Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, James D. Brown
Name of the Holding Company Director and Official

President/CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

09/28/2022
Date of Signature

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

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

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
June 30, 2022
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Community Financial Mutual Holding Company
Legal Title of Holding Company

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

Bennington	VT	05201
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Stephanie Dunn	AVP Accounting
Name	Title

802-445-7907
Area Code / Phone Number / Extension

802-447-7295
Area Code / FAX Number

sdunn@bennbank.com
E-mail Address

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

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

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

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

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

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.

Community Financial, MHC and Subsidiary

Consolidated Financial Statements

Years Ended June 30, 2022 and 2021
With Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Financial, MHC

Opinion

We have audited the consolidated financial statements of Community Financial, MHC and Subsidiary (the Company), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, the related consolidated statements of income, comprehensive (loss) income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of Directors
Community Financial, MHC

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, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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

Manchester, New Hampshire
September 20, 2022

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

June 30, 2022 and 2021

(In Thousands)

	2022	2021
ASSETS		
Cash and due from banks	$ 6,484	$ 4,153
Interest-bearing demand deposits with other banks	4,036	34,597
Cash and cash equivalents	10,520	38,750
Investments in available-for-sale securities	139,152	95,235
Federal Home Loan Bank stock, at cost	898	2,138
Loans, net	365,679	368,878
Premises and equipment	5,655	6,043
Accrued interest receivable	1,316	1,203
Deferred income tax asset, net	3,225	1,942
Cash surrender value of life insurance	10,216	9,634
Other assets	6,032	5,307
Total assets	$542,693	$529,130
LIABILITIES AND EQUITY		
Deposits:		
Noninterest-bearing	$ 39,852	$ 33,856
Interest-bearing	428,298	398,151
Total deposits	468,150	432,007
Federal Home Loan Bank advances	13,500	34,000
Other liabilities	8,157	8,901
Total liabilities	489,807	474,908
Equity:		
Retained earnings	58,377	54,326
Accumulated other comprehensive loss	(5,491)	(104)
Total equity	52,886	54,222
Total liabilities and equity	$542,693	$529,130

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2022 and 2021

(In Thousands)

	2022	2021
Interest and dividend income:		
Interest and fees on loans	$ 15,517	$ 15,350
Interest on debt securities:		
Taxable	948	628
Tax-exempt	36	35
Dividends	38	73
Other interest	56	34
Total interest and dividend income	16,595	16,120
Interest expense:		
Interest on deposits	1,229	1,628
Interest on Federal Home Loan Bank advances	583	857
Total interest expense	1,812	2,485
Net interest and dividend income	14,783	13,635
Provision for loan losses	–	–
Net interest and dividend income after provision for loan losses	14,783	13,635
Noninterest income:		
Customer service fees	1,676	1,525
Mortgage banking activities	73	259
Increase in cash surrender value of life insurance	187	194
Other income	223	190
Total noninterest income	2,159	2,168
Noninterest expense:		
Salaries and employee benefits	5,395	5,003
Occupancy and equipment expense	1,761	1,573
Data processing expense	1,201	1,040
FDIC insurance expense	168	64
Other expense	3,471	2,389
Total noninterest expense	11,996	10,069
Income before income tax expense	4,946	5,734
Income tax expense	895	1,093
Net income	$ 4,051	$ 4,641

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years Ended June 30, 2022 and 2021

(In Thousands)

	2022	2021
Net income	$ 4,051	$ 4,641
Other comprehensive loss, net of tax:		
Net change in unrealized holding gains/losses on available-for-sale securities	(5,387)	(583)
Other comprehensive loss, net of tax	(5,387)	(583)
Comprehensive (loss) income	$(1,336)	$ 4,058

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended June 30, 2022 and 2021

(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, June 30, 2020	$ 49,685	$ 479	$ 50,164
Net income	4,641	–	4,641
Other comprehensive loss, net of tax	–	(583)	(583)
Balance, June 30, 2021	54,326	(104)	54,222
Net income	4,051	–	4,051
Other comprehensive loss, net of tax	–	(5,387)	(5,387)
Balance, June 30, 2022	$ 58,377	$ (5,491)	$ 52,886

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

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

(In Thousands)

	2022	2021
Cash flows from operating activities:		
Net income	$ 4,051	$ 4,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	1,447	893
Gain on sales and calls of available-for-sale securities	–	(144)
Change in deferred loan fees, net	(1,320)	1,343
Depreciation and amortization of premises and equipment	431	444
Loans originated for sale	(1,360)	(4,113)
Proceeds from sales of loans	1,412	4,327
Net gain on loans sold	(52)	(214)
(Increase) decrease in accrued interest receivable	(113)	140
Increase in cash surrender value of life insurance	(187)	(194)
Decrease (increase) in other assets	98	(176)
Deferred income tax expense (benefit)	148	(505)
(Decrease) increase in other liabilities	(744)	421
Net cash provided by operating activities	3,811	6,863
Cash flows from investing activities:		
Principal payments and maturities on available-for-sale securities	26,114	27,621
Purchases of available-for-sale securities	(78,296)	(81,492)
Proceeds from sale of available-for-sale securities	–	14,670
Redemptions of Federal Home Loan Bank stock	1,240	568
Purchase of other investments	(823)	(837)
Loan originations and principal collections, net	4,083	(3,177)
Recoveries of loans previously charged off	436	713
Capital expenditures of premises and equipment	(43)	(150)
Purchase of bank-owned life insurance	(395)	(420)
Proceeds from sales of other real estate owned	–	676
Net cash used in investing activities	(47,684)	(41,828)
Cash flows from financing activities:		
Net increase in demand deposits, NOW, and savings accounts	33,788	67,001
Net increase (decrease) in time deposits	2,355	(3,388)
Repayment of long-term Federal Home Loan Bank advances	(20,500)	(14,000)
Net cash provided by financing activities	15,643	49,613
Net (decrease) increase in cash and cash equivalents	(28,230)	14,648
Cash and cash equivalents at beginning of year	38,750	24,102
Cash and cash equivalents at end of year	$ 10,520	$ 38,750

COMMUNITY FINANCIAL, MHC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended June 30, 2022 and 2021

(In Thousands)

	2022	2021
Supplemental disclosures:		
Interest paid	$ 1,854	$ 2,509
Income taxes paid	1,084	2,543
Due from broker	–	(1,374)

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

1. Nature of Operations

Community Financial, MHC (the Company) is a mutual holding company. The Bank of Bennington (the Bank), a federally chartered bank and the Company's wholly-owned subsidiary, is headquartered in Bennington, Vermont. The Bank provides a variety of financial services to individuals and businesses. Its primary deposit products are demand, savings and other time accounts and its primary lending products are real estate mortgage, consumer and commercial loans.

2. Accounting Policies

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

Use of Estimates

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank's financial statements include State Pine Investment Corporation and Monument Financial Planning, Inc., the Bank's wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and interest-bearing demand deposits with other banks.

Securities

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

2. Accounting Policies (Continued)

Federal Home Loan Bank Stock

Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. The Company reviews its investment in FHLB stock for impairment based on the ultimate recoverability of the Company's cost basis in the FHLB stock. Based on its most recent analysis of the FHLB as of June 30, 2022, management determined its investment was not impaired.

Limited Partnership and Tax Credit Investments

The Company invests in qualified low-income housing developments through limited liability entities that generate low-income housing and rehabilitation tax credits. In addition, the Company purchases various tax credits to offset Vermont franchise taxes and federal income taxes. The Company has elected to account for these investments using the cost method whereby the initial cost of the investment in the limited liability entity is amortized in proportion to the tax credits allocated to the Company. The Company expects that this method of amortization produces a measurement that reasonably approximates the proportional amortization method. These investments are reported in other assets in the consolidated balance sheets in the amounts of $727,000 and $484,000 at June 30, 2022 and 2021, respectively. There were no outstanding commitments to these projects as of June 30, 2022 and 2021.

Loans

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

Interest on loans is recognized on a simple interest basis.

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

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

2. Accounting Policies (Continued)

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

Allowance for Loan Losses

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

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

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, commercial and consumer. Management uses rolling historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: historical loss experience related to economic cycle; levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

During the year ended June 30, 2022, the Company modified the historic loss data methodology for commercial real estate and commercial loans by selecting the most relevant historical loss data from the 2011 to 2013 period or the most recent five-year lookback period. During the year ended June 30, 2021, the Company extended its lookback period for its historical loss factor calculation for commercial real estate and commercial loans to capture historical loss data from 2011 to 2013. The revisions to the historical loss data methodology for the years ended June 30, 2022 and 2021 were to adjust for the cyclical nature of losses. There were no other changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2022 and 2021.

2. Accounting Policies (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: Loans in this segment include first lien mortgages and home equity loans, which can be either first or second lien mortgages, primarily collateralized by owner-occupied residential real estate. The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. 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 the southwestern part of Vermont and the Albany, New York area. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Commercial: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment. Also included within this segment are PPP loans, which are 100% guaranteed by the SBA

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

Allocated Component

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

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are initially classified as impaired. The Company had granted requests for payment deferrals to borrowers affected by the COVID-19 pandemic which were not classified as TDRs in accordance with Section 4013 of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) and regulatory guidelines for working with borrowers affected by COVID-19. The Company did not accrue interest on deferred payments. Deferred interest was recognized on a cash basis. Such loans were not considered delinquent if they were being paid in accordance with the modified terms.

2. Accounting Policies (Continued)

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.

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.

Cash Surrender Value of Life Insurance

The Company has purchased life insurance policies on certain active and retired employees where the Company is the beneficiary. Increases in the cash surrender values of the policies are recorded in noninterest income on the consolidated statements of income, and are not subject to income taxes.

Other Real Estate Owned and In-Substance Foreclosure

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures. These properties are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure or transfer, establishing a new cost basis. Subsequent to foreclosure or transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any write-down from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets are included in other expenses, and subsequent write-downs and gains or losses recognized upon sale are included in other income.

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place. An in-substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

2. Accounting Policies (Continued)

Premises and Equipment

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

Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The Company recognizes a loan servicing fee for the difference between the principal and interest payment collected on the loan and the payment remitted to the investor. The capitalized mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing revenue.

Advertising

The Company directly expenses costs associated with advertising as they are incurred. Advertising expense amounted to $168,000 and $132,000 for the years ended June 30, 2022 and 2021, respectively.

Income Taxes

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

Reclassifications

Certain 2021 amounts have been reclassified to permit comparison with the 2022 consolidated financial statement presentation format.

Risk and Uncertainties

The outbreak of the COVID-19 pandemic (virus or COVID-19) has adversely impacted a broad range of industries in which the Company's customers operate and could impair their ability to fulfill their financial obligations to the Company. The spread of the outbreak has caused significant disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Company operates. The Company proactively implemented many operational changes to protect its employees and customers, which included the closing of the lobbies of its branches to customers, implementing banking by appointment and requiring employees to work remotely or from different locations. Through June 30, 2022, the Company has experienced neither a significant interruption in service provided to its customers nor a material decline in business activity as a result of the virus. The Company has accounted for the estimated impact of the COVID-19 pandemic on its loan portfolio through adjustments to certain qualitative factors utilized in determining the allowance for loan losses.

2. Accounting Policies (Continued)

The CARES Act and the *Consolidated Appropriations Act* (CAA) were signed into law on March 27, 2020 and December 27, 2020, respectively, as legislative economic stimulus packages. The goal of the CARES Act and the CAA was to prevent a severe economic downturn through various measures, including direct financial aid to American families, and economic stimulus to small businesses. While the states in and around the Company's market area are open fully, economic conditions have not returned to pre-COVID-19 levels, and many businesses remain closed or are operating at a reduced capacity. While management has taken measures to mitigate the impact of the pandemic, the long-term impact to the Company remains uncertain at the date of these consolidated financial statements. While it is not possible to know the full extent of the impact that the virus and an economic shutdown will have on the Company's operations, the Company is disclosing the material items of which it is currently aware.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This ASU was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating, as lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. Early application is permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a reporting entity's portfolio. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update will take effect for fiscal years beginning after December 15, 2022, and interim periods within these fiscal years. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company does not intend to early adopt. The Company is currently reviewing the amendments in this ASU to determine the impact on its consolidated financial statements.

3. Investments in Available-For-Sale Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values are as follows as of June 30:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities				
2022:				
U.S. Treasury	$ 4,899	$ –	$ 56	$ 4,843
State and municipal	1,334	–	9	1,325
Mortgage-backed securities	85,364	11	6,845	78,530
Asset-backed securities	54,505	192	243	54,454
	$146,102	$ 203	$ 7,153	$139,152
2021:				
State and municipal	$ 1,336	$ 49	$ –	$ 1,385
Mortgage-backed securities	64,135	158	348	63,945
Asset-backed securities	29,896	172	163	29,905
	$ 95,367	$ 379	$ 511	$ 95,235

The contractual maturities of debt securities were as follows as of June 30, 2022:

	Fair Value (In Thousands)
Due under one year	$ 1,497
Due after one year through five years	4,671
Due after five years through ten years	–
Mortgage-backed securities	78,530
Asset-backed securities	54,454
	$139,152

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

During the year ended June 30, 2022, there were no sales of available-for-sale securities. During the year ended June 30, 2021, proceeds from the sales of available-for-sale securities amounted to $14,670,000. Gross gains of $191,000 and gross losses of $47,000 were realized on the sales in 2021.

3. Investments in Available-For-Sale Securities (Continued)

There were no securities of issuers, other than U.S. Government and agency securities, whose aggregate carrying amount exceeded 10% of equity as of June 30, 2022.

As of June 30, 2022 and 2021, the total carrying value of securities pledged to secure public deposit accounts and for other purposes was $2,006,000 and $2,539,000, respectively.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or longer, and are not other-than-temporarily impaired, are as follows as of June 30:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2022						
U.S. Treasury	$ 4,843	$ 56	$ –	$ –	$ 4,843	$ 56
State and municipal	494	9	–	–	494	9
Mortgage-backed securities	52,265	4,159	24,938	2,686	77,203	6,845
Asset-backed securities	23,295	197	4,112	46	27,407	243
	$80,897	$4,421	$29,050	$2,732	$109,947	$7,153
2021						
Mortgage-backed securities	$42,570	$ 341	$2,343	$ 7	$44,913	$ 348
Asset-backed securities	8,687	54	6,391	109	15,078	163
	$51,257	$ 395	$8,734	$ 116	$59,991	$ 511

Management evaluates investments for other-than-temporary impairment based on the type of investment and the period of time the investment has been in an unrealized loss position. The unrealized losses at June 30, 2022 were comprised of seventy-nine mortgage-backed securities, fifty asset-backed securities, five U.S. Treasury securities and one state and municipal security. Management monitors the credit quality of the issuer, financial results and projections and current events relative to the issuer, and expected cash flows from the bonds on an ongoing basis. Management does not have the intention to sell and believes they will not be required to sell the securities for contractual, regulatory or liquidity reasons as of the reporting date. At June 30, 2022, management believes these investments are not other-than-temporarily impaired.

4. Loans

Loans consisted of the following as of June 30:

	2022	2021
	(In Thousands)	
Mortgage loans on real estate:		
Residential	$268,647	$261,604
Commercial	89,592	84,298
Commercial	11,879	28,805
Consumer	877	617
	370,995	375,324
Allowance for loan losses	(5,091)	(4,901)
Deferred fees, net	(225)	(1,545)
Net loans	$365,679	$368,878

The CARES Act authorized the U.S. Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Company was automatically qualified to originate loans under the PPP. At June 30, 2022, the Company had 15 PPP loans outstanding, with an outstanding principal balance of $626,000. At June 30, 2021, the Company had 300 PPP loans outstanding, with an outstanding principal balance of $18,481,000. The Company received a processing fee on each PPP loan originated of 1% to 5%, depending on the size of the PPP loan. Origination fees are being amortized into interest income over the contractual life of the loan. Loans originated under the PPP generally have a two-year or five-year term depending on the origination date. The expected forgiveness amount is the amount of loan principal the lender and SBA reasonably expect the borrower to spend on payroll costs, mortgage interest, rent and utilities during the eight or twenty-four week periods after the loans were funded, as long as certain conditions were met regarding employee retention and compensation levels. PPP loans are included in the commercial loan class.

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during the years ended June 30, 2022 and 2021. Total loans to such persons and their companies amounted to $3,096,000 and $2,965,000 as of June 30, 2022 and 2021, respectively.

4. Loans (Continued)

The following tables set forth information regarding the allowance for loan losses by portfolio segment as of and for the years ended June 30:

	Real Estate					
	Residential	Commercial	Commercial	Consumer	Unallocated	Total
			(In Thousands)			
2022						
Allowance for loan losses						
Beginning balance	$ 2,511	$ 2,146	$ 220	$ 24	$ –	$ 4,901
Charge-offs	(4)	(222)	(19)	(1)	–	(246)
Recoveries	4	425	5	2	–	436
Provision (benefit)	418	(370)	(59)	11	–	–
Ending balance	$ 2,929	$ 1,979	$ 147	$ 36	$ –	$ 5,091
Ending balance:						
Individually evaluated for impairment	$ –	$ 475	$ –	$ –	$ –	$ 475
Collectively evaluated for impairment	2,929	1,504	147	36	–	4,616
	$ 2,929	$ 1,979	$ 147	$ 36	$ –	$ 5,091
Loans						
Ending balance:						
Individually evaluated for impairment	$ 13	$ 2,261	$ –	$ –	$ –	$ 2,274
Collectively evaluated for impairment	268,634	87,331	11,879	877	–	368,721
Total loans ending balance	$ 268,647	$ 89,592	$ 11,879	$ 877	$ –	$ 370,995

4. Loans (Continued)

	Real Estate Residential	Real Estate Commercial	Commercial	Consumer	Unallocated	Total
			(In Thousands)			
2021						
Allowance for loan losses						
Beginning balance	$ 2,850	$ 1,223	$ 99	$ 25	$ –	$ 4,197
Charge-offs	(2)	–	–	(7)	–	(9)
Recoveries	409	302	–	2	–	713
Provision (benefit)	(746)	621	121	4	–	–
Ending balance	$ 2,511	$ 2,146	$ 220	$ 24	$ –	$ 4,901
Ending balance:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	2,511	2,146	220	24	–	4,901
	$ 2,511	$ 2,146	$ 220	$ 24	$ –	$ 4,901
Loans						
Ending balance:						
Individually evaluated for impairment	$ 194	$ 1,467	$ –	$ –	$ –	$ 1,661
Collectively evaluated for impairment	261,410	82,831	28,805	617	–	373,663
Total loans ending balance	$ 261,604	$ 84,298	$ 28,805	$ 617	$ –	$ 375,324

The following tables set forth information regarding nonaccrual loans and past-due loans as of June 30:

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2022								
Real estate:								
Residential	$ 80	$ 440	$ 444	$ 964	$ 267,683	$ 268,647	$ –	$ 458
Commercial	180	998	610	1,788	87,804	89,592	–	2,260
Commercial	148	1	–	149	11,730	11,879	–	–
Consumer	–	–	–	–	877	877	–	–
	$ 408	$1,439	$1,054	$2,901	$ 368,094	$ 370,995	$ –	$2,718

4. Loans (Continued)

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2021								
Real estate:								
Residential	$ 48	$ 450	$ 145	$ 643	$ 260,961	$ 261,604	$ –	$ 186
Commercial	104	247	712	1,063	83,235	84,298	–	1,467
Commercial	18	–	–	18	28,787	28,805	–	–
Consumer	–	–	–	–	617	617	–	–
	$ 170	$ 697	$ 857	$1,724	$ 373,600	$ 375,324	$ –	$1,653

Information about loans that meet the definition of an impaired loan in Accounting Standards Codification (ASC) 310-10-35 is as follows as of and for the fiscal year ended June 30:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2022					
With no related allowance recorded:					
Real estate loans:					
Residential	$ 13	$ 13	$ –	$ 50	$ –
Commercial	1,263	1,674	–	1,288	–
Total impaired with no related allowance	1,276	1,687	–	1,338	–
With an allowance recorded:					
Real estate loans:					
Residential	–	–	–	–	–
Commercial	998	1,027	475	603	–
Total impaired with an allowance recorded	998	1,027	475	603	–
Total					
Real estate loans:					
Residential	13	13	–	50	–
Commercial	2,261	2,701	475	1,891	–
Total impaired loans	$ 2,274	$ 2,714	$ 475	$ 1,941	$ –

4. Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2021					
With no related allowance recorded:					
Real estate loans:					
Residential	$ 194	$ 218	$ –	$ 199	$ 11
Commercial	1,467	1,718	–	1,503	30
Total impaired with no related allowance	1,661	1,936	–	1,702	41
With an allowance recorded:					
Real estate loans:					
Residential	–	–	–	–	–
Commercial	–	–	–	–	–
Total impaired with an allowance recorded	–	–	–	–	–
Total					
Real estate loans:					
Residential	194	218	–	199	11
Commercial	1,467	1,718	–	1,503	30
Total impaired loans	$ 1,661	$ 1,936	$ –	$ 1,702	$ 41

Loans modified in a troubled debt restructuring during the years ended June 30, 2022 and 2021 were not significant. There were no loans that were modified as TDRs for which there was a payment default within one year of the date of modification during the years ended June 30, 2022 and 2021.

At June 30, 2022 and 2021, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

4. Loans (Continued)

The Company has granted COVID-19 related loan modifications in accordance with the provisions of Section 4013 of the CARES Act and applicable interagency regulatory guidance. These modifications generally included payment deferrals of principal and/or interest for a period of time with a balloon payment due upon maturity. As of June 30, 2022, there were no COVID-19 related loan modifications outstanding. As of June 30, 2021, one residential borrower with an outstanding balance of $104,000, and one commercial borrower with an outstanding balance of $504,000, were subject to a COVID-19 related loan modification agreement. The Company did not accrue interest on deferred payments. Deferred interest was recognized on a cash basis. Loans were not considered to be delinquent provided the borrower complied with the modified terms of the agreement. Management will continue to periodically assess each loan subject to modification for purposes of identifying potential problem loans that should be evaluated for impairment.

At June 30, 2022 and 2021, there was no other real estate owned. As of June 30, 2022, there were no consumer mortgage loans collateralized by residential real estate in the process of foreclosure. There was one residential mortgage loan with a total recorded investment of $63,000 collateralized by residential real estate in the process of foreclosure as of June 30, 2021.

The following tables present the Company's loans by risk rating as of June 30:

	Real Estate				
	Residential	Commercial	Commercial	Consumer	Total
			(In Thousands)		
2022					
Grade:					
Pass	$ –	$ 85,587	$ 11,180	$ –	$ 96,767
Special mention	35	1,104	–	–	1,139
Substandard	–	2,901	699	–	3,600
Doubtful	–	–	–	–	–
Not formally rated	268,612	–	–	877	269,489
Total	$268,647	$ 89,592	$ 11,879	$ 877	$370,995
2021					
Grade:					
Pass	$ –	$ 79,970	$ 28,297	$ –	$108,267
Special mention	555	1,729	–	–	2,284
Substandard	4	2,599	508	–	3,111
Doubtful	–	–	–	–	–
Not formally rated	261,045	–	–	617	261,662
Total	$261,604	$ 84,298	$ 28,805	$ 617	$375,324

4. Loans (Continued)

Credit Quality Information

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

Loans rated 10 – 40: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 50: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 60: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 70: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 80: Loans in this category are considered uncollectible (loss) and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial relationships with an exposure of $150,000 or more. For residential real estate and consumer loans, the Company initially assesses the credit quality based upon borrowers' ability to pay and subsequently monitors these loans based on borrowers' payment activity.

The unpaid principal balances of mortgages and other loans serviced for others were $24,763,000 and $28,247,000 at June 30, 2022 and 2021, respectively. Capitalized servicing rights, included in other assets at June 30, 2022 and 2021, amounted to $82,000 and $124,000, respectively, which approximates fair value.

5. Premises and Equipment

The following is a summary of premises and equipment as of June 30:

	2022	2021
	(In Thousands)	
Land	$ 1,536	$ 1,536
Buildings and improvements	7,085	7,042
Furniture and equipment	4,564	4,564
	13,185	13,142
Accumulated depreciation and amortization	(7,530)	(7,099)
	$ 5,655	$ 6,043

Total depreciation and amortization expense for the years ended June 30, 2022 and 2021 amounted to $431,000 and $444,000, respectively.

6. Deposits

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 as of June 30, 2022 and 2021 amounted to $13,299,000 and $12,236,000, respectively.

At June 30, 2022 and 2021, the Company had IntraFI Network Deposits (formerly CDARS) in the amount of $4,424,000 and $4,421,000, respectively.

Deposits from related parties held by the Bank as of June 30, 2022 amounted to $906,000, or 0.19% of total deposits. Deposits from related parties held by the Bank as of June 30, 2021 amounted to $1,101,000, or 0.25% of total deposits.

For time deposits as of June 30, 2022, including IntraFI Network Deposits, the scheduled maturities for each of the following five years ended June 30 are (in thousands):

2023	$ 63,554
2024	17,512
2025	6,396
2026	3,007
2027	2,014
	$ 92,483

7. Federal Home Loan Bank Advances

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

Maturities of advances from the FHLB for the five fiscal years ending after June 30, 2022 are summarized as follows (in thousands):

2023	$ 7,500
2024	–
2025	4,000
2026	2,000
	$ 13,500

In April 2022, the Company pre-paid $10.0 million FHLB borrowing advances, with maturity dates between 2023 and 2025, and incurred one-time prepayment penalties of $83,000, which amount is included in other expenses in the 2022 consolidated statement of income.

Borrowings from the FHLB are secured by a blanket lien on first mortgages secured by one to four family properties and other qualified assets. These assets as of June 30, 2022 and 2021 amounted to $244,109,000 and $221,472,000, respectively.

At June 30, 2022, the interest rates on FHLB advances ranged from 1.38% to 2.85%. At June 30, 2022, the weighted average interest rate on FHLB advances was 1.85%. At June 30, 2021, the interest rates on FHLB advances ranged from 1.38% to 3.09%. At June 30, 2021, the weighted average interest rate on FHLB advances was 2.15%.

8. Income Taxes

The components of income tax expense for the fiscal years ended June 30 are as follows:

	2022	2021
	(In Thousands)	
Current:		
Federal	$ 765	$ 1,577
State	(18)	21
	747	1,598
Deferred:		
Federal	148	(505)
	148	(505)
Total income tax expense	$ 895	$ 1,093

8. Income Taxes (Continued)

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended June 30:

	2022 % of Income	2021 % of Income
Federal income tax statutory rates	21.0%	21.0%
Increase (decrease) in tax resulting from:		
State taxes, net of federal tax benefit	(0.3)	0.3
Bank-owned life insurance	(0.8)	(0.7)
Tax-exempt income	(0.4)	(0.4)
Federal tax credits	(1.0)	(0.9)
Other	(0.4)	(0.2)
Effective tax rates	18.1%	19.1%

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of June 30:

	2022	2021
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,069	$1,029
Interest on non-performing loans	100	97
Net unrealized holding loss on available-for-sale securities	1,460	28
Accrued vacation	22	23
Defined benefit plan	79	93
Deferred compensation	437	411
Deferred directors' fees	387	336
Deferred incentive bonus	12	–
Deferred loan fees	70	353
Capital loss limitation	–	10
Gross deferred tax assets	3,636	2,380
Deferred tax liabilities:		
Depreciation	(186)	(225)
Servicing rights	(17)	(26)
Low-income housing investments net of basis adjustments	(174)	(164)
Prepaid expenses	(19)	(12)
Other	(15)	(11)
Gross deferred tax liabilities	(411)	(438)
Net deferred tax asset	$ 3,225	$ 1,942

8. Income Taxes (Continued)

Management performs an evaluation of deferred tax assets for expected realization based upon estimates of future taxable income. Based on management's evaluation, no valuation allowance is deemed necessary for the deferred tax assets.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties (recorded as a component of income tax expense, if any) based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of June 30, 2022 and 2021, there were no material uncertain tax positions related to federal and state income tax matters.

9. Off-Balance Sheet Activities

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

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2022 and 2021, the maximum potential amount of the Company's obligation was \$837,000 and \$824,000 for financial and standby letters of credit, respectively. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

9. Off-Balance Sheet Activities (Continued)

Notional amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of June 30:

	2022	2021
	(In Thousands)	
Commitments to grant loans	$ 7,936	$ 13,514
Unadvanced portions of loans:		
Consumer commitments under lines of credit	15,984	13,937
Commercial real estate commitments under lines of credit	14,567	11,734
Commercial letters of credit	837	824
	$ 39,324	$ 40,009

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. The Company enters into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans will subsequently be sold in the secondary market. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of undesignated mortgage loan commitments at June 30, 2022 and 2021 were $530,000 and $459,000, respectively, and the related derivatives were not significant.

10. Fair Value Measurements

ASC 820-10, *Fair Value Measurement – Overall*, provides a framework for measuring fair value under U.S. GAAP. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not elected fair value treatment for any financial assets or liabilities.

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

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

10. Fair Value Measurements (Continued)

> Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or comparable assets or liabilities.
>
> Level 3 – Valuations for assets and liabilities that are derived from other methodologies, including option-pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value for June 30, 2022 and 2021.

The Company's investment in U.S. Treasury securities is classified within Level 1. Included in other assets are mutual funds for the participant accounts of the deferred directors' compensation plan. The mutual funds are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's investment in mortgage-backed securities and other debt securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, the Company obtains fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

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

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

10. Fair Value Measurements (Continued)

The following summarizes assets measured at fair value on a recurring basis as of June 30:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2022				
Securities available for sale:				
U.S. Treasury	$ 4,843	$ 4,843	$ –	$ –
State and municipal	1,325	–	1,325	–
Mortgage-backed securities	78,530	–	78,530	–
Asset-backed securities	54,454	–	54,454	–
Other assets:				
Mutual funds:				
U.S. government securities	395	395	–	–
Dividend growth	170	170	–	–
Large cap stocks	217	217	–	–
Middle cap stocks	163	163	–	–
Small cap stocks	80	80	–	–
Balanced	448	448	–	–
	$140,625	$ 6,316	$134,309	$ –
2021				
Securities available for sale:				
State and municipal	$ 1,385	$ –	$ 1,385	$ –
Mortgage-backed securities	63,945	–	63,945	–
Asset-backed securities	29,905	–	29,905	–
Other assets:				
Mutual funds:				
U.S. government securities	453	453	–	–
Dividend growth	214	214	–	–
Large cap stocks	227	227	–	–
Middle cap stocks	195	195	–	–
Small cap stocks	92	92	–	–
Balanced	460	460	–	–
	$ 96,876	$ 1,641	$ 95,235	$ –

10. Fair Value Measurements (Continued)

Under certain circumstances, the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at June 30, 2022 and 2021 for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2022				
Impaired loans	$ 617	$ –	$ –	$ 617
2021				
Impaired loans	$ –	$ –	$ –	$ –

11. Significant Group Concentrations of Credit Risk

Most of the Company's business activity is with customers located within the State of Vermont. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the State of Vermont.

12. Other Comprehensive 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 equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive (loss) income.

12. Other Comprehensive Loss (Continued)

The components of other comprehensive loss, included in equity, are as follows for the years ended June 30:

	2022	2021
	(In Thousands)	
Net unrealized holding losses on available-for-sale securities	$ (6,818)	$ (594)
Reclassification adjustment for realized gains in net income [(1)]	–	(144)
Other comprehensive loss before income tax effect	(6,818)	(738)
Income tax benefit	1,431	155
Other comprehensive loss, net of tax	$ (5,387)	$ (583)

[(1)] There were no realized gains or losses on available-for-sale securities during 2022. For 2021, realized available-for-sale securities gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statements of income as follows: the pre-tax amount is included in other income; the tax expense in the amount of $30,000 is included in income tax expense; and the after-tax amount is included in net income.

Accumulated other comprehensive loss as of June 30, 2022 and 2021 consists of net unrealized holding losses on available-for-sale securities, net of taxes.

13. Regulatory Matters

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 the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Bank is subject to capital regulations adopted by the Board of Governors of the Federal Reserve System ("FRB") and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the *Dodd-Frank Act*. The required minimum regulatory capital ratios to which the Bank is subject and the minimum ratios required for the Bank to be categorized as "well-capitalized" under the prompt corrective action framework are noted in the table below. In addition, the regulations established a capital conservation buffer of 2.5%. Failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends or discretionary bonuses. At June 30 2022, the Bank exceeded the minimum requirement for the capital conservation buffer.

13. Regulatory Matters (Continued)

Management believes, as of June 30, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. The Bank's actual capital amounts and ratios are presented in the following table:

	Actual		Minimum For Capital Adequacy Plus Capital Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total Capital (to risk-weighted assets)	$60,041	21.24%	$29,686	10.50%	$28,273	10.0%
Tier 1 Capital (to risk-weighted assets)	56,488	19.98	24,032	8.50	22,618	8.0
Common Equity Tier 1 Capital (to risk-weighted assets)	56,488	19.98	19,791	7.00	18,377	6.5
Tier 1 Capital (to average assets)	56,488	10.41	21,713	4.00	27,141	5.0

The Company elected the Community Bank Leverage Ratio (CBLR) framework for the periods March 2020 through June 2021. Pursuant to the framework and consistent with section 201 of the *Economic Growth, Regulatory Relief and Consumer Protection Act*, as a qualifying community banking organization, the Bank was no longer required to calculate and report risk-based capital and relied on this simplified method of measuring capital adequacy calculated as Tier 1 Capital to average assets. As of June 30, 2021, the institution was considered to be "well-capitalized" and was deemed to have satisfied the risk-based and leverage capital requirements as set forth in the table below:

	Actual		Minimum Required	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
2021				
CBLR	$ 52,371	9.88%	$ 45,047	8.5%

14. Employee Benefit Plans

The Company provides pension benefits for its employees through membership in a noncontributory defined benefit pension plan provided as a participating employer in a Pentegra Defined Benefit Plan (Pentegra Plan). Contributions to the Pentegra Plan are based upon calculations made annually by the Pentegra Plan's outside actuaries and are designed to fund the normal cost of pension benefits, the cost of preretirement death and disability benefits, and the amortization of unfunded accrued liabilities over various periods prescribed by law. Effective July 1, 2016, the Company suspended the Pentegra Plan whereby further benefits will no longer accrue. The required disclosures follow:

14. Employee Benefit Plans (Continued)

Name of Plan:	The Pentegra Defined Benefit Plan for Financial Institutions	
Plan's Tax ID #:	13-5645888	
Plan Number:	333	
Plan Year End:	June 30, 2022	June 30, 2021
Actuarial Valuation Date:	July 1, 2021	July 1, 2020
Funded Target Attainment Percentage:	143.50% (Green)	120.09% (Green)
Employer Plan Year Contributions:	$61,000 Did not exceed 5%	$78,000 Did not exceed 5%
Funding Improvement:	The Company was not subject to any specific minimum contributions other than amounts determined by the Trustees of the Pentegra Plan that maintain the funded status of the Pentegra Plan in accordance with the requirements of the *Pension Protection Act* (PPA) and the *Employee Retirement Income Security Act* (ERISA).	

The Company has a 401(k) plan (the Plan) whereby substantially all employees participate in the Plan. The Plan provides for participants' contributions as a percentage of compensation, but not in excess of the maximum allowed under the Internal Revenue Code. Effective January 1, 2013, the Plan was amended whereby the Company will make a safe harbor matching contribution equal to 100% of participants' deferrals that do not exceed 3% of compensation, as defined in the Plan, plus 50% of participants' deferrals between 3% and 5% of compensation, as defined in the Plan. Effective January 1, 2017, the Plan was amended whereby the Company will make a fixed contribution equal to 5% of compensation of participants eligible to share in allocations. For the years ended June 30, 2022 and 2021, contributions to the Plan for the employer match amounted to $279,000 and $264,000, respectively.

The Company has entered into supplemental executive retirement agreements for five executive officers, including one agreement entered into during the year ended June 30, 2021. The agreements are not funded. The liability for the agreements amounted to $1,350,000 and $1,112,000 at June 30, 2022 and 2021, respectively. The expense for the years ended June 30, 2022 and 2021 was $181,000 and $129,000, respectively. Embedded within the agreements are additional change-in-control benefits for the five executive officers. The agreements provide for a lump-sum severance benefit upon termination following a change in control, as defined in the agreements. The executive officers may also elect to defer a percentage of their compensation, as defined in the agreements.

14. Employee Benefit Plans (Continued)

The Company has an executive salary continuation plan for three former executive officers. The Company purchased life insurance contracts on these officers and recognized a liability for the Company's postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The accrued liability at June 30, 2022 and 2021 was $959,000 and $1,074,000, respectively. The effect of deferred compensation on the consolidated statements of income was expense of $10,000 and $51,000 for the years ended June 30, 2022 and 2021, respectively.

The Company has a deferred directors' compensation plan, which allows members of the Board of Directors to defer fees currently earned until a later date. Participants are fully vested in their accounts, which are maintained by the Company on their behalf. These participant accounts at June 30, 2022 and 2021 amounted to $1,474,000 and $1,641,000, respectively, and were included in other assets on the balance sheet with a corresponding liability included in other liabilities. Benefit payments are made to participants after retirement, based on their elections. The effect of deferred compensation on the consolidated statements of income was expense of $116,000 and $117,000 for the years ended June 30, 2022 and 2021, respectively.

The Company has a Directors' Long-Term Service Plan. This retirement plan rewards directors who have served at least ten years on the Board of Directors. The accrued liability at June 30, 2022 and 2021 was $231,000 and $251,000, respectively. The effect of the retirement plan on the consolidated statements of income was expense of $17,000 and $21,000 for the years ended June 30, 2022 and 2021, respectively.

15. Other Investments

The Company currently holds a 35% interest and 46.67% interest in two related Vermont Limited Liability Companies (the 2016 LLC and 2019 LLC) acquired in 2016 and 2019, respectively. An interest in the 2016 LLC was acquired by an initial capital contribution of $500,000, and an interest in the 2019 LLC was acquired by an initial capital contribution of $350,000. For the year ended June 30, 2020, the Company acquired a 30.00% interest in another related LLC with a capital contribution of $50,000 (the 2020 LLC). The purpose of these LLCs is to acquire and redevelop certain real estate in Bennington, Vermont. The operating agreements between the Company and the LLCs dictate that all distributions, profits and losses will be allocated to each member of the LLCs in proportion to each member's interest. The investment in the LLCs is grouped in other assets in the Company's consolidated balance sheet and is accounted for as an equity method investment. The total combined recorded investment in the LLCs amounted to $1,870,000 as of June 30, 2022 and 2021. No investment income or loss was recognized for the years ended June 30, 2022 or 2021 as the amounts were immaterial.

There are two performance guarantees dated June 14, 2019. These obligations of the Company shall continue until conditions in the promissory notes are met. The Company has also guaranteed to the mortgage holder the operational cash flow of the project. This guarantee will continue until the mortgage is retired. The project carries a reserve for funding operational cash flows. In 2021, the Bank originated a $648,000 line of credit to an entity related to the LLC to provide funds to the project on behalf of the other investors. The outstanding balance of the line of credit amounted to $648,000 and $497,000 as of June 30, 2022 and 2021, respectively, and it is entirely secured by cash.

15. Other Investments (Continued)

At June 30, 2022 and 2021, there was a $100,000 commitment to make additional contributions to the 2020 LLC.

16. Subsequent Events

Management has evaluated subsequent events through September 20, 2022, which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

Form FRY-6

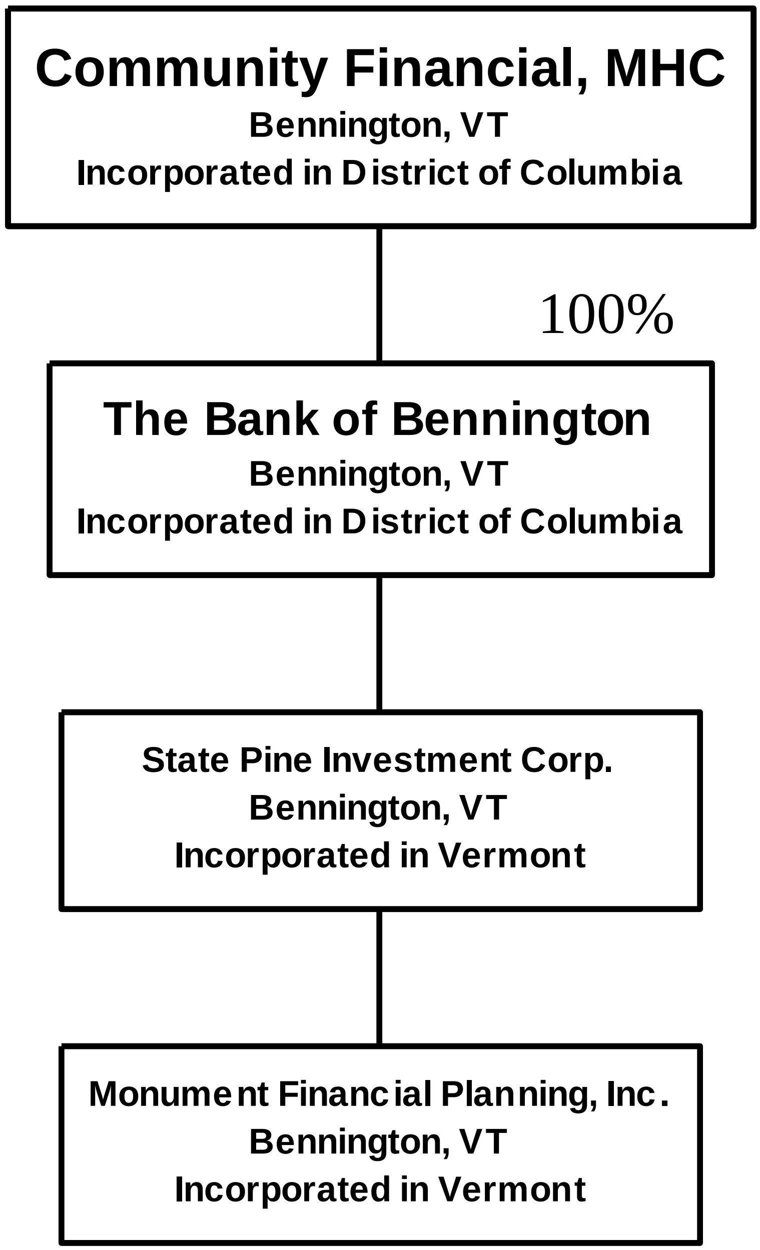
Community Financial Mutual Holding Company

155 North Street

Bennington, VT 05201

LEI: None Exists

Fiscal Year Ending June 30, 2022



Report Item 2b:

The Bank of Bennington

Main Office:	155 North Street Bennington VT 05201 802-442-8121
Branches:	78 Center Hill Rd Manchester Center VT 05255 802-362-4760
	3198 Route 7A Arlington, VT 05250 802-375-2319
	32 Phyllis Lane Bennington, VT 05201 802-445-3123
	143 Woodstock Ave Rutland, VT 05701 802-774-5085

Form FR Y-6
Community Financial MHC
Fiscal Year Ending June 30, 2022

Report Item 4: Insiders

Name, City, State, Country					Principal Occupation if other than with Holding Company	Title & Position with Holding Company (include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	List name s of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
DIRECTORS										
Ahearn	John	M.	Bennington, VT 05201	USA	CFO, Riefenburg Construction	Director	CFO, Riefenburg Construction			
Belnap	Florence	M.	Arlington, VT 05250	USA	CFO, Mack Molding	Director	CFO, Mack Molding			
Brown	James	D.	Greenwich, NY 12834	USA	President, The Bank of Bennington	Director & President (The Bank of Bennington)				
Brownlee	William	W.	Manchester Ctr, VT 05255	USA	Owner/Operator, H.N. Williams Store	Director	Owner/Operator, H.N. Williams Store			
Cohen	Laurie	T.	Bennington, VT 05201	USA	Partner, Nixon Peabody LLP	Director	Partner, Nixon Peabody LLP			
Morrissey	Jason	P.	North Bennington, VT	USA	Attorney	Director	Owner/Operator, Jason P. Morrissey - Attorney At Law			
Nemlich	Pamela	A.	Manchester Ctr, VT 05255	USA	Recruiting and Compensation Manager, The Orvis Company, Inc.	Director	Recruiting and Compensation Manager, The Orvis Company, Inc.			
Salem	Justin	P.	Bennington, VT 05201	USA	Owner/Operator, Salem Dentistry	Director	Owner/Operator, Salem Dentistry			
EXECUTIVE OFFICERS							Title			
Callahan	Mary	D.	Hoosick Falls, NY 12090	USA		Sr. VP Branch Administration (The Bank of Bennington)				
Dikeman	Scott	L.	Rutland, VT 05701	USA		Sr. VP of Lending (The Bank of Bennington)				
McLenithan	Shannon	L.	Bennington, VT 05201	USA		Sr. VP of Residential Lending (The Bank of Bennington)				
Sargood	Edward	J.	Hoosick Falls, NY 12090	USA		Sr. VP Finance, CFO (The Bank of Bennington)				