of these derivative instruments are included in other income.

The Company also uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Derivatives that are used as part of the asset/liability management process are linked to specific assets or liabilities and have a high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period. Most interest rate swaps involve the exchange of fixed and floating interest payments. The Company uses interest rate swaps to convert a portion of its short-term, variable interest funding sources to long-term, fixed-rate funding sources (cash flow hedge).

Interest rate swaps are recognized as assets and liabilities on the consolidated balance sheets and measured at fair value. The gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (concluded)

Mortgage Banking Derivatives

Mortgage loan commitments qualify as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Forward loan sale commitments mitigate the risk of potential decreases in the values of loans that would result from the exercise of mortgage loan commitments. These derivatives, if material, are recognized at fair value on the consolidated balance sheets in other assets and other liabilities with changes in their fair values recorded in other income.

Goodwill and other 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 (or the fair value of the entity acquired) over the fair value of the net assets acquired and is not subsequently amortized. Management assesses the recoverability of goodwill at least on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded through operations. Goodwill amounts to $19,576,000 at both December 31, 2019 and 2018. No impairment has been recognized.

Other intangible assets represent the long-term value of customer relationships acquired and are being amortized over their estimated lives on a straight-line basis. The Company evaluates the realizability of other intangible assets based on the value of the underlying customer relationships whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If that value is less than the carrying amount of the intangible assets and is considered permanent, the Company would recognize an impairment loss.

Insurance commissions

The Company’s insurance revenue, which represents commissions earned for performing agency–related services, is earned at the point in time when the agent has satisfied its performance obligations of placement services. In addition, the Company may receive additional performance commissions based on achieving certain sales and loss experience measures. Such commissions are recognized when determinable, which is generally when such commissions are received or when the Company receives data from the insurance companies that allows the reasonable estimation of these amounts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension plan

The compensation cost of an employee's pension benefit is recognized on the projected unit credit method over the employee's approximate service period. The aggregate cost method is utilized for funding purposes. The Company accounts for its defined benefit pension plan using an actuarial model that allocates pension costs over the service period of employees in the plan. The Company accounts for the over-funded or under-funded status of its defined benefit plan as an asset or liability in its consolidated balance sheets and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income or loss.

Effective December 31, 2019 the Company adopted ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendments in this Update require that an employer report the service cost component of net periodic pension cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension benefit cost are required to be presented in the consolidated statements of net income separately from the service cost component. See Note 15.

Income taxes

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

The Company does not have any uncertain tax positions at December 31, 2019 and 2018 which require accrual or disclosure.

The Company records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2019 and 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust assets

Trust assets held in a fiduciary or agency capacity are not included in the Company's consolidated financial statements. Trust department fees are primarily comprised of fees earned from trust administration services. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based on the daily accrual of the market value of the investment accounts and the applicable fee rate.

Advertising costs

Advertising costs are expensed as incurred.

Comprehensive income/loss

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

The components of accumulated other comprehensive income/loss, included in retained earnings, are as follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Securities available for sale:		
Net unrealized gain	$ 541	$ 1,788
Tax effect	(148)	(508)
Net-of-tax amount	393	1,280
Derivative instruments used for cash flow hedges:		
Net unrealized loss	(854)	(14)
Tax effect	240	-
Net-of-tax amount	(614)	(14)
Defined benefit pension plans:		
Unrecognized actuarial loss	(15,084)	(13,985)
Tax effect	4,240	3,931
Net-of-tax amount	(10,844)	(10,054)
	$ (11,065)	$ (8,788)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income/loss (concluded)

An actuarial loss of $733,000, included in accumulated other comprehensive loss at December 31, 2019, is expected to be recognized as a component of net periodic pension cost for the year ending December 31, 2020.

Recent accounting pronouncements

Effective January 1, 2019, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The majority of the Company's revenues come from interest income and other sources, including loans, securities, derivatives, and mortgage banking that are outside the scope of ASC 606. In addition, management determined that the timing of the Company's recognition of customer service fees, trust department fees and insurance and brokerage commissions either did not change or did not change materially. As such, there was no material impact to the consolidated financial statements as a result of adopting this ASU, and no cumulative effect adjustment was recorded.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this ASU require that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments are effective for years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021, with early adoption permitted. The Company is currently evaluating the impact to the consolidated financial statements of adopting this ASU but does not expect adoption to have a significant impact.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for certain financial assets, such as loans, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The amendments in this ASU are effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and expects significant changes to the allowance for loan losses methodology upon adoption. No financial statement impacts have been determined.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent accounting pronouncements (concluded)

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU removes the disclosure requirements that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The amendments are effective for fiscal years ending after December 15, 2021. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, these reserve balances amounted to $3,187,000 and $1,887,000, respectively.

At both December 31, 2019 and 2018, the Company has also pledged $500,000 in cash held at a correspondent bank to the state of Maine to establish the Plimoth Trust Company, LLC.

3. SECURITIES

Available for Sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2019				
U.S. Government bonds	$ 50,018	$ 255	$ (1)	50,272
Government sponsored mortgage-backed securities	3,705	251	-	3,956
State and municipal bonds	25,176	5	-	25,181
Corporate bonds	2,500	-	(1)	2,499
Subordinated debt and collateralized debt obligations	16,054	229	(197)	16,086
Total securities available for sale	$ 97,453	$ 740	$ (199)	$ 97,994

SECURITIES (continued)

Available for Sale (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2018				
Debt securities:				
U.S. Government bonds	$ 69,891	$ 82	$ (312)	69,661
Government sponsored mortgage-backed securities	17,122	110	(114)	17,118
State and municipal bonds	31,206	2	(33)	31,175
Corporate bonds	8,521	-	(43)	8,478
Subordinated debt and collateralized debt obligations	16,061	35	(346)	15,750
Total debt securities	142,801	229	(848)	142,182
Equity securities:				
Communications	3,667	929	(262)	4,334
Consumer products	7,360	1,465	(315)	8,510
Financial	4,815	647	(542)	4,920
Industrial	4,364	518	(369)	4,513
Technology	5,283	792	(668)	5,407
Other	9,450	937	(725)	9,662
Total equity securities	34,939	5,288	(2,881)	37,346
Total securities available for sale	$ 177,740	$ 5,517	$ (3,729)	$ 179,528

Securities with an amortized cost of $25,991,000 and $25,968,000 and a fair value of $26,174,000 and $25,763,000 at December 31, 2019 and 2018, respectively, were pledged to secure public funds and other such purposes as required by law.

SECURITIES (continued)

Available for Sale (continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2019 is as follows. Expected maturities will differ from contractual maturities on certain securities because of call or prepayment provisions.

	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	$ 36,570	$ 36,690
After 1 year through 5 years	17,614	17,753
After 5 years through 10 years	18,901	18,933
Over 10 years	24,368	24,619
	$ 97,453	$ 97,994

For the years ended December 31, 2019 and 2018, proceeds from sales of securities available for sale amounted to $90,099,000 and $27,236,000, respectively. Gross realized gains amounted to $518,000 and $3,859,000, respectively, and gross realized losses amounted to $140,000 and $1,105,000, respectively.

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

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2019				
U.S. Government bonds	$ -	$ -	$ 1	$ 4,988
Corporate bonds	1	999	-	-
Subordinated debt and collaterialized debt obligations	10	990	187	1,813
Total securities available for sale	$ 11	$ 1,989	$ 188	$ 6,801

SECURITIES (continued)

Available for Sale (continued)

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2018				
Debt securities:				
U.S. Government bonds	$ 97	$ 29,835	$ 215	$ 14,760
Government sponsored mortgage-backed securities	114	9,283	-	-
State and municipal	2	511	31	4,559
Corporate:				
Financial services	-	-	37	4,967
Industial	-	-	4	1,005
Other	-	1,000	2	1,006
Subordinated debt and collaterialized debt obligations	346	11,654	-	-
Total debt securities	559	52,283	289	26,297
Equity securities:				
Communications	262	1,720	-	-
Consumer products	315	2,392	-	-
Financial	542	2,561	-	-
Industrial	369	2,705	-	-
Technology	668	2,762	-	-
Other	725	3,616	-	-
Total equity securities	2,881	15,757	-	-
Total securities available for sale	$ 3,440	$ 68,040	$ 289	$ 26,297

At December 31, 2019, 4 debt securities have unrealized losses with aggregate depreciation 2%, from the Company’s amortized cost basis, all of which is deemed to be temporary.

SECURITIES (continued)

Available for Sale (concluded)

The unrealized losses on these investments were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not to credit quality, and because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2019.

Marketable Equity Securities

Marketable equity securities consist of common stocks, preferred stocks and money market mutual funds. The Company held marketable equity securities with an aggregate fair value of $40,525,000 at December 31, 2019. Prior to January 1, 2019, marketable equity securities were included in securities available for sale and stated at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income/loss (“AOCI”), net of tax. At December 31, 2018, net unrealized gains of 1,750,000 had been recorded in AOCI, net of deferred taxes. On January 1, 2019, upon adoption of ASU 2016-01 (see Note 1), these net unrealized gains were reclassified out of AOCI and into retained earnings with subsequent changes in fair value recognized in net income. For the year ended December 31, 2019, net unrealized gains recognized on marketable equity securities still held at December 31, 2019 were $6,491,000.

4. LOANS

A summary of the balances of loans follows:

	December 31, 2019	December 31, 2018
	(In thousands)	
Mortgage loans on real estate:		
Residential	$ 361,546	$ 357,311
Commercial and multi-family	642,536	525,815
Construction	99,970	84,466
HELOC and second mortgages	89,560	78,758
	1,193,612	1,046,350
Commercial loans	198,332	198,596
Consumer loans	48,295	96,429
Total loans	1,440,239	1,341,375
Allowance for loan losses	(11,246)	(9,320)
Net deferred loan costs	1,153	5,331
Loans, net	$ 1,430,146	$ 1,337,386

Residential, commercial and multi-family, HELOC and second mortgage loans are subject to a blanket lien securing FHLB borrowings. See Note 9.

LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2019 and 2018, and allocation of the allowance to loan segments at December 31, 2019 and 2018, follows:

	Residential Real Estate	Commercial & Multi-family Real Estate	Construction	HELOC & Second Mortgages	Commercial	Consumer	Unallocated	Total
				(In thousands)				
Balance at December 31, 2017	$ 990	$ 4,393	$ 527	$ 204	$ 1,136	$ 130	$ 68	$ 7,448
Provision (credit) for loan losses	(184)	995	(41)	63	609	728	45	2,215
Loans charged-off	(25)	(12)	-	(23)	(97)	(229)	-	(386)
Recoveries	15	10	-	8	-	10	-	43
Balance at December 31, 2018	796	5,386	486	252	1,648	639	113	9,320
Provision (credit) for loan losses	(104)	1,080	(11)	(6)	1,886	628	20	3,493
Loans charged-off	-	-	-	-	(1,414)	(566)	-	(1,980)
Recoveries	47	124	-	29	2	211	-	413
Balance at December 31, 2019	$ 739	$ 6,590	$ 475	$ 275	$ 2,122	$ 912	$ 133	$ 11,246

	Residential Real Estate	Commercial & Multi-family Real Estate	Construction	HELOC & Second Mortgages	Commercial	Consumer	Unallocated	Total
December 31, 2019								
Allowance related to impaired loans	$ 104	$ 2	$ -	$ 1	$ 1	$ -	$ -	$ 108
Allowance related to non-impaired loans	635	6,588	475	274	2,121	912	133	11,138
Total allowance for loan losses	$ 739	$ 6,590	$ 475	$ 275	$ 2,122	$ 912	$ 133	$ 11,246
Impaired loans	$ 4,009	$ 4,492	$ -	$ 130	$ 190	$ 111	$ -	$ 8,932
Non-impaired loans	357,537	638,044	99,970	89,430	198,142	48,184	-	1,431,307
Total loans	$ 361,546	$ 642,536	$ 99,970	$ 89,560	$ 198,332	$ 48,295	$ -	$ 1,440,239
December 31, 2018								
Allowance related to impaired loans	$ 111	$ 1	$ -	$ 1	$ -	$ -	$ -	$ 113
Allowance related to non-impaired loans	685	5,385	486	251	1,648	639	113	9,207
Total allowance for loan losses	$ 796	$ 5,386	$ 486	$ 252	$ 1,648	$ 639	$ 113	$ 9,320
Impaired loans	$ 3,389	$ 5,547	$ -	$ 156	$ 788	$ -	$ -	$ 9,880
Non-impaired loans	353,922	520,268	84,466	78,602	197,808	96,429	-	1,331,495
Total loans	$ 357,311	$ 525,815	$ 84,466	$ 78,758	$ 198,596	$ 96,429	$ -	$ 1,341,375

LOANS (continued)

The following is a summary of information pertaining to impaired loans:

	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Mortgage loans on real estate:			
Residential	$ 2,683	$ 2,927	
Commercial and multi-family	4,022	4,226	
HELOC and second mortgages	105	109	
Consumer	111	158	
Commercial	64	76	
	6,985	7,496	
Impaired loans with a valuation allowance:			
Mortgage loans on real estate:			
Residential	1,326	1,326	$ 104
Commercial and multi-family	470	470	2
HELOC and second mortgages	25	25	1
Commercial	126	148	1
	1,947	1,969	108
Total	$ 8,932	$ 9,465	$ 108

	Year Ended December 31, 2019		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Mortgage loans on real estate:			
Residential	$ 3,209	$ 151	$ 51
Commercial and multi-family	4,692	246	89
HELOC and second mortgages	143	7	4
Commercial	1,120	29	12
Consumer	57	2	1
Total	$ 9,221	$ 435	$ 157

LOANS (continued)

	December 31, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Mortgage loans on real estate:			
Residential	$ 1,975	$ 2,576	
Commercial and multi-family	5,056	8,006	
HELOC and second mortgages	125	297	
Commercial	788	1,946	
	7,944	12,825	
Impaired loans with a valuation allowance:			
Mortgage loans on real estate:			
Residential	1,414	1,684	$ 111
Commercial and multi-family	491	2,290	1
HELOC and second mortgages	31	31	1
	1,936	4,005	113
Total	$ 9,880	$ 16,830	$ 113

	Year Ended December 31, 2018		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Mortgage loans on real estate:			
Residential	$ 3,802	$ 172	$ 43
Commercial and multi-family	7,514	380	123
Construction	70	3	-
HELOC and second mortgages	405	13	1
Commercial	1,126	50	36
Consumer	24	1	-
Total	$ 12,941	$ 619	$ 203

LOANS (continued)

The Company has no commitments to advance additional funds in connection with impaired loans at December 31, 2019.

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

	December 31, 2019					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Mortgage loans on real estate:						
Residential	$ 501	$ 961	$ 289	$ 1,751	$ -	$ 2,004
Commercial and multi-family	136	-	49	185	-	1,465
HELOC and second mortgages	231	20	-	251	-	47
Commercial	224	-	-	224	-	190
Consumer	494	804	665	1,963	-	747
Total	$ 1,586	$ 1,785	$ 1,003	$ 4,374	$ -	$ 4,453

	December 31, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Mortgage loans on real estate:						
Residential	$ 8	$ 297	$ 570	$ 875	$ -	$ 995
Commercial and multi-family	410	523	-	933	-	2,304
HELOC and second mortgages	214	-	50	264	-	50
Commercial	712	-	-	712	-	788
Consumer	757	286	658	1,701	-	658
Total	$ 2,101	$ 1,106	$ 1,278	$ 4,485	$ -	$ 4,795

Troubled debt restructures were not significant in 2019 and 2018.

Credit Quality Information

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

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

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

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

LOANS (concluded)

Credit Quality Information (concluded)

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

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

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

On a monthly basis, the Company reviews the residential real estate, HELOC and second mortgage, and consumer portfolios for credit quality primarily through the use of delinquency reports.

The following table presents the Company's loans by risk rating at December 31, 2019 and 2018:

	Commercial and Multi-family Real Estate	Commercial	Construction
		(In thousands)	
December 31, 2019			
Loans rated 1 - 6	$ 631,373	$ 190,316	$ 99,970
Loans rated 7	9,698	7,826	-
Loans rated 8	1,465	190	-
Loans rated 9	-	-	-
Loans rated 10	-	-	-
	$ 642,536	$ 198,332	$ 99,970
December 31, 2018			
Loans rated 1 - 6	$ 519,386	$ 197,460	$ 84,016
Loans rated 7	4,125	348	450
Loans rated 8	2,304	788	-
Loans rated 9	-	-	-
Loans rated 10	-	-	-
	$ 525,815	$ 198,596	$ 84,466

5. LOAN SALES AND SERVICING

The Company has transferred a portion of its originated commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, and remits payments to participating lenders. At December 31, 2019 and 2018, the Company was servicing loans for participants aggregating $31,248,000 and $34,041,000, respectively.

Additionally, in 2019, the Company transferred a portion of its originated manufactured loans to participating lenders. At December 31, 2019, the Company was servicing loans for participants aggregating $38,334,000, respectively. These loans are not included in the accompanying consolidated balance sheets.

Residential mortgage loans sold and serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of residential mortgage loans serviced for others totaled $524,191,000 and $413,395,000 at December 31, 2019 and 2018, respectively. Certain of these loans were sold with recourse provisions. At both December 31, 2019 and 2018, the related maximum contingent recourse liability amounted to $89,000, which is not recorded in the consolidated financial statements.

The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The balance of capitalized servicing rights, included in other assets at December 31, 2019 and 2018, was $4,188,000 and $2,802,000, respectively, and the fair value of these rights amounted to $4,583,000 and $3,134,000, respectively. The fair value of servicing rights was determined using a weighted average discount rate of 12.0% and 13.0% at December 31, 2019 and 2018, respectively, and annual prepayment speeds ranging from 8.5% to 18.0% as of December 31, 2019 and from 6.7% to 27.5% as of December 31, 2018. Mortgage servicing rights capitalized during the years ended December 31, 2019 and 2018 amounted to $2,367,000 and $905,000, respectively. Mortgage servicing rights amortization, included in miscellaneous income, during the years ended December 31, 2019 and 2018, amounted to $981,000 and $732,000, respectively.

For the years ended December 31, 2019 and 2018, contractually specified servicing fees included in miscellaneous income amounted to $1,215,000 and $983,000, respectively.

For the years ended December 31, 2019 and 2018, gains on sales of loans amounted to $10,600,000 and $3,235,000, respectively.

6. PREMISES AND EQUIPMENT

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

	December 31, 2019	December 31, 2018
	(In thousands)	
Premises:		
Land	$ 4,863	$ 4,863
Buildings	26,009	24,894
Leasehold improvements	12,941	9,192
Construction in progress	3,296	1,988
Equipment	13,294	10,929
	60,403	51,866
Less accumulated depreciation and amortization	(23,279)	(19,995)
	$ 37,124	$ 31,871

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 amounted to $3,377,000 and $3,154,000, respectively.

At December 31, 2019, construction in progress represents costs primarily incurred for construction at five new and existing branch locations and for the installation of solar panels at multiple branch locations. All of these projects are expected to be completed and placed in service in 2020. At December 31, 2019, there was $79,000 in outstanding commitments related to these projects.

7. OTHER INTANGIBLE ASSETS

Information pertaining to other intangible assets is as follows:

	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net Carrying Amount
December 31, 2019:			
Customer lists, acquired May 31, 2017	$ 645	$ 167	$ 478
Insurance agency customer lists, acquired 2003 through 2012	500	362	138
	$ 1,145	$ 529	$ 616
December 31, 2018:			
Customer lists, acquired May 31, 2017	$ 645	$ 102	$ 543
Insurance agency customer lists, acquired 2003 through 2012	500	313	187
	$ 1,145	$ 415	$ 730

At December 31, 2019, estimated amortization expense for identifiable intangible assets for the next five years and thereafter is as follows (in thousands):

Year Ending December 31,	
2020	$ 114
2021	114
2022	101
2023	64
2024	64
Thereafter	159
	$ 616

Amortization expense for the years ended December 31, 2019 and 2018 amounted to $114,000 and $331,000, respectively.

8. DEPOSITS

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

	December 31, 2019	December 31, 2018
	(In thousands)	
Demand deposits	$ 271,197	$ 273,748
NOW	209,516	183,911
Regular and other savings	224,790	210,463
Money market deposits	268,121	217,122
Total non-certificate accounts	973,624	885,244
Term certificates less than $250,000	336,552	337,319
Term certificates of $250,000 or more	105,610	86,570
Total certificate accounts	442,162	423,889
Total deposits	$ 1,415,786	$ 1,309,133

Brokered deposits included in term certificates at December 31, 2019 and 2018 amounted to $78,685,000 and $97,632,000, respectively.

A summary of term certificate accounts by maturity is as follows:

	December 31, 2019		December 31, 2018	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 310,973	2.09%	$ 308,453	1.88%
Over 1 year to 2 years	104,306	2.26	91,359	2.39
Over 2 years to 3 years	14,133	2.47	15,210	1.92
Over 3 years to 4 years	3,390	2.25	7,406	2.05
Over 4 years to 5 years	9,360	2.95	1,461	2.72
	$ 442,162	2.15%	$ 423,889	2.00%

9. BORROWINGS

Fixed-rate advances from the FHLB of Boston are as follows:

Maturing	Amount 2019	Amount 2018	Weighted Average Rate 2019	Weighted Average Rate 2018
	(In thousands)			
Within 1 year	$ 72,800	$ 80,050	1.77%	2.30%
Over 1 year to 2 years	25,000	25,000	2.14	1.61
Over 2 years to 3 years	20,000	25,000	2.22	2.14
Over 3 years to 4 years	15,000	20,000	2.30	2.22
Over 4 years to 5 years	-	15,000	-	2.30
Over 5 years	5,000	5,000	4.11	4.11
Amortizing advances maturing 2022-2033	8,063	11,107	2.17	2.13
	$ 145,863	$ 181,157	2.05%	1.86%

At December 31, 2019, amortizing advances require monthly principal and interest payments of $271,000.

The Company has an available line of credit with the FHLB at an interest rate that adjusts daily. At December 31, 2019 and 2018, borrowings under the line were limited to $6,996,000. There were no advances outstanding on the line as of December 31, 2019 and 2018. Borrowings from the FHLB are secured by a blanket lien on first mortgage loans on owner-occupied residential property, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property as well as $96,381,000 in commercial and multifamily and $30,546,000 in HELOC and second mortgages as of December 31, 2019.

The Company also has available unsecured lines of credit with correspondent banks at interest rates that adjust daily. At December 31, 2019 and 2018, the Company has borrowing capacity of $69,000,000 and $39,000,000, respectively and no advances were outstanding under these lines of credit.

In 2019, the Company entered into an agreement with the American Financial Exchange, LLC (AFX) that enables the Company access to unsecured overnight borrowings with various counterparties. At December 31, 2019, the Company had a credit limit of $50,000,000 and $20,000,000 in outstanding borrowings with a rate of 1.61%.

10. SUBORDINATED DEBT

On November 28, 2017, the Company issued subordinated debt (the "2017 Debt") in a private placement offering in the principal amount of $25,000,000. In connection with the issuance of the 2017 Debt, the Company incurred $734,000 in issuance costs that were recorded as a discount to the 2017 Debt and are amortized, using the straight line method, over the life of the 2017 Debt.

The 2017 Debt accrues interest at 5.875% per annum for the first five years. From and including December 15, 2022, to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 375 basis points. Interest on the 2017 Debt will be payable semi-annually on June 15 and December 15 of each year through December 15, 2022, and quarterly thereafter on March 15, June 15, September 15 and December 15 of each year through the maturity date or early redemption date. The 2017 Debt matures on December 15, 2027, but may be redeemed on any scheduled interest payment date beginning on December 15, 2022 and thereafter by the Company, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2017 Debt to be redeemed plus accrued and unpaid interest.

On July 21, 2016, the Company issued subordinated debt (the "2016 Debt") in a private placement offering in the principal amount of $19,750,000. In connection with the issuance of the 2016 Debt, the Company incurred $527,000 in issuance costs that were recorded as a discount to the 2016 Debt and are amortized, using the straight line method, over the life of the 2016 Debt.

The 2016 Debt accrues interest at 6.50% per annum for the first five years. From and including July 30, 2021, to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month LIBOR rate plus 543.5 basis points. Interest on the 2016 Debt will be payable semi-annually on January 30 and July 30 of each year through July 30, 2021, and quarterly thereafter on January 30, April 30, July 30, and October 30, of each year through the maturity date or early redemption date. The 2016 Debt matures on July 30, 2026, but may be redeemed on any scheduled interest payment date beginning on July 30, 2021 and thereafter by the Company, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2016 Debt to be redeemed plus accrued and unpaid interest.

During both the years ended December 31, 2019 and 2018, interest expense included $252,000 in amortization of issuance costs.

Under the applicable capital rules of the Federal Reserve Bank, the 2017 Debt and 2016 Debt qualify as Tier 2 capital for the Bank subject to certain restrictions.

11. INCOME TAXES

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

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Current tax provision:		
Federal	$ 564	$ 1,690
State	424	905
	988	2,595
Deferred tax provision (benefit):		
Federal	1,843	(629)
State	815	(320)
	2,658	(949)
Total tax provision	$ 3,646	$ 1,646

The reasons for the differences between the statutory federal income tax provision and the provision for income taxes are summarized as follows:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Statutory federal tax amount at 21%	$ 3,238	$ 1,712
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	980	462
Dividends received deduction	(112)	(109)
Tax exempt municipal income and increases in cash surrender value of life insurance	(365)	(401)
Tax exempt gain on donated stock	(42)	(28)
Tax credits	(38)	(24)
Other, net	(15)	34
Provision for income taxes	$ 3,646	$ 1,646

INCOME TAXES (continued)

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

	December 31,	
	2019	2018
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,161	$ 2,620
Employee benefit plans	-	1,680
Impairment losses on securities available for sale	176	231
Defined benefit pension plan - deferred actuarial losses	4,240	3,931
Depreciation and amortization	423	502
Customer relationship intangible	138	189
Derivatives	240	-
Accrued expenses	385	45
Other, net	358	140
	9,121	9,338
Deferred tax liabilities:		
Employee benefit plans	(506)	-
Gain on marketable equity securities	(2,179)	-
Net unrealized gain on securities available for sale	(148)	(508)
Investment in limited partnerships	(218)	(231)
Deferred gain	(833)	(160)
Mortgage servicing rights	(1,178)	(788)
Net deferred loan costs	(330)	(1,489)
	(5,392)	(3,176)
Net deferred tax asset	$ 3,729	$ 6,162

INCOME TAXES (continued)

A summary of the change in the net deferred tax asset is as follows:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Balance at beginning of year	$ 6,162	$ 2,318
Deferred tax (provision) benefit	(2,658)	949
Changes reflected in other comprehensive income/loss:		
Defined benefit pension plan	309	848
Derivatives	240	-
Securities available for sale	(324)	2,047
Balance at end of year	$ 3,729	$ 6,162

The federal income tax reserve for loan losses at the Bank's base year amounted to $2,924,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the year in which used. As the Bank intends to use the reserve only to absorb loan losses, a deferred tax liability of $822,000 has not been provided.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended October 31, 2016 through December 31, 2019. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2016 are open.

12. OTHER COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding commitments which are not reflected in the accompanying consolidated financial statements.

Loan commitments

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

The Company's exposure to credit loss is represented by the contractual amount of the commitments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
	(In thousands)	
Commitments to grant loans	$ 100,345	$ 29,162
Unadvanced funds on construction loans	61,784	66,744
Unadvanced funds on home equity lines of credit	71,846	63,705
Unadvanced funds on commercial loans and lines of credit	107,619	91,442
Standby letters of credit	1,872	2,609

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. The commitments for lines of credit may expire without being drawn upon. Therefore, 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. Funds disbursed under commitments to grant loans, construction loans and home equity lines of credit are primarily secured by real estate, and commercial loans and lines of credit are generally secured by business assets.

OTHER COMMITMENTS AND CONTINGENCIES (continued)

Loan commitments (concluded)

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Standby letters of credit are generally collateralized by real estate and business assets.

In addition, at December 31, 2019, mortgage loans with principal balances totaling $7,053,000 and commercial loans with principal balances totaling $6,723,651 were transferred to loans held for sale as a result of commitments to sell such loans to investors.

Lease commitments

Pursuant to the terms of non-cancellable lease agreements in effect at December 31, 2019, future minimum rent commitments for premises are as follows:

Year Ending December 31,	Amount (In thousands)
2020	1,137
2021	989
2022	910
2023	789
2024	807
Thereafter	7,283
	$ 11,915

The leases for premises contain options to extend for periods up to twenty years, the cost of which are not included above.

Rent expense for the years ended December 31, 2019 and 2018 amounted to $1,520,000 and $1,208,000, respectively.

Employment agreements

The Company has entered into employment agreements with several employees of Priority Funding that generally provide for a specified minimum annual compensation and the continuation of benefits from the date of execution of the agreements. The agreements also include a non-compete clause that prevents these employees from competing with Priority Funding for a period of five years after separation of service. The expiration dates of the Priority Funding agreements are through September 2022.

OTHER COMMITMENTS AND CONTINGENCIES (concluded)

Other contingencies

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

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Risk Management - Cash Flow Hedging Instruments

The Company uses short-term funding sources, such as FHLB advances and brokered deposits, to fund the Company's lending and investment activities and other general business purposes. These instruments expose the Company to variability in interest payments due to changes in interest rates when the short-term funding rolls over. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, generally hedges a portion of its variable interest payments. To meet this objective, management enters into interest rate swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments. Management intends on rolling over the short-term funding sources through the term of the interest rate swap agreements.

Information pertaining to outstanding interest rate swap agreements designated as cash flow hedges is as follows:

	December 31,	
	2019	2018
	(Dollars in thousands)	
Notional amount	$ 45,000	$ 45,000
Weighted average pay rate	2.56%	2.56%
Weighted average receive rate	2.32%	2.43%
Weighted average remaining term in years	2.1	3.1
Unrealized loss relating to interest rate swap	$ (854)	$ (14)

These agreements provide for the Company to receive payments at a variable rate determined by a specified index (three-month LIBOR) in exchange for making payments at a fixed rate plus a set spread.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management – Non-Hedging Derivatives

The Company manages a matched book with respect to its interest rate derivative instruments provided to customers in order to minimize its net risk exposure from such transactions.

The Company executes interest rate swaps with certain commercial banking customers to facilitate their respective risk management strategies. These interest rate swaps are simultaneously offset with interest rate swaps that the Company executes with a third party, thereby minimizing its net risk exposure resulting from such transactions. These derivatives are not designated as hedges. Changes in the fair value of both the customer swaps and the offsetting interest rate swaps are recognized directly in earnings. During the years ended December 31, 2019 and 2018, the Company recognized no net holding gain or loss related to such derivatives.

The Company has agreements with its interest rate swap derivative counterparties that contain a provision whereby if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations.

If the Company had breached any of these provisions, it would have been required to settle its obligations under the agreements at the termination value. In addition, the Company had cross-default provisions with its commercial customer loan agreements which provide cross-collateralization with the customer loan collateral.

The Company has minimum collateral posting thresholds with certain of its interest rate swap derivative counterparties. At December 31, 2019 and 2018, respectively, collateral of $2,420,000 and $540,000 was pledged to the Company by its counterparties.

At December 31, 2019 and 2018, the following forward interest rate swaps were outstanding:

	2019		2018	
	With commercial loan borrowers	With third-party financial institutions	With commercial loan borrowers	With third-party financial institutions
	(Dollars in thousands)			
Notional amount	$ 23,383	$ 23,383	$ 16,900	$ 16,900
Weighted average rate	4.7%	(4.7%)	5.1%	(5.1%)
Weighted average remaining term	5.8 years	5.8 years	7.3 years	7.3 years
Unrealized fair value gain (loss)	$ 1,560	$ (1,560)	$ 730	$ (730)

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

The variable rate component of these agreements is set at a variable rate plus the prevailing three-month LIBOR rate.

Risk Participation Agreements

In 2019, the Company entered into three risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which the Company is a participant. The risk participation agreements provide credit protection to the financial institution should the borrower fail to perform on its interest rate derivative contract with the financial institution.

The notional amount of risk participation agreements was $22,104,000 as of December 31, 2019. There were no fair value adjustments from risk participation agreements at December 31, 2019.

Mortgage Banking Derivatives-Interest rate lock commitments

The Company enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Company to lend funds to a potential borrower at a specified interest rate and within a specified period of time.

Outstanding interest rate lock commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of rate-locked mortgage loan commitments at December 31, 2019 and 2018 was $30,864,000 and $17,460,000, respectively, with a fair value asset of $687,000 and $317,000, respectively.

Mortgage Banking Derivatives - Forward loan sale commitments

The Company utilizes best efforts and mandatory delivery forward loan sale commitments to mitigate the risk of potential decreases in the values of loans held for sale and loans that would result from the exercise of the derivative loan commitments. With a mandatory delivery contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (concluded)

Mortgage Banking Derivatives - Forward loan sale commitments (concluded)

If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall. With best efforts commitments, the Company commits to deliver an individual mortgage loans of a specified principal amount and quality to an investor if the underlying loan closes. Generally, the price the investor will pay is specified prior to the loan being funded. The notional amount of forward loan sale commitments at December 31, 2019 and 2018, was $21,696,000 and $17,876,000, respectively, with a fair value liability of $251,000 and $178,000, respectively.

14. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. Management believes that the Company's capital levels will remain characterized as "well-capitalized" and will exceed the conservation buffer throughout the phase-in periods.

As of December 31, 2019, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

To be categorized as well capitalized, an institution must maintain minimum capital ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

Management believes, as of December 31, 2019 and 2018, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

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

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2019:						
Total capital to risk-weighted assets:						
Consolidated	$ 170,608	11.3%	$ 121,200	8.0%	N/A	N/A
Bank	168,160	11.1	121,156	8.0	$ 151,400	10.0%
Common equity tier 1 capital to risk-weighted assets:						
Consolidated	115,207	7.6	68,175	4.5	N/A	N/A
Bank	156,914	10.4	68,151	4.5	98,410	6.5
Tier 1 capital to risk-weighted assets:						
Consolidated	115,207	7.6	90,900	6.0	N/A	N/A
Bank	156,914	10.4	90,867	6.0	121,120	8.0
Tier 1 capital to average assets:						
Consolidated	115,207	6.6	69,277	4.0	N/A	N/A
Bank	156,914	8.8	71,148	4.0	88,934	5.0
December 31, 2018:						
Total capital to risk-weighted assets:						
Consolidated	$ 155,873	11.2%	$ 111,767	8.0%	N/A	N/A
Bank	154,622	11.1	111,678	8.0	$ 139,598	10.0%
Common equity tier 1 capital to risk-weighted assets:						
Consolidated	101,567	7.3	62,869	4.5	N/A	N/A
Bank	144,219	10.3	62,819	4.5	90,739	6.5
Tier 1 capital to risk-weighted assets:						
Consolidated	101,567	7.3	83,825	6.0	N/A	N/A
Bank	144,219	10.3	83,759	6.0	111,678	8.0
Tier 1 capital to average assets:						
Consolidated	101,567	6.2	65,145	4.0	N/A	N/A
Bank	144,219	8.9	65,105	4.0	81,381	5.0

15. EMPLOYEE BENEFIT PLANS

Defined benefit pension plan

The Company provides basic and supplemental pension benefits for eligible employees through a defined benefit pension plan. Each employee reaching the age of 21 and having completed at least 1,000 hours of service in one twelve-month period beginning with such employee's date of employment, or any anniversary thereof, automatically becomes a participant in the retirement plan. All participants with three years of service are fully vested. Information pertaining to the activity in the plan is as follows:

	Years Ended December 31,	
	2019	2018
	(In thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 41,787	$ 39,514
Service cost	2,465	2,229
Interest cost	1,683	1,419
Actuarial loss (gain)	7,713	(360)
Benefits paid	(2,378)	(1,015)
Benefit obligation at end of year	51,270	41,787
Change in plan assets:		
Fair value of plan assets at beginning of year	32,648	35,220
Actual return (loss) on plan assets	8,935	(1,557)
Employer contribution	11,000	-
Benefits paid	(2,378)	(1,015)
Fair value of plan assets at end of year	50,205	32,648
Funded status and pension liability at end of year	$ 1,065	$ 9,139
Accumulated benefit obligation at end of year	$ 42,005	$ 34,320

Actuarial assumptions used to determine the projected benefit obligation are as follows:

	December 31,	
	2019	2018
Discount rate	3.50%	4.25%
Rate of compensation increase	3.00	3.00

EMPLOYEE BENEFIT PLANS (continued)

Defined benefit pension plan (continued)

The components of net periodic pension cost are as follows:

	Years Ended December 31, 2019	2018
	(In thousands)	
Service cost	$ 2,465	$ 2,229
Interest cost	1,683	1,419
Expected return on plan assets	(3,282)	(2,685)
Recognized net actuarial loss	1,012	783
	$ 1,878	$ 1,746

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

Actuarial assumptions used to determine net periodic pension cost are as follows:

	Years Ended December 31, 2019	2018
Discount rate	4.25%	3.75%
Expected long-term rate of return on plan assets	8.00	8.00
Annual salary increase	3.00	3.00

The discount rate was selected to reflect the expected long-term rate of return based on prevailing yields on high quality fixed income investments. The expected long-term rate of return on plan assets is based on prevailing yields on high quality fixed income investments increased by a premium of 3% to 5% for equity securities.

EMPLOYEE BENEFIT PLANS (continued)

Defined benefit pension plan (continued)

The Company, through its Investment Committee, selected Plimoth Investment Advisors as the defined benefit plan's investment manager and custodian. An Investment Policy Statement was approved which is consistent with the provisions of the Employee Retirement Income Security Act (ERISA). The policy is also consistent with Modern Portfolio Theory practices, which requires sufficient levels of diversification to promote maximum investment return per unit of risk taken. The policy is not only designed to diversify market and security risk, but also inflation risk which can deteriorate the value of capital over time. The policy sets a strategic asset allocation mix between stocks, bonds and other diversifying assets, along with allowable ranges within each asset class. The policy also includes permitted and prohibited asset classes and security types, along with setting minimum asset quality parameters. The target allocation mix for the portfolio calls for an equity-based investment deployment range of 45% to 75% of total portfolio assets. The remainder of the portfolio is allocated to fixed income investments from 20% to 40% and other investments from 0% to 10%.

In establishing the above referenced Investment Policy, Plimoth has worked with the Company to create a level of expectation on behalf of the Company as to the prudent management of plan assets, monitoring of plan assets/holdings, evaluating management of the plan and communicating plan activity.

Plimoth Investment Advisors, in its role as Investment Manager, provides input as to the appropriate asset allocation, time horizon, and risk profile. Utilizing their investment discipline and security selection processes, Plimoth shall manage the assets in accordance with the Investment Policy Statement and shall report on investment performance and other matters impacting the effective management of plan assets. The overall investment return objective should emphasize both a total return in excess of established benchmarks and lower aggregate portfolio volatility. This shall be conducted in a manner consistent with all parameters of the Investment Policy Statement.

EMPLOYEE BENEFIT PLANS (continued)

The fair value of the Company's pension plan assets are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
December 31, 2019				
Corporate bonds	$ -	$ 7,822	$ -	$ 7,822
Equity securities	26,942	-	-	26,942
Mutual funds	11,435	-	-	11,435
Other	4,006	-	-	4,006
Total plan assets	$ 42,383	$ 7,822	$ -	$ 50,205
December 31, 2018				
Corporate bonds	$ -	$ 5,361	$ -	$ 5,361
Equity securities	17,916	-	-	17,916
Mutual funds	6,297	-	-	6,297
Other	3,074	-	-	3,074
Total plan assets	$ 27,287	$ 5,361	$ -	$ 32,648

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Plan assets measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

Year Ending December 31,	Amount (In thousands)
2020	$ 4,197
2021	4,183
2022	3,990
2023	2,333
2024	3,244
2025-2029	12,757

EMPLOYEE BENEFIT PLANS (continued)

In January 2020, the Company contributed $5,000,000 to the pension plan.

401(k) plan

The Company has a 401(k) savings plan, which provides for voluntary contributions by participating employees as allowed by federal tax laws. Under the terms of the plan, an employee is eligible for the Company's Safe Harbor contribution of 3% of the employee's compensation after one year of service and a minimum of 1,000 hours. Total 401(k) plan expense for the years ended December 31, 2019 and 2018 amounted to $958,000 and $805,000, respectively.

Nonqualified deferred compensation plan

During 2019, the Company adopted a nonqualified executive deferred compensation plan, which provides for a select group of management or highly compensated employees to participate in the plan and make voluntary pre-tax contributions, which are 100% vested. Under the terms of the plan, the Company can make discretionary contributions, which vest ratably over 5 years. The corresponding invested assets are held in Rabbi Trusts which are included in other assets on the consolidated balance sheets. For the year ended December 31, 2019, the Company's expense amounted to $418,000.

Supplemental executive retirement plan

The Company has a Supplemental Executive Retirement Plan which provides for certain of the Company's executives to receive monthly benefits upon retirement, subject to certain limitations as set forth in the Plan. The present value of these future benefits is accrued over the executives' terms of employment and the expense for the years ended December 31, 2019 and 2018 amounted to $934,000 and $442,000, respectively.

Supplemental director retirement plan

The Company has adopted an unfunded Supplemental Director Retirement Plan which provides for all the Company's Directors to receive annual benefits upon retirement, subject to certain limitations set forth in the Plan.

At December 31, 2019 and 2018, the projected benefit obligation and accumulated benefit obligation amounted to $1,466,000 and $1,397,000, respectively.

EMPLOYEE BENEFIT PLANS (concluded)

Supplemental director retirement plan (concluded)

The discount rates used in determining the projected benefit obligation at December 31, 2019 and 2018 were 2.80% and 3.85%, respectively. The fee inflation assumption used to determine the projected benefit obligation at December 31, 2019 and 2018 was 2.00%.

For the years ended December 31, 2019 and 2018, both employer contributions and benefits paid amounted to $179,000 and $131,000, respectively, and net periodic retirement costs amounted to $201,000 and $226,000, respectively. The discount rate used in determining net periodic pension cost for the years ended December 31, 2019 and 2018 was 3.85% and 3.25%, respectively.

Projected benefit payments, which reflect expected future service, as appropriate, are as follows:

Year Ending December 31,	Amount (In thousands)
2020	$ 114
2021	210
2022	144
2023	121
2024	143
2025-2028	689

Split-dollar life insurance agreements

In connection with the supplemental retirement plans, the Company has purchased life insurance policies applicable to certain executive officers and directors included in the aforementioned plans. The policies are reflected on the consolidated balance sheets at cash surrender value. Increases in cash surrender value are reflected in other income in the consolidated statements of net income. The Company is the sole owner of these life insurance policies. The Company has entered into agreements with these executives and directors whereby the Company will pay to the executives and directors' estates or beneficiaries a portion of the death benefit that the Company will receive as beneficiary of such policies. The cost of these agreements is being accrued over the respective service periods.

16. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of fair value

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

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial and non-financial instruments measured at fair value on a recurring and non-recurring basis:

Marketable equity securities and securities available for sale – Fair value measurements are obtained from a third-party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. There were no securities measured at fair value in Level 3.

Loans held for sale – Fair values are based on commitments in effect from investors or prevailing market prices.

Impaired loans – Fair values for collateral dependent loans are based on the appraised value of the underlying collateral considering discounting factors, if deemed appropriate, and adjusted for selling costs. Current appraisals are obtained when it is determined that the Company is considering foreclosure. In instances where a current appraisal is not obtained, the most recent appraisal may be discounted based on management's historical knowledge, expertise or changes in market conditions from time of valuation. Given the significance of management's judgement in discounting the appraisals, these are considered level 3 fair value measurements.

Interest rate swap agreements – The fair values of interest rate swap agreements are based on a valuation model that uses primarily observable inputs, such as benchmark yield curves and interest rates and also include the value associated with counterparty credit risk.

FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Assets and liabilities measured at fair value on a recurring basis

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

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2019		(In thousands)		
Assets:				
Securities available for sale	$ -	$ 97,994	$ -	$ 97,994
Marketable equity securities	40,525	-	-	40,525
Loans held for sale	-	31,629	-	31,629
Interest rate swap agreements	-	-	1,560	1,560
	$ 40,525	$ 129,623	$ 1,560	$ 171,708
Liabilities:				
Interest rate swap agreements	$ -	$ -	$ 2,414	$ 2,414
December 31, 2018				
Assets:				
Securities available for sale:				
Debt securities	$ -	$ 142,182	$ -	$ 142,182
Equity securities	37,346	-	-	37,346
Loans held for sale	-	9,650	-	9,650
Interest rate swap agreements	-	-	730	730
	$ 37,346	$ 151,832	$ 730	$ 189,908
Liabilities:				
Interest rate swap agreements	$ -	$ -	$ 744	$ 744

FAIR VALUE OF ASSETS AND LIABILITIES (concluded)

Assets and liabilities measured at fair value on a non-recurring basis (concluded)

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

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 23, 2020, which is the date the consolidated financial statements were available to be issued. On March 10, 2020, the Company entered into an agreement to purchase a building for $1,700,000 for a potential new branch location. There were no additional subsequent events that require adjustment to or disclosure in the consolidated financial statements, other than the employer defined benefit contribution disclosed in Note 15.

Narragansett Financial Corp. and Subsidiary

Consolidating Balance Sheet
December 31, 2019
(in thousands)

Assets	BayCoast Mortgage	Priority Funding	BayCoast Bank	Other Subsidiaries	Eliminating Entries	Consolidated BayCoast Bank	Narragansett Financial	Eliminating Entries	Consolidated Narragansett Financial
Cash and cash equivalents	$ 21,260	$ 5,750	18,456	48,180	(73,503)	20,144	123	(123)	20,144
Securities available for sale, at fair value	-	-	68,879	28,945	-	97,824	170	-	97,994
Marketable equity securities	-	-	39,035	1,490	-	40,525	-		40,525
Borrowings	-	-	7,329	-	-	7,329	-	-	7,329
Loans held for sale	-	-	31,629	-	-	31,629	-	-	31,629
Loans, net	19,648	35	1,426,993	-	(16,530)	1,430,146	-	-	1,430,146
Bank-owned life insurance	-	-	29,155	-	-	29,155	-	-	29,155
Premises and equipment, net	393	189	33,338	3,204	-	37,124	-	-	37,124
Accrued interest receivable	-	-	4,366	72	-	4,438	2	-	4,440
Net deferred tax asset	-	-	3,898	(169)	-	3,729	-	-	3,729
Goodwill and other intangible assets	-	83	19,093	5,716	(4,700)	20,192	-	-	20,192
Other assets	-	10,675	68,887	1,296	(21,812)	59,046	506	1,356	60,908
Investment in subsidiaries	-	-	88,884	-	(88,884)	-	177,789	(177,789)	-
	$ 41,301	$ 16,732	$ 1,839,942	$ 88,734	$ (205,429)	$ 1,781,281	$ 178,590	$ (176,556)	$ 1,783,315
Liabilities and Retained Earnings									
Deposits	-	-	1,489,085	-	(73,175)	1,415,910	-	(124)	1,415,786
Borrowings	-	-	165,863	-	-	165,863	-	-	165,863
Subordinated debt	-	-	-	-	-	-	44,155	-	44,155
Warehouse line of credit	16,327	203	-	-	(16,530)	-	-	-	-
Other liabilities	22,871	11,420	18,991	6,586	(26,840)	33,028	(1,647)	1,357	32,738
Total liabilities	39,198	11,623	1,673,939	6,586	(116,545)	1,614,801	42,508	1,233	1,658,542
Commitments and contingencies (Notes 5 and 12)									
Retained earnings	2,103	5,109	177,120	81,656	(88,884)	177,105	136,082	(177,789)	135,398
Accumulated other comprehensive loss	-	-	(11,117)	52	-	(11,065)	-	-	(11,065)
Total retained earnings of Narragansett Financial Corp. and Subsidiary	2,103	5,109	166,003	81,708	(88,884)	166,040	136,082	(177,789)	124,333
Non-controlling interest in subsidiary	-	-	-	440	-	440	-	-	440
	2,103	5,109	166,003	82,148	(88,884)	166,480	136,082	(177,789)	124,773
	$ 41,301	$ 16,732	$ 1,839,942	$ 88,734	$ (205,429)	$ 1,781,281	$ 178,590	$ (176,556)	$ 1,783,315

Narragansett Financial Corp. and Subsidiary

Consolidating Statement of Net Income
Year Ended December 31, 2019
(in thousands)

	BayCoast Mortgage	Priority Funding	BayCoast Bank	Other Subsidiaries	Eliminating Entries	Consolidated BayCoast Bank	Narragansett Financial	Eliminating Entries	Consolidated Narragansett Financial
Interest and dividend income:									
Interest and fees on loans	$ 493	$ 22	$ 65,134	$ -	$ (317)	$ 65,332	$ -	$ -	65,332
Interest on debt securities	-	-	3,415	1,055	-	4,470	3	-	4,473
Dividend income	-	-	1,731	33	-	1,764	-	-	1,764
Interest on cash equivalents	-	-	134	-	-	134	-	-	134
Total interest and dividend income	493	22	70,414	1,088	(317)	71,700	3	-	71,703
Interest expense:									
Interest on deposits	-	-	14,772	-	(101)	14,671	-	-	14,671
Interest on borrowings	-	-	3,919	-	-	3,919	-	-	3,919
Interest on subordinated debt	-	-		-	-	-	3,005	-	3,005
Total interest expense	-	-	18,691	-	(101)	18,590	3,005	-	21,595
Net interest income	493	22	51,723	1,088	(216)	53,110	(3,002)	-	50,108
Provision for loan losses	-	-	3,493	-	-	3,493	-	-	3,493
Net interest income, after provision for loan losses	493	22	48,230	1,088	(216)	49,617	(3,002)	-	46,615
Other income:									
Customer service fees	-	-	7,845		-	7,845	-	-	7,845
Trust department fees	-	-	-	4,754	-	4,754	-	-	4,754
Insurance and brokerage commissions	-	69	801	4,678	-	5,548	-	-	5,548
Gain on securities available for sale, net	-	-	315	63	-	378	-	-	378
Gain on marketable equity securities, net	-	-	8,762	265	-	9,027	-	-	9,027
Gain (loss) on loans, net	9,413	3,577	(1,747)	-	-	11,243	-	-	11,243
Bank-owned life insurance income	-	-	785	-	-	785	-	-	785
Miscellaneous	-	8	726	13	-	747	-	-	747
Total other income	9,413	3,654	17,487	9,773	-	40,327	-	-	40,327
Operating expenses:									
Salaries and employee benefits	7,465	1,971	31,087	6,896	-	47,419	68	-	47,487
Occupancy and equipment	504	111	8,927	594	-	10,136	-	-	10,136
Professional fees	103	31	1,892	190	-	2,216	4	-	2,220
Data processing	398	4	2,517	45	-	2,964	-	-	2,964
Advertising costs	148	53	1,448	38	-	1,687	-	-	1,687
Deposit insurance	-	-	725	-	-	725	-	-	725
Amortization of intangible assets	-	-	-	115	-	115	-	-	115
Other general and administrative	170	(210)	5,453	670	-	6,083	-	-	6,083
Total operating expenses	8,788	1,960	52,049	8,548	-	71,345	72	-	71,417
Income (loss) before income taxes	1,118	1,716	13,668	2,313	(216)	18,599	(3,074)	-	15,525
Provision (benefit) for income taxes	-	-	4,402	162	-	4,564	(918)	-	3,646
Net income (loss)	1,118	1,716	9,266	2,151	(216)	14,035	(2,156)	-	11,879
Net income attributed to non-controlling interest in subsidiary	-	-	-	105	-	105	-	-	105
Net income (loss) attributed to Narragansett Financial Corp. and Subsidiary	$ 1,118	$ 1,716	$ 9,266	$ 2,046	$ (216)	$ 13,930	$ (2,156)	$ -	$ 11,774