March 15, 2024

Dear Fellow Shareholders:

We are pleased to report that Grand Bank Corporation had net income of $488,023 for the two months ending February 29, 2024**.**

The Board of Directors has declared a first quarter dividend of $30.00 per share. In addition, a special dividend of $35.00 will be paid. The total dividend of $65.00 per share is payable on March 15, 2024 to stockholders of record as of March 1, 2024.

The Annual Meeting will be held at 10:00 AM on April 9, 2024 at National Grand Bank. If you do not plan to attend the meeting, please sign and return the proxy vote form at your earliest convenience. The Corporation's annual meeting information will be mailed to all shareholders under separate cover. The 2023 Annual Report is available on the bank's website www.ngbank.com.

Grand Bank Corporation continues to purchase shares of its stock that are offered for sale. The current book value is $8,003 per share. Any stockholder who is interested in selling some or all of their shares should contact me at the address below or call me directly at 781-631-6001.

An authorization form for automatic deposit is enclosed. If you are interested, please contact Kelly Ingham at 781-797-0325 for more information.

Selected Financial Highlights

Dollars in thousands, except per share data

Twelve months ended December 31st	**2023**	**2022**
Book Value per Share	$ 8,003	$ 7,069
Income Statement Data		
Net Income	$ 9,811	$ (2,241)
Total Revenue *(includes unrealized gains/(loss) on equity securities)*	25,235	5,992
Earnings per Share	921.34	(205.00)
Balance Sheet Data		
Assets	466,301	467,167
Deposits	354,535	387,010
Total stockholders' equity	82,589	76,013

Sincerely,

James E. Nye
President

December 15, 2023

Dear Fellow Shareholders:

We are pleased to report that Grand Bank Corporation had net income of $6,076,543 for the eleven months ending November 30, 2023.

The Board of Directors has declared a fourth quarter dividend of $30.00 per share payable on December 15, 2023, to stockholders of record as of December 1, 2023.

Grand Bank Corporation continues to purchase shares of its stock that are offered for sale. The current book value is $7,278 per share. Any stockholder who is interested in selling some or all of their shares should contact me at the address below or call me directly at 781-631-6001.

An authorization form for automatic deposit is enclosed. If you are interested, please contact Kelly Ingham at 781-797-0325 for more information.

Selected Financial Highlights

Dollars in thousands, except per share data

Nine months ended September 30th	**2023**	**2022**
Book Value per Share	$ 7,278	$ 6,597
Income Statement Data		
Net Income	$ 5,766	$ (6,004)
Total Revenue *(includes unrealized gains/(loss) on equity securities)*	16,365	(1,108)
Earnings per Share	537.82	(546.41)
Balance Sheet Data		
Assets	457,436	469,877
Deposits	358,239	385,982
Total stockholders' equity	76,847	70,972

Sincerely,

James E. Nye
President

September 15, 2023

Dear Fellow Shareholders:

We are pleased to report that Grand Bank Corporation had net income of $6,862,488 for the eight months ending August 31, 2023.

The Board of Directors has declared a third quarter dividend of $30.00 per share payable on September 15, 2023, to stockholders of record as of September 1, 2023.

Grand Bank Corporation continues to purchase shares of its stock that are offered for sale. The current book value is $7,572 per share. Any stockholder who is interested in selling some or all of their shares should contact me at the address below or call me directly at 781-631-6001.

An authorization form for automatic deposit is enclosed. If you are interested, please contact Kelly Ingham at 781-797-0325 for more information.

Selected Financial Highlights

Dollars in thousands, except per share data

Six months ended June 30th	**2023**	**2022**
Book Value per Share	$ 7,572	$ 6,973
Income Statement Data		
Net Income	$ 6,104	$ (5,552)
Total Revenue *(includes unrealized gains/(loss) on equity securities)*	13,792	(2,666)
Earnings per Share	567.58	(501.57)
Balance Sheet Data		
Assets	455,255	444,973
Deposits	345,817	349,422
Total stockholders' equity	81,196	75,619

Sincerely,

James E. Nye
President

June 15, 2023

Dear Fellow Shareholders:

We are pleased to report that Grand Bank Corporation had net income of $3,533,408 for the five months ending May 31, 2023.

The Board of Directors has declared a second quarter dividend of $30.00 per share payable on June 15, 2023, to stockholders of record as of June 1, 2023.

Grand Bank Corporation continues to purchase shares of its stock that are offered for sale. The current book value is $7,368 per share. Any stockholder who is interested in selling some or all of their shares should contact me at the address below or call me directly at 781-631-6001.

An authorization form for automatic deposit is enclosed. If you are interested, please contact Kelly Ingham at 781-797-0325 for more information.

Selected Financial Highlights

Dollars in thousands, except per share data

Three months ended March 31st	**2023**	**2022**
Book Value per Share	$ 7,368	$ 7,641
Income Statement Data		
Net Income	$ 2,996	$ (1,124)
Total Revenue *(includes unrealized gains/(loss) on equity securities)*	6,550	640
Earnings per Share	278.48	(101.24)
Balance Sheet Data		
Assets	451,508	448,979
Deposits	365,123	356,814
Total stockholders' equity	79,344	84,933

Sincerely,

James E. Nye
President

Grand Bank Corporation

Annual Report

2023

National Grand Bank

We Make Things Happen!

OFFICERS

James E. Nye
President

Carl R. Edwards
Executive Vice President & CLO

Michael R. Spencer
Vice President & CFO

Rory R. Richards
Vice President Deposit & Cash Operations

Kelly M. Ingham
Asst. Vice President & Controller

Mark C. Dewling
Asst. Vice President

Kathy M. Green
Asst. Vice President

Matthew C. Martin
Business Development Officer

Charles T. Ball
Senior Vice President

Timothy B. Thomas
Vice President Information Technology

Michael J. Bartholomew
Asst. Vice President

Karin McCarthy
Asst. Vice President Human Resources

Leda J. Joyce
Deposit Operations Officer

Michael O'Neil
Commercial Loan Officer

Robert L. Duzz
BSA/Compliance Officer

DIRECTORS

Ralph C. Anderson

Peter C. Brown

John C. Doub

Paul G. Gregory

Jo-Mary Koopman

James E. Nye

Kenneth G. Steadman

To our shareholders:

The Federal Reserve continued raising the Federal Funds rate to 5.5% in June, a 2,200% rise that started March 2022 at 0.25%, then held that rate for the remainder of the year. Interest rates rose for loans and deposits, there was a rapid transfer of funds from core deposits to higher yielding CD's and money market accounts. This migration caused the bank's interest margin to decrease from 3% to 2%. Though inflation declined to 3.4% by year end, personal saving rates declined, as most depositors' incomes did not keep pace with inflation. Customers' average balances declined all year, mostly due to the higher cost of goods and services. Despite the uncertainty caused by a few high-profile bank failures, the war in Ukraine and conflicts in the middle east, the stock and bond markets rallied. The mark to market rules for reporting the corporations' investments returned to positive territory 2023, almost erasing all 2022 losses, increasing GBC stock price to $8,003.

There were a few bright spots for the corporation, total assets remained stable and net loans increased slightly, up $5.9 million. Because of our mark to market gains, surging investment values at Grand Bank Corporation (GBC) created a net income of $9.8 million, which is up $12.1 million when compared to 2022 net (loss) of ($2.24 million). This resulted in the book value of Grand Bank Corporation shares increasing 13% to **$8,003** per share with a total yearly dividend of $155 per share.

The Corporation repurchased four hundred seventy-nine (479) shares of its stock in 2023. When stock is offered for sale, the Corporation may purchase additional shares. However, shareholders who wish to sell their shares are not obligated to sell them to the Corporation.

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

Respectfully,

James E. Nye
President

BAKER NEWMAN NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com
WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grand Bank Corporation

We have audited the consolidated financial statements of Grand Bank Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income (loss), comprehensive income (loss), changes in stockholders' 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 referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2023 and 2022, 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 Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Corporation's ability to continue as a going concern for a period within one year after the date that the financial statements are issued or available to be issued.

To the Board of Directors
Grand Bank Corporation

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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

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

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

Baker Newman + Noyes LLC

Portsmouth, New Hampshire
February 20, 2024

Grand Bank Corporation & Subsidiaries
Consolidated Balance Sheets

December 31, 2023 and 2022

(In Thousands, Except Share Data)

	2023	2022
ASSETS		
Cash, due from banks and money market mutual funds	$ 21,275	$ 33,565
Federal funds sold	804	2,481
Federal Home Loan Bank interest-bearing accounts	109	129
Cash and cash equivalents	22,188	36,175
Investments in available-for-sale securities, at fair value	79,344	80,841
Marketable equity securities, at fair value	43,725	35,432
Federal Reserve Bank stock, at cost	102	99
Federal Home Loan Bank stock, at cost	988	422
Loans, net	308,265	302,372
Premises and equipment, net	2,489	2,723
Investment in real estate	1,590	1,601
Accrued interest receivable	1,226	1,125
Cash surrender value of life insurance	5,730	5,582
Other assets	654	795
Total assets	$466,301	$467,167
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$110,448	$148,441
Interest-bearing	244,087	238,569
Total deposits	354,535	387,010
Borrowed funds	26,054	3,158
Other liabilities	3,123	986
Total liabilities	383,712	391,154
Stockholders' equity:		
Common stock, par value $10.00 per share, authorized 500,000 shares, issued 17,500 shares; outstanding 10,320 shares in 2023 and 10,753 shares in 2022	175	175
Paid-in capital	10,606	10,381
Retained earnings	102,048	93,969
Treasury stock, at cost (7,180 shares in 2023 and 6,747 shares in 2022)	(23,765)	(20,365)
Accumulated other comprehensive loss	(6,475)	(8,147)
Total stockholders' equity	82,589	76,013
Total liabilities and stockholders' equity	$466,301	$467,167

GRAND BANK CORPORATION & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF (LOSS) INCOME

Years Ended December 31, 2023 and 2022

(In Thousands, Except Share Data)

	2023	2022
Interest and dividend income:		
Interest and fees on loans	$ 11,820	$ 10,564
Interest and dividends on securities:		
Taxable	2,010	1,688
Tax-exempt	724	723
Other interest	830	560
Total interest and dividend income	15,384	13,535
Interest expense:		
Interest on deposits	4,753	789
Interest on borrowed funds	835	144
Total interest expense	5,588	933
Net interest and dividend income	9,796	12,602
Benefit (provision) for credit losses	542	(89)
Net interest and dividend income after benefit (provision) for credit losses	10,338	12,513
Noninterest income:		
Trust department income	41	41
Service charges and fees	343	287
Gain (loss) on marketable equity securities, net	8,437	(8,919)
Mortgage banking activities, net	7	6
Credit card merchant processing fees	62	61
Increase in cash surrender value of life insurance and death benefit gain	148	163
Other income	813	818
Total noninterest income	9,851	(7,543)
Noninterest expense:		
Salaries and employee benefits	4,235	4,224
Occupancy expense	428	445
Equipment expense	670	642
Data processing	749	719
Consultant fees	322	327
FDIC assessment	191	113
Other expense	1,187	1,212
Total noninterest expense	7,782	7,682
Income (loss) before income tax expense (benefit)	12,407	(2,712)
Income tax expense (benefit)	2,596	(471)
Net income (loss)	$ 9,811	$ (2,241)
Earnings (losses) per common share, basic	$ 921.34	$ (205.00)
Earnings (losses) per common share, diluted	$ 918.11	$ (205.00)

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Comprehensive (Loss) Income

Years Ended December 31, 2023 and 2022

(In Thousands)

	2023	2022
Net income (loss)	$ 9,811	$ (2,241)
Other comprehensive income (loss), net of tax:		
Net unrealized holding gain (loss) on available-for-sale securities, net of tax	1,672	(8,778)
Other comprehensive income (loss), net of tax	1,672	(8,778)
Comprehensive income (loss)	$ 11,483	$ (11,019)

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

Years Ended December 31, 2023 and 2022

(In Thousands, Except Share Data)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2021	$ 175	$ 10,100	$ 97,913	$ (17,689)	$ 631	$ 91,130
Net loss	–	–	(2,241)	–	–	(2,241)
Other comprehensive loss, net of tax	–	–	–	–	(8,778)	(8,778)
Dividends declared on common stock ($155 per share)	–	–	(1,703)	–	–	(1,703)
Purchases of 385 shares of treasury stock	–	–	–	(2,862)	–	(2,862)
Issuance of 54 shares on exercise of stock options	–	195	–	149	–	344
Issuance of 13 shares for stock awards	–	56	–	37	–	93
Stock-based compensation – options	–	30	–	–	–	30
Balance, December 31, 2022	175	10,381	93,969	(20,365)	(8,147)	76,013
Cumulative effect of change in accounting principle (note 2)	–	–	(83)	–	–	(83)
Net income	–	–	9,811	–	–	9,811
Other comprehensive income, net of tax	–	–	–	–	1,672	1,672
Dividends declared on common stock ($155 per share)	–	–	(1,649)	–	–	(1,649)
Purchases of 479 shares of treasury stock	–	–	–	(3,544)	–	(3,544)
Issuance of 71 shares on exercise of stock options	–	123	–	115	–	238
Issuance of 9 shares for stock awards	–	35	–	29	–	64
Stock-based compensation – options	–	67	–	–	–	67
Balance, December 31, 2023	$ 175	$ 10,606	$ 102,048	$ (23,765)	$ (6,475)	$ 82,589

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

(In Thousands)

	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 9,811	$ (2,241)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of securities, net	64	203
(Gain) loss on marketable equity securities, net	(8,437)	8,919
Change in deferred origination fees/costs, net	(13)	(174)
(Benefit) provision for credit losses	(542)	89
Depreciation and amortization	290	309
Increase in accrued interest receivable	(101)	(194)
Decrease (increase) in other assets	114	(204)
Increase in cash surrender value of life insurance policies	(148)	(140)
Gain from life insurance policy death benefit	–	(23)
Increase (decrease) in other liabilities	19	(225)
Deferred tax expense (benefit)	1,580	(2,227)
Stock-based compensation expense – stock awards	64	93
Stock-based compensation expense – options	67	30
Net cash provided by operating activities	2,768	4,215
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,886)	(12,955)
Proceeds from paydowns, maturities and calls of available-for-sale securities	7,543	10,683
Purchases of equity securities	(8,263)	(11,686)
Proceeds from sales of equity securities	8,407	15,234
Purchases of Federal Reserve Bank stock	(3)	(5)
Purchases of Federal Home Loan Bank stock	(2,362)	(822)
Redemption of Federal Home Loan Bank stock	1,796	1,154
Loan originations and principal collections, net	(5,423)	(10,908)
Recoveries of loans previously charged off	15	9
Capital expenditures	(45)	(169)
Net cash used in investing activities	(2,221)	(9,465)

(In Thousands)

	2023	2022
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	$ (78,613)	$ 6,149
Net increase in time deposits	46,138	10,212
Net increase (decrease) in borrowed funds	22,896	(530)
Dividends paid to common stockholders	(1,649)	(1,703)
Proceeds from exercise of stock options	238	344
Purchases of treasury stock	(3,544)	(2,862)
Net cash (used in) provided by financing activities	(14,534)	11,610
Net (decrease) increase in cash and cash equivalents	(13,987)	6,360
Cash and cash equivalents at beginning of year	36,175	29,815
Cash and cash equivalents at end of year	$ 22,188	$ 36,175
Supplemental disclosures:		
Interest paid	$ 5,442	$ 893
Income taxes paid	1,104	1,959
Transfer of death benefit receivable from cash surrender value of life insurance to other assets	–	187

NOTE 1 - NATURE OF OPERATIONS

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

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

The preparation of 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 credit losses.

BASIS OF PRESENTATION:

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

RISKS AND UNCERTAINTIES:

Various uncertainties exist in the banking industry, including but not limited to uncertainties as to the future of interest rate increases or decreases by the Federal Reserve, and the impact of those changes on long-term interest rates, the valuation of securities and the general economy. Interest rate changes and other factors could also impact the demands on liquidity of institutions. The impact of those uncertainties could also extend to the fair value of investments issued by institutions who are affected by these factors.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, money market mutual funds, federal funds sold and Federal Home Loan Bank interest-bearing accounts.

SECURITIES:

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

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

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

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

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

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

For any debt security with a fair value less than its amortized cost basis, the Corporation will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Corporation will recognize a full impairment charge to earnings.

Upon Adoption of Accounting Standards Codification (ASC) Topic 326
For all other debt securities, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Losses related to non-credit-related factors will be recorded in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when either of the criteria regarding intent or requirement to sell is met.

Debt securities are placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

Prior to Adoption of ASC Topic 326
For any debt security with a fair value less than its amortized cost basis, the Corporation will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Corporation will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive (loss) income.

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

FEDERAL HOME LOAN BANK STOCK:
Federal Home Loan Bank of Boston (FHLB) stock is carried at cost and can only be sold to the FHLB based on its current redemption policies. Management evaluates the Corporation's investment in FHLB stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions

warrant such evaluation. Based on its most recent analysis of the FHLB as of December 31, 2023, management deems its investment in FHLB stock to be not other-than-temporarily impaired.

LOANS AND ALLOWANCE FOR CREDIT LOSSES:

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

The accrual of interest on loans is discontinued at the time a loan is 90 days past due. Past due status is based on the contractual terms of the loan. Loans are place on non-accrual at an earlier date if collection of principal or interest is considered doubtful. Interest income previously accrued for on such loans is reversed against interest income. The interest paid on these loans is accounted for on the cash basis if the remaining net carrying amount of the loan is deemed fully collectible or on the cost-recovery method to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan, until qualifying for return to accrual. 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.

When recognition of interest income on a non-accrual loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans. Loans are charged off against the allowance when management believes the collectability of a loan balance is uncertain. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The current expected credit loss (CECL) approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures). It replaces the incurred loss approach's threshold that delayed the recognition of a credit loss until it was probable a loss event was incurred.

The estimate of expected credit losses is based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. Historical loss experience is generally the starting point for estimating expected credit losses. The Corporation then considers whether the historical loss experience should be adjusted for asset-specific risk characteristics or current conditions at the reporting date that did not exist over the historical period used. The Corporation also considers future economic conditions and portfolio performance as part of a reasonable and supportable forecast period.

A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. The Corporation has designated one portfolio segment of loans and leases. The portfolio segment is further disaggregated into classes, which represent loans and leases of similar type, risk characteristics, and methods for monitoring and assessing credit risk. The portfolio segment is disaggregated into four classes: residential real estate, commercial real estate, commercial and industrial, and consumer (comprised of other revolving credit, installment, and auto). Each portfolio class is also segmented based on shared risk characteristics.

The historical loss experience for the portfolio segment is determined using a Weighted-Average Remaining Maturity (WARM) method. This method pools loans into groups sharing similar risk characteristics and identifies the number of months in the future over which the reduction of the amortized cost occurs. The historical loss rates for each group are then applied to current loan balances to arrive at the quantitative baseline portion of the allowance for credit losses for the portfolio segment.

The Corporation also considers qualitative adjustments to the quantitative baseline. For example, the Corporation considers the impact of current environmental factors at the reporting date that did not exist over the period from which historical experience was used. Relevant factors include, but are not limited to, concentrations of credit risk (geographic, large borrower, and industry), economic trends and conditions, changes in underwriting standards, trends in delinquencies, and the level of criticized loans.

The Corporation also incorporates a reasonable and supportable (R&S) loss forecast period, which is currently one year, to account for the effect of forecasted economic conditions and other factors on the performance of the portfolio, which could differ from historical loss experience. The Corporation performs a quarterly asset quality review which includes a review of forecasted gross charge-offs and recoveries, nonperforming assets, criticized loans and leases, and risk rating migration. The asset quality review is reviewed by management and the results are used to consider qualitative adjustments to the quantitative baseline. After the one-year R&S loss forecast period, this adjustment assumes an immediate reversion to historical loss rates for the remaining expected life of the loan.

The Corporation establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans evaluated using a collective or pooled basis. These individually evaluated loans are removed from the pooling approach discussed above for the quantitative baseline, and includes loans as deemed appropriate by management.

The Corporation establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans evaluated using a collective or pooled basis.

See Note 4, *Loans and Allowance for Credit Losses* for more information.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: the Corporation has a reasonable expectation at the reporting date that a modification will be executed with an individual borrower, or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Corporation.

On January 1, 2023, the Corporation adopted Accounting Standards Update (ASU) 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The following illustrates the most common loan modifications by loan classes offered by the Corporation that are required to be disclosed pursuant to the requirements of ASU 2022-02:

LOAN CLASSES MODIFICATION TYPES:

Commercial: Term extension, interest rate reductions, payment delay, or combination thereof. These modifications extend the term of the loan, lower the payment amount, or otherwise delay payments during a defined period for the purpose of providing borrowers additional time to return to compliance with the original loan terms.

Residential Mortgage/ Home Equity: Forbearance period greater than six months. These modifications require reduced or no payments during the forbearance period for the purpose of providing borrowers additional time to return to compliance with the original loan terms.

Residential Mortgage/ Home Equity: Term extension and rate adjustment. These modifications extend the term of the loan and provide for an adjustment to the interest rate, which reduces the monthly payment requirement.

Automobile/ Direct Installment: Term extension greater than three months. These modifications extend the term of the loan, which reduces the monthly payment requirement.

Prior to January 1, 2023, when a loan was modified and a concession was made to a borrower experiencing financial difficulty, the modification was considered a TDR. An allowance for credit losses for loans that have been modified in a TDR is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercised significant judgment in developing these estimates.

The allowance for credit losses on off-balance sheet commitments represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance sheet commitments is recognized as a liability (other liabilities in the consolidated balance sheet), with adjustments to the allowance recognized in the provision for credit losses in the consolidated statements of income. The allowance for credit losses on off-balance sheet commitments is determined by estimating future draws and applying the expected loss rates on those draws. Future draws are based on historical averages of utilization rates (i.e., the likelihood of draws taken). To estimate future draws on unfunded balances, current utilization rates are compared to historical utilization rates. If current utilization rates are below historical utilization rates, the rate difference is applied to the committed balance to estimate the future draw. Loss rates are estimated by utilizing the same loss rates calculated for the allowance for credit losses general reserves.

Prior to the adoption of ASC Topic 326 on January 1, 2023, the allowance for loan losses was determined under the incurred loss model which reflected management's best estimate of probable losses that may be incurred within the loan portfolio as of the related balance sheet date and consisted of three primary components: (1) a general component, (2) an allocated component, and (3) unallocated component.

GENERAL COMPONENT:

The general component of the allowance for loan losses was 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 used a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor was adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions.

ALLOCATED COMPONENT:

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

A loan was considered impaired when, based on current information and events, it was probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined 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 was periodically maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflected the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

LOAN SERVICING:

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

PREMISES AND EQUIPMENT:

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

INVESTMENT IN REAL ESTATE:

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

ADVERTISING:

The Corporation directly expenses costs associated with advertising as they are incurred. Advertising expenses totaled approximately $103,000 and $94,000 in 2023 and 2022, respectively.

INCOME TAXES:

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

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

There were no material uncertain tax positions taken or expected to be taken at December 31, 2023 and 2022.

STOCK-BASED COMPENSATION:

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS:
In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. 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 incurred loss and impairment methodology in current GAAP with a methodology referred to as CECL 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. Effective January 1, 2023, the Corporation adopted ASU 2016-13.

The Corporation adopted Topic 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Accordingly, a cumulative effect transition adjustment was applied to the opening balance of retained earnings, effective January 1, 2023. Prior periods have not been restated and continue to be presented under the incurred loss model. Upon adoption of Topic 326, the Corporation recorded a $60,000 and $55,000 increase to the allowance for credit losses and OBS credit exposures, respectively, which resulted in an $83,000 after-tax decrease to retained earnings as of January 1, 2023. The tax effect resulted in a $32,000 decrease to deferred tax assets.

A summary of the financial statement impact upon adoption of Topic 326 is as follows:

	Financial Statement Impact of Adoption		
	Balance 12/31/2022	Transition Adjustment	Balance 1/1/2023
		(In Thousands)	
Assets:			
Allowance for credit losses on loans:			
Residential real estate	$ 1,724	$ 55	$ 1,779
Commercial real estate	74	2	76
Commercial and industrial	18	2	20
Consumer	4	1	5
Deferred tax asset	27	(32)	(5)
Liabilities:			
Allowance for credit losses on OBS credit exposures	21	55	76
Retained earnings	93,969	(83)	93,886

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. This ASU also enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For entities that have not yet adopted ASU No. 2016-13, the effective date is the same as the effective dates in ASU No. 2016-13. The Corporation adopted this ASU on January 1, 2023. The adoption of this ASU did not have a material impact on the Corporation's consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU requires qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. This ASU also requires additional disaggregation of information related to income taxes paid (net of refunds received). The adoption of this ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The adoption of this ASU is not expected to have a material impact on the Corporation's consolidated financial statements.

NOTE 3 - INVESTMENTS IN SECURITIES

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

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
2023				
Available-for-sale debt securities:				
Political and state obligations	$26,037	$ 53	$ 2,200	$23,890
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,731	–	324	5,407
Corporate debt securities	1,000	–	2	998
Mortgage-backed securities	55,316	189	6,456	49,049
Total available-for-sale debt securities	$88,084	$ 242	$ 8,982	$79,344

At December 31, 2023, there was no allowance for credit losses for available-for-sale debt securities,

	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
		(In Thousands)		
2022				
Available-for-sale debt securities:				
Political and state obligations	$26,809	$ 47	$ 2,999	$23,857
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	6,385	–	444	5,941
Corporate debt securities	1,001	–	14	987
Mortgage-backed securities	57,611	46	7,601	50,056
Total available-for-sale debt securities	$91,806	$ 93	$11,058	$80,841

The scheduled maturities of debt securities were as follows as of December 31, 2023:

	Fair Value (In Thousands)
Due within one year	$ 6,150
Due after one year through five years	12,187
Due after five years through ten years	9,585
Due after ten years	2,373
Mortgage-backed securities	49,049
	$79,344

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

During the fiscal years ended December 31, 2023 and December 31, 2022, there were no sales of available-for-sale debt securities.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2023 and 2022.

At December 31, 2023 and 2022, certain debt securities with a carrying value of $9,886,000 and $2,290,000, respectively, were pledged as collateral for Federal Reserve Bank borrowings.

Information pertaining to debt securities with gross unrealized losses at December 31, 2023 and 2022 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2023						
Available-for-sale debt securities:						
Political and state obligations	$ 4,491	$ 16	$ 11,029	$ 2,184	$ 15,520	$ 2,200
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	–	–	5,407	324	5,407	324
Corporate debt securities	–	–	998	2	998	2
Mortgage-backed securities	45	–	40,441	6,456	40,486	6,456
Total available-for-sale debt securities	$ 4,536	$ 16	$ 57,875	$ 8,966	$ 62,411	$ 8,982
2022						
Available-for-sale debt securities:						
Political and state obligations	$ 10,508	$ 1,544	$ 4,494	$ 1,455	$ 15,002	$ 2,999
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,119	221	1,822	223	5,941	444
Corporate debt securities	987	14	–	–	987	14
Mortgage-backed securities	10,702	738	34,361	6,863	45,063	7,601
Total available-for-sale debt securities	$ 26,316	$ 2,517	$ 40,677	$ 8,541	$ 66,993	$ 11,058

As of December 31, 2023, the Corporation's available-for-sale debt security portfolio consisted of 164 securities below amortized cost (12.58% of amortized cost basis). Corporation management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

The Corporation did not record any other-than-temporary impairment losses during the year ending December 31, 2022.

The portion of unrealized gains and losses for the years ended December 31, 2023 and 2022 related to marketable equity securities still held at the reporting date is as follows (in thousands):

	2023	2022
Net gains (losses) during the period on equity securities	$ 8,437	$ (8,919)
Less: net (gains) losses recognized on equity securities sold during the period	(1,747)	2,453
Net unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 6,690	$ (6,466)

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2023	2022
	(In Thousands)	
Real estate:		
Residential	$284,698	$281,790
Commercial	15,340	14,774
Construction and land development	5,467	3,467
Commercial and industrial	2,468	2,346
Consumer	1,630	1,815
	309,603	304,192
Allowance for credit losses	(1,338)	(1,820)
Net loans	$308,265	$302,372

Certain directors and executive officers of the Corporation and companies in which they have significant ownership interest were customers of the Bank. Total loans to such persons and their companies amounted to $4,831,000 and $5,364,000 as of December 31, 2023 and 2022, respectively.

The Corporation elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of December 31, 2023 and 2022, accrued interest receivable for loans totaled $858,000 and $745,000, respectively, and is included in the "accrued interest receivable" line item on the Corporation's consolidated balance sheet.

The following table presents the activity in the allowance for credit losses by portfolio segment as of and for the year ended December 31, 2023 :

	Real Estate		Commercial		
	Residential	Commercial	and Industrial	Consumer	Total
			(In Thousands)		
Allowance for credit losses activity					
Beginning balance prior to adoption of Topic 326	$1,724	$ 74	$ 18	$ 4	$1,820
Impact of adoption of Topic 326	55	2	2	1	60
Charge-offs	–	–	(11)	(15)	(26)
Recoveries	–	–	12	3	15
Provision (benefit)	(546)	(3)	(1)	19	(531)
Ending balance	$1,233	$ 73	$ 20	$ 12	$1,338

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

The following table presents the activity in the allowance for credit losses by portfolio segment as of and for the year ended December 31, 2022 and select loan information by portfolio segment at December 31, 2022:

	Real Estate		Commercial		Un-	
	Residential	Commercial	and Industrial	Consumer	allocated	Total
			(In Thousands)			
2022						
Allowance for credit losses activity						
Beginning balance	$ 1,548	$ 108	$ 64	$ 3	$ –	$ 1,723
Charge-offs	–	–	–	(1)	–	(1)
Recoveries	–	–	7	2	–	9
Provision (benefit)	176	(34)	(53)	–	–	89
Ending balance	$ 1,724	$ 74	$ 18	$ 4	$ –	$ 1,820
Allowances for credit losses balance, end of year:						
Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ –	$ –
Collectively evaluated for impairment	1,724	74	18	4	–	1,820
Total allowance for credit losses ending balance	$ 1,724	$ 74	$ 18	$ 4	$ –	$ 1,820
Loan balance, end of year						
Individually evaluated for impairment	$ 1,520	$ –	$ –	$ –	$ –	$ 1,520
Collectively evaluated for impairment	283,737	14,774	2,346	1,815	–	302,672
Total loans ending balance	$ 285,257	$ 14,774	$ 2,346	$ 1,815	$ –	$ 304,192

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

Despite the above allocations, the allowance for credit losses is general in nature and therefore available to absorb losses from any loan type.

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

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2023								
Real estate:								
Residential	$ 175	$ –	$ –	$ 175	$ 284,523	$ 284,698	$ –	$ 186
Commercial	–	–	–	–	15,340	15,340	–	–
Construction and land development	–	–	–	–	5,467	5,467	–	–
Commercial and industrial	–	–	–	–	2,468	2,468	–	–
Consumer	–	–	–	–	1,630	1,630	–	–
	$ 175	$ –	$ –	$ 175	$ 309,428	$ 309,603	$ –	$ 186
2022								
Real estate:								
Residential	$ 198	$ 21	$ –	$ 219	$ 281,571	$ 281,790	$ –	$ –
Commercial	–	–	–	–	14,774	14,774	–	–
Construction and land development	–	–	–	–	3,467	3,467	–	–
Commercial and industrial	–	–	–	–	2,346	2,346	–	–
Consumer	1	–	–	1	1,814	1,815	–	–
	$ 199	$ 21	$ –	$ 220	$ 303,972	$ 304,192	$ –	$ –

LOAN MODIFICATIONS MADE TO BORROWERS EXPERIENCING FINANCIAL DIFFICULTY

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Corporation uses a weighted-average remaining maturity model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses as a result of the measurement methodologies used to estimate the allowance, a change in the allowance for credit losses is generally not recorded upon modification. Occasionally, the Corporation modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In certain instances, the Corporation will modify a loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as an interest rate reduction, may be granted.

There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Loans modified in troubled debt restructurings during the year ended December 31, 2022 were not significant. During the year ended December 31, 2022, there were no loans modified in troubled debt restructurings that have subsequently defaulted within one year of modification. As of December 31, 2022, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

As of December 31, 2022 there were no related allowances for loans that were modified in troubled debt restructurings. As of December 31, 2022, there were no troubled debt restructured loans on nonaccrual.

At December 31, 2023 and 2022, there were no loans collateralized by residential real estate property in the process of foreclosure.

CREDIT QUALITY INFORMATION

The Corporation uses seven grade internal loan risk rating definitions for its commercial, commercial real estate and construction real estate loan portfolios which are generally consistent with regulatory and banking industry norms. Loans are assigned a credit quality grade (risk rating) which is based upon management's on-going assessment of risk based upon an evaluation of the quantitative and qualitative aspects of each credit. This assessment is a dynamic process and risk ratings are adjusted as each borrower's financial situation changes. This process is designed to provide timely recognition of a borrower's financial condition and appropriately focus management resources. Risk ratings on loans within the consumer and residential real estate loan portfolios are based upon payment performance or other knowledge of information or events that call into question the borrower's repayment ability. The internal loan risk rating definitions are as follows:

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

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

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

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

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

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

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

	Real Estate					
	Residential	Commercial	Construction and Land Development	Commercial and Industrial	Consumer	Total
			(In Thousands)			
2023						
Grade:						
Pass (1-3)	$ –	$ 14,092	$ 5,467	$ 2,368	$ –	$ 21,927
Special mention (4)	346	918	–	100	–	1,364
Substandard (5)	–	330	–	–	–	330
Not formally rated	284,352	–	–	–	1,630	285,982
	$ 284,698	$ 15,340	$ 5,467	$ 2,468	$ 1,630	$ 309,603
2022						
Grade:						
Pass (1-3)	$ –	$ 14,431	$ 3,467	$ 1,546	$ –	$ 19,444
Special mention (4)	–	–	–	800	–	800
Substandard (5)	–	343	–	–	–	343
Not formally rated	281,790	–	–	–	1,815	283,605
	$ 281,790	$ 14,774	$ 3,467	$ 2,346	$ 1,815	$ 304,192

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of and for the year ended December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
2022					
With no related allowance recorded:					
Real estate:					
Residential	$ 1,520	$ 1,520	$ –	$ 1,555	$ 49
Total impaired with no related allowance	1,520	1,520	–	1,555	49
Total					
Real estate:					
Residential	$ 1,520	$ 1,520	$ –	$ 1,555	$ 49
Total impaired loans	$ 1,520	$ 1,520	$ –	$ 1,555	$ 49

As of December 31, 2022, there were no impaired loans with an allowance recorded.

Loans serviced for others are not included in the accompanying consolidated balance sheets. As of December 31, 2023 and 2022, the Corporation serviced loans for others with unpaid principal balances of $2,847,000 and $3,112,000, respectively.

The balance of capitalized mortgage servicing rights included in other assets at December 31, 2023 and 2022 was immaterial. Management estimates that the fair value of those rights approximates carrying value.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2023	2022
	(In Thousands)	
Land	$ 1,559	$ 1,559
Buildings and improvements	2,599	2,582
Furniture and equipment	918	948
Leasehold improvements	100	100
	5,176	5,189
Accumulated depreciation and amortization	(2,687)	(2,466)
	$ 2,489	$ 2,723

NOTE 6 - INVESTMENT IN REAL ESTATE

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

	2023	2022
	(In Thousands)	
Land	$ 1,328	$ 1,328
Buildings	397	391
	1,725	1,719
Accumulated depreciation	(135)	(118)
	$ 1,590	$ 1,601

Rental income from investment in real estate amounted to $101,000 and $99,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 7 - DEPOSITS

The Bank uses brokered time deposits, and from time to time, deposits acquired through a deposit listing service, both of which are fully insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2023 and 2022, such deposits amounted to $15,592,000 and $3,023,000, respectively, and were comprised entirely of brokered time deposits.

The aggregate amount of time deposit accounts in denominations that meet or exceed the FDIC insurance limit (currently $250,000) at December 31, 2023 and 2022 amounted to $35,770,000 and $18,085,000, respectively. These totals exclude brokered time deposits and deposits acquired through a deposit listing service which have been bifurcated into amounts below the FDIC limit.

For time deposits as of December 31, 2023, the scheduled maturities for each of the following five years ended December 31 are (in thousands):

2024	$81,464
2025	5,177
2026	330
2027	90
2028	149
	$87,210

Deposits from related parties held by the Corporation as of December 31, 2023 and 2022 amounted to $2,579,000 and $2,911,000, respectively.

At December 31, 2023, the Corporation did not have any customers with deposits exceeding 5% of total deposits. The Corporation had one customer with deposits amounting to $22,943,000, or 5.92% of total deposits, as of December 31, 2022.

NOTE 8 - BORROWED FUNDS

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

As of December 31, 2023, the Corporation had $18,054,000 of outstanding FHLB advances, all of which are scheduled to mature in 2024.

At December 31, 2023, the interest rates on FHLB advances ranged from 0.41% to 5.53%, and the weighted average interest rate on FHLB advances was 5.11%. At December 31, 2022, the interest rates on FHLB advances ranged from 0.34% to 3.13%, and the weighted average interest rate on FHLB advances was 2.36%.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets. At December 31, 2023 and 2022, the maximum available borrowing capacity amounted to $111,447,000 and $142,606,000, respectively, including $3,095,000 available under an Ideal Way line of credit from the FHLB.

At December 31, 2023, the Bank had standby letters of credit with the FHLB in the amount of $20,000,000 for the benefit of and to collateralize certain deposits made by customers of the Bank. At December 31, 2022, the Bank had no standby letters of credit with the FHLB.

During 2023, the Corporation established a secured credit facility with the Federal Reserve Bank – Bank Term Funding Program (BTFP). The Corporation borrowed $8,000,000 under the Federal Reserve Bank BTFP, at a fixed annual rate of 4.85%, maturing on December 23, 2024.

NOTE 9 - INCOME TAXES

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

	2023	2022
	(In Thousands)	
Current:		
Federal	$ 799	$ 1,308
State	217	448
	1,016	1,756
Deferred:		
Federal	1,532	(2,194)
State	48	(33)
	1,580	(2,227)
Total income tax expense (benefit)	$ 2,596	$ (471)

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

	2023 % of Income	2022 % of Income
Federal income tax at statutory rate	21.0%	(21.0)%
Increase (decrease) in tax rates resulting from:		
Tax exempt income	(1.9)	(8.6)
State tax, net of federal tax benefit	1.7	12.1
Other, net	0.1	0.1
Effective tax rates	20.9%	(17.4)%

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

	2023	2022
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 245	$ 365
Accrued deferred compensation	115	114
Other	11	–
Gross deferred tax assets	371	479
Deferred tax liabilities:		
Loan origination fees and costs, net	(54)	(50)
Depreciation	(116)	(155)
Mortgage servicing rights	(4)	(4)
Net unrealized holding gain on investment securities	(2,302)	(241)
Other	–	(2)
Gross deferred tax liabilities	(2,476)	(452)
Net deferred tax (liability) asset, included in other (liabilities) assets	$ (2,105)	$ 27

As of December 31, 2023 and 2022, the Corporation had no operating loss tax credit carryovers for tax purposes.

NOTE 10 - EMPLOYEE BENEFITS

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

As of December 31, 2023 and 2022, the liability for the above agreements was $409,000 and $406,000, respectively. The Corporation recorded an expense for the agreements of $26,000 and $16,000 in 2023 and 2022, respectively.

The Corporation has a Profit Sharing Plan with a 401(k) feature for all employees who have attained age 21 and completed one year of service with the Corporation. Under this plan, employees may make voluntary contributions to the plan under salary reduction agreements and the Corporation will match these contributions by an amount equal to 50% of each participant's contribution on the first 4% of eligible compensation. In addition, the Corporation, at the discretion of its Board of Directors, can make annual contributions to this plan which will be allocated to a separate account for each employee based on the employee's compensation. Total expense for this plan for the years ended December 31, 2023 and 2022 was $129,000 and $166,000, respectively.

The Corporation adopted ASC 715-60, *Compensation – Retirement Benefits – Defined Benefit Plans –Other Postretirement,* and recognized a liability for the Corporation's future postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The total liability for the arrangements included in other liabilities was $89,000 and $96,000 in 2023 and 2022, respectively. Benefits recorded for these arrangements amounted to $7,000 in 2023 and 2022.

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

NOTE 11 - STOCK COMPENSATION PLANS

Stock Option Plans

The Corporation has stock-based employee compensation plans where the aggregate number of shares of common stock of the Corporation for which options may be granted is a total of 2,575 shares with 1,317 shares remaining available for future grants as of December 31, 2023.

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

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

The fair value of each option granted in 2023 and 2022 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2023	2022
Expected volatility	9.33%	8.40%
Expected dividends	2.59%	2.40%
Expected term (in years) for directors	5.00	5.00
Expected term (in years) for employees	5.00	5.00
Risk-free rate	4.41%	3.39%

A summary of the status of the Corporation's stock option plans as of December 31, 2023 and 2022 and changes during the years ending on those dates is presented below:

	2023		2022	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	310	$ 6,436	296	$ 6,264
Granted	76	7,572	74	6,973
Exercised	(71)	3,971	(60)	6,248
Forfeited	6	7,894	–	–
Outstanding at end of year	309	$ 6,760	310	$ 6,436
Options exercisable at year end	309	$ 6,760	281	$ 6,394
Weighted-average fair value of options granted during the year	$ 867		$ 616	

The following table summarizes information about fixed stock options outstanding as of December 31, 2023:

Options Outstanding			Options Exercisable	
Number Outstanding as of 12/31/2023	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable as of 12/31/2023	Weighted-Average Exercise Price
12	0.65 years	$ 4,779	12	$ 4,779
12	1.65 years	4,964	12	4,964
18	2.64 years	5,172	18	5,172
18	3.64 years	5,471	18	5,471
18	4.72 years	5,917	18	5,917
29	5.68 years	6,389	29	6,389
34	6.75 years	6,838	34	6,838
49	7.82 years	7,894	49	7,894
53	8.69 years	6,973	53	6,973
66	9.70 years	7,572	66	7,572
309	7.16 years	$ 6,760	309	$ 6,760

As of December 31, 2023, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans.

Stock Awards

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

For the years ended December 31, 2023 and 2022, the Corporation awarded 30 and 37 shares, respectively, of common stock to key employees. For the years ended December 31, 2023 and 2022, the recipients elected to receive the equivalent value of 30 and 37 shares, respectively, in cash.

On an annual basis, the Board of Directors also receives awards that are vested immediately. For each of the years ended December 31, 2023 and 2022, the Corporation awarded 7 shares.

As of December 31, 2023, there was no unrecognized compensation cost related to nonvested stock awards granted. Expenses related to these stock awards totaled $272,000 and $362,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE 12 - FINANCIAL INSTRUMENTS

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

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

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

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2023 and 2022, the maximum potential amount of the Corporation's obligation was $21,632,000 and $307,000, respectively, for financial and standby letters of credit. If a letter of credit is drawn upon, the Corporation may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Corporation may take possession of the collateral, if any, securing the line of credit.

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

	2023	2022
	(In Thousands)	
Commitments to originate loans	$ 2,356	$ 2,757
Standby letters of credit	21,632	307
Unadvanced portions of loans:		
Home equity loans	26,380	22,673
Construction loans	271	–
Other lines of credit	9,754	10,489
	$ 60,393	$ 36,226

The Corporation accrues credit losses related to off-balance sheet loan commitments. Potential losses are estimated using similar risk factors used to determine the allowance for credit losses. The Corporation has recorded a liability of $66,000 and $21,000 at December 31, 2023 and 2022, respectively, related to these loan commitments. The Corporation recorded a benefit for credit losses for off-balance sheet loan commitments in the amount of $10,000 for the year ended December 31, 2023. The Corporation did not record a provision for credit losses for off-balance sheet loan commitments for the year ended December 31, 2022.

NOTE 13 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Corporation's financial assets and financial liabilities carried at fair value for December 31, 2023 and 2022.

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

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

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

INDIVIDUALLY EVALUATED LOANS

Loans are generally not recorded at fair value on a recurring basis. Periodically, the Corporation records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, non-recurring fair value measurement adjustments relating to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral supporting commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

IMPAIRED LOANS

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

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

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
2023				
Available-for-sale debt securities:				
Political and state obligations	$ 23,890	$ –	$ 23,890	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,407	–	5,407	–
Corporate debt securities	998	–	998	–
Mortgage-backed securities	49,049	–	49,049	–
Total securities available-for-sale	79,344	–	79,344	–
Marketable equity securities	43,725	43,725	–	–
Total securities	$123,069	$43,725	$79,344	$ –
2022				
Available-for-sale debt securities:				
Political and state obligations	$ 23,857	$ –	$ 23,857	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,941	–	5,941	–
Corporate debt securities	987	–	987	–
Mortgage-backed securities	50,056	–	50,056	–
Total securities available-for-sale	80,841	–	80,841	–
Marketable equity securities	35,432	35,432	–	–
Total securities	$116,273	$35,432	$80,841	$ –

Under certain circumstances the Corporation makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. At December 31, 2023 and 2022, there were no assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded.

NOTE 14 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

NOTE 15 - OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	2023	2022
	(In Thousands)	
Net unrealized holding gains (losses) on available-for-sale securities	$ 2,224	$ (11,748)
Reclassification adjustment for realized gains on available-for-sale securities	–	–
Other comprehensive income (loss) before income tax effect	2,224	(11,748)
Income tax (expense) benefit	(552)	2,970
Other comprehensive income (loss), net of tax	$ 1,672	$ (8,778)

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

	2023	2022
	(In Thousands)	
Tax effect related to:		
Unrealized (gains) losses on available-for-sale securities:		
Unrealized holding losses arising during the year	$ (552)	$ 2,970
Reclassification adjustment for net realized gains on available-for-sale securities included in net income (loss)	–	–
Income tax (expense) benefit related to items of other comprehensive income (loss)	$ (552)	$ 2,970

Accumulated other comprehensive loss as of December 31, 2023 and 2022 consists of net unrealized holding losses on available-for-sale securities of $(8,741,000) and $(10,965,000), respectively, net of taxes of $2,266,000 and $2,818,000, respectively.

NOTE 16 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal Reserve Board and the FDIC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. Their capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2023, the Bank exceeded all of its respective regulatory capital requirements and is considered "well capitalized" under regulatory guidelines.

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

	As Reported		To Be Well Capitalized Under Prompt Corrective Action Guidelines (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
2023				
Tier 1 Capital to Average Total Assets	$44,630	10.39%	$38,645	9.0%
2022				
Tier 1 Capital to Average Total Assets	$44,230	9.91%	$40,170	9.0%

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2023, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to $3,025,000.

NOTE 17 - EARNINGS PER SHARE (EPS)

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in Thousands, Except Per Share Data)		
2023			
Basic EPS:			
Net income and income available to common stockholders	$ 9,811	10,648	$ 921.34
Effect of dilutive securities, options	–	38	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 9,811	10,686	$ 918.11
2022			
Basic EPS:			
Net loss and income available to common stockholders	$ (2,241)	10,930	$ (205.00)
Effect of dilutive securities, options	–	–	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ (2,241)	10,930	$ (205.00)

Diluted earnings per share for the year ending December 31, 2022 was equal to basic earnings per share due to the Corporation's net loss for that period.

NOTE 18 - LEGAL AND OTHER CONTINGENCIES

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

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2024, which is the date the consolidated financial statements were available to be issued.

On February 13, 2024, the Board of Directors declared a dividend of $30 per share, including a $35 special dividend, payable on March 15, 2024 to shareholders of record as of March 1, 2024. There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.

NOTE 20 - RECLASSIFICATIONS

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

A FULL SERVICE BANK

Serving Marblehead since 1831

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Debit Card with Rewards
Digital Wallet
Drive-Up Window
Early Direct Deposit
E-Statements
Foreign Currency
Foreign Remittances
Home Equity Loans
Individual Retirement Accounts
Instant Issue Debit Cards
Mobile Banking with Alerts
Mobile Check Capture
Money Order Checks
Mortgage Loans
Night Depository
Notary Services
Online Account Opening
Online Banking/Bill Pay
Overdraft Protection
Overdraft Transfer
Personal Loans
Remote Deposit Capture
Revolving Credit Loans
Safe Deposit Boxes
Savings Accounts
Savings Bond Redemptions
Signature Guarantees
Trust Services
Wire Transfers

ATM LOCATIONS IN MARBLEHEAD

(Full Service*)

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

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

Grand Bank Corporation

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Marblehead, Massachusets 01945

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