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, Salwa B. Kaldas
Name of the Holding Company Director and Official

EVP, CFO & Treasurer
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/14/2022
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______________________
C.I. ______________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2021
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

1854 Bancorp
Legal Title of Holding Company

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

City	State	Zip Code
Cambridge	MA	02141

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Salwa B. Kaldas	EVP, CFO & Treasurer

617-551-2370
Area Code / Phone Number / Extension

617-551-2584
Area Code / FAX Number

skaldas@ecsb.com
E-mail Address

www.ecsb.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.

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

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

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

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

Physical Location (if different from mailing address)

FORM FR Y-6
1854 Bancorp
Fiscal Year Ending December 31, 2021

List of Attachments

Report Item 1.	Not Applicable - Box checked on FR Y-6
Report Item 2a.	Organizational Chart
Report Item 2b.	Domestic Branch Listing
Report Item 3.	Securities Holders - Multi-tiered Holding Company Reports - NA
Report Item 4.	Insiders - Multi-tiered Holding Company Reports

Form FR Y-6

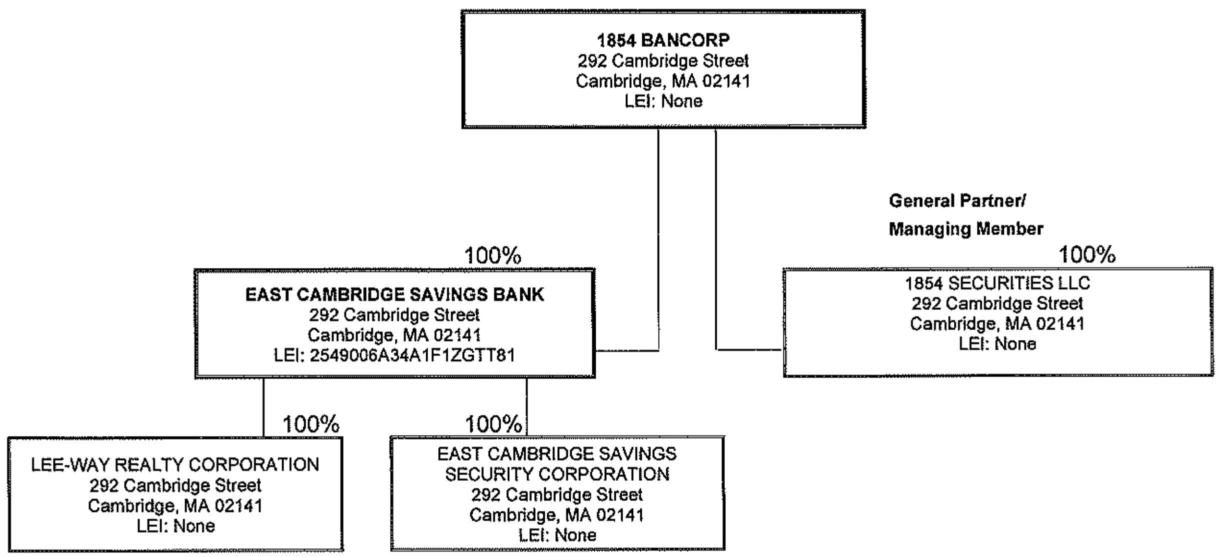
1854 Bancorp
Cambridge, Massachusetts
Fiscal Year Ending December 31, 2021

Report Item

1. The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, a copy is enclosed.

2a. Organizational Chart

All Entities Incorporated in Massachusetts



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

Results: A list of branches for your depository institution: EAST CAMBRIDGE SAVINGS BANK (ID_RSSD: 738303).
This depository institution is held by 1854 BANCORP (4459820) of CAMBRIDGE, MA.
The data are as of 12/31/2021. Data reflects information that was received and processed through 01/12/2022.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	738303	EAST CAMBRIDGE SAVINGS BANK	292 CAMBRIDGE STREET	CAMBRIDGE	MA	02141	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	3543179	BROADWAY BRANCH	105 BROADWAY	ARLINGTON	MA	02474	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	2638153	BELMONT BRANCH	395 TRAPELO ROAD	BELMONT	MA	02478	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	1392739	CAMBRIDGE RINDGE AND LATIN HIGH SCHOOL BRANCH	459 BROADWAY	CAMBRIDGE	MA	02138	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	790404	INMAN OFFICE	1310 CAMBRIDGE STREET	CAMBRIDGE	MA	02139	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	170976	CHELSEA MAIN OFFICE	360 BROADWAY	CHELSEA	MA	02150	SUFFOLK	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	5432950	MALDEN BANKING CENTER	98 PLEASANT STREET	MALDEN	MA	02148	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	3617771	SALEM STREET BRANCH	243 SALEM STREET	MEDFORD	MA	02155	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	4774701	WEST MEDFORD BANKING CENTER	9 PLAYSTEAD ROAD	MEDFORD	MA	02155	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	852601	HIGHLAND BRANCH	285 HIGHLAND AVENUE	SOMERVILLE	MA	02143	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	
OK		Full Service	3121214	860 LEXINGTON STREET BRANCH	860 LEXINGTON STREET	WALTHAM	MA	02452	MIDDLESEX	UNITED STATES	Not Required	Not Required	EAST CAMBRIDGE SAVINGS BANK	738303	

FORM FR Y-6
1854 Bancorp
Fiscal Year Ending December 31, 2021

Report Item 3: Securities Holders

Not Applicable

1854 Bancorp
Fiscal Year Ending December 31, 2021

Report Item 4: Insiders

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with 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 Holding Company	(4)(b) Percentage of voting Shares in Subsidiaries	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held
Gilda M. Nogueira, Medford, MA, USA	N/A	President & CEO, Board of Trustees	President & CEO, Board of Directors, East Cambridge Savings Bank; Manager, 1854 Securities LLC.	N/A	None	None	N/A
Gisela L. Margotta, Boston, MA, USA	N/A	Senior Vice President	EVP - CRO East Cambridge Savings Bank	N/A	None	None	N/A
Salwa B. Kaldas, Reading MA, USA	N/A	SVP - Chief Financial Officer & Treasurer	EVP - CFO & Treasurer, East Cambridge Savings Bank	N/A	None	None	N/A
Joseph A. Amoroso, Jr., Cambridge, MA, USA	Attorney	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Associate Attorney - August & Simmons	None	None	N/A
Charles Aufiero, Cambridge, MA, USA	Donovan-Aufiero Funeral Home	Board of Trustees	Board of Directors, East Cambridge Savings Bank	General Partner - Donovan-Aufiero Funeral Home	None	None	Donavan Aufiero Funeral Home 100%
Richard A. Bentubo, Cambridge, MA, USA	Boston College	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Facilities Manager - Boston College	None	None	N/A
Stephanie M. Burke, CPA, Medford, MA, USA	Mystic Valley YMCA	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Chief Strategy Officer	None	None	N/A
Thomas G. Burke, Stoneham, MA, USA	Retired	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Retired	None	None	N/A
Susan M. Flannery, Cambridge, MA, USA	Retired	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Retired	None	None	N/A
Susan E. Gallant	CPA	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Owner - Susan E. Gallant, CPA,	None	None	Susan E. Gallant, CPA 100%
Sergio M. Jaramillo, Chelsea, MA, USA	Broadway Jewelers	Board of Trustees	Board of Directors, East Cambridge Savings Bank	President & CEO, Broadway Jewelers	None	None	Broadway Jewelers 100%
				President & CEO, SEJ, Inc.	None	None	SEJ, LLC 49%
				Owner, Liberty Loan Company, Inc	None	None	Liberty Loan Company, Inc 100%
				Clerk & Secretary, Lyla Properties, LLC	None	None	Lyla Properties, LLC 49%

Name, City, State, Country	Principal Occupation if other than with Holding Company	Title & Position with Holding Company	Title & Position with Subsidiaries (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of voting Shares in Subsidiaries	List names of other companies (includes partnerships) if 25% or more of voting securities are held
Ronald A. Layne, Brockton, MA, USA	Retired	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Security Officer, Palladion Services	None	None	N/A
Daniel A. Leone, Newtonville, MA, USA	Pro Shop Assistant, Brookmeadow Country Club	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Retail Assistant, Pro Shop, Brookmeadow Country Club	None	None	N/A
Albert M. Pacheco, Cambridge, MA, USA	Pacheco Jewelers, Inc.	Board of Trustees	Board of Directors, East Cambridge Savings Bank	President - Pacheco Jewelers, Inc.	None	None	Pacheco Jewelers, Inc. 50%
Thomas M. Pilleri, Wakefield, MA, USA	CPA	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Owner - Thomas M. Pilleri, CPA	None	None	Thomas M. Pilleri, CPA - 100%
				President - Pilleri Romano, P.C.	None	None	Pilleri Romano, P.C. - 50%
				Registered Rep - IAR Bay State Financial	None	None	Bay State Financial - 0%
				Member - Zero Governors Ave LLC	None	None	Zero Governors Ave LLC - 33.33%
Richard C. Rossi, Jr., Belmont, MA, USA	American Tower Corporation	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Senior Vice President & General Counsel U.S.- American Tower Corporation	None	None	N/A
Arthur C. Spears, CPA, Northborough, MA, USA	Retired	Board of Trustees	Board of Directors, East Cambridge Savings Bank	Retired	None	None	N/A
Edward O. Owens, Jr., Cambridge, MA, USA	Owens Companies Inc	Board of Trustees	Board of Directors, East Cambridge Savings Bank	CFO	None	None	N/A
	Henry F. Owens Inc.			CFO	None	None	N/A
	129 Sherman St Inc.			CFO	None	None	N/A
Patrick Monkiewicz, Boxford , MA, USA	Kayem Foods, Inc.	Board of Trustees	Board of Directors, East Cambridge Savings Bank	CFO	None	None	N/A

1854 Bancorp
(Parent Company of East Cambridge Savings Bank)
Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

Table of Contents

Independent Auditor's Report

To the Audit Committee of 1854 Bancorp and Subsidiaries:

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of 1854 Bancorp and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of net income, comprehensive income, changes in retained earnings, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 4, 2022 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a period of within one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Wolf & Company, P.C.

Boston, Massachusetts
March 4, 2022

1854 Bancorp and Subsidiaries

Consolidated Balance Sheets

December 31, 2021 and 2020

	2021	2020
	(In Thousands)	
Assets		
Cash and due from banks	$ 4,545	$ 14,351
Short-term investments	40,856	76,093
Total cash and cash equivalents	45,401	90,444
Securities available for sale, at fair value	119,429	103,785
Securities held to maturity, at amortized cost	14,855	13,471
Federal Reserve Bank of Boston stock, at cost	3,838	3,570
Federal Home Loan Bank of Boston stock, at cost	2,263	2,674
Loans held for sale	275	1,720
Loans, net of allowance for loan losses of $7,398 and $6,460 at December 31, 2021 and 2020, respectively	1,078,647	939,306
Bank-owned life insurance	28,672	27,955
Premises and equipment, net	14,430	14,964
Accrued interest receivable	2,667	2,663
Net deferred tax asset	5,458	4,524
Other assets	2,445	2,728
Total Assets	$ 1,318,380	$ 1,207,804
Liabilities and Retained Earnings		
Deposits	$ 1,147,006	$ 1,038,280
Federal Home Loan Bank of Boston advances	20,128	25,141
Mortgagors' escrow accounts	4,420	3,875
Accrued expenses and other liabilities	12,444	13,691
Total liabilities	1,183,998	1,080,987
Commitments and contingencies (Notes 5 and 9)		
Retained earnings	138,260	130,092
Accumulated other comprehensive loss	(3,878)	(3,275)
Total retained earnings	134,382	126,817
Total Liabilities and Retained Earnings	$ 1,318,380	$ 1,207,804

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

1854 Bancorp and Subsidiaries

Consolidated Statements of Net Income

Years Ended December 31, 2021 and 2020

	2021	2020
	(In Thousands)	
Interest and dividend income:		
Loans, including fees	$ 38,992	$ 38,197
Securities	2,475	2,946
Short-term investments	87	194
Total interest and dividend income	41,554	41,337
Interest expense:		
Deposits	4,086	7,192
Federal Home Loan Bank of Boston advances	248	828
Other	25	25
Total interest expense	4,359	8,045
Net interest income	37,195	33,292
Provision for loan losses	928	1,349
Net interest income, after provision for loan losses	36,267	31,943
Other income:		
Customer service fees	2,098	1,931
Gain on sales of loans, net	343	641
Increase in value of bank-owned life insurance	676	718
Miscellaneous	1,578	1,183
Total other income	4,695	4,473
Operating expenses:		
Salaries and employee benefits	19,759	18,984
Net periodic pension and postretirement benefit cost, less service cost	(666)	(823)
Occupancy and equipment	4,094	4,051
Data processing	2,560	2,362
Professional fees	1,041	924
Advertising and business development	826	590
Deposit insurance	394	328
Other general and administrative	2,156	1,882
Total operating expenses	30,164	28,298
Income before income taxes	10,798	8,118
Provision for income taxes	2,630	1,830
Net income	$ 8,168	$ 6,288

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

1854 Bancorp and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
	(In Thousands)	
Net income	$ 8,168	$ 6,288
Other comprehensive income (loss):		
Securities available for sale:		
Unrealized holding gain (loss)	(3,531)	1,139
Tax effect	865	(279)
Net-of-tax amount	(2,666)	860
Defined benefit pension plan:		
Amortization of net loss (1)	65	342
Pension settlement (1)	372	-
Plan amendment	-	10,187
Actuarial net gain (loss) arising during the year	2,383	(5,200)
Net unrealized gain	2,820	5,329
Tax effect	(792)	(1,497)
Net-of-tax amount	2,028	3,832
Postretirement medical and dental plan:		
Amortization of net gain	(4)	-
Actuarial net gain (loss) arising during the year	63	(58)
Net unrealized gain (loss)	59	(58)
Tax effect	(24)	17
Net-of-tax amount	35	(41)
Total other comprehensive income (loss)	(603)	4,651
Comprehensive income	$ 7,565	$ 10,939

(1) Amounts are included in net periodic pension and postretirement benefit cost, less service cost in the Consolidated Statements of Net Income. The income tax effects associated with the reclassification adjustments for the years ended December 31, 2021 and 2020 amounted to $123,000 and $96,000, respectively.

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

1854 Bancorp and Subsidiaries

Consolidated Statements of Changes in Retained Earnings

Years Ended December 31, 2021 and 2020

	Retained Earnings	Accumulated Other Comprehensive Loss	Total Retained Earnings
		(In Thousands)	
Balance at December 31, 2019	$123,804	$ (7,926)	$ 115,878
Comprehensive income	6,288	4,651	10,939
Balance at December 31, 2020	130,092	(3,275)	126,817
Comprehensive income (loss)	8,168	(603)	7,565
Balance at December 31, 2021	$138,260	$ (3,878)	$ 134,382

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

1854 Bancorp and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 8,168	$ 6,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums	497	392
Provision for loan losses	928	1,349
Amortization (accretion) of net deferred loan origination costs (fees)	(209)	513
Depreciation and amortization of premises and equipment	985	990
Deferred tax benefit	(885)	(597)
Increase in value of bank-owned life insurance	(676)	(718)
Loans originated for sale	(13,263)	(48,551)
Principal balance of loans sold	14,708	47,076
Amortization (accretion) of acquisition fair value adjustments, net	184	(36)
Net change in:		
Accrued interest receivable	(4)	(34)
Other assets	45	(663)
Accrued expenses and other liabilities	1,632	2,522
Net cash provided by operating activities	12,110	8,531
Cash flows from investing activities:		
Activity in securities available for sale:		
Purchases	(63,032)	(71,019)
Proceeds from maturities and calls	6,500	37,425
Principal payments	36,916	34,702
Activity in securities held to maturity:		
Purchases	(3,312)	(5,127)
Proceeds from maturities and calls	250	225
Principal payments	1,622	1,421
Purchase of Federal Reserve Bank of Boston stock	(268)	(120)
Purchase of Federal Home Loan Bank of Boston stock	(344)	(893)
Redemption of Federal Home Loan Bank of Boston stock	755	1,618
Loan originations, net of principal payments	(140,006)	(54,260)
Premiums paid on bank-owned life insurance	(41)	(41)
Additions to premises and equipment	(451)	(164)
Net cash used by investing activities	(161,411)	(56,233)

(continued)

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

1854 Bancorp and Subsidiaries

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from financing activities:		
Net increase in deposits	108,726	108,341
Proceeds from Federal Home Loan Bank of Boston advances	10,000	20,000
Repayment of Federal Home Loan Bank of Boston advances	(15,013)	(36,012)
Net change in mortgagors' escrow accounts	545	143
Net cash provided by financing activities	104,258	92,472
Net change in cash and cash equivalents	(45,043)	44,770
Cash and cash equivalents at beginning of year	90,444	45,674
Cash and cash equivalents at end of year	$ 45,401	$ 90,444
Supplemental cash flow information:		
Interest paid on deposits	$ 4,086	$ 7,192
Interest paid on borrowings and other	297	899
Income taxes paid, net of refunds	3,768	2,425

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of 1854 Bancorp (the "Company") and its wholly-owned subsidiaries, East Cambridge Savings Bank (the "Bank") and 1854 Securities LLC, which purchases, holds and sells securities, and the Bank's wholly-owned subsidiaries, East Cambridge Savings Security Corporation, which purchases, holds and sells securities, and Lee-Way Realty Corporation, which engages in the rental of real estate. All significant intercompany balances and transactions have been eliminated in consolidation.

Business

The Company provides a variety of financial services to individuals and businesses throughout Cambridge, Massachusetts and surrounding communities. Its primary deposit products are savings, checking and term certificate accounts and its primary lending products are residential and commercial mortgage loans.

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 and post-retirement benefit liabilities.

Significant Group Concentrations of Credit Risk

Most of the Company's lending activities are with customers located in Cambridge, Massachusetts and surrounding communities. The ability of the Company's customers to honor their loans is dependent upon the local real estate market and economy. Note 4 discloses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Hierarchy

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

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

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

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

Reclassification

Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

Cash Equivalents

Cash equivalents include amounts due from banks and short-term investments. Short-term investments include federal funds sold, money market funds and other investments, which mature overnight or on demand. The Company may from time to time have deposits in financial institutions that exceed the federally insured limits. At December 31, 2021 and 2020, the Company had a concentration of cash on deposit at the Federal Reserve Bank amounting to $40,344,000 and $75,584,000, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax effects.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities (concluded)

Purchase premiums and discounts are generally recognized in interest income using the interest method over the contractual terms of the securities, with the exception of callable debt securities, whose premiums are amortized to the earliest call date. Gains and losses on the sale of securities are determined using the specific identification method and recorded on the trade date.

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

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

Federal Reserve Bank of Boston Stock

As a member of the Federal Reserve System, the Company is required to hold Federal Reserve Bank of Boston ("FRBB") stock equal to 0.6% of total deposits. One-half of the Company's subscription is paid to the FRBB and the remaining half is subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. Based on redemption provisions, the stock has no quoted market value and is carried at cost. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2021 and 2020, no impairment has been recognized.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank of Boston ("FHLBB"), is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB 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, 2021 and 2020, no impairment has been recognized.

Loans Held for Sale

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans

The Company's loan portfolio includes residential real estate, commercial real estate, speculative construction, home equity lines of credit and second mortgages, commercial, and consumer loan segments.

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

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

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

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management. 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (Continued)

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. 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: level/trends in charge-offs and recoveries; national and local economic trends and conditions; changes in the nature, volume and terms of loans; concentrations of credit; changes in experience, ability and depth of lending management; and levels/trends in delinquencies. During 2021 and 2020, the Company applied an additional qualitative factor to each loan segment to capture the economic uncertainty due to the novel coronavirus ("COVID-19") pandemic. At December 31, 2021 and 2020, this qualitative factor resulted in $238,000 and $439,000, respectively, of reserves included as part of the general component of the allowance for loan losses. There were no other significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2021.

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 and home equity lines of credit ("HELOC") and second mortgages – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant loans that would be classified as subprime upon origination. Loans with loan-to-value ratios in excess of 80 percent generally require private mortgage insurance. The Company generally has 1st or 2nd liens on property securing home equity lines of credit. Substantially all loans in these segments are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrowers. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in these segments.
>
> Commercial real estate – Loans in this segment are secured by both owner-occupied and non-owner-occupied properties. The underlying cash flows generated by the business enterprises occupying the real estate may be adversely impacted by an economic downturn, which will have an effect on the credit quality in this segment. The underlying cash flows generated by the properties are similarly impacted by economic events. As appropriate, management periodically obtains financial statements of the business enterprises or rent rolls and monitors the cash flows and underlying real estate values of these loans.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

General component (concluded)

Speculative construction – Loans in this segment are primarily real estate development loans that may be considered speculative in nature since the repayment of the loans is usually derived from the sale of the property once it is developed. Credit risk is affected by cost overruns, time to sell at an adequate price, and general market conditions.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business and guaranteed by the business owners. Repayment is expected from the cash flows of the operating businesses or the net worth and other income of the guarantors. A weakened economy and the resultant decreased business revenues may have an effect on the credit quality in this segment. In addition, this segment includes loans issued under the United States Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). These loans are guaranteed by the SBA, therefore the Company has not allocated a general reserve on the outstanding loan balances at December 31, 2021. At December 31, 2020, the Company allocated general reserves on 20% of the outstanding PPP loan balances. The Company has not experienced losses on such loans and management expects the guarantees will be effective, if necessary.

Consumer – The Company offers a variety of consumer and other loans, generally secured by personal property or savings. Repayment is dependent on the income and net worth of the individual borrowers.

Allocated component

The allocated component relates to loans that are classified as impaired. Based on internal credit ratings or delinquency, residential real estate loans, commercial real estate loans, speculative construction loans, HELOCs and second mortgages, and commercial 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allocated component (Concluded)

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

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

Unallocated component

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

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, if any, are reflected in other income on the consolidated statements of net income and are not subject to income taxes.

Premises and Equipment

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Core Deposit Intangible

The Bank's core deposit intangible ("CDI") is an identified intangible asset representing the long-term value of depositor relationships arising from the 2015 acquisition of Chelsea Bank. The CDI, with an original fair value of $330,000, is being amortized over its estimated useful life of 9 years on an accelerated basis and is included in other assets on the consolidated balance sheets. Amortization expense for the years ended December 31, 2021 and 2020 amounted to $24,000 and $25,000, respectively, and is included in other general and administrative expenses in the consolidated statements of net income.

Amortization expense for future periods is estimated as follows:

Year Ending December 31,	Amount (In Thousands)
2022	24
2023	24
	$ 48

Transfers of Financial Assets

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

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sale treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have 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)

Postretirement Benefit Plans

The compensation cost of an employee's defined benefit pension benefit is recognized on the net periodic pension cost 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 (loss).

In addition to providing defined benefit pension benefits, the Company provided postretirement medical and dental benefits for eligible retirees and their spouses. The Company accrued the expected cost of these postretirement benefits over the employee's service period. Effective April 1, 2008, the plan was amended to no longer subsidize the cost of retiree health and dental insurance premiums for future retirees and spouses.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

The Company does not have any uncertain tax positions at December 31, 2021 or 2020 which require accrual or disclosure.

The Company records interest and penalties as part of the provision for income taxes. No interest or penalties were recorded for the years ended December 31, 2021 or 2020.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 loss, included in retained earnings, are as follows:

	December 31,	
	2021	2020
	(In Thousands)	
Securities available for sale:		
Net unrealized gain (loss)	$ (2,001)	$ 1,530
Tax effect	477	(388)
Net-of-tax amount	(1,524)	1,142
Defined benefit pension plan:		
Unrecognized net actuarial loss	(3,348)	(6,168)
Tax effect	940	1,732
Net-of-tax amount	(2,408)	(4,436)
Postretirement medical and dental plan:		
Unrecognized net actuarial gain	81	22
Tax effect	(27)	(3)
Net-of-tax amount	54	19
	$ (3,878)	$ (3,275)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent Accounting Pronouncements

Adopted During Period

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). This Update removes the disclosure requirements that are no longer considered cost beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. ASU 2018-14 became effective for the Company on December 31, 2021, and only impacted disclosures within the Company's consolidated financial statements. See Note 11.

To be Adopted in Future Periods

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* This Update intended to improve financial reporting about leasing transactions and the key provision impacting the Company is the requirement for a lessee to record a right-to-use asset and a liability representing the obligation to make lease payments for long term operating leases. The amendments in this Update are effective for non-public business entities for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. As of December 31, 2021, the Company had future minimum lease payments of $1,003,000, all under operating lease agreements. Upon adoption, the Company expects its assets and liabilities to increase based on the present value of the future minimum lease payments, using the discount rate applicable on the adoption date. The adoption of this Update is not expected to be material to the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. This Update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact this Update will have on its consolidated financial statements.

2. RESTRICTIONS ON CASH AND DUE FROM BANKS

In past years, the Company was required to maintain average balances on hand or with the Federal Reserve Bank. Effective March 26, 2020, the Board of Governors of the Federal Reserve System reduced reserve requirement ratios to zero percent, which eliminated reserve requirements for all depository institutions. At December 31, 2021 and 2020, the Company was not required to maintain any average balances on hand or with the Federal Reserve Bank.

3. SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2021:				
Securities Available for Sale				
U.S. Government and goverment-sponsored enterprise obligations	$ 9,077	$ -	$ (85)	$ 8,992
Corporate bonds	16,188	83	(284)	15,987
Municipal bonds	695	1	-	696
Government-sponsored enterprise residential mortgage-backed securities	95,145	453	(2,171)	93,427
Government-sponsored enterprise residential CMOs and REMICs	325	2	-	327
Total securities available for sale	$ 121,430	$ 539	$ (2,540)	$ 119,429
Securities Held to Maturity				
Municipal bonds	$ 5,169	$ 224	$ -	$ 5,393
Government-sponsored enterprise residential mortgage-backed securities	9,686	139	(95)	9,730
Total securities held to maturity	$ 14,855	$ 363	$ (95)	$ 15,123

SECURITIES (continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2020:				
Securities Available for Sale				
U.S. Government and goverment-sponsored enterprise obligations	$ 4,750	$ 21	$ -	$ 4,771
Corporate bonds	7,103	202	-	7,306
Municipal bonds	946	4	-	950
Government-sponsored enterprise residential mortgage-backed securities	88,559	1,419	(132)	89,845
Government-sponsored enterprise residential CMOs and REMICs	897	16	-	913
Total securities available for sale	$ 102,255	$ 1,662	$ (132)	$ 103,785
Securities Held to Maturity				
Municipal bonds	$ 5,181	$ 341	$ -	$ 5,522
Government-sponsored enterprise residential mortgage-backed securities	8,290	258	-	8,548
Total securities held to maturity	$ 13,471	$ 599	$ -	$ 14,070

SECURITIES (continued)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2021 is shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Within 1 year	$ 2,900	$ 2,916	$ -	$ -
Over 1 year to 5 years	7,401	7,364	676	692
Over 5 years to 10 years	15,659	15,395	3,773	3,974
Over 10 years	-	-	720	727
	25,960	25,675	5,169	5,393
Residential mortgage-backed securities, CMOs and REMICs	95,470	93,754	9,686	9,730
	$ 121,430	$ 119,429	$ 14,855	$ 15,123

There were no sales of securities available for sale during the years ended December 31, 2021 or 2020.

At December 31, 2021 and 2020, U.S. Government-sponsored enterprise obligations with amortized costs of $1,893,000 and $1,500,000, respectively, and fair values $1,887,000 and $1,508,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

SECURITIES (concluded)

Information pertaining to securities with gross unrealized losses 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, 2021:				
Securities Available for Sale				
U.S. Government and goverment-sponsored enterprise obligations	$ (85)	$ 8,992	$ -	$ -
Corporate bonds	(284)	10,313	-	-
Government-sponsored enterprise residential mortgage-backed securities	(1,690)	66,639	(481)	10,705
Total securities available for sale	$ (2,059)	$ 85,944	$ (481)	$ 10,705
Securities Held to Maturity				
Government-sponsored enterprise residential mortgage-backed securities	$ (95)	$ 5,164	$ -	$ -
December 31, 2020:				
Securities Available for Sale				
Government-sponsored enterprise residential mortgage-backed securities	$ (93)	$ 17,101	$ (39)	$ 4,744

At December 31, 2021, 94 debt securities have unrealized losses with aggregate depreciation of 2.5% from the Company's amortized cost basis. The unrealized losses are primarily caused by increases in prevailing interest rates. Therefore, it is expected that the bonds 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 securities and it is more likely than not that the Company will not be required to sell the securities before recovery of their amortized cost bases, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at December 31, 2021.

4. LOANS

A summary of the balances of loans follows:

	December 31,	
	2021	2020
	(In Thousands)	
Mortgage loans on real estate:		
Residential	424,294	$ 388,741
Commercial	528,864	442,124
Speculative construction	55,308	36,473
Home equity lines of credit and second mortgages	22,742	25,162
	1,031,208	892,500
Commercial loans:		
Secured (1)	43,775	42,669
Unsecured	13	17
	43,788	42,686
Consumer loans:		
Passbook and stock secured	945	1,126
Other	9,140	8,635
	10,085	9,761
Total loans	1,085,081	944,947
Net deferred loan origination costs	964	819
Allowance for loan losses	(7,398)	(6,460)
Loans, net	$ 1,078,647	$ 939,306

(1) At December 31, 2021 and 2020, secured commercial loans included $7,212,000 and $14,902,000 in loans outstanding under the SBA PPP, respectively.

LOANS (continued)

The Company services residential real estate loans sold to investors amounting to $53,006,000 and $61,846,000 at December 31, 2021 and 2020, respectively, which are not included in the accompanying consolidated balance sheets. These loans were sold without recourse provisions.

The Company has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and 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, 2021 and 2020, the Company was servicing loans for participants aggregating $8,999,000 and $8,556,000, respectively.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP.

As a qualified SBA lender, the Company was automatically authorized to originate PPP loans.

An eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly "payroll costs;" or (2) $10.0 million. PPP loans have: (a) an interest rate of 1.0%, (b) a two or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Company or 10 months from the end of the covered period, as defined. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses.

Pursuant to Section 4013 of the CARES Act, financial institutions can suspend the requirements under U.S. GAAP related to TDRs for modifications made before December 31, 2020 to loans that were current as of December 31, 2019. On January 3, 2021, the President signed into law the Consolidated Appropriations Act, 2021 (the "Act"). As a result of the Act, the suspension of TDR accounting was extended to January 1, 2022. The requirement that a loan be not more than 30 days past due as of December 31, 2019 is still applicable.

LOANS (continued)

As of December 31, 2021, the Company no longer had any loans in a deferred payment status.

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

	Residential Real Estate	Commercial Real Estate	Speculative Construction	HELOC and Second Mortgage	Commercial	Consumer	Unallocated	Total
				(In Thousands)				
Allowance for loan losses								
Balance at December 31, 2019	$ 382	$ 3,001	$ 443	$ 280	$ 843	$ 294	$ 16	$ 5,259
Provision (credit) for loan losses	77	995	31	(11)	285	(12)	(16)	1,349
Loans charged-off	-	-	-	-	(146)	(28)	-	(174)
Recoveries	-	-	-	-	-	26	-	26
Balance at December 31, 2020	459	3,996	474	269	982	280	-	6,460
Provision (credit) for loan losses	(41)	827	184	(33)	(33)	24	-	928
Loans charged-off	-	-	-	-	(27)	(21)	-	(48)
Recoveries	-	-	-	-	53	5	-	58
Balance at December 31, 2021	$ 418	$ 4,823	$ 658	$ 236	$ 975	$ 288	$ -	$ 7,398
December 31, 2021								
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for non-impaired loans	418	4,823	658	236	975	288	-	7,398
Total allowance for loan losses	$ 418	$ 4,823	$ 658	$ 236	$ 975	$ 288	$ -	$ 7,398
Impaired loans	$ -	$ -	$ -	$ 183	$ -	$ -		$ 183
Non-impaired loans	424,294	528,864	55,308	22,559	43,788	10,085		1,084,898
Total loans	$ 424,294	$ 528,864	$ 55,308	$ 22,742	$ 43,788	$ 10,085		$ 1,085,081
December 31, 2020								
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for non-impaired loans	459	3,996	474	269	982	280	-	6,460
Total allowance for loan losses	$ 459	$ 3,996	$ 474	$ 269	$ 982	$ 280	$ -	$ 6,460
Impaired loans	$ 326	$ -	$ -	$ 251	$ -	$ -		$ 577
Non-impaired loans	388,415	442,124	36,473	24,911	42,686	9,761		944,370
Total loans	$ 388,741	$ 442,124	$ 36,473	$ 25,162	$ 42,686	$ 9,761		$ 944,947

LOANS (continued)

The following is a summary of past due and non-accrual loans at December 31, 2021 and 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
			(In Thousands)		
December 31, 2021					
Residential real estate	$ 705	$ -	$ -	$ 705	$ -
HELOC and second mortgages	-	-	-	-	183
Consumer	2	-	-	2	-
Total	$ 707	$ -	$ -	$ 707	$ 183
December 31, 2020					
Residential real estate	$ 807	$ -	$ 174	$ 981	$ 326
Commercial real estate	410	-	-	410	-
HELOC and second mortgages	-	183	68	251	251
Total	$ 1,217	$ 183	$ 242	$ 1,642	$ 577

The following is a summary of information pertaining to impaired loans at December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(In Thousands)			
Impaired loans without a valuation allowance:						
Residential real estate	$ -	$ -		$ 326	$ 326	
HELOC and second mortgages	183	183		251	251	
Total impaired loans	$ 183	$ 183		$ 577	$ 577	

LOANS (continued)

The following is a summary of information pertaining to impaired loans for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021			Year Ended December 31, 2020		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Residential real estate	$ 197	$ 12	$ 24	$ 793	$ 46	$ 49
Commercial real estate	-	-	-	1,083	79	94
HELOC and second mortgages	209	7	10	233	10	8
Commercial	-	-	-	188	13	8
Consumer	-	-	-	2	-	-
Total	$ 406	$ 19	$ 34	$ 2,299	$ 148	$ 159

No additional funds are committed to be advanced in connection with impaired loans.

Troubled debt restructurings entered into during the years ended December 31, 2021 and 2020 were immaterial. During the years ended December 31, 2021 and 2020, there were no troubled debt restructurings that defaulted within the first twelve months of restructure.

Credit Quality Information

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

> Loans rated in the first five grades (1, 2, 3, 4 and 5) are considered "pass" rated loans with low to average risk.
>
> Loans rated 6 are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.
>
> Loans rated 7 are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.
>
> Loans rated 8 are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable.
>
> Loans rated 9 are considered uncollectible "loss" and of such little value that their continuance as loans is not warranted.

LOANS (concluded)

Credit Quality Information (concluded)

On a periodic basis, management formally reviews the ratings on all commercial real estate, speculative construction, and commercial loans. On an annual basis, the Company engages an independent third-party to review a significant portion of these loans. Management uses the results of these reviews as part of its ongoing review process.

The following table presents the Company's loans by risk rating:

	December 31, 2021			December 31, 2020		
	Commercial Real Estate	Speculative Construction	Commercial	Commercial Real Estate	Speculative Construction	Commercial
	(In Thousands)					
Loans rated pass	$ 528,147	$ 55,308	$ 43,670	$ 441,714	$ 36,473	$ 42,574
Loans rated special mention	717	-	118	410	-	112
	$ 528,864	$ 55,308	$ 43,788	$ 442,124	$ 36,473	$ 42,686

Credit quality for residential real estate, home equity lines of credit and second mortgages, and consumer loans is determined by monitoring loan payment history and on-going communication with customers.

5. PREMISES AND EQUIPMENT

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

	December 31, 2021	December 31, 2020	Estimated Useful Lives
	(In Thousands)		
Land	$ 5,842	$ 5,842	N/A
Buildings and improvements	19,986	19,912	10 - 40 years
Equipment	7,122	6,783	3 - 7 years
	32,950	32,537	
Less accumulated depreciation and amortization	(18,520)	(17,573)	
	$ 14,430	$ 14,964	

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 amounted to $985,000 and $990,000, respectively.

Lease Commitments

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2021, future minimum rent commitments for leased premises are as follows:

Year Ending December 31,	Amount (In Thousands)
2022	$ 246
2023	145
2024	129
2025	132
2026	110
Thereafter	241
	$ 1,003

Certain leases contain options to extend for periods of up to ten years and also contain provisions for reimbursement of real estate taxes and certain other costs. The cost of such rentals and reimbursements are not included above. Rent expense for the years ended December 31, 2021 and 2020 amounted to $341,000 and $501,000, respectively.

6. DEPOSITS

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

	December 31, 2021	December 31, 2020
	(In Thousands)	
Demand accounts	$ 182,941	$ 153,221
Interest-bearing checking accounts	81,789	65,399
Money market deposit accounts	152,317	102,477
Savings accounts	416,215	385,752
Total non-certificate accounts	833,262	706,849
Certificate accounts less than $250,000	179,293	196,097
Certificate accounts of $250,000 or more	134,451	135,334
Total certificate accounts	313,744	331,431
Total deposits	$ 1,147,006	$ 1,038,280

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

	December 31, 2021		December 31, 2020	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)			
Within 1 year	$ 255,281	0.62%	$ 260,361	0.88%
Over 1 year to 2 years	43,403	1.61	38,096	1.70
Over 2 years to 3 years	9,184	1.01	25,767	2.42
Over 3 years to 4 years	3,088	0.79	5,104	1.52
Over 4 years to 5 years	2,788	0.40	2,103	0.98
	$ 313,744	0.76%	$ 331,431	1.10%

7. FEDERAL HOME LOAN BANK OF BOSTON ADVANCES

Fixed-rate FHLBB advances outstanding are as follows:

Maturing During the Year Ending December 31,	December 31, 2021 Amount	December 31, 2021 Weighted Average Rate	December 31, 2020 Amount	December 31, 2020 Weighted Average Rate
	(Dollars in Thousands)			
2021	$ -	- %	$ 15,000	2.13%
2022	10,128	0.44	141	-
2025*	10,000	1.34	10,000	1.34
Total FHLBB advances	$ 20,128	0.89%	$ 25,141	1.80%

*Advances are callable on February 18, 2022.

The Company also has a $9,326,000 available line of credit with the FHLBB at an interest rate that adjusts daily. Advances under the line are limited to 2% of the Company's total assets. There were no advances outstanding under this line of credit at December 31, 2021 and 2020. All advances from the FHLBB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property.

8. INCOME TAXES

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
	(In Thousands)	
Current tax provision:		
Federal	$ 2,457	$ 1,682
State	1,058	745
Total current provision	3,515	2,427
Deferred tax benefit:		
Federal	(615)	(378)
State	(270)	(219)
Total deferred benefit	(885)	(597)
Total provision	$ 2,630	$ 1,830

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31, 2021	Years Ended December 31, 2020
Statutory federal income tax rate	21.0%	21.0%
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	5.8	5.1
Bank-owned life insurance	(1.2)	(1.7)
Tax exempt income	(1.2)	(2.0)
Other, net	-	0.1
Effective tax rate	24.4%	22.5%

INCOME TAXES (continued)

The components of net deferred tax asset are as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,080	$ 1,816
Employee benefit plans recorded in accumulated other comprehensive income/loss	913	1,729
Other employee benefit plans	1,421	1,091
Cash basis of accounting	639	422
Net unrealized loss on securities available for sale	477	-
Aquisition accounting adjustments	2	25
Other	25	23
	5,557	5,106
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	-	(388)
Depreciation	(99)	(134)
Mortgage servicing rights	-	(60)
	(99)	(582)
Net deferred tax asset	$ 5,458	$ 4,524

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
	(In Thousands)	
Balance at beginning of year	$ 4,524	$ 5,686
Deferred tax benefit	885	597
Deferred tax effects of net unrealized gain (loss) on securities available for sale	865	(279)
Deferred tax effects of postretirement benefit plans	(816)	(1,480)
Balance at end of year	$ 5,458	$ 4,524

INCOME TAXES (concluded)

The federal income tax reserve for loan losses at the Company's base year is $7,552,000. 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 Company intends to use the reserve to absorb only loan losses, a deferred tax liability of $2,123,000 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 December 31, 2018 through 2021. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2018 are open.

9. OTHER COMMITMENTS AND CONTINGENCIES

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

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 standby letters of credit. These instruments 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 these commitments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. A summary of outstanding financial instruments whose contract amounts represent credit risk is as follows:

	December 31, 2021	December 31, 2020
	(In Thousands)	
Commitments to grant loans	$ 16,528	$ 39,935
Unadvanced funds on home equity lines of credit	74,088	61,837
Unadvanced funds on commercial lines of credit	14,984	11,945
Unadvanced funds on construction loans	46,192	35,248

OTHER COMMITMENTS AND CONTINGENCIES (concluded)

Loan Commitments (concluded)

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. Commitments to grant loans and unadvanced funds on home equity lines of credit, residential mortgage loans and construction loans are collateralized by real estate.

Unfunded commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. The commercial lines of credit are generally collateralized and mature within one year.

At December 31, 2021 and 2020, there were no commitments to sell loans.

Loans Sold with Recourse Obligations

The Company sells mortgage loans on a servicing-released basis to various investors pursuant to contracts which include limited recourse provisions whereby the Company would be required to repurchase loans and/or refund premiums in the event of an early payment default, as defined in the individual agreements, or if the loan is paid off within 90 days through 6 months of being sold. At December 31, 2021 and 2020, there was $11,387,000 and $10,354,000, respectively, of loans sold subject to recourse provisions. The contracts also include repurchase obligation provisions for fraud and misrepresentation. The Company has not been required to repurchase any loans or refund any premiums under these agreements. No liability has been recorded in the consolidated financial statements related to these recourse obligations.

Legal Contingencies

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

10. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

Federal banking regulations require the Bank to maintain minimum amounts and ratios of total, common equity Tier 1, and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets, as set forth in the table on the following page. 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.

As of December 31, 2021, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes the Bank meets all capital requirement to which it is subject. The Bank's actual capital amounts and ratios and minimum capital requirements are presented in the following table and do not differ materially from the Company's ratios.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2021:						
Total capital (to risk weighted assets):	$ 143,306	15.4%	$ 74,373	8.0%	$ 92,966	10.0%
Common equity tier 1 capital (to risk weighted assets):	135,908	14.6	41,835	4.5	60,428	6.5
Tier 1 capital (to risk weighted assets):	135,908	14.6	55,780	6.0	74,373	8.0
Tier 1 capital (to average assets):	135,908	10.5	51,722	4.0	64,653	5.0
December 31, 2020:						
Total capital (to risk weighted assets):	$134,169	17.1%	$62,934	8.0%	$ 78,667	10.0%
Common equity tier 1 capital (to risk weighted assets):	127,709	16.2	35,400	4.5	51,134	6.5
Tier 1 capital (to risk weighted assets):	127,709	16.2	47,200	6.0	62,934	8.0
Tier 1 capital (to average assets):	127,709	10.6	48,139	4.0	60,174	5.0

For regulatory capital purposes, loans originated under the PPP are risk-weighted at 0% in risk-based capital calculations.

11. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

The Company offers basic and supplemental pension benefits for eligible employees through a defined benefit pension plan. Effective December 31, 2020, the Company froze participation in the defined benefit pension plan for employees hired subsequent to December 31, 2020. Prior to December 31, 2020, each employee who reached the age of 21 and completed 2 years of service, consisting of at least 1,000 hours of service at the end of each year, beginning with such employee's date of employment, automatically became a participant in the defined benefit pension plan. All participants were fully vested upon eligibility. During 2020, the Company also amended the defined benefit pension plan to freeze further accrual of benefits for participants effective December 31, 2023. The Company remeasured the projected benefit obligation during the prior year based on the above amendments, and the effect of the curtailment is reflected in the following schedules. The Company does not expect to make any contributions to the defined benefit pension plan during the year ending December 31, 2022. Information pertaining to the activity in the defined benefit pension plan is as follows:

	Years Ended December 31,	
	2021	2020
	(In Thousands)	
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 33,837	$ 30,610
Actual return on plan assets	3,891	4,482
Benefits paid	(3,949)	(1,255)
Fair value of plan assets at end of year	33,779	33,837
Change in benefit obligation:		
Benefit obligation at beginning of year	36,319	37,916
Service cost	1,112	1,351
Interest cost	902	1,064
Curtailment gain	-	(10,187)
Actuarial (gain) loss	(507)	7,430
Benefits paid	(3,949)	(1,255)
Benefit obligation at end of year	33,877	36,319
Funded status and accrued pension liability at year end	$ (98)	$ (2,482)
Accumulated benefit obligation at year end	$ 33,102	$ 34,641

EMPLOYEE BENEFIT PLANS (continued)

Defined Benefit Pension Plan (continued)

The actuarial gain for the year ended December 31, 2021 was driven by the increase in the discount rate from 2.50% to 2.75%, which decreased the benefit obligation. The increase in the discount rate was offset by changes in the mortality assumption to reflect newly published mortality tables and in the demographic experience, both of which increased the benefit obligation. The actuarial loss for the year ended December 31, 2020 was driven by the decrease in the discount rate from 3.25% to 2.50% and the actuarial participant experience being different than expected, which increased the benefit obligation. The decreases were offset by a change in the lump sum and annuitant mortality assumptions, which decreased the benefit obligation.

The assumptions used to determine the benefit obligation are as follows:

	December 31,	
	2021	2020
Discount rate	2.75%	2.50%
Rate of compensation increase	3.50	3.50

Net periodic pension cost consisted of the following:

	Years Ended December 31,	
	2021	2020
	(In Thousands)	
Service cost	$ 1,112	$ 1,351
Interest cost	902	1,064
Expected return on plan assets	(2,016)	(2,252)
Amortization of net loss	65	342
Settlement expense	372	-
Net periodic pension cost	$ 435	$ 505

EMPLOYEE BENEFIT PLANS (continued)

Defined Benefit Pension Plan (continued)

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

	Years Ended December 31, 2021	Years Ended December 31, 2020
Discount rate	2.50%	3.25%
Rate of compensation increase	3.50	3.50
Expected long-term rate of return on plan assets	6.00	7.50

The Company has selected its assumption with respect to the expected long-term rate of return based on prevailing yields on high quality fixed income investments increased by a premium for equity return expectations.

The Company's pension plan is administered by the Empower Retirement. The pension plan assets have been invested in a selection of pooled separate accounts within a variable annuity contract, utilized as a funding mechanism for employer-sponsored pension plans.

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

	Level 1	Level 2	Level 3	Total Fair Value
		(In Thousands)		
December 31, 2021				
Pooled separate accounts:				
Equity	$ -	$ 13,477	$ -	$ 13,477
Fixed income	-	20,302	-	20,302
	$ -	$ 33,779	$ -	$ 33,779
December 31, 2020				
Pooled separate accounts:				
Equity	$ -	$ 21,012	$ -	$ 21,012
Fixed income	-	12,825	-	12,825
	$ -	$ 33,837	$ -	$ 33,837

All plan assets are measured at fair value in Level 2, 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.

EMPLOYEE BENEFIT PLANS (continued)

Defined Benefit Pension Plan (concluded)

The Company has established a Retirement Plans Committee (the "Committee") as the investment fiduciary responsible for the prudent management of the pension plan's assets. An employee benefits advisory firm provides assistance to the Committee with respect to asset selection, performance measurement and the allocation of the funds invested. The investment objective is to diversify equity and debt funds across a broad spectrum of investment types and styles. The target allocation mix for equity and debt funds calls for an equity-based investment range of approximately 40% of total plan assets. The remainder of the assets is allocated to fixed income funds.

Estimated future benefit payments which reflect expected future service, as appropriate, assuming employees retire at age 65 and take lump-sum payments, are as follows:

Years Ending December 31,	Amount (In Thousands)
2022	$ 1,249
2023	2,335
2024	998
2025	2,571
2026	2,192
2027-2031	15,627

401(k) Plan

The Company maintains a 401(k) plan for eligible employees. Participating employees may contribute up to a maximum amount allowable under federal regulations. Effective January 1, 2021, for employees who are not eligible to participate in the Bank's defined benefit pension plan, the Company makes matching contributions equal to one hundred percent of the first three percent and fifty percent of the next three percent of an employee's compensation contributed to the plan. For employees who are participants in the Bank's defined benefit pension plan, the Company continues to make matching contributions equal to twenty-five percent of the first six percent of an employee's compensation contributed to the plan. Employer matching contributions are 100% vested after one year of service. For the years ended December 31, 2021 and 2020, expense attributable to the plan amounted to $249,000 and $154,000, respectively.

Management Incentive Plan

The Company maintains a management incentive plan. Under the plan, incentive compensation is awarded based upon Company and individual performance. For the years ended December 31, 2021 and 2020, management incentive plan expense amounted to $1,729,000 and $1,369,000, respectively.

EMPLOYEE BENEFIT PLANS (continued)

Executive Supplemental Compensation Agreements

The Company has entered into Executive Supplemental Compensation Agreements, which provide additional retirement benefits to certain senior officers. The agreements also provide, under certain conditions, pre-retirement death and disability benefits. At December 31, 2021 and 2020, accrued expenses included $7,435,000 and $6,643,000, respectively, related to these agreements. Total supplemental compensation expense for the years ended December 31, 2021 and 2020 amounted to $951,000 and $1,004,000, respectively.

Postretirement Medical and Dental Plan

The Company offers postretirement medical and dental benefits for eligible retirees and their spouses. Effective April 1, 2008, the plan was amended to no longer subsidize the cost of retiree health and dental insurance premiums for future retirees and spouses.

The funded status of the plan is as follows:

	December 31,	
	2021	2020
	(Dollars in Thousands)	
Fair value of plan assets	$ -	$ -
Accumulated benefit obligation	(789)	(900)
Funded status	$ (789)	$ (900)
Accrued postretirement benefit cost recognized on the consolidated balance sheets	$ 789	$ 900
Discount rate used to determine benefit obligation	2.25%	1.75%

For measurement purposes, 7.5% and 6.5% annual rate of increase per capita cost of medical postretirement benefits was assumed for 2021 and 2020, respectively. The annual rate of increase for medical postretirement benefits was assumed to decrease gradually to 5.0% through 2028 and remain at that level thereafter. A 5.0% annual rate of increase per capita cost of dental postretirement benefits was assumed in 2020 and thereafter.

EMPLOYEE BENEFIT PLANS (concluded)

Postretirement Medical and Dental Plan (concluded)

Additional information pertaining to the plan is as follows:

	Years Ended December 31, 2021	2020
	(Dollars in Thousands)	
Interest cost	$ 15	$ 23
Amortization of net gain	(4)	-
Net periodic postretirement benefit cost	11	23
Employer contribution	63	65
Retiree contributions	21	22
Benefits paid, net of retiree contributions	63	65
Discount rate used to determine net periodic postretirement benefit cost	1.75%	2.73%

The Company expects to contribute $64,000 to the postretirement medical and dental plan during the year ending December 31, 2022.

Estimated future benefit payments are as follows:

Years Ending December 31,	Amount (In Thousands)
2022	$ 64
2023	64
2024	63
2025	62
2026	61
2027 - 2031	275

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company grants loans to related parties. Total loans to executive officers and Trustees of the Company and their affiliates amounted to $4,149,000 and $4,295,000 at December 31, 2021 and 2020, respectively.

13. FAIR VALUES 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. 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 assets and liabilities.

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis, consisting of debt securities available for sale, amount to $119,429,000 and $103,785,000 at December 31, 2021 and 2020, respectively. Debt securities available for sale are measured at Level 2 in the fair value hierarchy. There are no liabilities measured at fair value on a recurring basis at December 31, 2021 or 2020.

Fair value measurements for securities available for sale are obtained from a third-party pricing service and are not adjusted by management. 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.

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other assets on a non-recurring 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 or liabilities measured at fair value on a non-recurring basis at December 31, 2021 and 2020.

14. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Actions taken domestically and across the world to help mitigate the spread of COVID-19 included and continue to include restrictions on travel, required quarantine, and mandated closures of certain types of public places and businesses. COVID-19 and actions taken to mitigate the spread of it have had and are expected to have an adverse impact on the economies and financial markets of the geographical area in which the Company operates.

It is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the complete financial effect will be to the Company.

15. SUBSEQUENT EVENTS

On February 23, 2022, the Company announced the signing of a definitive merger agreement to acquire all the outstanding shares of Patriot Community Bank, for $15.75 per share, in cash. The agreement has been unanimously approved by the Boards of Directors of both companies. Patriot Community Bank, a full-service community bank located in Woburn, Massachusetts, has approximately $208 million in consolidated assets as of December 31, 2021. Upon completion of the merger, East Cambridge Savings Bank will operate Patriot Community Bank’s one office as a branch of East Cambridge Savings Bank. The merger is subject to regulatory approval and the approval of shareholders of Patriot Community Bank. The transaction is expected to close in the third quarter of 2022.

There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.