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) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)); section 10(b)(2) of the Home Owners' Loan Act (12 U.S.C. § 1467a(b)(2)); sections 102 (a)(1), 165, and 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. §§ 5311(a)(1), 5365, and 1850a(c)(1)); and sections 8(a) and 13(a) of the International Banking Act of 1978 (12 U.S.C. §§ 3106(a) and 3108(a)). 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, Mark R. O'Connell
Name of the Holding Company Director and Official

President & CEO
Title of the Holding Company Director and Official

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

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

DocuSigned by:
7FE0E5F467B84D1...
Signature of Holding Company Director and Official

3/31/2023
Date of Signature

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

December 31, 2022
Month / Day / Year

Reporter's Name, Street, and Mailing Address

Assabet Valley Bancorp
Legal Title of Holding Company

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

Hudson	MA	01749
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Karen E. Moe	VP Assistant Treasurer
Name	Title

978-567-3582
Area Code / Phone Number / Extension

978-567-3601
Area Code / FAX Number

k.moe@avidiabank.com
E-mail Address

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

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

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

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

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

For Federal Reserve Bank Use Only

RSSD ID ____________________
C.I. ____________

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.

Report Item 1: Annual Report to Shareholders

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

Checklist

The checklist below is provided to assist the holding company in filing all the necessary responses and verifying changes from the prior year to the various report items. The completed checklist should be submitted with the report. Please see section A of the General Instructions for additional guidance.

Verification of Changes

All Reporters must respond to the following questions by checking the Yes or No box below, as appropriate.

Did the holding company have changes to any reportable FR Y-6 items (2a, 2b, 3, or 4) from the prior year?

☒ Yes ☐ No

If checked Yes, complete the remaining checklist for Report Items 2a, 2b, 3, and 4. For each Report Item, indicate whether there are changes from the prior year by checking Yes or No below. See section A of the General Instructions for additional information.

Report Item 2a: Organization Chart

☐ Yes ☒ No

If checked Yes, the Reporter must submit the organization chart as specified in Report Item 2.a instructions.

Report Item 2b: Domestic Branch Listing

☐ Yes ☒ No

If checked Yes, the Reporter must submit the domestic branch listing as specified in Report Item 2.b instructions.

Report Item 3: Securities Holders

☐ Yes ☒ No

If checked Yes, the Reporter must submit the information as specified in Report Item 3 instructions.

Report Item 4: Insiders

☒ Yes ☐ No

If checked Yes, the Reporter must submit the information as specified in Report Item 4 instructions.

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City | State | Zip Code

Physical Location (if different from mailing address)

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City | State | Zip Code

Physical Location (if different from mailing address)

Assabet Valley Bancorp and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2022 and 2021

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BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Audit Committee
Assabet Valley Bancorp and Subsidiary

Report on the Financial Statements and Internal Control

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the consolidated financial statements of Assabet Valley Bancorp and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of net income, comprehensive (loss) income, changes in capital 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 the Company as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

We also have audited the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions), as of December 31, 2022, based on criteria established in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 based on criteria established in the Internal Control—Integrated Framework issued by COSO.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

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

Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting.

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 Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

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 about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted auditing standards will always detect a material misstatement or a material weakness 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 to be 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 consolidated financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.

- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

- 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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Other Matter

We did not perform auditing procedures on Management's Assessment of Compliance with Designated Laws and Regulations, included in the accompanying Management Report Regarding Statement of Management's Responsibilities, Compliance with Designated Laws and Regulations, and Management's Assessment of Internal Control Over Financial Reporting, and accordingly, we do not express an opinion or provide any assurance on it.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
March 22, 2023

MANAGEMENT REPORT REGARDING STATEMENT OF MANAGEMENT'S RESPONSIBILITIES, COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS, AND MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Statement of Management's Responsibilities

The management of Assabet Valley Bancorp and Subsidiary (the Company) is responsible for preparing the Company's annual consolidated financial statements in accordance with U.S. generally accepted accounting principles; for designing, implementing, and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions to the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP) (call report instructions); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022.

Management's Assessment of Internal Control over Financial Reporting

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

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

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

Management assessed the effectiveness of the Company’s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of December 31, 2022, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control - Integrated Framework* (COSO). Based upon its assessment, management has concluded that, as of December 31, 2022, the Company’s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, is effective based on the criteria established in COSO.

The Company’s internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the call report instructions, as of December 31, 2022, has been audited by Berry Dunn McNeil & Parker, LLC, an independent public accounting firm, as stated in their report dated March 22, 2023.

DocuSigned by:
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Mark O’Connell, President and Chief Executive Officer

DocuSigned by:
Margaret B Melo Sullivan
CF45F4208949467...

Margaret Sullivan, Chief Financial Officer

DocuSigned by:
Jocelyn Arsenault
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Jocelyn Arsenault, SVP Internal Audit

Assabet Valley Bancorp and Subsidiary

Consolidated Balance Sheets

December 31, 2022 and 2021

(In thousands)

	2022	2021
Assets		
Cash and due from banks	$ 77,853	$ 279,698
Securities available for sale, at fair value	314,473	326,453
Equity securities, at fair value	23,609	28,286
Securities held to maturity, at amortized cost (fair value $16,558 in 2022 and $11,697 in 2021)	16,754	11,752
Federal Home Loan Bank stock, at cost	12,779	1,696
Loans held for sale	-	3,556
Loans, net of allowance for loan losses of $18,213 in 2022 and $17,189 in 2021	1,921,284	1,579,444
Premises and equipment, net	26,818	23,709
Bank-owned life insurance	28,903	28,547
Accrued interest receivable	7,310	6,266
Net deferred tax asset	17,542	5,872
Goodwill	11,936	11,936
Mortgage servicing rights	3,474	2,821
Other assets	21,596	13,749
	$ 2,484,331	$ 2,323,785
Liabilities and Capital		
Deposits	$ 1,963,299	$ 2,079,223
Federal Home Loan Bank advances	296,500	10,000
Subordinated debt	27,408	24,945
Mortgagors' escrow accounts	3,424	2,829
Accrued expenses and other liabilities	32,530	23,616
Total liabilities	2,323,161	2,140,613
Commitments and contingencies (Notes 3, 8, 9, 11 and 12)		
Capital:		
Retained earnings	192,956	183,999
Accumulated other comprehensive loss	(31,786)	(827)
Total capital	161,170	183,172
	$ 2,484,331	$ 2,323,785

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

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Net Income

Years Ended December 31, 2022 and 2021

(In thousands)

	2022	2021
Interest and dividend income:		
Loans, including fees	$ 75,018	$ 70,569
Securities	7,480	5,147
Other	1,803	405
Total interest and dividend income	84,301	76,121
Interest expense:		
Deposits	3,966	3,980
Federal Home Loan Bank advances	2,270	589
Subordinated debt	1,718	1,469
Total interest expense	7,954	6,038
Net interest income	76,347	70,083
Provision for loan losses	1,225	3,125
Net interest income, after provision for loan losses	75,122	66,958
Non-interest income:		
Customer service fees	3,314	3,012
Net (loss)/gain on sale of securities available for sale	(1,164)	337
Net recognized (loss)/gain on equity securities	(4,675)	5,985
Merchant processing fees	7,788	7,951
Income on bank-owned life insurance	608	555
Mortgage banking income	1,979	3,978
Investment commissions	1,359	1,270
Debit card income	2,300	2,118
Credit card income	1,316	1,321
Other	904	1,574
Total non-interest income	13,729	28,101
Non-interest expense:		
Salaries and employee benefits	34,415	32,517
Occupancy and equipment	7,510	6,739
Data processing	13,242	13,159
Professional fees	2,301	2,121
Merchant processing	3,905	4,085
Deposit insurance	1,604	1,749
Advertising	2,686	2,106
Telecommunications	366	476
Problem loan and foreclosed real estate, net	115	311
Other general and administrative	10,396	8,892
Total non-interest expense	76,540	72,155
Income before income tax expense	12,311	22,904
Income tax expense	3,354	5,621
Net income	$ 8,957	$ 17,283

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

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Comprehensive (Loss) Income

Years Ended December 31, 2022 and 2021

(In thousands)

	2022	2021
Net income	$ 8,957	$ 17,283
Other comprehensive loss:		
Securities available for sale:		
Unrealized holding losses arising during period	(43,082)	(8,299)
Reclassification adjustment for losses (gains) realized in income [1]	1,164	(337)
	(41,918)	(8,636)
Tax effect	(10,959)	2,267
Other comprehensive loss	(30,959)	(6,369)
Comprehensive (loss) income	$ (22,002)	$ 10,914

[1] Amounts are included in net gain on sale of securities available for sale on the Consolidated Statements of Net Income. Income tax expense associated with the reclassification adjustment for the years ended December 31, 2022 and 2021 was ($326,000) and $95,000 respectively.

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

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Changes in Capital

Years Ended December 31, 2022 and 2021

(In thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2020	$ 166,716	$ 5,542	$ 172,258
Comprehensive income	17,283	(6,369)	10,914
Balance at December 31, 2021	183,999	(827)	183,172
Comprehensive loss	8,957	(30,959)	(22,002)
Balance at December 31, 2022	$ 192,956	$ (31,786)	$ 161,170

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

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from operating activities:		
Net income	$ 8,957	$ 17,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	2,564	2,510
Provision for loan losses	1,225	3,125
Deferred income tax (benefit) expense	(503)	457
Net realized loss (gain) on securities available for sale	1,164	(337)
Net recognized losses (gains) on equity securities	4,675	(5,985)
Gain on sale of loans	(509)	(2,207)
Net amortization of securities	13	201
Proceeds from sale of loans	23,733	104,672
Loans originated for sale	(19,668)	(100,221)
Amortization of subordinated debt issuance costs	(537)	94
Increase in cash surrender value of bank-owned life insurance	(549)	(541)
Net change in:		
Interest receivable	(1,044)	811
Other, net	(3,699)	(10,427)
Net cash provided by operating activities	15,822	9,435
Cash flows from investing activities:		
Securities available for sale		
Maturities, principal payments, calls and sales	83,189	91,188
Purchases	(114,303)	(147,515)
Securities held to maturity		
Purchases	(5,003)	(4,466)
Equity securities		
Proceeds from sales	2,085	4,237
Purchases	(2,083)	(4,392)
Redemption of Federal Home Loan Bank stock	-	506
Purchases of Federal Home Loan Bank stock	(11,083)	-
Loan originations, net of principal payments	(342,547)	(64,629)
Death benefit proceeds from bank-owned life insurance	193	344
Purchases of bank owned life insurance	-	(3,000)
Purchases of premises and equipment	(2,286)	(4,352)
Net cash used in investing activities	(391,838)	(132,079)

(continued)

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

Assabet Valley Bancorp and Subsidiary

Consolidated Statements of Cash Flows (Concluded)

Years Ended December 31, 2022 and 2021

(In thousands)

	2022	2021
Cash flows from financing activities:		
Net change in deposits	(115,924)	306,243
Proceeds from issuance of long-term Federal Home Loan Bank advances	76,500	-
Net change in short-term Federal Home Loan Advances	234,500	-
Repayment of long-term Federal Home Loan Bank advances	(24,500)	(10,000)
Net proceeds from issuance of subordinated debt	28,000	-
Repayment of subordinated debt	(25,000)	-
Net change in mortgagors' escrow account	595	453
Net cash provided by financing activities	174,171	296,696
Net change in cash and cash equivalents	(201,845)	174,052
Cash and cash equivalents at beginning of year	279,698	105,646
Cash and cash equivalents at end of year	$ 77,853	$ 279,698
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	$ 8,356	$ 4,032
Income taxes paid, net of refunds	2,719	5,769
Noncash transacations		
Lease liabilities arising from obtaining right-of-use assets	$ 3,387	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of Assabet Valley Bancorp (the "Company"), a mutual holding company, and its wholly-owned subsidiary, Avidia Bank (the "Bank") and its subsidiaries, Hudson Security Corporation, Eli Whitney Securities Corporation and 42 Main Street Corporation. The Bank is a state-chartered savings bank that provides depository and loan products to individual and corporate customers primarily in the central Massachusetts region. Hudson Security Corporation and Eli Whitney Securities Corporation engage in the investment of securities. 42 Main Street Corporation was established to hold, manage and sell the Bank's foreclosed real estate property. All significant intercompany balances and transactions have been eliminated in consolidation.

Management has evaluated subsequent events through March 22, 2023, which is the date the financial statements were available to be issued. There were no subsequent events that require the adjustment to or disclosure in the consolidated financial statements.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the realizability of deferred tax assets.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. Cash accounts at correspondent banks are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000; at times balances exceed this amount. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk with the cash in banks.

Reclassification

Certain amounts in the 2021 consolidated financial statements have been classified to conform to the 2022 presentation.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive (loss) income, net of tax. 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 resorting from observable price changes in orderly transactions for the identical or a similar investment.

Purchase premiums are recognized in interest income using the interest method over the lesser of the expected terms or the period to the earliest call date of the securities. Purchase discounts are recognized in interest income using the interest method through the maturity of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

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

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. At its discretion, the FHLB may declare dividends on the stock. As of December 31, 2022 and 2021, no impairment has been recognized.

Tax Credit Investments

The Company invests in qualified affordable housing projects through limited liability entities to obtain tax benefits and to contribute to its local community. The Company has elected to account for these investments using the proportional amortization method whereby the amortization of the investment in the limited liability entity is in proportion to the tax credits utilized each year and amortization is recognized in the consolidated statement of net income as a component of income tax expense. These investments are reported in other assets in the consolidated balance sheets in the amounts of $1,728,000 and $2,125,000 at December 31, 2022 and 2021, respectively.

Loans Held For Sale

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

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout central Massachusetts.

The ability of the Company's debtors to honor their contracts is dependent upon real estate values and general economic conditions in this area.

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

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

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

Allowance for Loan Losses

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

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

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, home equity lines of credit ("HELOC") and second mortgages, commercial real estate, construction, commercial, personal, and credit cards. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. The Company is currently using ten years for the look-back period for historical data to capture relevant loss information. 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 Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2022.

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 – Loans in this segment consist of 1-4 family residential real estate loans. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. Loans in this segment are collateralized 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.

HELOC and second mortgages – The Company generally has first or second liens on the property securing the loans in this segment and repayment is dependent on the credit quality of the individual borrower.

Commercial real estate – Loans in this segment are primarily income-producing properties. The underlying cash flows generated by the properties are impacted by the economy and vacancy rates, which thus will have an effect on the credit quality in this segment.

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

Commercial loans – 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. The economy and consumer spending have an effect on the credit quality in this segment.

Personal and credit card loans – Loans in these segments consist of personal loans and credit cards. These loans may be secured or unsecured 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 by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential real estate loans for impairment disclosures unless such loans are consumer troubled debt restructuring ("TDR") agreements.

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

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

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheet at cash surrender value. Changes in cash surrender value are reflected in non-interest income on the consolidated statement of net income and are not subject to income taxes.

Credit-Related Financial Instruments

In the ordinary course of business, the Company enters into commitments to extend credit. Such financial instruments are recorded as assets when they are funded.

Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the estimated proceeds to be received, less cost to sell. To the extent that impairment is identified, the Company would reduce the carrying value of such assets. To date, the Company has not experienced any such impairment.

Premises and Equipment

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

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling costs, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct write downs are included in problem loan and foreclosed real estate, net on the consolidated statement of net income.

Goodwill

Avidia Bank was created by a merger between Hudson Savings Bank and Westborough Bank in 2007. Goodwill of $11,936,000 resulting from the merger is not amortized but is evaluated for impairment on an annual basis. Impairment of goodwill is recognized in earnings. As of December 31, 2022, no impairment has been recognized.

Loan Servicing

Servicing rights are recognized as separate assets when rights are acquired through sale of financial assets and recorded at fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Changes in fair value are reported in mortgage banking income.

Transfers of Financial Assets

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

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

Revenue from Contracts with Customers

The Company earns merchant processing frees from transactions conducted through the payment network. Merchant processing fees from transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

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

The Company does not have any uncertain tax positions at December 31, 2022 and 2021 which require accrual or disclosure. The Company records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2022 and December 2021.

Comprehensive (Loss) 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 capital section of the balance sheet, such items, along with net income, are components of comprehensive (loss) income.

The components of accumulated other comprehensive (loss) income, included in capital at December 31, 2022 and 2021, are as follows:

	December 31,	
	2022	2021
	(In thousands)	
Net unrealized loss on securities available for sale	$(43,242)	$ (1,145)
Tax effect	11,456	318
Net-of-tax amount	$(31,786)	$ (827)

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." The standard replaces the existing incurred loss model of recognizing credit losses and is referred to as the current expected credit loss model (CECL). Under the new guidance, expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost are measured and recognized based on historical experience, and current and reasonably supportable forecasted conditions, to reflect the full amount of expected credit losses. CECL also applies to held-to-maturity debt securities and certain off-balance sheet credit exposures, such as loan commitments, standby letters of credit, and financial guarantees.

The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is adopting ASU 2016-13, as amended using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings. The Company utilized a model that contains assumptions to calculate credit losses over the estimated life of the financial assets, including the impact of forecasted economic conditions. To estimate the allowance for credit losses for off-balance sheet credit exposures, which are primarily unfunded loan commitments, the Company applied certain assumptions. The impact of adopting this standard is still in process by the Company and the Company anticipates having fully adopted the new guidance by March 31, 2023.

As part of the adoption of ASU 2016-13, the Company is analyzing the held-to-maturity debt portfolio and determining if an allowance for current expected credit losses is warranted. The expected credit losses are adjusted quarterly on an ongoing basis and recorded in an allowance for expected credit losses on the balance sheet, which is deducted from the amortized cost basis of the held-to-maturity portfolio as a contra asset. The losses are expected to be recorded on the statement of net income through the provision for credit losses. Held-to-maturity investments have no historical evidence supporting expected credit losses; therefore, the Company estimates these losses at zero, and will monitor this assumption in the future for any economic or governmental policies that could affect this assumption.

In March 2022, the FASB issued ASU 2022-02, "*Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*," which eliminates the accounting guidance for troubled debt restructurings, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. ASU No. 2022-02 is not expected to have a material impact on the Company's consolidated financial statements.

2. SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2022				
Securities Available for Sale				
U.S. Government and government-sponsored enterprise obligations	$ 206,977	$ 5	$ (21,243)	$ 185,739
Municipal securities	11,415	-	(1,006)	10,409
Residential mortgage-backed securities[1]	137,322	26	(20,678)	116,670
Other	2,001	-	(346)	1,655
Total securities available for sale	$ 357,715	$ 31	$ (43,273)	$314,473
Securities Held to Maturity				
Corporate bonds	$ 502	$ -	$ (91)	$ 411
Subordinated debt securities	16,252	-	(105)	16,147
	$ 16,754	$ -	$ (196)	$ 16,558

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2021				
Securities Available for Sale				
U.S. Government and government-sponsored enterprise obligations	$ 151,108	$ 2,305	$ (2,072)	$ 151,341
Municipal securities	10,724	390	(6)	11,108
Residential mortgage-backed securities[1]	131,428	608	(2,430)	129,606
Other	34,338	178	(118)	34,398
Total securities available for sale	$ 327,598	$ 3,481	$ (4,626)	$ 326,453
Securities Held to Maturity				
Corporate bonds	$ 502	$ -	$ (55)	$ 447
Subordinated debt securities	11,250	-	-	11,250
	$ 11,752	$ -	$ (55)	$ 11,697

[1] Residential mortgage-backed securities are issued by government-sponsored enterprises or federal agencies.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2022 follows. Expected maturities will differ from contractual maturities because the issuers have in certain instances, the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within 1 year	$ 58,483	$ 52,845	$ -	$ -
After 1 year through 5 years	108,370	99,825	7,002	6,897
After 5 years through 10 years	43,646	36,952	9,250	9,250
Over 10 years	7,893	6,526	502	411
	218,392	196,148	16,754	16,558
Other	2,001	1,655	-	-
Mortgage-backed securities	137,322	116,670	-	-
	$ 357,715	$ 314,473	$ 16,754	$ 16,558

Government-sponsored enterprise obligations with a carrying value of $20,150,000 and $20,300,000 were pledged as collateral at December 31, 2022 and 2021, respectively, for borrowings available through the Federal Reserve Bank of Boston discount window (see Note 6).

For the years ended December 31, 2022 and 2021, proceeds from sales of securities available for sale amounted to $50,204,000. and $32,868,000, respectively. Gross realized gains amounted to $32,000 and $537,000, respectively. Gross realized losses amounted to $1,196,000 and $200,000, respectively.

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2022				
Securities Available for Sale				
U.S. Government and government-sponsored enterprise obligations	$ 6,798	$ 102,744	$ 14,445	$ 81,497
Municipal securities	822	9,040	184	1,369
Residential mortgage-backed securities	2,811	32,836	17,867	81,858
Other	-	-	346	1,655
	$ 10,431	$ 144,620	$ 32,842	$ 166,379
Securities Held to Maturity				
Corporate bonds	$ -	$ -	$ 91	$ 411
Subordinated debt securities	105	1,897	-	-
	$ 105	$ 1,897	$ 91	$ 411

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2021				
Securities Available for Sale				
U.S. Government and government-sponsored enterprise obligations	$ 1,197	$ 69,607	$ 875	$ 24,420
Municipal securities	4	1,312	2	251
Residential mortgage-backed securities	1,762	93,009	668	17,642
Other	25	975	93	908
	$ 2,988	$ 164,903	$ 1,638	$ 43,221
Securities Held to Maturity				
Corporate bonds	$ -	$ -	$ 55	$ 447

The Company's unrealized losses on investments in debt securities at December 31, 2022 relates to 67 investments within the financial services sector with aggregate depreciation of 15.8% from the Company's amortized cost basis. The Company's unrealized loss on investments in corporate bonds held to maturity relates to one investment within the financial services sector with aggregate depreciation of 18.2% from the Company's amortized cost basis at December 31, 2022. The Company's unrealized losses on investments in municipal bonds relates to 20 investments with aggregate depreciation of 8.8% from the Company's amortized cost basis at December 31, 2022. The contractual terms of these investments do not permit the issuers to settle the security at a price less than the par value of the investments. The Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the securities would not be settled at a price less than the par value of the investments. The unrealized losses on investments in debt securities is attributable to changes in market interest rates. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of the amortized cost bases, it does not consider these investments to be other-than-temporarily impaired at December 31, 2022.

A summary of unrealized gains related to equity securities is as follows:

	December 31,	
	2022	2021
	(In thousands)	
Net (losses)/gains recognized during the year	$ (4,675)	$ 5,985
Less: Net gains recognized during the year on equity securities sold during the year	(704)	(1,521)
Net unrealized (losses)/gains recognized during the year on equity securities still held at end of the year	$ (5,379)	$ 4,464

3. LOANS

A summary of the balances of loans is as follows:

	December 31, 2022	December 31, 2021
	(In thousands)	
Residential real estate:		
1-4 family	$ 440,634	$ 322,933
HELOC and second mortgages	56,036	49,574
Commercial real estate	474,732	418,695
Construction	70,662	38,207
Total mortgage loans on real estate	1,042,064	829,409
Commercial loans	886,168	754,654
Consumer loans:		
Personal	5,825	6,066
Credit cards	2,598	4,180
Total consumer loans	8,423	10,246
Total loans	1,936,655	1,594,309
Allowance for loan losses	(18,213)	(17,189)
Net deferred loan costs	2,842	2,324
Loans, net	$ 1,921,284	$ 1,579,444

The Company has transferred a portion of its originated commercial mortgage loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2022 and 2021, the Company was servicing commercial and commercial mortgage loans for participants aggregating $157,435,000 and $158,470,000, respectively.

Residential real estate mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans serviced for others were $312,252,000 and $335,013,000 at December 31, 2022 and 2021, respectively. Servicing fee income was $931,000 and $989,000 for years ended December 31, 2022 and 2021, respectively. Certain of these loans were sold with recourse provisions. At December 31, 2022, the related maximum contingent recourse liability was $887,000 which is not recorded in the consolidated financial statements.

The Company records mortgage servicing rights ("MSRs") on residential real estate loans sold and serviced for others. The risks inherent in MSRs relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The Company accounts for MSRs at fair value. The Company obtains valuations from independent third parties to determine the fair value of servicing rights. Key assumptions and inputs used in the estimation of fair value include prepayment speeds, discount rates, default rates, cost to service, and contractual servicing fees. At December 31, 2022, the following weighted average assumptions were used in the calculation of fair value of MSRs: prepayment speed 7.79%, discount rate 9.5% to 13.5%, and default rate 0.07%. The following summarizes changes to MSRs during the year ended December 31:

	2022	2021
	(In thousands)	
Balance, beginning of year	$ 2,821	$ 1,813
Additions (payoffs)	(255)	76
Changes in fair value	908	932
Balance, end of year	$ 3,474	$ 2,821

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

	Residential Real Estate	HELOC & Second Mtgs	Commercial Real Estate	Construction	Commercial	Consumer & Credit Card	Total
				(In thousands)			
Year Ended December 31, 2022							
Allowance for loan losses:							
Beginning balance	$ 936	$ 203	$ 5,453	$ 206	$ 10,260	$ 130	$ 17,189
Provision (credit) for loan losses	320	37	527	323	(159)	177	1,225
Loans charged-off	-	(19)	-	-	(758)	(276)	(1,053)
Recoveries of loans previously charged-off	19	9	-	1	764	59	852
Ending balance	$ 1,275	$ 230	$ 5,980	$ 530	$ 10,107	$ 89	$ 18,213
At December 31, 2022							
Allowance for impaired loans	$ 49	$ -	$ -	$ -	$ 375	$ -	$ 424
Allowance for non-impaired loans	1,226	230	5,980	530	9,732	90	17,788
Total allowance for loan losses	$ 1,275	$ 230	$ 5,980	$ 530	$ 10,107	$ 90	$ 18,212
Impaired loans	$ 970	$ -	$ 520	$ -	$ 3,074	$ -	$ 4,564
Non-impaired loans	439,664	56,036	474,212	70,662	883,094	8,423	1,932,091
Total loans	$ 440,634	$ 56,036	$ 474,732	$ 70,662	$ 886,168	$ 8,423	$ 1,936,655

Assabet Valley Bancorp and Subsidiary

Notes to Consolidated Financial Statements (continued)

Years Ended December 31, 2022 and 2021

	Residential Real Estate	HELOC & Second Mtgs	Commercial Real Estate	Construction	Commercial	Consumer & Credit Card	Total
				(In thousands)			
Year Ended December 31, 2021							
Allowance for loan losses:							
Beginning balance	$ 1,010	$ 331	$ 4,729	$ 218	$ 10,228	$ 136	$ 16,652
Provision (credit) for loan losses	(74)	(135)	1,091	142	1,972	129	3,125
Loans charged-off	-	-	(367)	-	(3,250)	(280)	(3,897)
Recoveries of loans previously charged-off	-	7	-	(154)	1,311	145	1,309
Ending balance	$ 936	$ 203	$ 5,453	$ 206	$ 10,261	$ 130	$ 17,189
At December 31, 2021							
Allowance for impaired loans	$ 61	$ -	$ 300	$ -	$ 57	$ -	$ 418
Allowance for non-impaired loans	875	203	5,153	206	10,204	130	16,771
Total allowance for loan losses	$ 936	$ 203	$ 5,453	$ 206	$ 10,261	$ 130	$ 17,189
Impaired loans	$ 1,063	$ -	$ 1,534	$ -	$ 3,277	$ -	$ 5,874
Non-impaired loans	321,870	49,574	417,161	38,207	751,377	10,246	1,588,435
Total loans	$ 322,933	$ 49,574	$ 418,695	$ 38,207	$ 754,654	$ 10,246	$ 1,594,309

The following is a summary of information pertaining to impaired loans. No additional funds are committed to be advanced in connection with impaired loans at December 31, 2022 or 2021.

	December 31, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ -	$ -	
Commercial	520	520	
Commercial loans	2,393	3,242	
Total	2,913	3,762	
Impaired loans with a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ 970	$ 970	$ 49
Commercial	-	-	-
Commercial loans	681	1,685	375
Total	1,651	2,655	424
Total impaired loans	$ 4,564	$ 6,417	$ 424

	Year Ended December 31, 2022		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Residential real estate:			
Residential 1-4 family	$ 989	$ 160	$ -
HELOC and second mortgages	-	-	-
Commercial real estate	727	23	-
Commercial loans	4,181	215	3
Total	$ 5,897	$ 398	$ 3

	December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ 90	$ 90	
Commercial	534	534	
Commercial loans	3,039	3,709	
Total	3,662	4,333	
Impaired loans with a valuation allowance:			
Loans secured by real estate:			
Residential real estate:			
Residential 1-4 family	$ 973	$ 973	$ 61
Commercial	1,000	1,056	300
Commercial loans	238	240	57
Total	2,211	2,269	418
Total impaired loans	$ 5,874	$ 6,602	$ 418

	Year Ended December 31, 2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Residential real estate:			
Residential 1-4 family	$ 1,066	$ 204	$ -
HELOC and second mortgages	-	-	-
Commercial real estate	2,531	21	102
Commercial loans	7,816	56	219
Total	$ 11,413	$ 281	$ 321

Commercial loans include factored accounts receivable in the recorded amount of $6,205,000 and $4,123,000 at December 31, 2022 and 2021, respectively, which is gross of cash reserves. At December 31, 2022 and 2021, cash reserves established from purchase price adjustments in total were $1,210,000 and $920,000, respectively. The aging status of these loans and underlying receivables is not presented in the delinquency and nonaccrual disclosure tables. The financing agreements permit the Company to create and maintain from the purchase price of funded receivables a cash reserve in an operating deposit account controlled by the Company. The amount of the cash reserve is determined based on the risk profile of the borrower and the aging of outstanding funded accounts receivable. The Company may require borrowers to repurchase any funded account receivable that remains unpaid following 120 days after its invoice date.

At December 31, 2022, funded accounts receivable unpaid 120 days or more in total were $518,000. At December 31, 2021, funded accounts receivable unpaid 120 days or more in total were $500,000. There were no impairments at year-end 2022 and 2021.

The following is a summary of past due and non-accrual loans at December 31, 2022 and 2021:

	December 31, 2022				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Past Due 90 Days or More, Still Accruing	Loans on Non-accrual
			(In thousands)		
Residential real estate:					
Residential 1-4 family	$ 196	$ 1,638	$ 1,834	$ -	$ 1,638
HELOC and second mortgages	164	31	195	-	-
Commercial real estate	-	-	-	-	-
Commercial	795	2,708	3,503	-	2,708
Consumer:					
Personal	-	-	-	-	-
Credit cards	29	-	29	-	-
Total	$ 1,184	$ 4,377	$ 5,561	$ -	$ 4,346

	December 31, 2021				
	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Past Due 90 Days or More, Still Accruing	Loans on Non-accrual
			(In thousands)		
Residential real estate:					
Residential 1-4 family	$ -	$ 203	$ 203	$ -	$ 203
HELOC and second mortgages	80	-	80	-	-
Commercial real estate	-	-	-	-	1,000
Commercial	471	2,248	2,719	-	2,563
Consumer:					
Personal	-	-	-	-	-
Credit cards	11	-	11	-	-
Total	$ 562	$ 2,451	$ 3,013	$ -	$ 3,766

The terms for loan modifications are determined on a loan-by-loan basis. In connection with TDRs, terms may be modified to fit the ability of the borrower to repay in line with their current financial status, which may include a reduction in the interest rate to market rate or below, a change in the term or movement of past due amounts to the back-end of the loan or refinancing. The borrower must meet minimum underwriting criteria to qualify for capitalization of the payment arrearage into the principal balance. TDRs are reported as impaired and nonaccrual loans unless the loan qualified for accruing status at the time of the restructure, or the loan has performed according to the new contractual terms for at least six months. To qualify for accruing status at the time of the restructure, the original loan must have been less than 90 days past due at the time of the restructure and the modification must not have resulted in an impairment loss. Management performs a discounted cash flow calculation to determine the amount of the impairment reserve required on each of the troubled debt restructurings and exercises judgment in determining the amounts and timing of cash flows. Any reserve required is recorded through the provision for loan losses. At December 31, 2022, no additional funds are committed to be advanced in connection with troubled debt restructurings.

No loans were modified as TDRs during 2022 and 2021.

At December 31, 2022, there were no residential real estate loans in process of foreclosure. At December, 31, 2021, there was one residential real estate loan with an unpaid principal balance of $203,000 in process of foreclosure.

Credit Quality Information

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

Loans rated 1 – 5: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated M: Loans in this category are typically smaller loans that have met the Company's underwriting criteria and are monitored based on repayment history. Financial statements and other data may or may not be requested from the borrower.

Loans rated 6 – 7: Loans in this category are considered "marginally acceptable" and "special mention" respectively. These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 8: 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 Company will sustain some loss if the weakness is not corrected.

Loans rated 9: 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. All loans rated 9 are impaired and individually evaluated.

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

On an annual basis, or more often if needed, the Company formally reviews the ratings on substantially all commercial real estate, construction and commercial loans. Annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. Loans considered transactional in nature, such as residential and consumer are reviewed on an exception basis with emphasis placed on debt repayment performance. Factored accounts receivable and credit card loans included in commercial loans are not risk rated unless determined to be impaired.

The following tables present the Company's loans by risk rating:

	December 31, 2022		
	Commercial Real Estate	Commercial	Construction
		(In thousands)	
Pass	$ 462,847	$ 870,583	$ 70,662
Special Mention	8,631	6,994	-
Substandard	3,254	7,704	-
Doubtful	-	887	-
Loss	-	-	-
Not rated	-	-	-
	$ 474,732	$ 886,168	$ 70,662

	December 31, 2021		
	Commercial Real Estate	Commercial	Construction
		(In thousands)	
Pass	$ 387,283	$ 727,673	$ 38,207
Special Mention	750	10,399	-
Substandard	29,662	11,257	-
Doubtful	1,000	1,473	-
Loss	-	-	-
Not rated	-	3,852	-
	$ 418,695	$ 754,654	$ 38,207

Management monitors residential real estate and consumer loans based on delinquency reports.

Interest Rate Swaps

The Company enters into interest rate swap agreements executed with commercial banking customers to facilitate customer risk management strategies. In addition to the swap agreement with the borrower, the Company enters into a second "back-to-back" swap agreement with a third party; the general terms of this swap mirror those of the first swap agreement. In entering into this transaction, the Company has offset its interest rate risk exposure to the swap agreement with the borrower. All interest rate swaps are valued at observable market prices for similar instruments or observable market interest rates.

The following table presents summary information regarding the value of customer related interest rate swaps, which are included in other assets (liabilities) as of December 31, 2022:

	Net Asset (Liability) (in thousands)
Swaps receive fixed	$ 6,161
Swaps pay fixed	(6,161)
Net customer related swaps	$ -

The outstanding notional amounts of interest rate swaps entered into on behalf of customers at December 31, 2022 is as follows:

Swaps receive fixed	$ 49,901
Swaps pay fixed	(49,901)

4. PREMISES AND EQUIPMENT

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

	December 31, 2022	December 31, 2021
	(In thousands)	
Cost:		
Land	$ 2,735	$ 2,735
Buildings	20,768	19,666
Leasehold improvements	8,680	8,652
Furniture and equipment	23,109	21,871
Right of use asset	3,387	-
Construction in process	562	477
	59,241	53,401
Accumulated depreciation and amortization	(32,423)	(29,692)
	$ 26,818	$ 23,709

Construction in process primarily represents renovations of the Northborough and Main Office as of December 31, 2022. Depreciation and amortization expense for the years ended December 31, 2022 and 2021 amounted to $2,564,000 and $2,510,000, respectively.

5. DEPOSITS

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

	December 31, 2022	December 31, 2021
	(In thousands)	
NOW and demand	$ 824,063	$ 810,194
Money market	398,049	361,489
Regular and other savings	180,556	182,987
Brokered deposits	304,005	527,682
Total non-certificate accounts	1,706,673	1,882,352
Term certificate accounts of $250,000 and greater	133,440	62,670
Term certificate accounts less than $250,000	123,186	134,201
Term certificate accounts	256,626	196,871
Total deposits	$ 1,963,299	$ 2,079,223

A summary of the weighted average rate of certificate accounts by maturity is as follows:

	December 31, 2022		December 31, 2021	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 200,693	1.91%	$ 135,601	0.60%
Over 1 year to 2 years	44,705	2.13	42,961	1.46
Over 2 years to 3 years	6,465	0.93	12,713	1.41
Over 3 years to 4 years	2,166	0.67	3,147	1.16
Over 4 years to 5 years	2,597	1.14	2,449	0.62
	$ 256,626	1.90%	$ 196,871	0.85%

Brokered deposits in non-certificate accounts consist of health savings and demand deposit accounts at market interest rates.

6. FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

FHLB of Boston advances consist of the following:

	December 31, 2022		December 31, 2021	
Maturity	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Within 1 year	$ 244,500	4.59%	$ -	0.00%
Over 1 year to 2 years	-	-	-	-
Over 2 years to 3 years	27,000	3.21	-	-
Over 3 years to 4 years	-	-	-	-
Over 4 years to 5 years	25,000	3.23	-	-
Thereafter	-	-	10,000	1.21
Subtotal FHLB advances	$ 296,500	4.35%	$ 10,000	1.21%

The Bank also has an available $500,000 line-of-credit with the FHLB at an interest rate that adjusts daily. There were no advances outstanding under this line-of-credit at December 31, 2022 and 2021. Borrowings under the line are limited to 2% of the Bank's total assets. All borrowings from the FHLB are secured by a blanket lien on the Company's residential real estate loans and certain commercial real estate loans in accordance with the FHLB's policy requirements for qualified collateral.

The Bank also has $18,000,000 in available lines-of-credit with correspondent banks. There were no advances outstanding under these lines-of-credit at December 31, 2022 and 2021.

The Bank has an agreement with the Federal Reserve Bank of Boston for borrowings at the discount window. The terms of this agreement call for the pledging of assets as security for any and all obligations of the Bank under this agreement (See Note 2). At December 31, 2022 and 2021, there were no borrowings outstanding under this agreement.

7. SUBORDINATED DEBT

On July 31, 2017, the Company issued $25,000,000 of subordinated debt to institutional investors. The subordinated debt was unsecured and subordinated on liquidation as to principal and interest to all claims against the Company that have the same or higher priority as deposit accounts. The subordinated debt is included in capital of the Bank. At the Company, the subordinated debt was classified as a liability but included in Tier 2 capital for regulatory capital. The Company used the subordinated debt to infuse capital into the Bank in the form of common equity to support capital levels and further growth and for general corporate purposes.

The subordinated debt was payable in full by August 2027; earlier prepayment was permitted after five years. Interest was paid semi-annually at a fixed rate of 5.50% until August 2, 2022 and thereafter is variable with quarterly adjustments equal to LIBOR plus 360 basis points. For the year ended December 31, 2021, contractual interest expense on the subordinated debt amounted to $1,375,000 and amortization of debt issuance cost was $94,000. At December 31, 2021, the recorded balance of this debt is $24,945,000, which is net of debt issuance costs. Debt issuance costs were being amortized to interest expense over a five-year period. The Company issued notices of redemption on June 17, 2022 to pay off the whole notes as of the next payment date, August 1, 2022. As of August 1, 2022, all principal and interest was paid in full.

On May 17, 2022, the Company issued $28,000,000 of subordinated debt to institutional investors. The subordinated debt is unsecured and subordinated on liquidation as to principal and interest to all claims against the Company that have the same or higher priority as deposit accounts. The subordinated debt is included in capital of the Bank. At the Company, the subordinated debt is classified as a liability but included in Tier 2 capital for regulatory capital. The Company used the subordinated debt to infuse capital into the Bank in the form of common equity to support capital levels and further growth and for general corporate purposes.

The subordinated debt is payable in full by June 2032; earlier prepayment is permitted after five years. Interest is paid semi-annually at a fixed rate of 4.50% until June 1, 2027 and thereafter the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR (provided, however, that in the event three-month SOFR is less than zero, three-month SOFR shall be deemed to be zero) plus 167 basis points. For the year ended December 31, 2022, contractual interest expense on the subordinated debt amounted to $1,718,000 and amortization of debt issuance cost was $91,000. At December 31, 2022, the recorded balance of this debt is $27,408,000, which is net of debt issuance costs. Debt issuance costs are being amortized to interest expense over a five-year period.

8. INCOME TAXES

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

	Years Ended December 31,	
	2022	2021
	(In thousands)	
Current tax provision:		
Federal	$ 2,616	$ 3,533
State	1,241	1,631
	3,857	5,164
Deferred tax (benefit) provision:		
Federal	(704)	631
State	201	(174)
	(503)	457
Total income tax expense	$ 3,354	$ 5,621

Assabet Valley Bancorp and Subsidiary

Notes to Consolidated Financial Statements (continued)

Years Ended December 31, 2022 and 2021

The reasons for the differences between tax expense computed at the statutory federal income tax rate and the recorded tax expense are summarized as follows:

	Years Ended December 31,	
	2022	2021
	(In thousands)	
Tax at the statutory income tax rate of 21%	$ 2,585	$ 4,810
Increase (decrease) resulting from:		
State taxes, net of federal tax benefit	1,139	1,151
Tax exempt income	(118)	(120)
Dividends received deduction	(42)	(39)
Life insurance income	(128)	(117)
Other, net	(82)	(64)
Income tax expense	$ 3,354	$ 5,621

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

	December 31,	
	2022	2021
	(In thousands)	
Allowance for loan losses	$ 5,120	$ 4,832
Employee benefit plans	3,543	3,316
Accrued expenses	1,435	1,322
Non-accrual interest	32	17
Net unrealized loss on debt securities	11,485	318
SBA PPP Fees	16	529
Partnership investments	91	84
Operating leases	3	-
Impairment loss on securities	51	52
	21,776	10,470
Valuation allowance	(20)	(20)
Deferred tax assets	21,756	10,450
Deferred loan costs, net	(797)	(583)
Mortgage servicing rights	(1,064)	(907)
Net unrealized gain on equity securities	(1,261)	(2,454)
Depreciation and amortization	(721)	(263)
Other	(371)	(371)
Deferred tax liabilities	(4,214)	(4,578)
Net deferred tax asset	$ 17,542	$ 5,872

A valuation allowance is provided when it is more likely than not that some portion of the gross deferred tax asset will not be realized. At December 31, 2022 and 2021, a valuation allowance was recorded related to the federal and state deferred tax asset on unrealized capital losses in the form of other than temporarily impaired write-downs of securities. Management believes that the remaining net deductible temporary differences which give rise to the net deferred tax asset will reverse during periods in which the Company generates net taxable income. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. Factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income, and no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences.

For the years ended December 31, 2022 and 2021, the Company recognized $422,000 and $516,000, respectively, in tax benefits related to affordable housing tax credits.

At December 31, 2022, the Company's retained earnings includes approximately $3,528,000 of allowance for loan losses, representing the base year amount, for which income taxes have not been provided. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used, limited to the amount of the reserve, would be subjected to taxation in the fiscal year in which used. As the Company intends to use the reserve solely to absorb loan losses, a deferred tax liability of approximately $992,000 has not been provided.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under applicable statutes of limitations by the Internal Revenue Service and the Massachusetts Department of Revenue Administration for the years ended December 31, 2019 through 2022.

9. OTHER COMMITMENTS AND CONTINGENCIES

Leases

The Company adopted ASU No. 2016-02, *Leases* ("Topic 842"), on January 1, 2022 with no required adjustment to prior periods presented or cumulative-effect adjustment to retained earnings. The Company has operating leases pertaining to bank premises and vehicles with remaining lease terms of 1 to 17 years, some of which include renewal or termination options to extend the lease. The Company does not have any finance leases. Lease expense for the operating leases are recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The weighted average discount rate for operating leases at December 31, 2022 was 4.00%.

Right of use assets and lease liabilities by lease type, and the associated balance sheet classifications as of December 31, 2022 were as follows:

		(In thousands)
Right-of-use assets:		
Operating leases	Premises and equipment, net	$ 3,367
Lease liabilities:		
Operating leases	Accrued expenses and other liabilities	$ 3,378

The components of lease expense were as follows for the year ended December 31, 2022:

	(In thousands)
Operating lease cost	$ 366
Short-term lease cost	73
Variable lease cost	14
Total lease cost, net	$ 453

The weighted average remaining lease term for operating leases was 14.52 years at December 31, 2022. Cash paid for amounts included in the measurement of the operating lease liabilities was $379,000 at December 31, 2022.

Future undiscounted lease payment for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

	(In thousands)
2023	$ 378
2024	364
2025	304
2026	303
2027	305
Thereafter	2,814
Total undiscounted lease payments	$ 4,468
Less: Imputed income	1,090
Net lease liabilities	$ 3,378

Employment Agreements

The Company has entered into employment agreements with certain executives. The agreements generally provide for specified minimum levels of annual compensation and benefits for a certain period of time. In addition, the agreements provide for specified lump sum payments and the continuation of benefits upon certain events of termination, as defined.

Litigation

The Company is involved in various legal proceedings arising in the normal course of business, none of which is believed by management to have merit. Based on the advice of legal counsel, management believes that these matters are not material to the financial condition or operations of the Company.

Financial Instruments with Off-Balance-Sheet Risk

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

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

Off-balance-sheet financial instruments whose contract amounts represent credit risk include the following:

	December 31,	
	2022	2021
	(In thousands)	
Unadvanced lines of credit	$ 520,997	$ 304,660
Unadvanced construction loans	34,711	37,095
Residential mortgage loan commitments	16,496	11,653
Commercial and mortgage loan commitments	16,996	34,933
Standby letters of credit	1,346	2,221

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of the credit is based on management's credit evaluation of the customer.

Collateral held varies but may include residential real estate, inventory, property, plant and equipment, and income-producing commercial real estate.

Letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Substantially all letters-of-credit have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company fully collateralized those commitments for which collateral is deemed necessary.

10. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to $5,667,000 and $4,764,000 at December 31, 2022 and 2021, respectively. Such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated customers, and did not involve more than normal risk of collectability. Deposits from related parties held by the Company at December 31, 2022 and 2021 amounted to $5,652,000 and $8,293,000, respectively.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS

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

The regulations require minimum ratios of total capital, common equity Tier 1 capital and Tier 1 capital to risk-weighted assets and a minimum leverage ratio for all banking organizations as set forth in the following table. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer and certain deductions from and adjustments to regulatory capital and risk-weighted assets were phased in over several years. The required minimum conservation buffer was 2.5% on December 31, 2022 and 2021. The Bank’s capital conservation buffer was 3.1% and 4.9% at December 31, 2022 and 2021, respectively.

Capital ratios and requirements of the Company approximate those of the Bank. As of December 31, 2022 and 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank must maintain minimum Total Risk-Based Capital, Common Equity Tier 1 Risk-based, Tier 1 Risk-based, and Tier 1 Leverage Ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios as of December 31, 2022 and 2021 are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2022:						
Total Risk-Based Capital:	$ 219,312	11.1%	$ 158,292	8.0%	$ 197,865	10.0%
Common Equity Tier 1 Risk-Based Capital:	201,099	10.2%	89,039	4.5%	128,612	6.5%
Tier 1 Risk-Based Capital:	201,099	10.2%	118,719	6.0%	158,292	8.0%
Tier 1 Leverage Capital:	201,099	8.3%	97,537	4.0%	121,922	5.0%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2021:						
Total Risk-Based Capital:	$ 209,107	12.9%	$ 129,888	8.0%	$ 162,360	10.0%
Common Equity Tier 1 Risk-Based Capital:	191,918	11.8%	73,062	4.5%	105,534	6.5%
Tier 1 Risk-Based Capital:	191,918	11.8%	97,416	6.0%	129,888	8.0%
Tier 1 Leverage Capital:	191,918	8.2%	93,787	4.0%	117,234	5.0%

The Bank may not declare or pay a dividend if the total of all dividends declared during the calendar year, including the proposed dividend, exceeds the sum of the Bank's net income during the current calendar year and the retained net income of the prior two calendar years, unless the dividend has been approved by the Board of Governors of the FDIC.

12. EMPLOYEE BENEFIT PLANS

401(k) Plan

The Company offers a 401(k) Plan to employees. Employees may contribute a percentage of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 100% of the first 5% of an employee's compensation contributed to the Plan. For the years ended December 31, 2022 and 2021, expense attributable to the Plan amounted to $1,086,000 and $967,000, respectively.

Director and Executive Retirement Plans

The Company has adopted retirement benefit plans for the benefit of all members of the Board of Trustees of the Company and certain senior executives. Benefits are being accrued over the directors' and executives' required service periods. At December 31, 2022 and 2021, the Company has accrued $12,603,000 and $11,796,000 respectively, related to these plans. For the years ended December 31, 2022 and 2021, expenses related to these plans amounted to $1,986,000 and $2,298,000, respectively.

Incentive Compensation Plan

The Company has an Employee Bonus and Management Incentive Compensation Plan (the "Bonus Plan") in which employees are eligible to participate. The Bonus Plan provides for awards based on a combination of Company and individual performance objectives being met subject to the approval of the Board of Trustees. The amount charged to expense under the Bonus Plan amounted to $3,000,000 and $2,480,000 for the years ended December 31, 2022 and 2021, respectively.

Phantom Stock Plan

The Company maintains a Long-term Incentive Plan (the "Plan"). The Plan allows for the awarding of phantom stock appreciation shares which increase in value based on the Company's Tier 1 capital. Shares are granted at the discretion of the Board of Trustees and vest over four years, with expenses recognized annually over the vesting period based on the increase in phantom share value as defined in the Plan. For the years ended December 31, 2022 and 2021, expense related to this plan amounted to $633,000 and $890,000, respectively.

13. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

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

Fair Value Hierarchy

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

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

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

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

Assets Measured at Fair Value on a Recurring Basis

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

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities				
Debt securities	$ -	$ 314,473	$ -	$ 314,473
Common stock	23,609	-	-	23,609
Mortgage servicing rights	-	3,474	-	3,474
	$ 23,609	$ 317,947	$ -	$ 341,556

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities				
Debt securities	$ -	$ 326,453	$ -	$ 326,453
Common stock	28,286	-	-	28,286
Mortgage servicing rights	-	2,821	-	2,821
	$ 28,286	$ 329,274	$ -	$ 357,560

Securities - Fair value measurements are obtained from a third party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. The securities measured at fair value in Level 2 are based on pricing models that consider standard observable input factors such as benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data for debt securities.

Servicing Rights- Fair value is based on the present value of estimated future servicing income.

There were no transfers between Level 1 and Level 2 assets during the years ended December 31, 2022 and 2021.

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There are no liabilities measured at fair value on a non-recurring basis at December 31, 2022 or 2021.

The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2022 and 2021.

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
Assets				
Impaired loans	$ -	$ -	$ 306	$ 306

	December 31, 2021			
	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
Assets				
Impaired loans	$ -	$ -	$ 181	$ 181

Certain impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses. Fair value was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. Losses on collateral based impaired loans outstanding at December 31, 2022 and 2021 were $375,000 and $57,000, respectively.

Assabet Valley Bancorp

Name	Address	Principal Occupation	Title w/BHC (3a)	Title w/subsidiaries (3b)	Title w/other businesses (3c)	Shares w/BHC (4a)	Shares w/subsidiaries (4b)	Shares w/other businesses (4c)
Benjamin H. Colonero Jr	Shrewsbury, MA 01545	Retired	Trustee	Director	none	n/a	n/a	n/a
Brian Parker	Hudson, MA 01749	Retired	Trustee	Director	None	n/a	n/a	n/a
Carol Gallagher	Bolton, MA 01740	Employee of the Mass Trial Court	Trustee	Director	none	n/a	n/a	n/a
James Ball	Westboro, MA 01581	Financial Advisor	Trustee	Director	President	n/a	n/a	100%
Jeff Leland	Northboro, MA 01532	Attorney	Trustee	Director	President - Leland Law Assoc.	n/a	n/a	100%
Jeff Leland		Vice President/Leland Insurance Agency	Trustee	Director	Vice President - Leland Insurance Agency	n/a	n/a	50%
Joseph Grimaldo	Marlboro, MA 01752	CPA	Trustee	Director	CPA / O'Connor Maloney & Co	n/a	n/a	66%
M Neil Flanigan	Ashland, MA 01721	Certified Public Accountant	Trustee	Director	Partner / Flanigan, Cotillo & Mainzer, LLP	n/a	n/a	33.00%
Mark R O'Connell	Hudson, MA 01749	President of Avidia Bank	Trustee	Director	none	n/a	n/a	n/a
Michael D. Murphy	Bolton, MA 01740	Insurance	Trustee	Director	President/Murphy Group LLC & D&M Financial	n/a	n/a	25%
Michael Girard, DC	Leominster, MA 01453	Chiropractor	Trustee	Director	Owner / Hudson Chiropractic	n/a	n/a	n/a
Paul W Blazar	Hudson, MA 01749	Retired	Trustee	Director	none	n/a	n/a	n/a
Andrew Miller	Needham, MA 02492	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Andrew Sabine	Boston, MA 02135	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Avnish Puri	Hopkinton, MA	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Bartholomew H. Murphy	Holden, MA 01520	EVP Avidia Bank	None	EVP Avidia Bank	none	n/a	n/a	n/a
Charles Budd	Ashland, MA 01721	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Cheryl Cain	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Clifford Thompson	Clinton, MA 01510	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Daniel Provencher	Rutland, MA	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
David Morticelli	Marlboro, MA 01752	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Donald J. Frost III	Wrentham, MA 02093	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Emily Braga	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Howard Himmel	Cambridge, MA	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
James D. Wilkins	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Janel Maysonet	Hudson, NH 03051	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Jocelyn Arsenault	Douglas, MA 01516	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
John O'Connor	North Attleboro, MA	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Joseph G. Sova	Sterling, MA 01564	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Lee Thompson	Maynard, MA 01754	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Leonard Silva	Seekonk, MA	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Margaret Sullivan	Hudson, MA 01749	CFO of Avidia Bank	None	Executive Vice President-CFO	none	n/a	n/a	n/a
Natalie Sousa	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Neil Buckley	Leominster, MA 01453	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Nicolas Karmelek	Southboro, MA 01772	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Rita M Janeiro	Hudson, MA 01749	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Robert Conery	Boxborough, MA 01719	EVP Avidia Bank	None	Executive Vice President - COO	none	n/a	n/a	n/a
Robert Williamson	Princeton, MA 01541	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Sharon Quinn	Medway, MA 02053	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Stephen J McAndrew	Holden, MA 01520	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Thomas Doane	Auburn, MA 01501	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Thomas J. Allain	Leominster, MA 01453	SVP of Avidia Bank	None	Senior Vice President	none	n/a	n/a	n/a
Trevor Bethel	Attleboro, MA	BSA Officer	None	BSA Officer	none	n/a	n/a	n/a