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, Richard Burgess
Name of the Holding Company Director and Official

Exec. Vice President and Treasurer
Title of the Holding Company Director and Official

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

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

Richard Burgess
Signature of Holding Company Director and Official

03/30/2023
Date of Signature

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2022
Month / Day / Year

Reporter's Name, Street, and Mailing Address

Bluestone Financial Mutual Holding Company
Legal Title of Holding Company

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

Raynham	MA	02767
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Richard Burgess	EVP, CFO & Treasurer
Name	Title

508-884-3313
Area Code / Phone Number / Extension

508-884-3365
Area Code / FAX Number

rburgess@bluestone.bank
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."

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

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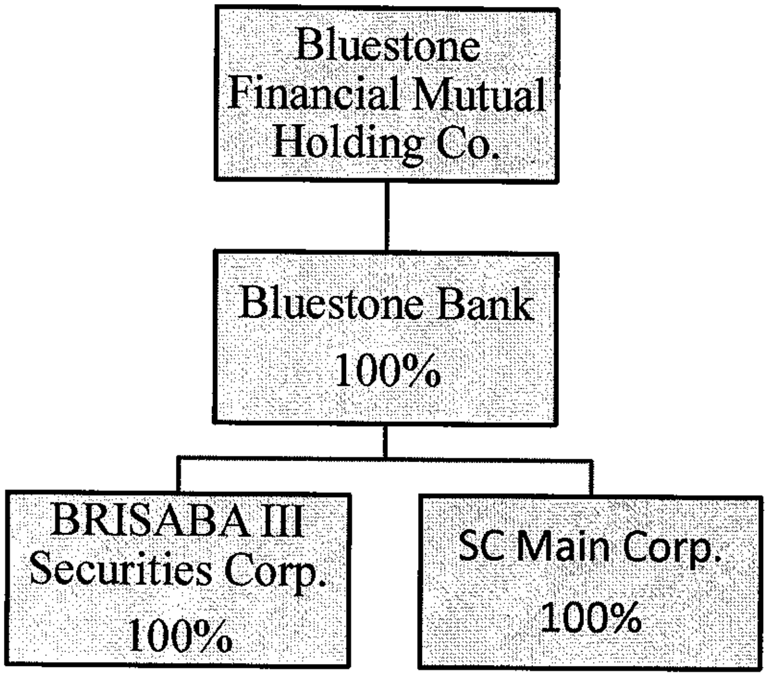
City State Zip Code

Physical Location (if different from mailing address)

Form FR Y-6

Bluestone Financial, MHC
Raynham, MA
Fiscal Year Ending December 31, 2022



All companies are located at 756 Orchard Street, Raynham, MA 02767
All companies are Massachusetts corporations.
As indicated above, all are 100% owned.
LEI not applicable unless otherwise noted.

Report Item

1: Annual Report to Shareholders.
The MHC has no shareholders and is not registered with the SEC.

2a: Organizational Chart. See above.

2b: Domestic Branch Listing. See attached.

3: Securities holders. There are no securities holders.

4: Insiders. See attached. There are no voting percentages for any of the Trustees/Officers.

Results: A list of branches for your depository institution: BLUESTONE BANK (ID_RSSD: 699105).
This depository institution is held by BLUESTONE FINANCIAL, MHC (3134102) of RAYNHAM, MA.
The data are as of 12/31/2022. Data reflects information that was received and processed through 01/10/2023.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
		Full Service (Head Office)	699105	BLUESTONE BANK	756 ORCHARD STREET	RAYNHAM	MA	02767	BRISTOL	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	2621333	BRIDGEWATER BRANCH	14 MAIN STREET	BRIDGEWATER	MA	02324	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	3700525	BRIDGEWATER BRANCH	5 SCOTLAND BOULEVARD	BRIDGEWATER	MA	02324	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	182401	BEDFORD STREET BRANCH	29 BEDFORD STREET	EAST BRIDGEWATER	MA	02333	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	1463068	LAKEVILLE BRANCH	6 MAIN ST	LAKEVILLE	MA	02347	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	163370	MANSFIELD BRANCH	80 NORTH MAIN STREET	MANSFIELD	MA	02048	BRISTOL	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	676807	NORTON BRANCH	225 WEST MAIN STREET	NORTON	MA	02766	BRISTOL	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	4257138	PEMBROKE BRANCH	27 MATTAKEESETT STREET	PEMBROKE	MA	02359	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	3617276	PLAINVILLE BRANCH	3 TAUNTON STREET	PLAINVILLE	MA	02762	NORFOLK	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	2914017	RAYNHAM BRANCH	756 ORCHARD STREET	RAYNHAM	MA	02767	BRISTOL	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	3374159	TAUNTON BRANCH	2109 BAY STREET	TAUNTON	MA	02780	BRISTOL	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	3649905	LOWES PLAZA BRANCH	728 WEST CENTER STREET	WEST BRIDGEWATER	MA	02379	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	
		Full Service	698603	WEST BRIDGEWATER BRANCH	120 WEST CENTER STREET	WEST BRIDGEWATER	MA	02379	PLYMOUTH	UNITED STATES	Not Required	Not Required	BLUESTONE BANK	699105	

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Audit Committee
Bluestone Financial, MHC and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Bluestone Financial, MHC and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2022, the related consolidated statements of income, comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 28, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Other Matter

The financial statements of the Company, as of and for the year ended December 31, 2021, were audited by other auditors whose report, dated March 30, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

To the Audit Committee
Bluestone Financial, MHC and Subsidiary

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Baker Newman & Noyes LLC

Portsmouth, New Hampshire
March 28, 2023

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

	2022	2021
	(In thousands)	
Assets		
Cash and Cash Equivalents		
Cash and due from banks	$ 2,728	$ 3,006
Interest bearing deposits	10,297	109,451
Federal funds sold	--	433
Total Cash and Cash Equivalents	13,025	112,890
Securities available for sale, at fair value	337,380	332,122
Loans held for sale	1,782	9,317
Loans receivable, net	983,409	828,222
Accrued interest receivable	4,200	3,199
Premises and equipment, net	15,572	16,702
Operating lease right-of-use assets	901	--
Stock in Federal Home Loan Bank, at cost	4,282	1,146
Stock in Federal Reserve Bank, at cost	2,875	2,875
Goodwill and intangible assets	1,046	1,052
Deferred income taxes	17,590	2,285
Bank-owned life insurance	13,311	12,990
Other assets	2,234	2,667
Total Assets	$ 1,397,607	$ 1,325,467
Liabilities and Equity		
Liabilities		
Deposits	$ 1,196,126	$ 1,182,115
Federal Home Loan Bank advances	88,648	567
Operating lease liabilities	901	--
Accrued expenses and other liabilities	9,706	8,978
Total Liabilities	1,295,381	1,191,660
Equity		
Retained earnings	73,857	65,511
Equity acquired in merger	67,663	67,663
Accumulated other comprehensive (loss) income	(39,294)	633
Total Equity	102,226	133,807
Total Liabilities and Equity	$ 1,397,607	$ 1,325,467

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

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF NET INCOME

YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
	(In thousands)	
Interest Income		
Interest and fees on loans	$ 36,619	$ 33,322
Interest and dividends on securities	8,499	4,501
Interest on short-term investments	268	164
Total Interest Income	45,386	37,987
Interest Expense		
Interest on deposits	3,712	2,422
Interest on Federal Home Loan Bank advances	646	1
Total Interest Expense	4,358	2,423
Net Interest Income	41,028	35,564
Provision for Loan Losses	1,466	545
Net Interest Income After Provision for Loan Losses	39,562	35,019
Noninterest Income		
Customer service fees	2,162	2,069
Retail investment sales revenue	1,020	1,058
Trust department fees	792	806
Gain on sale of loans, net	744	7,622
Gain on sale of securities, net	--	86
Other noninterest income	1,260	1,633
Total Noninterest Income	5,978	13,274
Noninterest Expense		
Salaries and employee benefits	21,882	22,175
Occupancy and equipment, net	4,239	4,306
Data processing	3,400	3,122
Deposit insurance	446	367
Professional fees	700	1,002
Advertising and marketing	691	1,093
Other general and administrative	3,084	3,719
Total Noninterest Expense	34,442	35,784
Income Before Income Taxes	11,098	12,509
Federal and State Income Taxes		
Current	3,246	3,008
Deferred	(494)	130
Total Federal and State Income Taxes	2,752	3,138
Net Income	$ 8,346	$ 9,371

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

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Years ended December 31, 2022	Years ended December 31, 2021
	(In thousands)	
Net Income	$ 8,346	$ 9,371
Other Comprehensive Loss		
Unrealized losses on securities available for sale:	(54,887)	(4,272)
Reclassification adjustment for net gain realized in income	--	(86)
Net unrealized losses	(54,887)	(4,358)
Related tax effects	14,853	1,177
Net-of-tax-amount	(40,034)	(3,181)
Director retirement plan:		
Gains arising during the period	149	104
Related tax effects	(42)	(29)
Net-of-tax-amount	107	75
Total Other Comprehensive Loss	(39,927)	(3,106)
Comprehensive (Loss) Income	$ (31,581)	$ 6,265

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

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Retained Earnings	Equity Acquired in Merger	Accumulated Other Comprehensive Income (Loss)	Total Equity
	(In thousands)			
Balance at December 31, 2020	$ 56,140	$ 67,663	$ 3,739	$ 127,542
Comprehensive Income	9,371	--	(3,106)	6,265
Balance at December 31, 2021	65,511	67,663	633	133,807
Comprehensive Loss	8,346	--	(39,927)	(31,581)
Balance at December 31, 2022	$ 73,857	$ 67,663	$ (39,294)	$ 102,226

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

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Years ended	
	December 31, 2022	December 31, 2021
	(In thousands)	
Cash Flows from Operating Activities		
Net income	$ 8,346	$ 9,371
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	1,466	545
Net amortization of securities premiums	1,254	2,259
Net accretion of deferred loan costs, premiums, and fees	(1,782)	(2,422)
Net accretion of discount on certificates of deposit	(210)	(477)
Gains on sales of securities, net	--	(86)
Depreciation and amortization expense	1,514	1,581
Amortization of mortgage servicing rights	105	271
Amortization of core deposit intangibles	6	6
Deferred income tax (benefit) provision	(494)	130
(Increase) decrease in accrued interest receivable	(1,001)	749
Loans originated for sale	(48,250)	(378,297)
Proceeds from sale of loans	56,530	424,522
Gain on sales of loans	(744)	(7,622)
Other, net	883	1,434
Total adjustments	9,277	42,593
Net Cash Provided By Operating Activities	17,623	51,964
Cash Flows from Investing Activities		
Decrease in certificates of deposit	--	5,965
Activity in securities available for sale:		
Purchases	(97,578)	(238,983)
Sales	--	26,877
Maturities, calls and principal payments	36,179	69,362
(Purchase) redemption of Federal Home Loan Bank stock	(3,136)	105
Net loan principal (increase) decrease	(154,871)	25,908
Purchase of premises and equipment, net	(384)	(1,255)
Net Cash Used In Investing Activities	(219,790)	(112,021)

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

BLUESTONE FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2022 AND 2021

	Years ended December 31, 2022	Years ended December 31, 2021
	(In thousands)	
Cash Flows from Financing Activities		
Net increase in deposits	$ 14,221	$ 55,794
Repayments of Federal Home Loan Bank advances	(30)	(340)
Proceeds from Federal Home Loan Bank advances	88,111	--
Net Cash Provided By Financing Activities	102,302	55,454
Net Decrease in Cash and Cash Equivalents	(99,865)	(4,603)
Cash and Cash Equivalents, Beginning of Year	112,890	117,493
Cash and Cash Equivalents, End of Year	$ 13,025	$ 112,890

Supplemental Cash Flow Information

	Years ended December 31, 2022	Years ended December 31, 2021
Supplemental Disclosure		
Interest paid on deposits	3,712	2,433
Interest paid on Federal Home Loan Bank advances	646	1
Income taxes paid, net of refunds	2,828	3,037
Decrease in unrealized gain on securities available for sale, net	(54,887)	(4,358)
Gains from Director retirement plans	149	104
Non-cash operating activities:		
Right-of-use asset recorded upon adoption of ASC 842	901	-
Lease liability recorded upon adoption of ASC 842	901	-

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION

The consolidated financial statements include the accounts of Bluestone Financial, MHC (the "Company") and its wholly-owned subsidiary, Bluestone Bank (the "Bank.") The Bank has two subsidiaries, BRISABA Securities Corporation III, formed for the purpose of buying, holding, and selling securities and SC Main Corporation, which holds and sells real estate. BRISABA Securities Corporation II and Mansfield Securities Corporation were subsidiaries of the Bank until their dissolution effective as of the close of business on August 31, 2022. All significant intercompany accounts and transactions have been eliminated in consolidation.

METHOD OF ACCOUNTING

The consolidated financial statements are prepared on the accrual basis of accounting for all significant items of income and expense.

BUSINESS

The Company provides a variety of financial services to individuals and small businesses through its offices in southeastern Massachusetts. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are residential and commercial mortgage loans. The Company also provides fiduciary services to customers through its Trust Department.

USE OF ESTIMATES

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), management is required to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the estimated losses on collateral dependent impaired loans and other real estate owned, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash equivalents include amounts due from banks and short-term investments, which mature overnight or on demand.

INVESTMENT SECURITIES

Securities classified as available-for-sale consist of investment securities with readily determinable fair values that the Company intends to hold for an indefinite period of time but not necessarily until maturity. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains and losses excluded from net income and reported in accumulated other comprehensive income, which is reported as a separate component of equity, net of the related deferred tax effect. The amortization of premiums and the accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments.

Realized gains (losses) on the sale of securities available-for-sale are determined using the specific-identification method based on the adjusted cost basis of the specific securities sold and included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Each reporting period, the Company evaluates all securities with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporarily impaired (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) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all 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. Credit-related OTTI for all other impaired debt securities is recognized through earnings.

Non-credit related OTTI for such debt securities is recognized in other comprehensive income, net of applicable taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are sold to third party investors servicing released.

FEDERAL HOME LOAN BANK STOCK

The Bank, as a member of the Federal Home Loan Bank ("FHLB"), 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. At its discretion, the FHLB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock. As of December 31, 2022 and 2021, no impairment has been recognized.

FEDERAL RESERVE BANK STOCK

Under the terms and provisions of the Federal Reserve Act, the Bank is required to hold Federal Reserve Bank stock equal to 6% of its capital and surplus as of the time it became a Federal Reserve Member bank. One-half of the Bank's subscription is paid to the Federal Reserve Bank of Boston and the remaining half is subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. At December 31, 2022 and 2021, the amount of the Bank's subscription subject to call amounted to $2,875,000.

LOANS

The Company's loan portfolio includes residential real estate, commercial real estate, construction, home equity lines-of-credit, SBA/USDA, commercial (including loans originated under the Paycheck Protection Program ("PPP Loans") formed in 2021 as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act) and consumer segments. Consumer loans include classes for chattel and personal loans. A substantial portion of the loan portfolio is represented by mortgage loans in southeastern Massachusetts. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS (CONTINUED)

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 loans losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the related loan yield using the interest method.

Generally, the recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety days past due unless, in the opinion of management, the outstanding interest remains collectible and the loan is well secured. Past due status is determined based on contractual terms. Interest is subsequently recognized only as received until the loan is returned to accrual status. A loan is restored to accrual status when all interest and principal payments are current and the borrower has demonstrated to management the ability to make payments of principal and interest as scheduled. The Company's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons.

ALLOWANCE FOR LOAN LOSSES

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

The allowance is based on two basic principles of accounting: (i) Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Company has concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

The Company's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

The Company's allowance for loan losses has three basic components: general, specific and unallocated components, as further described below. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term. While the allowance may be allocated for specific portfolio segments, the entire allowance balance is available to absorb credit losses inherent in the total loan portfolio.

General component:

The general component of the allowance for loan losses is used to estimate inherent losses in the pools of non-classified loans and is based on historical loss experience adjusted for qualitative factors, stratified by loan segments. Management uses a rolling average of historical losses based on a timeframe appropriate to capture relevant loss data for each loan segment. The historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies, real estate values, concentrations and risk ratings; effects of changes in underwriting standards; 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 the years ended December 31, 2022 and 2021.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant loans that would be classified as subprime upon origination. All 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.

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

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

Home equity lines-of-credit – Loans in this segment are generally collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The Company generally does not originate loans with combined loan-to-value ratios greater than 70%. The Company generally has first or second liens on the properties securing these loans.

SBA/USDA –These loans were purchased on the secondary market and are unconditionally guaranteed by the SBA and USDA as to principal and interest. The loans in this segment are not allocated a general reserve because the Company has not experienced losses on such loans and management expects the guarantees, if necessary, will be effective. The loans purchased by the Company are primarily small business and agricultural.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

General component: (continued)

Consumer loans – Loans in this segment include chattel loans secured by modular homes and personal loans, which are secured by personal property or savings or are unsecured. Repayment is dependent on the credit quality of the individual borrower.

Specific component:

The specific component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the measured value of the impaired loan is lower than the carrying value of that loan.

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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual personal loans for impairment, unless such loans are the subject of a restructuring agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession that the Company would not otherwise consider is made because a borrower is experiencing financial difficulty, the modification is considered a troubled debt restructuring (“TDR”). All TDRs are initially classified as impaired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Specific component: (continued)

Typically, such concessions consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, or a deferment of payments, principal or interest, which materially alters the Company's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. Restructured loans are included in the impaired loan category.

Losses on loans modified as TDRs, if any, are charged against the allowance for loan losses when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses. Loans modified as TDRs with payment defaults are considered in the general component of the allowance for loan losses for each of the Company's loan classes.

Unallocated component:

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

Loan Modifications under the CARES Act and Interagency Statement:

On March 27, 2021, the CARES Act, which provides relief from certain requirements under GAAP, was signed into law. Section 4013 of the CARES Act gave entities temporary relief from the accounting and disclosure requirements for troubled debt restructurings (TDRs) under ASC 310-40 in certain situations.

In addition, on April 7, 2021, certain regulatory banking agencies issued an interagency statement that offers practical expedients for evaluating whether loan modifications in response to the COVID-19 pandemic are TDRs. The interagency statement was originally issued on March 22, 2021, but was revised to address the relationship between their original TDR guidance and the guidance in Section 4013 of the CARES Act.

To qualify for TDR accounting and disclosure relief under the CARES Act, the applicable loan must not have been more than 30 days past due as of December 31, 2019, and the modification must be executed during the period beginning on March 1, 2021, and ending on the earlier of December 31, 2021, or the date that is 60 days after the termination of the national emergency declared by the president on March 13, 2021,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loan Modifications under the CARES Act and Interagency Statement: (continued)

under the National Emergencies Act related to the outbreak of COVID-19. On December 27, 2021, the Consolidated Appropriations Act, 2021 (CAA) was signed into law, extending TDR relief through January 1, 2022. The CARES Act applies to modifications made as a result of COVID-19 including: forbearance agreements, interest rate modifications, repayment plans, and other arrangements to defer or delay payment of principal or interest. The interagency statement does not require the modification to be completed within a certain time period if it is related to COVID-19 and the loan was not more than 30 days past due as of the date of the Bank's implementation of its modification programs. Moreover, the interagency statement applies to short-term modifications including payment deferrals, fee waivers, extensions of repayment terms, or other insignificant payment delays as a result of COVID-19.

The Bank continues to apply section 4013 of the CARES Act and the interagency statement in connection with applicable modifications. For modifications that qualify under either the CARES Act or the interagency statement, TDR accounting and reporting is suspended through the period of the modification; however, the Bank will continue to apply its existing non-accrual policies including consideration of the loan's past due status which is determined on the basis of the contractual terms of the loan. Once a loan has been contractually modified, the past due status is generally based on the updated terms including payment deferrals.

DERIVATIVE FINANCIAL INSTRUMENTS

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheets in other assets and other liabilities with changes in their fair values recorded in other income, if material. The Company records a zero value for the loan commitment at inception (the time the commitment is issued to a borrower). Subsequent to inception, changes in the fair value of the loan commitment are recognized based on changes in the fair value of the underlying mortgage loan due to interest rate changes, changes in the probability the derivative loan commitment will be exercised, and the passage of time. In estimating fair value, the Company assigns a probability to a loan commitment based on an expectation that it will be exercised and the loan will be funded.

To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" for loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

loan commitments. Forward loan sale commitments are recognized at fair value on the consolidated balance sheets in other assets and other liabilities with changes in their fair values recorded in other income, if material. The Company estimates the fair value of its forward loan sales commitments using a methodology similar to that used for derivative loan commitments.

PREMISES AND EQUIPMENT

Land is carried at cost. Buildings 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, ranging from 3 to 40 years, or the terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Gains or losses realized on the disposition of premises and equipment are reflected in the consolidated statements of income.

VALUATION OF LONG-LIVED ASSETS

The Company accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is not amortized, but is evaluated for impairment on an annual basis. Other intangible assets consist of core deposit intangibles and are amortized over their estimated useful lives of periods up to twenty years and are periodically reviewed for impairment. Impairment of goodwill and other intangible assets, if any, is recognized in earnings.

The annual goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable.

MORTGAGE SERVICING RIGHTS

Servicing right assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting principal guidance in FASB ASC 860-50 *Servicing Assets and Liabilities,* servicing rights resulting from the sale of originated loans by the Bank are initially measured at fair value at the date of transfer with the income statement effect recorded in gain on sales of loans. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing rights are evaluated for impairment based upon the fair value of the rights by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MORTGAGE SERVICING RIGHTS (CONTINUED)

Changes in valuation allowance are reported with other non-interest expense on the consolidated statements of income. Fair value is determined by reviewing the market value of servicing rights of similarly constituted portfolios. Fair value is subject to fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

FORECLOSED REAL ESTATE

Foreclosed real estate includes properties that have been acquired in complete or partial satisfaction of debt. At the time of foreclosure, foreclosed real estate is recorded at fair value less cost to sell, which becomes the property's new basis. Any write-downs at time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of fair value less cost to sell or the new cost basis. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Gains and losses realized on the sale, and any adjustment resulting from periodic re-evaluation of these assets are included in losses on and expenses of other real estate owned, net, on the consolidated statements of income as appropriate. The net costs of maintaining and operating these assets are expensed as incurred, while certain costs to improve such properties are capitalized.

BANK-OWNED LIFE INSURANCE

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in cash surrender value are reflected in other income on the consolidated statements of net income and are not subject to income tax unless the policies are surrendered or otherwise conveyed to a new owner.

TRUST ASSETS

Trust assets held in a fiduciary or agency capacity are not included in the Company's consolidated financial statements, as they are not assets of the Company.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

In the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. 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 transfer other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing.

REVENUE RECOGNITION

The Company recognizes revenue in accordance with Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). The core principle of Topic 606 is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Company's revenue is composed of net interest income and noninterest income, and the scope of the guidance explicitly excludes net interest income, as well as many other revenues for financial assets and liabilities including loans, leases, securities and derivatives.

The Company earns fees from its deposit customers for transaction-based and account maintenance services. Transaction-based fees for services such as ATM use, wire transfers, and stop payments are recognized at the time the transaction is executed as that is the point in time that the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation and are recognized monthly. Service charges on deposits are withdrawn from the customer's account.

Interchange fees from debit cardholder transactions are recognized daily, concurrently with the transaction processing services provided to customers, and are based on rates of the corresponding payment network.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retail investment sales revenue generally represents fees earned on a per transaction basis. Revenue from these services is recognized from commissions upon execution of the retail investment transaction services provided to customers. Trust department fee revenue is generally based on a percentage of assets under management for customers. Revenue from these services is recognized as the services are provided to customers at the trust administration fee agreed upon with the customer.

INCOME TAXES

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. A valuation allowance is recorded against deferred tax assets when management deems that more likely than not, a portion of the asset will not be realized.

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

The Company's base amount of its federal income tax reserve for loan losses is a permanent difference for which there is no recognition of a deferred tax liability. However, the loan loss allowance maintained for financial reporting purposes is a temporary difference with allowable recognition of a related deferred tax asset, if deemed realizable.

ADVERTISING AND MARKETING COSTS

Advertising costs and marketing costs are expensed as incurred and amounted to $685,000 and $1,077,000 for the years ended December 31, 2022 and 2021, respectively.

RETIREMENT PLAN

The compensation cost of director retirement plans that had their benefit accruals and vesting frozen effective December 31, 2021 is being recognized over the period until the earliest approximate retirement date. The compensation cost of the defined contribution director retirement plan that was effective January 1, 2022 is being recognized as incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPREHENSIVE INCOME (LOSS)

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

The components of accumulated other comprehensive (loss) income and related tax effects, included in retained earnings, are as follows:

	2022	2021
	(In thousands)	
Securities available for sale:		
Net unrealized (losses) gains	$ (53,964)	$ 923
Tax effect	14,670	(184)
	(39,294)	739
Director retirement plan:		
Unrecognized net loss	--	(148)
Tax effect	--	42
	--	(106)
Net-of-tax effect	$ (39,294)	$ 633

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The update intends to simplify the subsequent measurement of goodwill by requiring an entity to compare the fair value of a reporting unit to its carrying value, including goodwill. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the impairment charge should not exceed the total amount of goodwill allocated to that reporting unit. The amendments in this Update are effective for public business entities that are non SEC filers for annual periods beginning after December 15, 2020 and for non-public business entities for fiscal years beginning after December 15, 2021. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in this Update increase transparency and comparability among organizations by requiring reporting entities to recognize all leases with terms greater than 12 months as lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02, as amended by ASU 2021-05, became effective in fiscal years beginning after December 15, 2021 and interim periods beginning after December 15, 2022. The adoption of this update did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326).* The main objective of this update, along with subsequent ASUs issued to provide transition relief, narrow technical improvements, and certain codification improvements, is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including loans, held-to-maturity debt securities and commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the existing incurred loss and impairment methodology in current GAAP with a methodology referred to as Current Expected Credit Losses (CECL) methodology that reflects expected credit losses and requires consideration of historical experience, current conditions, and reasonable and supportable forecasts of future economic conditions. Financial institutions will now use forward-looking information to estimate the expected credit loss on a loan at the time of origination. Credit losses on available-for-sale debt securities will be measured in a manner similar to current GAAP but will be recognized through an allowance rather than as a direct write- down. The ASU also amends the accounting for assets purchased with deteriorated credit quality. This update is effective for all entities other than SEC filers that are not smaller reporting companies for annual periods beginning after December 15, 2022 and interim reporting periods within those fiscal years with early adoption permitted.

Upon the adoption of this ASU, the change from the incurred loss methodology to the CECL methodology will be recognized through an adjustment to retained earnings. The Company is continuing to evaluate the potential impact the adoption of this guidance will have on its consolidated financial statements.

SUBSEQUENT EVENTS

Management has evaluated the accompanying consolidated financial statements for other subsequent events and transactions through March 28, 2023, the date these consolidated financial statements were available for issue, based on FASB ASC 855, Subsequent Events, and has determined that no other material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Bank may be required to maintain average balances on hand or with the Federal Reserve Bank ("FRB"). The Bank was not required to maintain a balance with the FRB at December 31, 2022 and 2021.

NOTE 3 – SECURITIES AVAILABLE FOR SALE

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

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale				
State and municipal bonds	$ 47,089	$ 153	$ (3,264)	$ 43,978
Asset -backed securities	6,669	--	(570)	6,099
U.S. Treasury Notes	1,899	--	(4)	1,895
Government-sponsored agency bonds	72,371	--	(8,988)	63,383
Government-sponsored residential mortgage-backed securities	263,316	106	(41,397)	222,025
Total	$ 391,344	$ 259	$ (54,223)	$ 337,380

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available for sale				
State and municipal bonds	$ 49,715	$ 2,401	$ (201)	$ 51,915
Asset -backed securities	8,681	231	(26)	8,886
Government-sponsored agency bonds	37,993	--	(302)	37,691
Government-sponsored residential mortgage-backed securities	234,810	540	(1,720)	233,630
Total	$ 331,199	$ 3,172	$ (2,249)	$ 332,122

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of the investment securities will occur in the near term and that such changes could materially affect the value of the investment portfolio and the amounts reported in the Company's consolidated financial statements.

NOTE 3 – SECURITIES AVAILABLE FOR SALE (CONTINUED)

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2022 follows. Expected maturities will differ from contractual maturities because the issuer, in certain instances, has the right to call or prepay obligations without call or prepayment penalties. Mortgage and asset-backed securities are shown in total, as their maturities are highly variable.

	Amortized Cost	Fair Value
	(In thousands)	
Amounts maturing in:		
One year or less	498	491
Over one year through five years	17,923	17,130
Over five through ten years	52,492	44,824
Over ten years	50,446	46,811
Mortgage-and asset-backed securities amortizing monthly	269,985	228,124
	$ 391,344	$ 337,380

For the year ended December 31, 2022 there were no sales of securities available for sale.

For the year ended December 31, 2021 proceeds from sales of securities available for sale amounted to $26,877,000. For the year ended December 31, 2021 gross realized gains and losses on sales amounted to $502,000 and $416,000, respectively.

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

NOTE 3 – SECURITIES AVAILABLE FOR SALE (CONTINUED)

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
As of December 31, 2022				
State and municipal bonds	$ (1,275)	$ 27,922	$ (1,989)	$ 9,594
Asset -backed securities	(414)	4,909	(156)	1,191
U.S. Treasury Notes	(4)	1,895	--	--
Government-sponsored agency bonds	(2,094)	32,284	(6,894)	31,098
Government-sponsored residential mortgage-backed securities	(9,187)	73,747	(32,210)	143,267
Total debt securities	$ (12,974)	$ 140,757	$ (41,249)	$ 185,150

	Less Than Twelve Months		Twelve Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
As of December 31, 2021				
State and municipal bonds	$ (113)	$ 7,568	$ (89)	$ 4,439
Asset -backed securities	(15)	455	(10)	542
Government-sponsored agency bonds	(285)	36,708	(17)	983
Government-sponsored residential mortgage-backed securities	(1,654)	190,020	(66)	5,980
Total debt securities	$ (2,067)	$ 234,751	$ (182)	$ 11,944

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. At December 31, 2022, two hundred sixty-four debt securities have unrealized losses, with aggregate depreciation of 14.26% from the Company's amortized cost. At December 31, 2021, one hundred sixteen securities have unrealized losses, with aggregate depreciation of 0.92% from the Company's amortized cost.

These unrealized losses on the Company's debt securities relate principally to changes in interest rates and not to an increase in the credit risk of the issuers.

NOTE 3 – SECURITIES AVAILABLE FOR SALE (CONTINUED)

Management has performed an analysis of various market factors and has considered the difference between cost and fair value and other available data. In addition, because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities, the Company has determined that no securities have other-than-temporary declines in fair value as of December 31, 2022 or 2021.

NOTE 4 - LOANS

A summary of the balances of loans follows:

	2022	2021
	(In thousands)	
Mortgage real estate loans:		
Residential	$ 407,292	$ 336,954
Commercial	382,348	326,134
Construction	79,591	59,837
Home equity lines-of-credit	49,705	39,177
	918,936	762,102
Other loans:		
SBA/USDA	10,318	14,684
Commercial	39,208	37,840
Consumer:		
Chattel	19,302	17,174
Personal	446	464
	69,274	70,162
Total Loans	988,210	832,264
Allowance for loan losses	(7,034)	(5,568)
Net premiums on purchased loans	2,217	1,775
Net deferred origination fees and costs	16	(249)
Loans receivable, net	$ 983,409	$ 828,222

Included in Commercial Loans is $33,000 and $9,244,000 of PPP loans which are guaranteed by the SBA at December 31, 2022 and 2021, respectively.

NOTE 4 - LOANS (CONTINUED)

Activity in the allowance for loan losses for the year ended December 31, 2022 is as follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity Lines of Credit	SBA/ USDA	Commercial	Consumer	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at December 31, 2021	$ 2,222	$ 2,267	$ 282	$ 490	$ --	$ 153	$ 144	$ 10	$ 5,568
Provision for losses	103	801	233	168	--	161	10	(10)	1,466
Loans charged off	--		--	--	--	--	--	--	--
Recoveries	--	--	--	--	--	--	--	--	--
Balance at December 31, 2022	$ 2,325	$ 3,068	$ 515	$ 658	$ --	$ 314	$ 154	$ --	$ 7,034
Ending balance: individually evaluated for impairment	$ 7	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ 7
Ending balance: collectively evaluated for impairment	$ 2,318	$ 3,068	$ 515	$ 658	$ --	$ 314	$ 154	$ --	$ 7,027
Loans receivable:									
Individually evaluated for impairment	$ 1,019	$ --	$ --	$ 193	$ --	$ --	$ 25		$ 1,237
Collectively evaluated for impairment	406,273	382,348	79,591	49,512	10,318	39,208	19,723		986,973
Balance at December 31, 2022	$ 407,292	$ 382,348	$ 79,591	$ 49,705	$ 10,318	$ 39,208	$ 19,748		$ 988,210

Activity in the allowance for loan losses for the year ended December 31, 2021 is as follows:

	Residential Real Estate	Commercial Real Estate	Construction	Home Equity Lines of Credit	SBA/ USDA	Commercial	Consumer	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at December 30, 2020	$ 1,861	$ 1,918	$ 153	$ 491	$ --	$ 143	$ 164	$ 318	$ 5,048
Provision for losses	361	349	129	24	--	10	(20)	(308)	545
Loans charged off	--	--	--	(25)	--	--	--	--	(25)
Recoveries	--	--	--	--	--	--	--	--	--
Balance at December 31, 2021	$ 2,222	$ 2,267	$ 282	$ 490	$ --	$ 153	$ 144	$ 10	$ 5,568
Ending balance: individually evaluated for impairment	$ 8	$ --	$ --	$ --	$ --	$ --	$ 1	$ --	$ 9
Ending balance: collectively evaluated for impairment	$ 2,214	$ 2,267	$ 282	$ 490	$ --	$ 153	$ 143	$ 10	$ 5,559
Loans receivable:									
Individually evaluated for impairment	$ 981	$ 2,030	$ --	$ 259	$ --	$ 316	$ 44		$ 3,630
Collectively evaluated for impairment	335,973	324,104	59,837	38,918	14,684	37,524	17,594		828,634
Balance at December 31, 2021	$ 336,954	$ 326,134	$ 59,837	$ 39,177	$ 14,684	$ 37,840	$ 17,638		$ 832,264

NOTE 4 - LOANS (CONTINUED)

The following is a summary of past due and non-accrual loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Past Due 90 Days and Still Accruing	Loans on Non-Accrual
	(In thousands)					
December 31, 2022:						
Residential real estate	$ 2,150	$ 897	$ 355	$ 3,402	$ --	$ 355
Commercial real estate	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Home equity lines-of-credit	18	--	19	37	--	19
SBA/USDA	--	--	1,068	1,068	1,068	--
Commercial	--	--	--	--	--	--
Consumer	5	--	24	29	24	--
Total	$ 2,173	$ 897	$ 1,466	$ 4,536	$ 1,092	$ 374

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Past Due 90 Days and Still Accruing	Loans on Non-Accrual
	(In thousands)					
December 31, 2021:						
Residential real estate	$ --	$ 253	$ 1,592	$ 1,845	$ --	$ 1,592
Commercial real estate	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Home equity lines-of-credit	200	--	--	200	--	20
SBA/USDA	--	--	--	--	--	--
Commercial	--	--	--	--	--	834
Consumer	99	--	--	99	--	--
Total	$ 299	$ 253	$ 1,592	$ 2,144	$ --	$ 2,446

NOTE 4 - LOANS (CONTINUED)

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

	December 31, 2022			December 31, 2021		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Residential real estate	$ 938	$ 938		$ 897	$ 897	
Commercial real estate	--	--		2,030	2,030	
Construction	--	--		--	--	
Home equity lines-of-credit	193	193		259	259	
SBA/USDA	--	--		--	--	
Commercial	--	--		316	316	
Consumer	25	25		--	--	
Total	1,156	1,156		3,502	3,502	
Impaired loans with a valuation allowance:						
Residential real estate	81	81	$ 7	84	84	$ 8
Commercial real estate	--	--	--	--	--	--
Construction	--	--	--	--	--	--
Home equity lines-of-credit	--	--	--	--	--	--
SBA/USDA	--	--	--	--	--	--
Commercial	--	--	--	--	--	--
Consumer	--	--	--	44	44	1
Total	81	81	7	128	128	9
Total impaired loans	$ 1,237	$ 1,237	$ 7	$ 3,630	$ 3,630	$ 9

NOTE 4 - LOANS (CONTINUED)

	December 31, 2022			December 31, 2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In thousands)					
Residential real estate	$ 1,134	$ 73	$ 10	$ 2,074	$ 34	$ --
Commercial real estate	--	--	--	9,064	552	--
Construction	--	--	--	1,782	55	--
Home equity lines-of-credit	185	11	--	293	12	--
Commercial	--	--	--	5,027	132	--
Consumer	6	--	--	45	3	--
Total	$ 1,325	$ 84	$ 10	$ 18,285	$ 788	$ --

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

There were no troubled debt restructurings for the years ended December 31, 2022 and December 31, 2021.

LOAN MODIFICATIONS

The Bank works with customers to modify loan agreements when borrowers are experiencing financial difficulty. The Bank will modify a loan to minimize the risk of loss and achieve the best possible outcome for both the borrower and the Bank. Loan modifications can take various forms including payment deferral, rate reduction, covenant waiver, term extension, or other action. Depending on the nature of modification, it may, or may not, be accounted for as a troubled debt restructuring (TDR).

THE CARES ACT AND INTERAGENCY STATEMENT

In response to the COVID-19 pandemic, financial institutions were provided relief from certain TDR accounting and disclosure requirements for qualifying loan modifications. Specifically, Section 4013 of the CARES Act provided temporary relief from certain GAAP requirements for modifications related to COVID-19. In addition, a group of banking regulatory agencies issued a revised interagency statement that offers practical expedients for evaluating whether COVID-19 loan modifications are TDRs.

As of December 31, 2022 and December 31, 2021 loan balances, associated with loan modifications designated inconnection with these relief provisions in their deferral period, totaled approximately $0 and $778,000 respectively. These modifications represented payment deferrals,with various terms.

NOTE 4 - LOANS (CONTINUED)

CREDIT QUALITY INFORMATION

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

Loans rated in the first four grades (1, 2, 3 and 4) are considered "pass" rated loans with low to average risk.

Loans rated 5 are considered "special mention". These loans are starting to show signs of potential weakness and are being monitored by management.

Loans rated 6 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 7 are considered "doubtful". Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of existing facts, conditions and values, highly questionable.

Loans rated 8 are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On a periodic basis, management formally reviews the ratings on all commercial real estate, construction and commercial loans. The following table presents the Company's loans by risk rating:

		December 31, 2022			December 31, 2021		
	Risk Rating	Commercial Real Estate	Construction	Commercial	Comercial Real Estate	Construction	Commercial
		(In thousands)					
Category:							
Pass	1-4	$ 375,199	$ 79,591	$ 38,400	$ 317,811	$ 59,837	$ 36,384
Special Mention	5	5,552	--	408	1,560	--	1,014
Substandard	6	1,597	--	400	6,763	--	442
Doubtful	7	--	--	--	--	--	--
Loss	8	--	--	--	--	--	--
Total		$ 382,348	$ 79,591	$ 39,208	$ 326,134	$ 59,837	$ 37,840

Credit quality for residential real estate, home equity lines-of-credit, SBA/USDA, chattel and personal loans is determined by monitoring loan payment history, past due status, and ongoing communication with customers.

NOTE 5 – LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balances of these loans at December 31, 2022 and December 31, 2021 were approximately $91,063,000 and $106,631,000, respectively.

There were no mortgage servicing rights capitalized in either period. Amortization of mortgage servicing rights was $105,000 and $271,000 for the years ended December 31, 2022 and December 31, 2021, respectively. Mortgage servicing rights with a carrying value of approximately $293,000 and $398,000 are included in other assets on the consolidated balance sheets at December 31, 2022 and December 31, 2021, respectively. The fair value of mortgage servicing rights at December 31, 2022 and December 31, 2021 approximated their carrying value. There were no impairments recognized in either period.

NOTE 6 – ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

	December 31, 2022	December 31, 2021
Investment securities	$ 1,433	$ 1,091
Loans receivable	2,767	2,108
	$ 4,200	$ 3,199

NOTE 7 – PREMISES AND EQUIPMENT

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

	December 31,	
	2022	2021
	(In thousands)	
Land	$ 6,138	$ 6,138
Buildings and improvements	20,011	20,412
Furniture and equipment	8,244	7,459
	34,393	34,009
Accumulated depreciation and amortization	(18,821)	(17,307)
	$ 15,572	$ 16,702

Depreciation and amortization expense for the years ended December 31, 2022 and December 31, 2021 amounted to $1,514,000 and $1,581,000, respectively.

NOTE 8 – LEASES

A lease is defined as a contract, or part of a contract that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2022, the Company adopted ASU No. 2016-02, Leases (Topic 842) and all subsequent ASUs that modified Topic 842. For the Company, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Lessee Accounting

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2027. All of the Company's leases are classified as operating leases, and therefore, were previously not recognized in the Company's consolidated balance sheets. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated balance sheets as right-of-use (ROU) assets and corresponding lease liabilities.

NOTE 8 - LEASES (CONTINUED)

The following table represents the balance sheet classification of the Company's ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the consolidated balance sheets.

	December 31, 2022 (in thousands)
Operating Lease Right of Use Assets	$ 901
Operating Lease Liabilities	$ 901

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

	December 31, 2022
Weighted-average remaining lease term:	
Operating leases	4 years
Weighted-average discount rate:	
Operating leases	4.06 %

NOTE 8 - LEASES (CONTINUED)

FASB Accounting Standards Update No. 2021-09 —Leases (Topic 842) —Discount Rate for Lessees That Are Not Public Business Entities allows a lessee that is not a public business entity to elect an accounting policy to use a risk-free rate as its discount rate by class of underlying asset rather than at an entity-wide level, as is currently required by Topic 842, Leases. The amendments in this Update also require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee would use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

Future minimum payments for operating leases with initial terms of one year or more as of December 31, 2022 were as follows:

Year Ending December 31,	Operating Leases
	(in thousands)
2023	$ 271
2024	238
2025	166
2026	166
2027	138
Thereafter	--
Total future minimum lease payments	979
Amounts representing interest	(78)
Present value of net minimum lease payments	$ 901

The leases contain options to extend for up to thirty-five years. The cost of such rental extensions is not included above. Lease expense amounted to $323,000 and $327,000 for years ended December 31, 2022 and 2021, respectively.

NOTE 8 - LEASES (CONTINUED)

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2021 pertaining to premises and equipment, future minimum lease commitments under various operating leases are as follows:

Year Ending December 31,	Amount (in thousands)
2022	$ 200
2023	178
2024	163
2025	166
2026	166
Thereafter	59
	$ 932

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

Information pertaining to goodwill and other intangible assets is as follows:

	December 31, 2022	December 31, 2021
	(In thousands)	
Goodwill	$ 1,000	$ 1,000
Core deposit intangible asset:		
Original balance	60	60
Accumulated amortization	(14)	(8)
Total goodwill and other intangible assets	$ 1,046	$ 1,052

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

At December 31, 2022, estimated amortization expense for core deposit intangibles for the next five years is as follows:

Year Ending December 31,	Amount (In thousands)
2023	$ 6
2024	6
2025	6
2026	6
2027	6

Amortization expense for the years ended December 31, 2022 and the 2021 amounted to $6,000 and $6,000, respectively.

NOTE 10 - DEPOSITS

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

	December 31, 2022	December 31, 2021
	(In thousands)	
Demand deposits	$ 212,169	$ 213,371
NOW	147,386	151,535
Regular and other savings	215,312	215,688
Money market deposits	428,310	420,048
Total non-certificate accounts	1,003,177	1,000,642
Term certificates less than $250,000	121,920	135,163
Term certificates of $250,000 or more	71,029	46,310
Total certificates	192,949	181,473
	$ 1,196,126	$ 1,182,115

NOTE 10 – DEPOSITS (CONTINUED)

A summary of term certificate accounts, by maturity dates at December 31, 2022 and December 31, 2021 is as follows:

Maturing During the Year Ending December 31,	2022 Amount	2022 Weighted Average Rate	2021 Amount	2021 Weighted Average Rate
	(Dollars in thousands)			
2022	$ --	0.00 %	$ 125,088	0.38 %
2023	125,972	0.96	28,559	0.64
2024	47,088	2.26	11,148	1.81
2025	16,611	1.34	15,175	1.34
2026	1,588	0.62	1,251	0.67
2027	1,504	0.63	64	1.46
Thereafter	186	1.19	188	1.22
	$ 192,949	1.95 %	$ 181,473	1.06 %

NOTE 11 - BORROWINGS

A summary of fixed-rate advances by maturity from the FHLB at December 31, 2022 and December 31, 2021 is as follows:

Maturing During the Year Ending December 31,	2022 Amount	2022 Weighted Average Rate	2021 Amount	2021 Weighted Average Rate
	(Dollars in thousands)			
2022	$ --	-- %	$ 30	0.00 %
2023	88,357	4.33	246	0.00
2024	85	0.00	85	0.00
2025	--	0.00	--	0.00
2026	60	1.00	60	1.00
2027	--	0.00	146	0.00
Thereafter	146	0.00	--	0.00
	$ 88,648	4.32 %	$ 567	0.07 %

NOTE 11 – BORROWINGS (CONTINUED)

The Bank also has a $2,886,000 available line of credit with the FHLB at an interest rate that adjusts daily, of which none was outstanding at December 31, 2022 and December 31, 2021.

The Bank had additional borrowing capacity with FHLB at December 31, 2022 and December 31, 2021 of $147,121,000 and $218,089,000, respectively.

At December 31, 2022, borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as 75% of the carrying value of first mortgage loans on owner-occupied residential property. In addition, at December 31, 2022, the Company pledged mortgage-backed and asset-backed securities with an amortized cost of $1,129,000 and fair value of $1,064,000.

The Bank also has an agreement with the Federal Reserve Bank of Boston to borrow under the discount window. At December 31, 2022, consumer loans with a carrying value of $19,277,000 and a security with a fair value of $408,000 were pledged to secure such borrowings; however, no pledged amounts were advanced under this agreement.

NOTE 12 - INCOME TAXES

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In thousands)	
Current tax provision:		
Federal	$ 2,183	$ 2,045
State	1,063	963
	3,246	3,008
Deferred tax (benefit) provision:		
Federal	(267)	91
State	(227)	39
	(494)	130
Total tax provision:		
Federal	1,916	2,136
State	836	1,002
	$ 2,752	$ 3,138

NOTE 12 - INCOME TAXES (CONTINUED)

The reasons for the difference between tax at the Federal statutory income tax rate and the effective tax rates are summarized as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In thousands)	
Statutory tax provision at rate of 21%	$ 2,331	$ 2,627
Increase (decrease) resulting from:		
State taxes, net of federal taxes	660	792
Tax exempt income	(211)	(220)
Officer's life insurance	(67)	(67)
Other, net	39	6
Total provision for income taxes	$ 2,752	$ 3,138
Effective tax rate	24.8 %	25.1 %

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In thousands)	
Deferred tax assets:		
Federal	$ 13,125	$ 2,274
State	5,514	1,077
	18,639	3,351
Deferred tax liabilities:		
Federal	(767)	(797)
State	(282)	(269)
	(1,049)	(1,066)
Net deferred tax asset	$ 17,590	$ 2,285

NOTE 12 - INCOME TAXES (CONTINUED)

The tax effects of each item that give rise to deferred taxes are as follows:

	December 31, 2022	December 31, 2021
	(In thousands)	
Net unrealized loss (gain) on securities available for sale	$ 14,669	$ (184)
Allowance for loan losses	1,977	1,566
Employee benefit plans	1,491	1,396
Unrecognized prior service cost pertaining to director retirement plan	--	42
Depreciation	(329)	(409)
Acquisition accounting	(473)	(175)
Other, net	255	49
Net deferred tax asset	$ 17,590	$ 2,285

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
	(In thousands)	
Balance at beginning of year	$ 2,285	$ 1,267
Deferred tax benefit (provision)	494	(130)
Deferred tax effect of other comprehensive income/loss	14,811	1,148
Balance at end of year	$ 17,590	$ 2,285

The Company’s income tax returns are subject to review and examination by federal and state taxing authorities. No years prior to September 30, 2019 remain subject to examination.

The federal income tax reserve for loan losses at the Company’s base year amounted to $6,113,000. If any portion of the reserve is used for purposes other than to absorb loan losses, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the fiscal year in which used. As the Company intends to use the reserve only to absorb loan losses, a deferred tax liability of $1,718,000 has not been provided.

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

MORTGAGE LOAN COMMITMENTS

The Company enters into commitments to originate loans for sale and uses forward commitments to sell loans, which are derivative instruments. These instruments involve both credit and market risk.

Forward commitments to sell loans require the Company to make delivery at a specific future date of a specified amount, at a specified price or yield. At December 31, 2022 and December 31, 2021, such commitments amounted to $1,782,000 and $9,317,000, respectively.

The rates on commitments to originate loans for sale may be locked with the borrower at the time of commitment. These rate lock agreements require the Company to originate a loan at a specific interest rate upon completion of various underwriting requirements and involve both credit and market risk. At December 31, 2022 and December 31, 2021, the Company had $2,217,000 and $28,875,000, respectively, in outstanding rate lock agreements on commitments to grant mortgage loans that are intended to be sold.

The fair value of these commitments is not material and, accordingly, not reflected on the consolidated balance sheets.

NOTE 14 - OTHER COMMITMENTS AND CONTINGENCIES

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

LOAN COMMITMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on outstanding lines-of-credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of the commitments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

NOTE 14 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

LOAN COMMITMENTS (CONTINUED)

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2022	2021
	(In thousands)	
Commitments to originate loans	$ 33,477	$ 52,645
Unadvanced funds on home equity lines-of-credit	87,991	72,414
Unadvanced funds on personal lines-of-credit	1,395	1,457
Unadvanced funds on commercial lines-of-credit	34,116	35,121
Unadvanced funds on construction loans	68,322	70,264
	$ 225,301	$ 231,901

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines-of-credit may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. Funds disbursed under commitments to grant loans, home equity lines-of-credit and construction loans are primarily secured by real estate, and commercial lines-of-credit are generally secured by business assets. Funds disbursed under commitments to grant personal lines-of-credit are secured by collateral, as deemed necessary.

LOANS SOLD WITH RECOURSE OBLIGATIONS

The Company sells fixed rate mortgages on a servicing-released basis to various investors pursuant to contracts which include limited recourse provisions whereby the Company would be required to repurchase loans and/or refund premiums in the event a borrower defaults or if the loan is paid off within the first several months of being sold, as defined in the individual agreements. At December 31, 2022 and December 31, 2021, the principal balance of loans sold subject to such recourse provisions was $4,881,000 and $67,314,000, respectively and premiums received on loans sold that were subject to refund provisions amounted to $93,000 and $1,353,000, respectively. The contracts also include repurchase obligation provisions for fraud or misrepresentation. Premiums refunded by the company for repurchases under these agreements have not had a material impact on the financial statements. No liability has been recorded in the consolidated financial statements related to these recourse obligations.

NOTE 14 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

OTHER CONTINGENCIES

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

NOTE 15 – 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 consolidated 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 its 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. Mutual holding companies are not covered by the prompt corrective action provisions of the capital guidelines.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1, and Common Equity Tier 1 capital (as defined) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2022 and December 31, 2021, that the Bank met all capital adequacy requirements to which it was subject.

Additionally, as of December 31, 2022, the most recent notification from regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum 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 December 31, 2021 are also presented in the table:

NOTE 15 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2022:						
Total capital (to risk weighted assets):	$ 147,289	15.8 %	$ 98,021	10.5 %	$ 93,353	10.0 %
Tier I capital (to risk weighted assets):	140,164	15.0 %	79,350	8.5 %	74,683	8.0 %
Tier I capital (to total average assets):	140,164	9.8 %	57,486	4.0 %	71,858	5.0 %
Common Equity Tier 1 Capital (to risk weighted assets)	140,164	15.0 %	65,347	7.0 %	60,680	6.5 %
As of December 31, 2021:						
Total capital (to risk weighted assets):	$ 137,475	17.6 %	$ 81,913	10.5 %	$ 78,013	10.0 %
Tier I capital (to risk weighted assets):	131,816	16.9 %	66,311	8.5 %	62,410	8.0 %
Tier I capital (to total average assets):	131,816	10.1 %	52,288	4.0 %	65,360	5.0 %
Common Equity Tier 1 Capital (to risk weighted assets)	131,816	16.9 %	54,609	7.0 %	50,708	6.5 %

NOTE 16 – RETIREMENT BENEFIT PLANS

401(K) PLAN

The Bank has a 401(k) savings plan, which provides for voluntary contributions by participating employees, subject to certain limitations. The 401(k) savings plan allows an employee to contribute between 1% and 75% of his or her base compensation to the plan on a tax-deferred or after-tax basis. Under the terms of the plan, the Bank matches the employee's contribution at a level of 100%, up to the first 5% of an employee's contribution. The Bank may also make a discretionary contribution of up to 3% of an eligible employee's compensation. Total expense under the 401(k) plan for the years ended December 31, 2022 and the 2021 amounted to $1,057,000 and $1,238,000, respectively.

SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENTS

The Bank has a supplemental executive retirement agreement with the former Chief Executive Officer, who retired effective December 31, 2022. The agreement provides for an annual contribution and interest, as defined in the agreement, to be credited to a deferred compensation account. The expense associated with this agreement for the years ended December 31, 2022 and 2021 amounted to $425,000 and $373,000, respectively.

The Bank has a supplemental executive retirement agreement with its current Chief Executive Officer. The agreement provides for an annual contribution and interest, as defined in the agreement, to be credited to a deferred compensation account. The expense associated with this agreement for the years ended December 31, 2022 and 2021 amounted to $125,000 and $168,000, respectively.

The Bank has supplemental executive retirement agreements with three other current officers. The agreements provide for an annual contribution and interest, as defined in the agreements, to be credited to a deferred compensation account. The expense associated with these agreements for the years ended December 31, 2022 and 2021 amounted to $99,000 and $109,000, respectively. Another officer who had a supplemental retirement agreement with the Bank retired during 2022 and received the benefit under the agreement.

The Bank also has a supplemental executive retirement agreement with the former President of an acquired bank, which provides for the retired executive to receive monthly benefits, subject to certain limitations as set forth in the agreement. The present value of these future benefits and the term over which they are accrued are subject to actuarial assumptions. Total expense under the agreement for the years ended December 31, 2022 and 2021 amounted to ($16,000) and $33,000, respectively.

NOTE 16 – RETIREMENT BENEFIT PLANS (CONTINUED)

ENDORSEMENT SPLIT-DOLLAR LIFE INSURANCE ARRANGEMENT

The Bank is the sole owner of a life insurance policy pertaining to the former President of an acquired bank. The Bank has entered into an agreement with the former President whereby the Bank will pay to the former President's estate or beneficiaries a portion of the death benefit that the Bank will receive as beneficiary of such policy. The Bank has recognized a liability related to this agreement in the amount of $394,000 at December 31, 2022 and December 31, 2021.

The Bank has a split-dollar life insurance agreement with a former executive of an acquired bank on a life insurance policy owned by the individual. The former executive is listed as the insured under the policy and has named the beneficiary. Under the agreement, the Bank previously paid all of the policy premiums amounting to $500,000. Upon death, the surrender of the policy, or termination of the agreement, the former executive has agreed to reimburse the Bank the amount of cumulatively paid premiums, plus an interest factor of 2.64% per year. The Bank records in the asset section of its balance sheet an amount equivalent to the lesser of the reimbursable amount or the cash surrender value of the policy. At December 31, 2022, the Bank is carrying an asset of $746,000, which is the calculated reimbursable amount, while the cash surrender value of the policy approximates $870,000.

DIRECTOR RETIREMENT PLAN

Effective January 1, 2022, The Bank adopted a Director Retirement Plan (the "Bluestone Plan") which provides for an annual contribution and interest. The retirement benefit is payable in a lump sum upon separation of service. The expense related to the Bluestone Plan amounted to $228,000 for the year ended December 31, 2022.

The Company has a Director Retirement Plan (the "Bridgewater Plan") for certain directors that provides a continuing benefit from the Company upon retirement or death. Effective December 31, 2021, benefit accruals and vesting under the Bridgewater Plan were frozen. The expense related to the Bridgewater Plan amounted to $46,000 and $100,000 for the years ended December 31, 2022 and 2021, respectively.

The Company has a Director Retirement Plan (the "Mansfield Plan") for certain directors of the acquired Mansfield Co-operative Bank that provides a continuing benefit from the Company upon retirement or death. Effective December 31, 2021, benefit accruals and vesting under the Mansfield Plan were frozen. The expense related to the Mansfield Plan amounted to $63,000 and $23,000 for the years ended December 31, 2022 and 2021, respectively.

The Bank has Director Retirement Benefit Agreements (the "Bridgewater Agreements") with directors who did not have benefits provided by the Bridgewater Plan. Effective December 31, 2021, benefit accruals and vesting under the Bridgewater Agreements were frozen. The expense related to the Bridgewater Agreements amounted to $4,000 and $129,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 16 – RETIREMENT BENEFIT PLANS (CONTINUED)

EXECUTIVE EMPLOYMENT AGREEMENTS

The Company has an executive employment agreement with the CEO of the Company. The original term of the agreement is through December 31, 2023 with automatic renewals for successive one-year terms unless notice of non-renewal is given no less than ninety days prior to the expiration of any renewal term.

The employment agreement provides the CEO with an established base salary. The agreement also provides for payments of base salary, bonus and benefits, as defined in the agreements, following a change in control or termination without cause, as defined in the agreements.

SEVERANCE AND CHANGE IN CONTROL AGREEMENTS

In addition, the Company has entered into change in control agreements with certain other officers of the Company, which provide for the continuation of base salary and benefits for one year following a change in control, as defined in the agreements.

NOTE 17 - RELATED PARTY TRANSACTIONS

LOANS

In the normal course of banking business, loans are made to officers and directors of the Company, as well as to their affiliates. Such loans are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features. The aggregate amount of these loans was approximately $10,509,000 and $9,935,000 at December 31, 2022 and 2021 respectively.

In addition, the Company has extended lines of credit to related parties totaling $3,802,000 and $3,804,000 at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, approximately $0 and $1,200,000, respectively, has been disbursed on these lines of credit.

DEPOSITS

Deposits by related parties amounted to approximately $17,348,000 and $14,509,000 at December 31, 2022 and 2021, respectively.

NOTE 18 - FAIR VALUES OF ASSETS AND LIABILITIES

DETERMINATION OF FAIR VALUE

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

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 including 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.

The following methods and assumptions were used by the Company in estimating its fair value disclosures:

Securities available for sale:

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

NOTE 18 - FAIR VALUES OF ASSETS AND LIABILITIES (CONTINUED)

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

Assets measured at fair value on a recurring basis are as follows:

	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
December 31, 2022:				
Securities available for sale:				
Debt securities	$ --	$ 337,380	$ --	$ 337,380
Total assets	$ --	$ 337,380	$ --	$ 337,380
December 31, 2021:				
Securities available for sale:				
Debt securities	$ --	$ 332,122	$ --	$ 332,122
Total assets	$ --	$ 332,122	$ --	$ 332,122

There were no liabilities measured at fair value on a recurring basis at December 31, 2022 or 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 financial assets on a non-recurring basis in accordance with generally accepted accounting principles. There are no liabilities measured at fair value on a non-recurring basis. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.