Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

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

President
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

3/23/22
Date of Signature

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

Grand Bank Corporation
Legal Title of Holding Company

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

Marblehead	MA	01945
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Michael R. Spencer	Treasurer
Name	Title

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

781-639-2505
Area Code / FAX Number

mspencer@ngbank.com
E-mail Address

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

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

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

For Federal Reserve Bank Use Only

RSSD ID ____
C.I. ____

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

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

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

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

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

Form FR Y-6

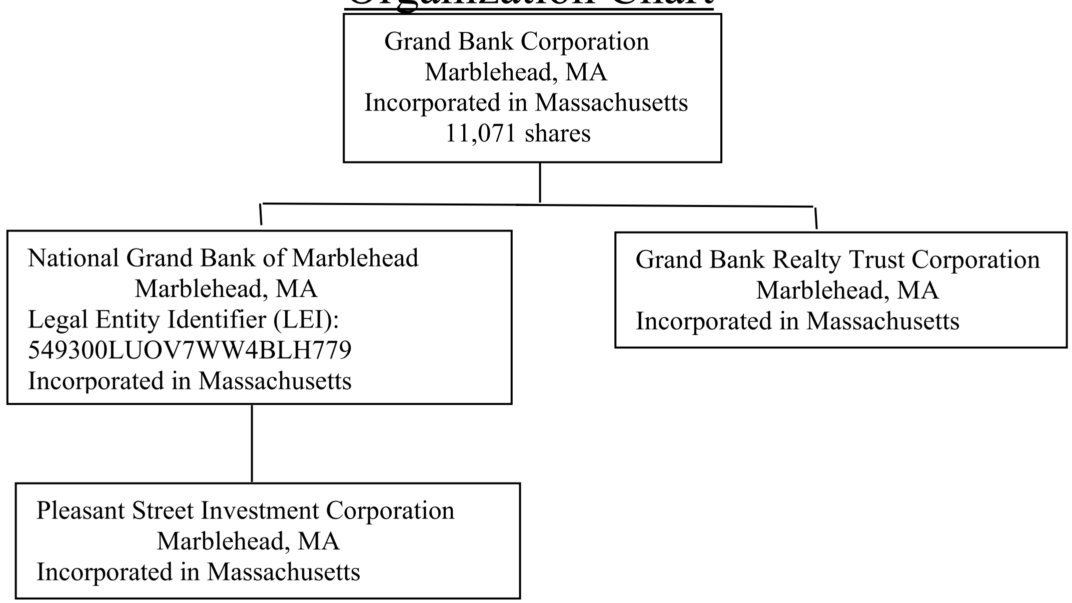
Grand Bank Corporation
Marblehead, Massachusetts
Fiscal Year Ending December 31, 2021

Report Item

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

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

Grand Bank Corporation
Organization Chart



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

Form FR Y-6

Grand Bank Corporation
Marblehead, Massachusetts
Fiscal Year Ending December 31, 2021

2b: Domestic Branch Listing – report submitted via Reporting Central on March 25, 2022.

3: Shareholders

Current Shareholders with ownership, control or holdings of 5% or more power to vote as of fiscal year ending December 31, 2021.

(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of each Class of Voting securities
Cede and Company (DTC)		2,526 shares 22.82%

Form FR Y-6
Grand Bank Corporation
Fiscal year Ending December 31, 2021

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

(1) Name & Address (City, State, Country)	**(2) Principal Occupation other than Holding Co.**	**(3)(a) Title & Position Holding Co.**	**(3)(b) Title & Position Subsidiaries**	**(3)(c) Title & Position other Businesses**	**(4)(a) Percentage Voting Shares Holding Co.**	**(4)(b) Percentage Voting Shares Subsidiaries**	**(4)(c) Names of other Companies if >25% or more of Voting Securities**
Ralph C. Anderson Marblehead, MA	President	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	President - Marblehead Trading Co. President - Marblehead Marine, Inc. President - Marblehead Lower Yacht Yard	0.82%	N/A	Marblehead Trading Co. Marblehead Marine, Inc. Marblehead Lower Yacht Yard
Peter C. Brown Marblehead, MA	President & Treasurer	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	President & Treasurer - Beacon Hill Import General Partner - Beacon Street Assoc. LTD Partnership	2.81%	N/A	N/A
Ralph W. Carlton Marblehead, MA	Retired CPA	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	N/A	3.55%	N/A	N/A
John C. Doub Marblehead, MA	CEO	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	CEO - Market Collection Inc. d/b/a Irresistibles	2.09%	N/A	Market Collection Inc. d/b/a Irresistibles
Paul G. Gregory Marblehead, MA	President	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	President & Director - Computer Corporation of America President - Rocket Software Inc.	1.85%	N/A	N/A
Kenneth G. Steadman Marblehead, MA	President & Treasurer	Director	Director - National Grand Bank Director - Pleasant Street Investment Corp.	President & Treaurer - Bartlett & Steadman Co, Inc. President & Treaurer - Bartlett & Steadman Development Corp.	0.49%	N/A	N/A
James E. Nye Marblehead, MA	President	Chairman/President	President/Director - National Grand Bank President/Director - Pleasant Street Investment Corp. Trustee - Grand Bank Realty Trust	N/A	1.08%	N/A	N/A
Charles T. Ball Marblehead, MA	Senior Vice President	Vice President	Senior Vice President - National Grand Bank	N/A	0.82%	N/A	N/A
Michael R. Spencer Haverhill, MA	Vice President/ CFO	Treasurer	Vice President/ CFO - National Grand Bank Treasurer - Pleasant Street Investment Corp. Treasurer - Grand Bank Realty Trust Treasurer Grand Bank Corporation	N/A	0.50%	N/A	N/A

Results: A list of branches for your depository institution: NATIONAL GRAND BANK OF MARBLEHEAD (ID_RSSD: 863607).
This depository institution is held by GRAND BANK CORPORATION (1115406) of MARBLEHEAD, MA.
The data are as of 12/31/2021. 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)	863607	NATIONAL GRAND BANK OF MARBLEHEAD	91 PLEASANT ST	MARBLEHEAD	MA	01945	ESSEX	UNITED STATES	Not Required	Not Required	NATIONAL GRAND BANK OF MARBLEHEAD	863607	
OK		Limited Service	3145416	MARBLEHEAD HIGH SCHOOL BRANCH	2 HUMPHREY STREET	MARBLEHEAD	MA	01945	ESSEX	UNITED STATES	Not Required	Not Required	NATIONAL GRAND BANK OF MARBLEHEAD	863607	

Grand Bank Corporation

Annual Report

2021

National Grand Bank

We Make Things Happen!

OFFICERS

James E. Nye
President

Carl R. Edwards
Executive Vice President & CLO

Michael R. Spencer
Vice President & CFO

Donna M. Goodwin
Vice President Human Resources

Joanne M. Franco
Vice President Credit Administration

Mark C. Dewling
Asst. Vice President

Kathy M. Green
Asst. Vice President

Matthew C. Martin
Business Development Officer

Charles T. Ball
Senior Vice President

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

Timothy B. Thomas
Vice President Information Technology

Rory R. Richards
Vice President Deposit Operations

Michael J. Bartholomew
Asst. Vice President

Kelly M. DaSilva
Asst. Vice President & Controller

Leda J. Joyce
Deposit Operations Officer

Robert L. Duzz
BSA/Compliance Officer

DIRECTORS

Ralph C. Anderson

Peter C. Brown

Ralph W. Carlton

John C. Doub

Paul G. Gregory

James E. Nye

Kenneth G. Steadman

To our shareholders:

Two years into the worldwide Covid -19 pandemic, National Grand Bank has strengthened our reputation in the community by providing $21 million in Payroll Protection Program loans (PPP) to our many business customers, saving jobs and often the businesses themselves. The communities we serve have weathered this pandemic well from an economic standpoint, it remains to be seen how government safety measures and attitudes will shape the economy. Low mortgage rates, increased personal wealth and solid personal incomes led to high demand for housing. However, homeowners concerned about selling their homes during a pandemic and the high cost of trading up, led to extremely low home inventories. This caused rapid price appreciation and bidding wars on the limited homes available for sale.

National Grand Bank navigated these obstacles to post strong earnings of $4.1 million from bank operations, a 14.4% increase from the prior year. Driven by a 6.8% increase in deposits, a 4.2% increase in total loans and an 3.5% increase in total assets to $422 million.

Grand Bank Corporation's net income of $11.4 million increased $2.3 million or 25% when compared to 2020 net income of $9.1 million. The book value of Grand Bank Corporation shares increased 10% to **$8,231** per share with a total dividend of $140 per share.

The Corporation repurchased one hundred thirty-nine (139) shares of its stock in 2021. When stock is offered for sale, the Corporation may purchase additional shares. However, shareholders who wish to sell their shares are not obligated to sell them to the Corporation.

Vice President Laura Best recently retired in March 2022 after a stellar 46-year career. Laura's contributions were many throughout all departments of the Bank, including establishing our ATM network and High School Branch. We wish her well throughout retirement.

Ralph Carlton retired from the Board of Directors in December 2021. Ralph was elected director in 1985 and has ably guided the Bank with his keen insight, humor, and humility. We sincerely thank Ralph for his thirty-six years of service.

Assistant Vice President Cynthia Latham retired in May after 21 years. Cindy directed our commercial lending team, and we wish her well in her retirement.

In November Rory Richards was promoted to Vice President of Deposit Operations, Kelly DaSilva was promoted to AVP/Controller and Leda Joyce to Deposit Operation Officer. In December, Robert Duzz was promoted to BSA/Compliance Officer. We are proud to honor these outstanding officers and thrilled with their advancement.

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

Respectfully,

James E. Nye
President

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grand Bank Corporation

We have audited the consolidated financial statements of Grand Bank Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, consolidated comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Grand Bank Corporation and Subsidiaries 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 the accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation 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 these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report

To the Board of Directors
Grand Bank Corporation

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, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- 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 Corporation'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.

Other Information Included in the Annual Report

Management is responsible for the other information included in the Annual Report. The other information comprises the President's Message but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or if the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Baker Newman Noyes LLC

Portsmouth, New Hampshire
February 16, 2022

Grand Bank Corporation & Subsidiaries
Consolidated Balance Sheets

December 31, 2021 and 2020

(In Thousands, Except Share Data)

	2021	2020
ASSETS		
Cash, due from banks and money market mutual funds	$ 28,123	$ 44,381
Federal funds sold	1,477	3,918
Federal Home Loan Bank interest-bearing accounts	215	104
Cash and cash equivalents	29,815	48,403
Investments in available-for-sale securities, at fair value	90,520	68,988
Marketable equity securities, at fair value	47,899	38,793
Federal Reserve Bank stock, at cost	94	85
Federal Home Loan Bank stock, at cost	754	1,227
Loans, net	291,388	279,225
Premises and equipment, net	2,896	2,879
Investment in real estate	1,568	1,582
Accrued interest receivable	931	994
Cash surrender value of life insurance	5,606	5,468
Other assets	404	481
Total assets	$471,875	$448,125
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$135,609	$116,011
Interest-bearing	235,040	231,151
Total deposits	370,649	347,162
Federal Home Loan Bank advances	3,688	12,771
Other liabilities	6,408	5,123
Total liabilities	380,745	365,056
Stockholders' equity:		
Common stock, par value $10.00 per share, authorized 500,000 shares, issued 17,500 shares; outstanding 11,071 shares in 2021 and 11,105 shares in 2020	175	175
Paid-in capital	10,100	9,702
Retained earnings	97,913	88,116
Treasury stock, at cost (6,429 shares in 2021 and 6,395 shares in 2020)	(17,689)	(16,892)
Accumulated other comprehensive income	631	1,968
Total stockholders' equity	91,130	83,069
Total liabilities and stockholders' equity	$471,875	$448,125

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

(In Thousands, Except Share Data)

	2021	2020
Interest and dividend income:		
Interest and fees on loans	$ 10,480	$ 10,728
Interest and dividends on securities:		
Taxable	1,690	1,493
Tax-exempt	605	532
Other interest	42	70
Total interest and dividend income	12,817	12,823
Interest expense:		
Interest on deposits	658	1,204
Interest on Federal Home Loan Bank advances	136	370
Total interest expense	794	1,574
Net interest and dividend income	12,023	11,249
Benefit (provision) for loan losses	122	(119)
Net interest and dividend income after benefit (provision) for loan losses	12,145	11,130
Noninterest income:		
Trust department income	49	39
Service charges and fees	259	279
Gain on sale of available-for-sale securities, net	–	15
Gain on marketable equity securities, net	8,499	6,395
Mortgage banking activities, net	5	11
Credit card merchant processing fees	54	45
Increase in cash surrender value of life insurance	138	142
Other income	643	590
Total noninterest income	9,647	7,516
Noninterest expense:		
Salaries and employee benefits	4,075	4,017
Occupancy expense	397	389
Equipment expense	460	334
Data processing	695	774
Consultant fees	330	291
FDIC assessment	110	87
Other expense	1,151	1,108
Total noninterest expense	7,218	7,000
Income before income tax expense	14,574	11,646
Income tax expense	3,222	2,564
Net income	$ 11,352	$ 9,082
Earnings per common share, basic	$ 1,022.12	$ 814.36
Earnings per common share, diluted	$ 1,020.59	$ 813.46

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

(In Thousands)

	2021	2020
Net income	$ 11,352	$ 9,082
Other comprehensive (loss) income, net of tax:		
Net unrealized holding (loss) gain on available-for-sale securities, net of tax	(1,337)	904
Other comprehensive (loss) income, net of tax	(1,337)	904
Comprehensive income	$ 10,015	$ 9,986

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

Years Ended December 31, 2021 and 2020

(In Thousands, Except Share Data)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2019	$ 175	$ 9,285	$ 80,488	$ (15,231)	$ 1,064	$ 75,781
Net income	–	–	9,082	–	–	9,082
Other comprehensive income, net of tax	–	–	–	–	904	904
Dividends declared on common stock ($130 per share)	–	–	(1,454)	–	–	(1,454)
Purchases of 302 shares of treasury stock	–	–	–	(1,980)	–	(1,980)
Issuance of 83 shares on exercise of stock options	–	199	–	186	–	385
Issuance of 53 shares for stock awards	–	212	–	133	–	345
Stock-based compensation – options	–	6	–	–	–	6
Balance, December 31, 2020	175	9,702	88,116	(16,892)	1,968	83,069
Net income	–	–	11,352	–	–	11,352
Other comprehensive loss, net of tax	–	–	–	–	(1,337)	(1,337)
Dividends declared on common stock ($140 per share)	–	–	(1,555)	–	–	(1,555)
Purchases of 139 shares of treasury stock	–	–	–	(1,074)	–	(1,074)
Issuance of 79 shares on exercise of stock options	–	239	–	193	–	432
Issuance of 32 shares for stock awards	–	155	–	84	–	239
Stock-based compensation – options	–	4	–	–	–	4
Balance, December 31, 2021	$ 175	$ 10,100	$ 97,913	$ (17,689)	$ 631	$ 91,130

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

(In Thousands)

	2021	2020
Cash flows from operating activities:		
Net income	$ 11,352	$ 9,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	365	232
Gain on sale of available-for-sale securities, net	–	(15)
Gain on marketable equity securities, net	(8,499)	(6,395)
Change in deferred origination fees/costs, net	(175)	383
(Benefit) provision for loan losses	(122)	119
Depreciation and amortization	295	241
Decrease in accrued interest receivable	63	13
Decrease (increase) in other assets	77	(32)
Increase in cash surrender value of life insurance policies	(138)	(142)
Increase in other liabilities	110	35
Deferred tax expense	1,627	916
Stock-based compensation expense – stock awards	239	345
Stock-based compensation expense – options	4	6
Net cash provided by operating activities	5,198	4,788
Cash flows from investing activities:		
Purchases of available-for-sale securities	(43,924)	(26,079)
Proceeds from sales of available-for-sale securities	–	511
Proceeds from paydowns, maturities and calls of available-for-sale securities	20,238	16,599
Purchases of equity securities	(3,917)	(5,080)
Proceeds from sales of equity securities	3,310	5,183
Purchases of Federal Reserve Bank stock	(9)	(14)
Redemption of Federal Home Loan Bank stock	473	227
Loan originations and principal collections, net	(11,879)	(16,961)
Recoveries of loans previously charged off	13	29
Capital expenditures	(298)	(158)
Net cash used in investing activities	(35,993)	(25,743)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020 *(Continued)*

(In Thousands)

	2021	2020
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	$ 34,122	$ 88,699
Net decrease in time deposits	(10,635)	(14,420)
Long-term advances from Federal Home Loan Bank	1,021	8,581
Payments on long-term advances from Federal Home Loan Bank	(10,104)	(17,451)
Dividends paid to common stockholders	(1,555)	(1,454)
Proceeds from exercise of stock options	432	385
Purchases of treasury stock	(1,074)	(1,980)
Net cash provided by financing activities	12,207	62,360
Net (decrease) increase in cash and cash equivalents	(18,588)	41,405
Cash and cash equivalents at beginning of year	48,403	6,998
Cash and cash equivalents at end of year	$ 29,815	$ 48,403
Supplemental disclosures:		
Interest paid	$ 789	$ 1,551
Income taxes paid	1,403	1,652

NOTE 1 - NATURE OF OPERATIONS

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

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses.

BASIS OF PRESENTATION:

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

RISKS AND UNCERTAINTIES:

On March 11, 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. The continued spread of COVID-19 has caused disruptions in the national and local economies and across a variety of industries due in part to public health measures implemented by state and local governments and the resulting sustained economic uncertainty. These issues have affected the financial markets including a significant decline in market interest rates and volatility in the securities market. Despite the many government stimulus programs introduced during the pandemic, the extent of any prolonged impact to the economy could adversely affect the ability of the Bank's borrowers to satisfy their obligations, decrease the demand for loans, disrupt operations, impact liquidity, or cause a decline in collateral values. While management has taken measures to mitigate the impact of the pandemic, such as transitioning, in part, to a remote work environment, the long-term impact to the Bank remains uncertain. Through December 31, 2021, the Bank has experienced neither a significant interruption in service provided to its customers nor a material decline in business activity as a result of the virus.

Most of the Bank's business activity is with customers located within the Town of Marblehead and neighboring communities. Although a majority of its loan portfolio is secured by residential real estate located in Massachusetts, there are no concentrations of credit to borrowers that have similar economic characteristics nor within a particular industry.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, money market mutual funds, federal funds sold and Federal Home Loan Bank interest-bearing accounts. In response to the coronavirus (COVID-19 or virus) pandemic, effective March 26, 2020, the Federal Reserve announced they were reducing the reserve requirement ratio to zero percent across all deposit tiers. The Bank is not required to maintain deposits in its Federal Reserve Bank account to satisfy reserve requirements and can use the additional liquidity to lend to individuals and businesses.

SECURITIES:

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

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

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

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

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

Marketable equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

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

FEDERAL RESERVE BANK (FRB) STOCK:

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

FEDERAL HOME LOAN BANK STOCK:

Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. Management evaluates the Corporation's investment in FHLB stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB as of December 31, 2021, management deems its investment in FHLB stock to be not other-than-temporarily impaired.

LOANS:

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

Interest on loans is recognized on a simple interest basis.

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

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any home equity lines in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

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

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) authorized the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Corporation was automatically qualified to originate loans under the PPP. The SBA reopened the PPP to new lending in January 2021, pursuant to the *Consolidated Appropriations Act* (CAA), which was signed into law on December 27, 2020. As of December 31, 2021 and 2020, the Corporation had 46 and 179 PPP loans outstanding, respectively, with an outstanding principal balance of $2,906,000 and $9,685,000, respectively. The Corporation receives a processing fee on each PPP loan originated, depending on the size of the PPP loan. The PPP loan processing fees and related loan origination costs are deferred and recognized to interest and fees on loans over the contractual term of each PPP loan. Loans originated under the PPP generally have a two year or five-year term depending on the origination date. PPP loans are included in the commercial and industrial class.

LOAN SERVICING:

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

ALLOWANCE FOR LOAN LOSSES:

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

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

GENERAL COMPONENT:

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Corporation's policies or methodology pertaining to the general component of the allowance for loan losses during 2021 or 2020, however, the Corporation has segregated PPP loans, which are government guaranteed, within the commercial and industrial segment for purposes of calculating the specific risk characteristics of these loans.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: The Corporation generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. Loans in this segment are collateralized primarily by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

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

Commercial and industrial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment. Also included within this segment are PPP loans. These loans are 100% guaranteed by the SBA and are subject to forgiveness if the borrower complies with the employee retention and other requirements.

Consumer: Loans in this segment are generally unsecured or secured by automobiles and repayment is dependent on the credit quality of the individual borrower.

ALLOCATED COMPONENT:

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

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

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

The Corporation has granted requests for payment deferrals to borrowers affected by the COVID-19 pandemic which are not classified as troubled debt restructurings (TDRs) in accordance with Section 4013 of the CARES Act and regulatory guidelines for working with borrowers affected by COVID-19. Interest continues to accrue during the deferral period with the loan reamortized to the original maturity date when payments recommence. Such loans are not considered delinquent if they are being paid in accordance with the modified terms.

UNALLOCATED COMPONENT:

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

PREMISES AND EQUIPMENT:

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

INVESTMENT IN REAL ESTATE:

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

ADVERTISING:

The Corporation directly expenses costs associated with advertising as they are incurred. Advertising expenses totaled approximately $70,000 and $66,000 in 2021 and 2020, respectively.

INCOME TAXES:

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

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

There were no material uncertain tax positions taken or expected to be taken at December 31, 2021 and 2020.

STOCK-BASED COMPENSATION:

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

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

EARNINGS PER SHARE:

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

REVENUE RECOGNITION:

The Corporation recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities and certain noninterest income such as fees associated with mortgage banking and certain credit card fees. Revenue from trust services, customer service fees (i.e. deposit related fees), interchange fees, and merchant income are within the scope of this guidance.

RECENT ACCOUNTING PRONOUNCEMENTS:

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

In October 2021, the FASB issued ASU No. 2021-07, *Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards*. This ASU provides private companies the option to elect a practical expedient to determine the current price input of equity-classified share-based awards issued as compensation using the reasonable application of a reasonable valuation method. The characteristics of this method are the same as the characteristics used in the regulations of the U.S. Department of the Treasury related to Section 409A of the U.S. Internal Revenue Code (the Treasury Regulations) to describe the reasonable application of a reasonable valuation method for income tax purposes. The amendments in this ASU are effective prospectively for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Corporation's consolidated financial statements.

NOTE 3 - INVESTMENTS IN SECURITIES

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

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
2021				
Available-for-sale debt securities:				
Political and state obligations	$ 25,041	$ 1,021	$ 50	$ 26,012
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,244	39	33	4,250
Corporate debt securities	1,003	56	–	1,059
Mortgage-backed securities	59,450	448	699	59,199
Total available-for-sale debt securities	$ 89,738	$ 1,564	$ 782	$ 90,520
2020				
Available-for-sale debt securities:				
Political and state obligations	$ 18,135	$ 1,342	$ –	$ 19,477
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	2,994	116	–	3,110
Corporate debt securities	3,006	109	–	3,115
Mortgage-backed securities	42,282	1,007	3	43,286
Total available-for-sale debt securities	$ 66,417	$ 2,574	$ 3	$ 68,988

The scheduled maturities of debt securities were as follows as of December 31, 2021:

	Fair Value (In Thousands)
Due within one year	$ 679
Due after one year through five years	16,022
Due after five years through ten years	12,446
Due after ten years	2,174
Mortgage-backed securities	59,199
	$ 90,520

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

During the fiscal year ended December 31, 2021, there were no sales of available-for-sale securities. During the fiscal year ended December 31, 2020, proceeds from sales of available-for-sale securities amounted to $511,000. Gross realized gains and losses in the fiscal year ended December 31, 2020 were $15,000 and $0, respectively.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2021 and 2020.

At December 31, 2021 and 2020, certain debt securities with a carrying value of $2,914,000 and $4,395,000, respectively, were pledged as collateral for potential Federal Reserve Bank borrowings.

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
2021						
Available-for-sale debt securities:						
Political and state obligations	$ 5,912	$ 50	$ –	$ –	$ 5,912	$ 50
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	2,025	33	–	–	2,025	33
Mortgage-backed securities	45,151	663	1,122	36	46,273	699
Total available-for-sale debt securities	$53,088	$ 746	$ 1,122	$ 36	$54,210	$ 782
2020						
Available-for-sale debt securities:						
Mortgage-backed securities	$ 2,054	$ 3	$ –	$ –	$ 2,054	$ 3
Total available-for-sale debt securities	$ 2,054	$ 3	$ –	$ –	$ 2,054	$ 3

As of December 31, 2021, declines in the fair value of sixty-six available-for-sale debt securities below amortized cost (1.44% of amortized cost basis) are deemed temporary, and result from market price volatility caused by interest rate movements. Corporation management does not intend to sell impaired securities in the near term, and has the ability to hold these securities until recovery to cost basis occurs.

The Corporation did not record any other-than-temporary impairment losses during the years ending December 31, 2021 and 2020.

The portion of unrealized gains and losses for the years ended December 31, 2021 and 2020 related to marketable equity securities still held at the reporting date is as follows (in thousands):

	2021	2020
Net gains during the period on equity securities	$ 8,499	$ 6,395
Less: net gains recognized on equity securities sold during the period	(165)	(25)
Net unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$ 8,334	$ 6,370

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2021	2020
	(In Thousands)	
Real estate:		
Residential	$268,736	$250,051
Commercial	15,754	14,307
Construction and land development	1,348	2,327
Commercial and industrial	6,001	12,968
Consumer	1,267	1,578
	293,106	281,231
Allowance for loan losses	(1,723)	(1,836)
Deferred origination costs (fees), net	5	(170)
Net loans	$291,388	$279,225

Certain directors and executive officers of the Corporation and companies in which they have significant ownership interest were customers of the Bank. Total loans to such persons and their companies amounted to $4,251,000 and $4,900,000 as of December 31, 2021 and 2020, respectively.

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

	Real Estate Residential	Real Estate Commercial	Commercial and Industrial (In Thousands)	Consumer	Un-allocated	Total
2021						
Allowance for loan losses						
Beginning balance	$ 1,631	$ 102	$ 69	$ 5	$ 29	$ 1,836
Charge-offs	–	–	(1)	(3)	–	(4)
Recoveries	–	–	11	2	–	13
Provision (benefit)	(83)	6	(15)	(1)	(29)	(122)
Ending balance	$ 1,548	$ 108	$ 64	$ 3	$ –	$ 1,723
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	1,548	108	64	3	–	1,723
Total allowance for loan losses ending balance	$ 1,548	$ 108	$ 64	$ 3	$ –	$ 1,723
Loans						
Ending balance:						
Individually evaluated for impairment	$ 1,591	$ –	$ –	$ –	$ –	$ 1,591
Collectively evaluated for impairment	268,493	15,754	6,001	1,267	–	291,515
Total loans ending balance	$ 270,084	$ 15,754	$ 6,001	$ 1,267	$ –	$ 293,106
2020						
Allowance for loan losses						
Beginning balance	$ 1,487	$ 126	$ 68	$ 12	$ –	$ 1,693
Charge-offs	–	–	–	(5)	–	(5)
Recoveries	–	–	19	10	–	29
Provision (benefit)	144	(24)	(18)	(12)	29	119
Ending balance	$ 1,631	$ 102	$ 69	$ 5	$ 29	$ 1,836
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	1,631	102	69	5	29	1,836
Total allowance for loan losses ending balance	$ 1,631	$ 102	$ 69	$ 5	$ 29	$ 1,836
Loans						
Ending balance:						
Individually evaluated for impairment	$ 1,781	$ –	$ –	$ –	$ –	$ 1,781
Collectively evaluated for impairment	250,597	14,307	12,968	1,578	–	279,450
Total loans ending balance	$ 252,378	$ 14,307	$12,968	$ 1,578	$ –	$ 281,231

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

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

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2021								
Real estate:								
Residential	$ 84	$ –	$ 158	$ 242	$ 268,494	$ 268,736	$ –	$ 158
Commercial	–	–	–	–	15,754	15,754	–	–
Construction and land development	–	–	–	–	1,348	1,348	–	–
Commercial and industrial	–	–	–	–	6,001	6,001	–	–
Consumer	–	–	–	–	1,267	1,267	–	–
	$ 84	$ –	$ 158	$ 242	$ 292,864	$ 293,106	$ –	$ 158
2020								
Real estate:								
Residential	$ 168	$ –	$ –	$ 168	$ 249,883	$ 250,051	$ –	$ –
Commercial	–	–	–	–	14,307	14,307	–	–
Construction and land development	–	–	–	–	2,327	2,327	–	–
Commercial and industrial	–	–	–	–	12,968	12,968	–	–
Consumer	–	–	–	–	1,578	1,578	–	–
	$ 168	$ –	$ –	$ 168	$ 281,063	$ 281,231	$ –	$ –

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2021					
With no related allowance recorded:					
Real estate:					
Residential	$ 1,591	$ 1,591	$ –	$ 1,755	$ 55
Total impaired with no related allowance	1,591	1,591	–	1,755	55
Total					
Real estate:					
Residential	$ 1,591	$ 1,591	$ –	$ 1,755	$ 55
Total impaired loans	$ 1,591	$ 1,591	$ –	$ 1,755	$ 55
2020					
With no related allowance recorded:					
Real estate:					
Residential	$ 1,781	$ 1,781	$ –	$ 1,793	$ 47
Consumer	–	–	–	3	–
Total impaired with no related allowance	1,781	1,781	–	1,796	47
Total					
Real estate:					
Residential	$ 1,781	$ 1,781	$ –	$ 1,793	$ 47
Consumer	–	–	–	3	–
Total impaired loans	$ 1,781	$ 1,781	$ –	$ 1,796	$ 47

As of December 31, 2021 and 2020 there were no impaired loans with an allowance recorded.

On March 22, 2020, the federal banking agencies issued an *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus*. This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of the virus. The guidance goes on to explain that the federal banking agencies conclude that short-term modifications (e.g. up to six months) made on a good faith basis to borrowers who were current as of the implementation date of the relief program are not troubled debt restructurings (TDRs). The CARES Act addresses modifications resulting from the pandemic and specified that virus related modifications on loans that were current as of December 31, 2019 are not TDRs. Under the CARES Act, as extended by the CAA on December 27, 2020, the modifications must be made between March 1, 2020, and the earlier of (i) January 1, 2022, or (ii) the 60th day after the end of the COVID-19 national emergency declared by the President. The Corporation has applied this guidance and implemented a loan payment deferral program which allows residential, commercial and consumer borrowers, who have been adversely affected by the virus and whose loans were not more than 30 days past due at March 31, 2020, to defer loan payments for up to six months. As of December 31, 2021, no loans were on deferment. As of December 31, 2020, 5 residential loans remained on deferment, with a total outstanding principal balance of $1,707,000. The Corporation continued to accrue interest on loans with deferred payments. The CARES Act provides emergency economic relief to individuals and businesses impacted by the virus.

Loans modified in troubled debt restructurings during 2021 and 2020 were not significant. During the years ended December 31, 2021 and 2020, there were no loans modified in troubled debt restructurings that have subsequently defaulted within one year of modification. As of December 31, 2021 and 2020, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

As of December 31, 2021 and 2020 there were no related allowances for loans that were modified in troubled debt restructurings. As of December 31, 2021 and 2020, there were no troubled debt restructured loans on nonaccrual.

At December 31, 2021 and 2020, there were no loans collateralized by residential real estate property in the process of foreclosure.

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

	Real Estate					
	Residential	Commercial	Construction and Land Development	Commercial and Industrial	Consumer	Total
	(In Thousands)					
2021						
Grade:						
Pass (1-3)	$ –	$ 15,398	$ 1,348	$ 6,001	$ –	$ 22,747
Special mention (4)	–	–	–	–	–	–
Substandard (5)	–	356	–	–	–	356
Not formally rated	268,736	–	–	–	1,267	270,003
	$ 268,736	$ 15,754	$ 1,348	$ 6,001	$ 1,267	$ 293,106
2020						
Grade:						
Pass (1-3)	$ –	$ 13,937	$ 2,327	$ 12,488	$ –	$ 28,752
Special mention (4)	–	–	–	480	–	480
Substandard (5)	–	370	–	–	–	370
Not formally rated	250,051	–	–	–	1,578	251,629
	$ 250,051	$ 14,307	$ 2,327	$ 12,968	$ 1,578	$ 281,231

CREDIT QUALITY INFORMATION

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

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

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

Loans rated 5: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Corporation will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

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

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

Loans serviced for others are not included in the accompanying consolidated balance sheets. As of December 31, 2021 and 2020, the Corporation serviced loans for others with unpaid principal balances of $3,661,000 and $5,178,000, respectively.

The balance of capitalized mortgage servicing rights included in other assets at December 31, 2021 and 2020 was immaterial. Management estimates that the fair value of those rights approximates carrying value.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2021	2020
	(In Thousands)	
Land	$ 1,559	$ 1,559
Buildings and improvements	2,820	2,675
Furniture and equipment	883	1,012
Leasehold improvements	100	150
	5,362	5,396
Accumulated depreciation and amortization	(2,466)	(2,517)
	$ 2,896	$ 2,879

NOTE 6 - INVESTMENT IN REAL ESTATE

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

	2021	2020
	(In Thousands)	
Land	$ 1,328	$ 1,328
Buildings	345	345
	1,673	1,673
Accumulated depreciation	(105)	(91)
	$ 1,568	$ 1,582

Rental income from investment in real estate amounted to $98,000 and $96,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 7 - DEPOSITS

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit (currently $250,000) at December 31, 2021 and 2020 amounted to $10,582,000 and $13,159,000, respectively.

For time deposits as of December 31, 2021, the scheduled maturities for each of the following five years ended December 31 are (in thousands):

2022	$25,267
2023	1,899
2024	971
2025	1,996
2026	727
	$30,860

Deposits from related parties held by the Corporation as of December 31, 2021 and 2020 amounted to $2,630,000 and $2,945,000, respectively.

The Corporation has one customer with deposits amounting to $27,980,000, or 7.54% of total deposits, as of December 31, 2021. The Corporation had one customer with deposits amounting to $36,737,000, or 10.58% of total deposits, as of December 31, 2020.

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

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

Maturities of advances from the FHLB for the years ending after December 31, 2021 are summarized as follows (in thousands):

2022	$ 2,227
2023	1,021
2024	440
	$ 3,688

At December 31, 2021, the interest rates on FHLB advances ranged from 0.34% to 2.00%, and the weighted average interest rate on FHLB advances was 1.27%. At December 31, 2020, the interest rates on FHLB advances ranged from 0.41% to 2.95%, and the weighted average interest rate on FHLB advances was 1.82%.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets. At December 31, 2021, the maximum available borrowing capacity amounted to $146,621,000, including $3,095,000 available under an Ideal Way line of credit.

NOTE 9 - INCOME TAXES

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

	2021	2020
	(In Thousands)	
Current:		
Federal	$ 1,190	$ 1,238
State	405	410
	1,595	1,648
Deferred:		
Federal	1,569	942
State	58	(26)
	1,627	916
Total income tax expense	$ 3,222	$ 2,564

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

	2021 % of Income	2020 % of Income
Federal income tax at statutory rate	21.0%	21.0%
Increase (decrease) in tax rates resulting from:		
Tax exempt income	(1.5)	(1.6)
State tax, net of federal tax benefit	2.5	2.6
Other, net	0.1	–
Effective tax rates	22.1%	22.0%

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

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 340	$ 374
Accrued deferred compensation	116	129
Other	–	19
Loan origination fees and costs, net	–	48
Gross deferred tax assets	456	570

	2021	2020
	(In Thousands)	
Deferred tax liabilities:		
Loan origination fees and costs, net	$ (2)	$ –
Depreciation	(181)	(165)
Mortgage servicing rights	(5)	(6)
Net unrealized holding gain on investment securities	(5,435)	(4,394)
Other	(3)	–
Gross deferred tax liabilities	(5,626)	(4,565)
Net deferred tax liability, included in other liabilities	$ (5,170)	$ (3,995)

As of December 31, 2021 and 2020, the Corporation had no operating loss tax credit carryovers for tax purposes.

NOTE 10 - EMPLOYEE BENEFITS

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

As of December 31, 2021 and 2020, the liability for the above agreements was $412,000 and $463,000, respectively. The Corporation recorded a benefit for the agreements of $28,000 in 2021 and 2020.

The Corporation has a Profit Sharing Plan with a 401(k) feature for all employees who have attained age 21 and completed one year of service with the Corporation. Under this plan, employees may make voluntary contributions to the plan under salary reduction agreements and the Corporation will match these contributions by an amount equal to 50% of each participant's contribution on the first 4% of eligible compensation. In addition, the Corporation, at the discretion of its Board of Directors, can make annual contributions to this plan which will be allocated to a separate account for each employee based on the employee's compensation. Total expense for this plan for the years ended December 31, 2021 and 2020 was $172,000 and $157,000, respectively.

The Corporation adopted ASC 715-60, *Compensation – Retirement Benefits – Defined Benefit Plans –Other Postretirement*, and recognized a liability for the Corporation's future postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The total liability for the arrangements included in other liabilities was $103,000 and $109,000 in 2021 and 2020, respectively. Benefits paid for these arrangements amounted to $6,000 in 2021 and 2020.

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

NOTE 11 - STOCK COMPENSATION PLANS

Stock Option Plans

The Corporation has stock-based employee compensation plans where the aggregate number of shares of common stock of the Corporation for which options may be granted is a total of 2,575 shares with 1,467 shares remaining available for future grants as of December 31, 2021.

The exercise price of each option is the price established by the Board of Directors on the date of the grant of the option.

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

The fair value of each option granted in 2021 and 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2021	2020
Expected volatility	6.08%	4.96%
Expected dividends	1.86%	1.90%
Expected term (in years) for directors	5.00	5.00
Expected term (in years) for employees	5.00	6.00
Risk-free rate	1.20%	0.44%

A summary of the status of the Corporation's stock option plans as of December 31, 2021 and 2020 and changes during the years ending on those dates is presented below:

	2021		2020	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	307	$ 5,673	319	$ 5,224
Granted	78	7,894	71	6,838
Exercised	(79)	5,544	(83)	4,897
Forfeited	(10)	5,957	–	–
Outstanding at end of year	296	$ 6,264	307	$ 5,673
Options exercisable at year end	232	6,167	208	5,310
Weighted-average fair value of options granted during the year	$ 288		$ 101	

The following table summarizes information about fixed stock options outstanding as of December 31, 2021:

Options Outstanding			Options Exercisable	
Number Outstanding as of 12/31/2021	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of 12/31/2021	Weighted-Average Exercise Price
10	0.69 years	$ 4,232	10	$ 4,232
10	1.61 years	4,403	10	4,403
18	2.65 years	4,779	18	4,779
18	3.65 years	4,964	18	4,964
21	4.64 years	5,172	21	5,172
27	5.64 years	5,471	27	5,471
30	6.72 years	5,917	30	5,917
47	7.68 years	6,389	15	6,389
47	8.75 years	6,838	15	6,838
68	9.82 years	7,894	68	7,894
296	7.32 years	$ 6,264	232	$ 6,167

As of December 31, 2021, there was $3,000 of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted-average period of 1.31 years.

Stock Awards

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

For the years ended December 31, 2021 and 2020, the Corporation awarded 11 and 27 shares, respectively, of common stock to key employees that vested immediately. In addition, the Corporation awarded 19 shares during the year ended December 31, 2020 that vest over periods ranging from three to five years.

On an annual basis, the Board of Directors also receives awards that are vested immediately. For each of the years ended December 31, 2021 and 2020, the Corporation awarded 7 shares.

As of December 31, 2021, there is $91,000 of unrecognized compensation cost related to nonvested stock awards granted. The cost is expected to be recognized over a weighted-average period of 0.83 years. Total expenses related to these stock awards totaled $323,000 and $362,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 12 - FINANCIAL INSTRUMENTS

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

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

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

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2021 and 2020, the maximum potential amount of the Corporation's obligation was $225,000 and $216,000, respectively, for financial and standby letters of credit. If a letter of credit is drawn upon, the Corporation may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Corporation may take possession of the collateral, if any, securing the line of credit.

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

	2021	2020
	(In Thousands)	
Commitments to originate loans	$ 1,770	$ 3,646
Standby letters of credit	225	216
Unadvanced portions of loans:		
Home equity loans	19,542	17,335
Construction loans	18	203
Other lines of credit	10,660	18,423
	$32,215	$39,823

NOTE 13 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Corporation's financial assets and financial liabilities carried at fair value for December 31, 2021 and 2020.

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

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

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

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

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

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
2021				
Available-for-sale debt securities:				
Political and state obligations	$ 26,012	$ –	$ 26,012	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,250	–	4,250	–
Corporate debt securities	1,059	–	1,059	–
Mortgage-backed securities	59,199	–	59,199	–
Total securities available-for-sale	90,520	–	90,520	–
Marketable equity securities	47,899	47,899	–	–
Total securities	$138,419	$47,899	$90,520	$ –

	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2020				
Available-for-sale debt securities:				
Political and state obligations	$ 19,477	$ –	$19,477	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	3,110	–	3,110	–
Corporate debt securities	3,115	–	3,115	–
Mortgage-backed securities	43,286	–	43,286	–
Total securities available-for-sale	68,988	–	68,988	–
Marketable equity securities	38,793	38,793	–	–
Total securities	$107,781	$38,793	$68,988	$ –

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

	Carrying Amount	Fair Value: Level 1	Level 2	Level 3	Total
	(In Thousands)				
2021					
Financial assets:					
Cash and cash equivalents	$ 29,815	$29,815	$ –	$ –	$ 29,815
Investments in available-for-sale securities	90,520	–	90,520	–	90,520
Marketable equity securities	47,899	47,899	–	–	47,899
Federal Reserve Bank stock	94	–	94	–	94
Federal Home Loan Bank stock	754	–	754	–	754
Loans, net	291,388	–	–	295,907	295,907
Accrued interest receivable	931	931	–	–	931
Financial liabilities:					
Deposits	370,649	–	370,756	–	370,756
Federal Home Loan Bank advances	3,688	–	3,685	–	3,685
2020					
Financial assets:					
Cash and cash equivalents	$ 48,403	$48,403	$ –	$ –	$ 48,403
Investments in available-for-sale securities	68,988	–	68,988	–	68,988
Marketable equity securities	38,793	38,793	–	–	38,793
Federal Reserve Bank stock	85	–	85	–	85
Federal Home Loan Bank stock	1,227	–	1,227	–	1,227
Loans, net	279,225	–	–	298,889	298,889
Accrued interest receivable	994	994	–	–	994
Financial liabilities:					
Deposits	347,162	–	347,766	–	347,766
Federal Home Loan Bank advances	12,771	–	12,901	–	12,901

Under certain circumstances the Corporation makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. At December 31, 2021 and 2020, there were no assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded.

NOTE 14 - OTHER COMPREHENSIVE INCOME

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

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

	2021	2020
	(In Thousands)	
Net unrealized holding (losses) gains on available-for-sale securities	$(1,789)	$ 1,199
Reclassification adjustment for realized gains on available-for-sale securities	–	(15)
Other comprehensive (loss) income before income tax effect	(1,789)	1,184
Income tax benefit (expense)	452	(280)
Other comprehensive (loss) income, net of tax	$(1,337)	$ 904

A summary of the reclassification adjustments out of accumulated other comprehensive income included in net income is as follows for the years ended December 31, 2021 and 2020:

Reclassification Adjustment	2021	2020	Affected Line Item in Consolidated Statements of Income
	(In Thousands)		
Realized gains on securities	$ –	$ (15)	Gain on sale of available-for-sale securities, net
	–	(15)	Income before income tax expense
	–	3	Income tax expense
	$ –	$ (12)	Net income

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

	2021	2020
	(In Thousands)	
Tax effect related to:		
Unrealized losses (gains) on available-for-sale securities:		
Unrealized holding losses (gains) arising during the year	$ 452	$ (283)
Reclassification adjustment for net realized gains on available-for-sale securities included in net income	–	3
Income tax benefit (expense) related to items of other comprehensive (loss) income	$ 452	$ (280)

Accumulated other comprehensive income as of December 31, 2021 and 2020 consists of net unrealized holding gains on available-for-sale securities of $782,000 and $2,571,000, respectively, net of taxes of ($151,000) and ($603,000), respectively.

NOTE 15 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal Reserve Board and the FDIC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. Their capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2021, the Bank exceeded all of its respective regulatory capital requirements and is considered "well capitalized" under regulatory guidelines.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies were required to develop a "Community Bank Leverage Ratio" (CBLR) (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A "qualifying community bank" that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies have set 9% as the minimum capital for the CBLR, effective March 31, 2020. On April 6, 2020, pursuant to Section 4012 of the CARES Act, the regulatory agencies temporarily lowered the CBLR requirement to 8%, with a transition from greater than 8% from the second quarter through the fourth quarter of 2020, to greater than 8.5% during calendar year 2021, to a requirement of greater than 9% in 2022. The Bank elected to be subject to the CBLR.

	As Reported		To Be Well Capitalized Under Prompt Corrective Action Guidelines (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
2021				
Tier 1 Capital to Average Total Assets	$42,394	10.10%	$35,671	8.5%
2020				
Tier 1 Capital to Average Total Assets	$40,768	10.08%	$32,329	8.0%

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2021, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to $3,002,000.

NOTE 16 - EARNINGS PER SHARE (EPS)

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in Thousands, Except Per Share Data)		
2021			
Basic EPS:			
Net income and income available to common stockholders	$ 11,352	11,106	$ 1,022.12
Effect of dilutive securities, options	–	17	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 11,352	11,123	$ 1,020.59
2020			
Basic EPS:			
Net income and income available to common stockholders	$ 9,082	11,152	$ 814.36
Effect of dilutive securities, options	–	12	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 9,082	11,164	$ 813.46

NOTE 17 - LEGAL AND OTHER CONTINGENCIES

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

NOTE 18 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 16, 2022, which is the date the consolidated financial statements were available to be issued. On February 15, 2022, the Board of Directors declared a dividend of $65 per share, including a $35 special dividend, payable on March 15, 2022 to shareholders of record as of March 1, 2022. There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.

NOTE 19 - RECLASSIFICATIONS

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

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Automobile Loans
Banking By Mail
Boat Loans
Cashier's Checks
Certificates of Deposit
Checking Accounts
Collateral Loans
Commercial Loans
Corporate Cash Management
Credit Cards
Debit Card with Rewards
Digital Wallet
Drive-Up Window
E-Statements
Foreign Currency
Foreign Remittances
Home Equity Loans
Individual Retirement Accounts
Instant Issue Debit Cards

Mobile Banking with Alerts
Mobile Check Capture
Money Order Checks
Mortgage Loans
Night Depository
Notary Services
Online Banking/Bill Pay
Overdraft Protection
Overdraft Transfer
Personal Loans
Remote Deposit Capture
Revolving Credit Loans
Safe Deposit Boxes
Savings Accounts
Savings Bond Redemptions
Signature Guarantees
Trust Services
Wire Transfers

ATM LOCATIONS IN MARBLEHEAD

(Full Service*)

91 Pleasant Street Main Office
Main Lobby Front Vestibule*
Drive-Up ATM*

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

Grand Bank Corporation

91 Pleasant Street
Marblehead, Massachusets 01945

(781) 631-6000

www.ngbank.com