MECHANICS COOPERATIVE BANK
ANNUAL REPORT 2021

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A Message From Our President

In 2021, Mechanics Bancorp MHC continued its exceptional record of strong financial performance. Despite the ongoing impact of the pandemic, the bank's effective Paycheck Protection Program (PPP) provided critically needed financial support for commercial customers. While this program created a surge in 2020 loans, most of the PPP loans were forgiven in 2021.

Total assets and gross loans declined in 2021, down by $29 million and $22 million respectively. Of the Bank's initial $61 million in SBA PPP loans, $10 million were outstanding at year-end 2021. Construction and land development loans rose by $26 million, and commercial real estate loans were $4 million higher, offset by reductions in residential mortgage loans and home equity lines of credit. Subtracting PPP loans from both years, loans were $13 million higher or 2.6% above the prior year.

Deposits growth was robust, up $33 million or 6.6%. Core deposits (excluding time deposits) were $62 million or 22% higher than the prior year. Time deposits fell by $29 million as customers repositioned maturing funds into more liquid accounts. Borrowed funds decreased by $68 million, the result of management's concerted efforts to minimize unneeded funding. The Bank's capital position continued to strengthen, with our leverage ratio improving from 11.31% to 11.78% and Total Risk-based capital ratio increasing from 17.75% to 18.52%.

The bank earned a record $7.3 million in 2021, higher than the prior year by $865 thousand or 13%. The bank continued to operate efficiently in the midst of the challenges of the pandemic and the low interest-rate environment.

Net interest income fell by $79 thousand or 0.4%. Reflected in these results are the impact of interest-rate swap terminations, which increased borrowing costs by $1.4 million. The swaps were hedged against borrowed funds. The reduction of borrowed funds, a strategic initiative due to the significant growth in deposits, required the termination of their related swaps. The cost of the swap terminations will improve the net interest margin over the next several years. Interest income was $912 thousand lower and deposit interest expenses fell by $1.8 million due to a lower rate environment. Absent the swap termination charges, net interest income was $1.3 million or 6.1% higher.

Non-interest income improved by $1.7 million, substantially due to the recognition of $1.8 million of Employee Retention Tax Credits. Gains and losses on the sale of fixed assets had a $304 thousand favorable impact on 2021. Mortgage banking income was $219 thousand lower, as 2020 was a record year. Absent these items, non-interest income was $69 thousand higher. Deposit fees, BOLI and Mechanics Investment Group fees all improved, while commercial loan fees declined.

Operating expenses rose by $798 thousand or 5.4%. Compensation and benefit expenses were 10% higher. Occupancy rose by $139 thousand due to a full year of the New Bedford branch. Advertising expense was $105 thousand higher.

Return on Average Assets was 1.10%, up from 1.00% in 2020. Return on Average Equity was 9.94%, up from 2020's 9.67%. Average Equity grew by 10%, while net income was 13% higher. The Efficiency Ratio, which measures operating costs divided by revenues, equaled 61.3%, unchanged from the prior year.

Relative to its peers (16 Massachusetts cooperative and mutual banks of similar size), Mechanics continued to outperform the group, achieving the number two ranking in Return on Average Assets and Return on Average Equity.

As we slowly emerge from the pandemic and adapt to the changes that impact our industry, we continue to show our strength and resolve by staying true to the "Let's Keep it Local!" philosophy. We are extremely excited about the purchase and planned renovation of a new 42,000 square foot Corporate Headquarters in Taunton. This is a great opportunity for our organization and employees that will create a more efficient and collaborative work environment for all departments.

Mechanics Cooperative Bank is well positioned for continued growth and success as we continue to refine our products and services, enhance our brand, and increase customer diversity. The ongoing execution of our strategic plan has allowed us to quickly adapt to the changing dynamics of our industry and we will capitalize on the new opportunities this has created.

We still face the challenges of an uncertain economy, but there is no question that we are on the right path with an engaged and committed Board of Directors, and dedicated staff. Thank you all for your hard work on behalf of our customers, and the future expansion of our organization.

Joseph T. Baptista Jr.
PRESIDENT & CEO

Joseph T. Baptista Jr.
President & CEO

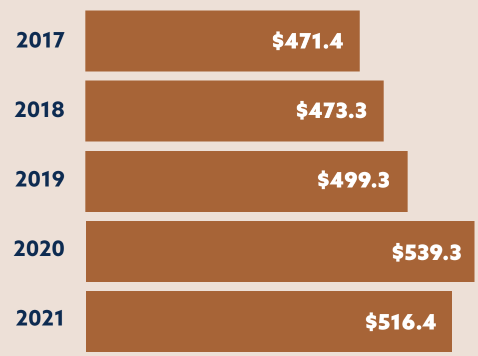
"The ongoing execution of our strategic plan has allowed us to quickly adapt to the changing dynamics of our industry and we will capitalize on the new opportunities this has created."

2021 Financial Summary

Relative to our peers (sixteen Massachusetts cooperative and mutual banks of similar asset size and capital ratios), Mechanics achieved the second highest rank in Returns on Average Assets and Average Equity as well as Net Interest Margin. Another strong performance in 2021 indicates we are managing risk while out performing our peers.

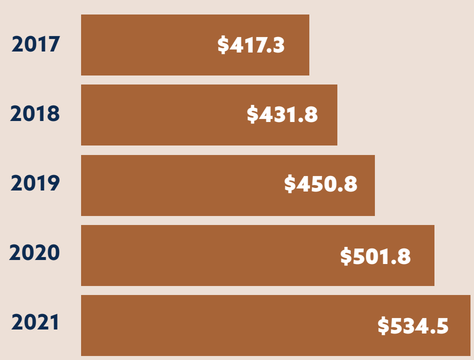
TOTAL LOANS // 5 YEAR HISTORICAL

$516.4
MILLION IN 2021



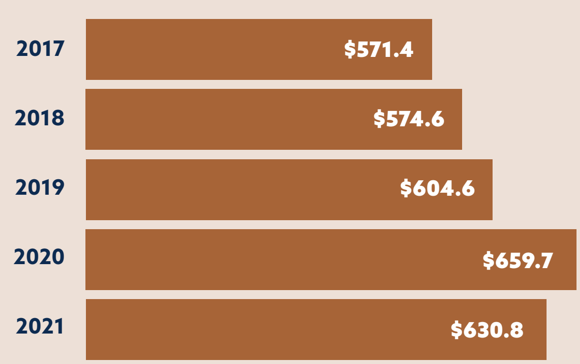
TOTAL DEPOSITS // 5 YEAR HISTORICAL

$534.5
MILLION IN 2021



TOTAL ASSETS // 5 YEAR HISTORICAL

$630.8
MILLION IN 2021



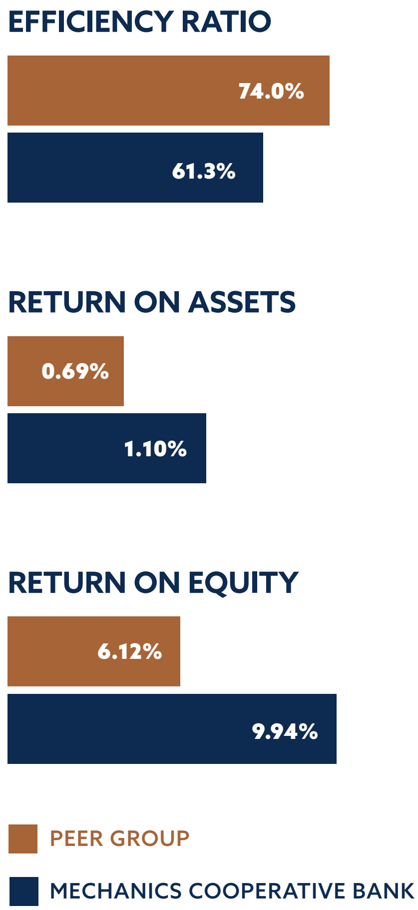
Amounts Shown In Millions

Peer Group Comparison

EFFICIENCY RATIO
The measure of a company's ability to use its assets to generate income and is calculated by dividing expenses by net revenues. A lower efficiency ratio indicates the Bank is spending less, to generate every dollar of income.

RETURN ON ASSETS
This profitability ratio measures net income as compared to the average total assets of the organization and indicates how efficiently a company can manage its assets to produce profits. Mechanics Cooperative Bank continues to lead all peers in 2021 with a ratio of 1.10%.

RETURN ON EQUITY
Also a measure of the Bank's ability to produce profits efficiently, Mechanics continues to perform above average relative to our peers. ROE measured 9.94% in 2021.



Charitable Giving

The Mechanics Cooperative Bank Charitable Giving Program was established to support the local communities of Southeastern Massachusetts. We support non-profit organizations through charitable gifts, community sponsorships, volunteerism and donation of in-kind services. Our mission is to strengthen the community through enhancing opportunities for economic and job development, affordable housing and increasing accessibility to the arts for all.

BISHOP STANG HIGH SCHOOL
$25,000 DONATION: GAME ON RENOVATION

A $25,000 donation was made to Bishop Stang High School in Fall River, MA in support of the GAME ON field renovation. The renovation includes installing artificial turf to enhance the experience for student-athletes and the wider community experience overall. The upgrade of the entire field complex will ensure the athletics facilities sustainability and longevity for generations to come. In addition, it will reconfigure access to accommodate fans with new seating, establish walking paths, and create a new, single gated entryway. The turf field will allow for increased year-round athletics use and greater school-wide and community use.

"This major renovation will benefit not only all Bishop Stang High student athletes, but also the entire community. There is nothing like this in our immediate area and we are thrilled to see this exciting project come together."

\- Joseph T. Baptista Jr. | President & CEO
Mechanics Cooperative Bank

BISHOP STANG
SPARTANS

Children's Advocacy Center
BRISTOL COUNTY
A PROGRAM OF JRI

CHILDRENS ADVOCACY CENTER OF BRISTOL COUNTY
$50,000 DONATION: BUILDING CAMPAIGN

In 2021, Mechanics Cooperative Bank supported the Children's Advocacy Center of Bristol County with a $50,000 contribution to their Spreading Our Wings Campaign. The funds raised were allocated for building expansion and modernization that will allow the CAC to better serve at-risk youth in Bristol County.

This new building will include additional space for forensic interviews, medical services, administration, and a Survivors Art Gallery that will prominently feature the creativity of children and family members supported by the Children's Advocacy Center.

"The CAC and the dedication of their staff, are making a genuine difference in the lives of the children and families they touch, and Mechanics Cooperative Bank is proud to be a supporter"

\- Joseph T. Baptista Jr. | President & CEO
Mechanics Cooperative Bank

PHOTO CAPTION: Pictured (from bottom left); Taylor Hill of Taunton High School, Madison Avilla of Westport High School, Hailey Burr of Bridgewater Raynham Regional, Kayla Botelho of Taunton High School, Lily Valcovic of Taunton High School, (from top left); Daniel LaCourse of Taunton High School, Camden Huck of Somerset Berkley Regional, Brian Poirier of Fairhaven High School and Josh DiSanto of Dighton Rehoboth Regional.

2021 SCHOLARSHIP RECIPIENTS
MECHANICS COOPERATIVE BANK

The Mechanics Cooperative Bank scholarship program was created to support local students who excelled in academics, athletics, and community service, to help toward their pursuit for higher education. There was an amazing class of highly qualified students who applied in 2021 compelling the Bank to award more scholarships than ever before!

"Students like these are prime examples of why we continue every year to offer the Mechanics Cooperative Bank Scholarship program. Their hard work and dedication to education, community, and future accomplishments are all values we appreciate here at the bank."

- Joseph T. Baptista Jr. | President & CEO
Mechanics Cooperative Bank

#LetsKeepitLocal!

Corporate Leadership Team

CORPORATE LEADERSHIP TEAM 2021

Joseph T. Baptista Jr., President and Chief Executive Officer

Deborah A. Grimes, Executive Vice President, Retail Banking & Human Resources

Andrew C. Hewitt, Senior Vice President, Chief Financial Officer

Curtis W. McKinney, Senior Vice President, Senior Lending Officer

Thomas B. Steele, First Vice President, Information Technology

Delfina Laranjo, First Vice President, Accounting

Jorgelina Moreira, First Vice President, Deposit Operations

Joanna Holmes, First Vice President, Compliance & Risk Management

BOARD OF DIRECTORS 2021

Joseph T. Baptista Jr.
Richard Bentley, Jr.
Barry R. Bibeau
Edmund J. Brennan, Jr.
Mark Dangoia
Robert A. Iafrate
Adrienne Mollor
Joseph S. Mozzone
Eileen Pelletier
George Shaker, Jr.

BOARD OF CORPORATORS 2021

Brian M. Andrade
Joseph T. Baptista Jr.
Richard Bentley, Jr.
Barry R. Bibeau
Edmund Brennan, Jr.
Joseph M. Callahan Jr.
Mark Dangoia
Thomas D'Ambrosio
Daniel G. DaRosa
James R. Dorsey, Jr.
Brad S. Fitzgerald
Julie B. Gallagher
John N. Garanito
Donald G. Giumetti
Robert L. Horne
Keith A. Hovan
Dr. Kelly Hoye
Robert A. Iafrate
Brendan Kane
Gilbert J. Lopes Jr.
Kevin P. Manning
Adrienne Mollor
Joseph S. Mozzone
Eileen G. Pelletier
William Perkins
Scott W. Pray
Nicholas J. Riccio
Peter J. Roache
Jason M. Rua
Peter A. Saulino
George Shaker, Jr.
Thomas J. Souza
Patrick J. Sullivan

COMMITTEES 2021

EXECUTIVE COMMITTEE

Joseph T. Baptista Jr.

Richard Bentley, Jr.

Barry R. Bibeau

Edmund J. Brennan, Jr.

Joseph S. Mozzone

George Shaker Jr.

ASSET LIABILITY COMMITTEE

Adrienne Mollor

Barry R. Bibeau

Joseph S. Mozzone

Joseph T. Baptista Jr. *(Alternate)*

AUDIT COMMITTEE

Barry R. Bibeau

Joseph S. Mozzone

Eileen Pelletier

CRA COMMITTEE

Mark Dangoia

George Shaker, Jr.

Robert A. Iafrate

Joseph T. Baptista Jr. (Alternate)

MARKETING COMMITTEE

Joseph T. Baptista Jr.

Deborah A. Grimes

Andrew C. Hewitt

Curtis W. McKinney

John McMahon

Delfina Laranjo

Joshua Narciso

Lawrence Fernandes

Cheryl Monteiro

Sandra Pimentel

Maureen Sylvia

SECURITY COMMITTEE

Richard Bentley, Jr.

Robert A. Iafrate

George Shaker, Jr.

Joseph T. Baptista Jr. (Alternate)

OFFICERS 2021

PRESIDENT & CHIEF EXECUTIVE OFFICER

Joseph T. Baptista Jr.

EXECUTIVE VICE PRESIDENT, RETAIL BANKING & HUMAN RESOURCES

Deborah A. Grimes

SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER & TREASURER

Andrew C. Hewitt

SENIOR VICE PRESIDENT, SENIOR LENDING OFFICER

Curtis W. McKinney

CHAIRMAN OF THE BOARD

Edmund J. Brennan, Jr.

VICE CHAIRMAN OF THE BOARD

Barry R. Bibeau

CLERK OF THE CORPORATION

Joseph S. Mozzone

BLANK

MECHANICS BANCORP, MHC
AND SUBSIDIARIES

Consolidated Financial Statements
Year ending December 31, 2021

Mechanics Bancorp MHC and Subsidiaries

Audit Consolidated Financial Statements

December 31, 2021

CERTIFICATION OF THE AUDIT COMMITTEE

of

MECHANICS BANCORP MHC AND SUBSIDIARIES

To the Commissioner of Banks

Re: Audit of MECHANICS BANCORP MHC AND SUBSIDIARIES
of Taunton, Massachusetts

We hereby certify that under the requirements of General Laws, Chapter 167J, Section 12, we have caused an audit to be made of the MECHANICS BANCORP MHC and Subsidiaries by a firm of certified public accountants which has been approved by the Commissioner of Banks; that the nature, extent and result of such audit is set forth in the following report of the accounting firm; that we have examined the report of the accountants and that it is correct to the best of our knowledge and belief. We also certify that the contents of this report have been, or will be, read to the Board of Directors at the next regular meeting subsequent to receipt of this report.

The foregoing statements are made and subscribed to under the penalties of perjury.

__________________________________)
__________________________________) Audit
__________________________________) Committee
__________________________________)
__________________________________)

REPORT OF THE AUDIT COMMITTEE

MECHANICS BANCORP MHC AND SUBSIDIARIES

TAUNTON, MASSACHUSETTS

To the Board of Directors of the

MECHANICS BANCORP MHC AND SUBSIDIARIES

In accordance with Chapter 167, Section 12 of the laws of the Commonwealth, we have had an audit made of the following consolidated financial statements of the Bank as of and for the year ended December 31, 2021:

Consolidated Balance Sheet

Consolidated Statement of Income

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

We have received the auditors' report on such audit, and it states that the audit was made in accordance with generally accepted auditing standards. We have met with the auditors and management to discuss the report. We accept such report.

________________________________)

________________________________) Audit

________________________________) Committee

________________________________)

________________________________)

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Date

GT REILLY
& COMPANY
CPAs and Advisors

Independent Auditors' Report

Audit Committee
Mechanics Bancorp MHC and Subsidiaries
Taunton, Massachusetts

Opinion

We have audited the accompanying financial statements of Mechanics Bancorp MHC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mechanics Bancorp MHC and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Mechanics Bancorp MHC and Subsidiaries 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Mechanics Bancorp MHC and Subsidiaries ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Mechanics Bancorp MHC and Subsidiaries 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 Mechanics Bancorp MHC and Subsidiaries 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.

G. T. Reilly & Company

G.T. Reilly & Company

Milton, Massachusetts
April 12, 2022

Consolidated Balance Sheets

December 31

	2021	2020
Assets		
Cash and due from banks	**$ 9,722,395**	$ 6,427,192
Federal funds sold	**1,934,000**	12,437,000
Total cash and cash equivalents	**11,656,395**	18,864,192
Investment securities (Note 2):		
Available for sale, at fair value	**80,271,637**	75,504,808
Loans held-for-sale	**500,000**	-
Loans receivable, net (Note 3)	**512,372,375**	534,568,391
Accrued interest receivable	**1,636,935**	2,389,969
Banking premises and equipment, net (Note 5)	**6,215,160**	6,575,947
Federal Home Loan Bank Stock, restricted at cost (Note 7)	**1,042,000**	4,024,700
Cash surrender value of bank-owned life insurance (Note 9)	**12,437,435**	10,148,781
Deferred income tax asset (Note 10)	**1,981,584**	2,544,275
Prepaid expenses and other assets	**2,655,129**	5,128,187
Total Assets	**$ 630,768,650**	$ 659,749,250
Liabilities and Equity		
Liabilities:		
Deposits (Note 8)	**$ 534,542,056**	$ 501,561,592
Mortgagors' escrow accounts	**1,625,024**	1,610,609
Borrowings (Note 12)	**12,056,471**	80,163,118
Accrued expenses and other liabilities	**4,230,610**	6,843,635
Accrued director pension liability (Note 9)	**1,072,226**	1,036,506
Total Liabilities	**553,526,387**	591,215,460
Commitments and Contingencies (Notes 5, 11 & 18)		
Equity (Note 16):		
Retained earnings	**76,957,023**	69,652,169
Accumulated other comprehensive income (loss) (Note 17)	**285,240**	(1,118,379)
Total Equity	**77,242,263**	68,533,790
	$ 630,768,650	$ 659,749,250

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

Consolidated Statements of Income

Years Ended December 31

	2021	2020
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	**$ 24,752,280**	$ 25,239,302
Interest and dividends on investment securities	**1,262,618**	1,687,343
	26,014,898	26,926,645
INTEREST EXPENSE		
Interest on deposits	**2,387,524**	4,162,852
Interest on borrowings (Note 12)	**2,563,454**	1,621,316
	4,950,978	5,784,168
NET INTEREST INCOME	**21,063,920**	21,142,477
PROVISION FOR LOAN LOSSES (Note 3)	**12,522**	455,772
NET INTEREST INCOME, AFTER PROVISION FOR LOAN LOSSES	**21,051,398**	20,686,705
NON-INTEREST INCOME		
Customer deposit service fees	**524,629**	488,839
Retail banking fees	**256,840**	221,967
Miscellaneous loan fee income	**227,906**	440,876
Interchange income, net of related expenses	**431,347**	366,394
Investment and insurance commissions	**248,548**	131,389
Realized net gain on sales of securities (Note 2)	**-**	14,976
Mortgage banking income (Note 4)	**599,839**	818,424
Gain on sale of land (Note 5)	**74,697**	-
Income from bank-owned life insurance	**288,654**	244,402
Employee retention tax credits (Note 19)	**1,822,519**	-
	4,474,979	2,727,267
OPERATING EXPENSES AND CHARGES		
Salaries and employee benefits	**10,236,837**	9,317,502
Occupancy and equipment expenses	**1,511,970**	1,373,101
Valuation write-down on land held for sale (Note 5)	**-**	229,497
Data processing expenses	**1,341,956**	1,284,372
Advertising expenses	**435,577**	330,790
Director fees	**411,073**	541,562
Professional fees	**628,276**	298,193
FDIC premium assessments	**169,262**	166,695
Other general and administrative expenses	**926,450**	1,221,501
	15,661,401	14,763,213
INCOME BEFORE TAXES	**9,864,976**	8,650,759
INCOME TAXES (Note 10):		
Current and deferred	**2,560,122**	2,211,288
NET INCOME	**$ 7,304,854**	$ 6,439,471

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

Consolidated Statements of Comprehensive Income

Years Ended December 31

	2021	2020
NET INCOME	**$ 7,304,854**	$ 6,439,471
OTHER COMPREHENSIVE INCOME (LOSSES):		
Unrealized Gains (Losses) on AFS Securities, Net (Notes 2 and 17)	**(1,332,165)**	1,435,148
Director Retirement Benefit Plan (Notes 9 and 17)	**22,353**	71,231
Interest Rate Swap Agreement Fair Value Adjustments (Notes 12 and 17)	**3,381,122**	(2,174,481)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX PROVISIONS	**2,071,310**	(668,102)
INCOME TAX PROVISIONS (Note 17)	**(667,691)**	277,176
OTHER COMPREHENSIVE INCOME (LOSS), AFTER TAX	**1,403,619**	(390,926)
COMPREHENSIVE INCOME	**$ 8,708,473**	$ 6,048,545

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

Consolidated Statements of Changes in Equity

Years Ended December 31

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE AT DECEMBER 31, 2019	$ 63,212,698	$ (727,453)	$ 62,485,245
NET INCOME	6,439,471	-	6,439,471
OTHER COMPREHENSIVE LOSS (Note 17)		(390,926)	(390,926)
BALANCE AT DECEMBER 31, 2020	69,652,169	(1,118,379)	68,533,790
NET INCOME	7,304,854	-	7,304,854
OTHER COMPREHENSIVE INCOME (Note 17)	-	1,403,619	1,403,619
BALANCE AT DECEMBER 31, 2021	$ 76,957,023	$ 285,240	$ 77,242,263

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

Consolidated Statements of Cash Flows

Years Ended December 31

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 7,304,854**	$ 6,439,471
Adjustments to reconcile net income to net cash from operating activities:		
Net amortization of investment securities premiums/discounts	**1,049,060**	1,017,164
Realized net gain on sales of securities	**-**	(14,976)
Loss on redemption of deposit with Co-Operative Central Bank	**-**	30,163
Provision for loan losses	**12,522**	455,772
Loan charge-offs, net of recoveries	**3,248**	(4,877)
Loans originated for sale	**(20,005,820)**	(19,786,694)
Principal balance of loans sold	**19,505,820**	19,786,694
Change in net deferred loan origination income/costs	**(433,626)**	775,242
Depreciation expense	**638,172**	600,672
Valuation write-down on land held for sale	**-**	229,497
Gain on sale of land	**(74,697)**	-
Income from bank-owned life insurance	**(288,654)**	(244,402)
Deferred income tax credits	**(105,000)**	(187,900)
Changes in operating assets and liabilities:		
Accrued interest receivable	**753,034**	(446,334)
Prepaid expenses and other assets	**2,748,597**	(2,528,565)
Accrued expenses and other liabilities	**492,558**	337,712
Accrued director pension liability	**58,073**	216,313
NET CASH PROVIDED FROM OPERATING ACTIVITIES	**11,658,141**	6,674,952
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan originations, net of principal repayments	**22,613,872**	(39,526,091)
Purchases of available for sale securities	**(31,031,691)**	(26,072,869)
Maturities, calls and principal repayments of available for sale securities	**23,883,637**	22,673,775
Proceeds from sales of available for sale securities	**-**	2,628,211
Redemptions of Federal Home Loan Bank stock	**2,982,700**	116,800
Redemption of deposit with Co-Operative Central Bank	**-**	625,005
Additions to banking premises and equipment	**(738,449)**	(844,608)
Proceeds from sale of land	**535,761**	-
Purchase of bank owned life insurance	**(2,000,000)**	-
NET CASH PROVIDED FROM (APPLIED TO) INVESTING ACTIVITES	**16,245,830**	(40,399,777)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	**32,980,464**	51,110,157
Net increase in mortgagors' escrow accounts	**14,415**	223,031
Overnight (repayments) borrowings, net	**-**	(5,225,000)
Term loan repayments, net	**(68,106,647)**	(104,881)
NET CASH (APPLIED TO) PROVIDED FROM FINANCING ACTIVITIES	**(35,111,768)**	46,003,307
RESULTING IN A NET CHANGE IN CASH AND CASH EQUIVALENTS	**(7,207,797)**	12,278,482
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**18,864,192**	6,585,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 11,656,395**	$ 18,864,192

Disclosures of Supplemental Cash Flow Information

	2021	2020
Cash paid during the year for:		
Interest expense	**$ 5,015,874**	$ 5,791,365
Income taxes	**$ 2,924,978**	$ 2,554,846

Notes to Consolidated Financial Statements

December 31, 2021

Note 1 – Organization, Activities and Significant Accounting Policies

Organization and Activities – Mechanics Bancorp MHC ("MHC") is a Massachusetts chartered mutual holding company, headquartered in Taunton, Massachusetts, with a wholly-owned stock-holding subsidiary, Mechanics Bancorp, Inc. Mechanics Cooperative Bank (the "Bank") is a wholly-owned subsidiary of Mechanics Bancorp, Inc. The Bank is a Massachusetts chartered co-operative bank and has three wholly owned subsidiaries, MCB Securities Corporation, which engages in the business of buying and dealing in securities exclusively on the Bank's behalf, 1877 TPM Corp., which engages in the business of holding and liquidating foreclosed real estate properties, and Mechanics Cooperative Bank Insurance Agency, LLC., which sells insurance products. The primary regulators of the Bank are the Commonwealth of Massachusetts Division of Banks and the Federal Deposit Insurance Corporation ("FDIC"), which is also the primary insurer of customer deposits. Deposits in excess of the federal insured limits are further insured by the Depositors Insurance Fund.

The Bank and its subsidiaries provide a variety of financial services to individuals and small businesses in Taunton and the surrounding southeastern Massachusetts communities through its ten offices. Its primary deposit products are checking, savings and term certificate accounts, and its primary lending products are commercial, residential and construction mortgages, small business and consumer loans.

Basis of Presentation – The accounting and reporting policies of Mechanics Bancorp MHC and Subsidiaries conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The Bank follows the accrual basis of accounting in recording all significant items of income and expense.

Consolidation Policy – The consolidated financial statements include the accounts of Mechanics Bancorp MHC and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, other than temporary impairment on investments and the valuation of deferred tax assets. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

A majority of the Bank's loan portfolio consists of one to four-family residential and commercial real estate loans in the Bank's local market area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions (see Note 3).

While management uses currently available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examinations.

Note 1 – Organization, Activities and Significant Accounting Policies (Cont.)

Comprehensive Income – Under generally accepted accounting principles, “comprehensive income” is defined as the change in equity during a period due to transactions, events and circumstances arising from non-owner sources. Comprehensive income includes net income under generally accepted accounting principles as well as "other comprehensive income” (OCI), which consists of items that are excluded from net income and reported as changes in separate components of equity as required by other accounting standards. The Bank's OCI consists of unrealized gains and losses on investment securities available for sale (see Note 2), unrecognized pension costs on the Bank’s director retirement benefit plan (Note 9) and unrealized gains and losses on interest rate swap agreements (see Note 12).

The Bank presents the components of OCI in a separate consolidated statement of comprehensive income (see Note 17).

Fair Value Measurements – The Bank follows the provisions of Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurements and Disclosures”, for assets and liabilities that are measured and recorded at fair value, and to determine fair value disclosures. This standard defines fair value, establishes a framework for measuring fair value, and it applies to certain other existing accounting pronouncements that require or permit fair value measurements (see Note 15).

Cash and Cash Equivalents – For purposes of the consolidated balance sheet and statement of cash flows, cash and cash equivalents include cash due from banks and federal funds sold deposited in other financial institutions with original maturities of 90 days or less.

Investment Securities – Debt securities that the Bank has the intent and ability to hold to maturity are classified as Held to Maturity and are reported at cost, adjusted for the amortization of premiums and accretion of discounts. Trading securities are debt securities held for current resale. Such securities are reported at fair value, with unrealized gains and losses included in earnings. Debt securities that are not classified as Held to Maturity or as Trading Securities are classified as Available for Sale and reported at fair value, with unrealized gains and losses excluded from the determination of net income and reported as “Other Comprehensive Income” (OCI), net of related deferred income tax effects, in the consolidated statement of comprehensive income, and in the consolidated balance sheet as a separate component of the Bank's equity, “Accumulated OCI”, net of related deferred income tax effects. Currently, the Bank does not classify any debt securities as Trading or Held to Maturity. All equity securities are reported at fair value with unrealized gains and losses included in earnings. Gains and losses on the disposal of investment securities are computed by the specific identification method. Premiums and discounts on investments are amortized or accreted into interest income using methods approximating the interest method over the period to contractual maturity, adjusted for anticipated calls or prepayments (see Notes 2 and 17).

Other-than-Temporary Impairment (“OTTI”) – The Bank follows generally accepted accounting principles for estimating fair value and recognizing OTTI with respect to debt securities. For debt securities considered to be OTTI, when the Bank does not intend to sell the debt security and it is more likely than not that the Bank will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an OTTI of a debt security in earnings and the remaining portion in other comprehensive income. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as estimated based upon cash flow projections.

When the Bank does intend to sell a debt security considered to be OTTI, or it is more likely than not that the Bank will have to sell the security before recovery of its cost basis, it will recognize both the credit and noncredit component of the OTTI in earnings. See Note 2 on Investment Securities.

Note 1 – Organization, Activities and Significant Accounting Policies (Cont.)

Derivative Instruments and Hedging Activities – FASB Accounting Standard Codification (ASC) 815, Deriva-tives and Hedging, provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Bank's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Bank records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Bank has elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with: 1) the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge, or 2) the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Bank may enter into derivative contracts that are intended to economically hedge certain of its risks, even though hedge accounting does not apply, or the Bank elects not to apply hedge accounting. In accordance with the FASB fair value measurement guidance, the Bank made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty.

The Alternative Reference Rates Committee ("ARRC") convened by the Federal Reserve Board and the New York Fed has identified the Secured Overnight Funding Rate ("SOFR") as its preferred alternative rate to USD-LIBOR. The final transition to SOFR from USD-LIBOR will take place by June 30, 2023. The Bank has material contracts that are indexed to USD-LIBOR. Industry organizations are currently working on the transition plan. The Bank is currently monitoring this activity and evaluating the risks involved.

See Note 12 for cash flow hedges associated with borrowings and Note 14 for derivatives associated with commercial lending arrangements.

Loans Receivable – The Bank's loan portfolio includes one to four-family residential, home equity, commercial real estate, multi-family real estate, construction and land development, commercial and industrial, and consumer loans (see Note 3).

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

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

The recognition of income on a loan is discontinued and previously accrued and uncollected interest is reversed against interest on loans when interest or principal payments become 90 days past due unless, in the opinion of management, the loan is well secured and in the process of collection. Past due status is determined based upon contractual terms. A loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months.

When on non-accrual status, cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Some or all of the cash receipts of interest on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been recorded 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.

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

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

The allowance for loan losses consists of several components as described below.

<u>General Component</u> – The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: one to four-family residential real estate, home equity, commercial real estate, commercial and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; level and trends of charge-offs; trends in volume and concentrations; effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; national and local economic trends and conditions; and legal/regulatory requirements on the level of estimated credit losses.

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

<u>One to Four-Family Residential</u> – The Bank generally does not originate subprime loans or stated income loans. Private mortgage insurance is generally required on loans with a loan-to-value ratio greater than 80% in order to reduce the debt exposure below 80%. Properties securing one to four-family loans are generally appraised by independent state-licensed fee appraisers approved by the Board of Directors. Borrowers are required to obtain title and hazard insurance, as well as flood insurance if necessary, to secure the loan. Repayment of these loans is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

<u>Home Equity</u> – The Bank generally underwrites these loans based on the applicant's employment and credit history, and the property value. The Bank requires borrowers to obtain hazard insurance and flood insurance, if necessary, to secure the loan. Repayment of these loans is dependent on the credit quality of the individual borrower. The overall health of the economy, including the interest rate environment, unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial Real Estate – Loans included in this segment include commercial real estate, multi-family residential, non-owner occupied residential, and construction and land development loans. The Bank underwrites these loans based on the valuation of the property and the financial strength of the borrower and any guarantors. The Bank will consider the income being generated by the business for all owner-occupied commercial real estate properties. The Bank typically requires an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing commercial real estate loans are generally performed by independent state-licensed fee appraisers approved by the Board of Directors. The properties securing the commercial real estate loans are primarily located in southeastern Massachusetts. Because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy as evidenced by increased vacancy rates which, in turn, will have an effect on the credit quality in this segment. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired.

Commercial and Industrial – Loans in this segment are made to businesses and are secured by the assets of the business such as equipment, receivables and inventory. Because payments on these loans are often dependent on the successful operation or management of the business, repayment of such loans may be subject to adverse conditions in the economy. If the cash flow from the business is reduced, the borrower's ability to repay the loan may be impaired. Loans in this segment also include fully guaranteed SBA Payroll Protection Program ("PPP") loans.

Consumer Loans – This segment includes loans that are secured by mobile homes, new and used automobiles, new and used boats and recreation vehicles, and deposit accounts, as well as a limited number of unsecured loans. Consumer loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

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

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

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

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

See Note 3 for analysis of the allowance for loan losses.

Note 1 – Organization, Activities and Significant Accounting Policies (Cont.)

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans Held for Sale – One to four-family residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated market value. Net unrealized losses are recognized in a valuation allowance by charges to income.

Loan Servicing – The Bank records a servicing asset at fair value each time it undertakes an obligation to service a financial asset, principally when it sells financial assets and retains servicing rights. For sales of one to four-family residential real estate loans, a portion of the cost of originating the loan is allocated to the servicing rights based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. For subsequently measuring and reporting servicing assets, the Bank has chosen to use the amortization method, rather than the fair value measurement method. Under the amortization method, the Bank amortizes the servicing asset in proportion to, and over the period of, estimated net servicing income, and it assesses the asset for impairment based on estimated fair value at each reporting date (see Note 4).

Other Real Estate Owned – Properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure are classified as other real estate owned ("OREO"). Real estate formally acquired in settlement of loans are recorded at the lower of the carrying value of the loan or the market value of the property actually received. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses and any subsequent provisions to reduce the carrying value to estimated fair market value less costs to sell, are charged to current period earnings. In periods of declining real estate values, this accounting treatment would result in additional charges to OREO expense. Gains and losses upon disposal are reflected in earnings as realized.

Government-Guaranteed Mortgage Loans Upon Foreclosure – The Bank's loan portfolio may include government-guaranteed mortgage loans, including those guaranteed by the SBA. Upon foreclosure, the Bank derecognizes the mortgage loan and records a separate other receivable if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) the Bank has the intent and ability to make a claim on the guarantee, and (3) any amount of the claim is fixed and determinable using the loan amount as the basis. Upon foreclosure, the separate other receivable is measured based on the amount of the loan balance (unpaid principal and interest) expected to be recovered from the guarantor.

Banking Premises and Equipment – Building, improvements, fixtures, and equipment are stated on the basis of cost less accumulated depreciation and land is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. It is the Bank's practice to charge earnings for the cost of maintenance and repairs as incurred. All major additions or improvements are capitalized and depreciated.

Impairment of Long-Lived Assets – The Bank tests long-lived assets for impairment whenever circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Hosting Implementation Costs – The Bank follows the provisions of ASC Topic 350-40, “Intangibles – Goodwill and Other: Internal-Use Software”, in accounting for implementation costs incurred in a cloud computing arrangement. This standard allows the capitalization and amortization of certain implementation costs on software considered to be a service contract. The Bank’s policy is to capitalize and present such costs with “prepaid expenses and other assets” on its consolidated balance sheet and amortize them into expense over the estimated useful life of the contracts.

Note 1 – Organization, Activities and Significant Accounting Policies (Cont.)

Director Fee Continuation Plan – Pension expense under a defined benefit retirement plan for board members is charged to current operations and consists of several components of net periodic pension cost based on various actuarial assumptions regarding future experience under the plan.

The Bank recognizes the over-funded or under-funded status of the plan as an asset or liability in its consolidated balance sheet, and it recognizes changes in the funded status of the plan in the year in which the changes occur. The funded status of the Bank's plan is measured as the difference between the fair value of plan assets and the "projected benefit obligation" (PBO) at the financial statement date. The unrecognized prior service costs are reflected, net of deferred income tax effects, in a separate component of the Bank's equity, "Accumulated Other Comprehensive Income" (OCI). The changes in the plan's funded status are recognized, net of related deferred income tax effects, as charges or credits to "OCI" in the consolidated statement of comprehensive income to the extent that they are not required to be recognized as components of "net periodic pension cost" in net income (see Notes 9 and 17).

Executive Retirement Plan Agreements – The Bank's obligations under unfunded supplemental retirement plan and deferred compensation agreements with key executives (see Note 9) are recorded as earned under the agreement terms from the date of the individual agreements to the specified retirement ages through a charge against income.

Defined Benefit Employee Pension Plan – The Bank provides pension benefits for qualified employees through membership in the Co-operative Banks Employees Retirement Association (CBERA). The Plan is a multi- employer, noncontributory, defined benefit pension plan, whereby the Bank's Plan assets and liabilities are pooled together with those of other financial institutions. Therefore, the Bank is not required to, and does not recognize the unfunded status of the plan in its consolidated balance sheet, and it only accrues for any quarterly contributions due and payable on demand, or any withdrawal liabilities assessed by CBERA if the Bank intended to withdraw from the Plan, which is not the Bank's intention at the present time (see Note 9).

Revenue Recognition – The Bank recognizes certain revenues in accordance with ASC Topic 606, "Revenue from Contracts with Customers". The standard is based on the principles that revenues are recognized when control of a good or service transfers to a customer, and that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under Topic 606, depending on the terms of a contract with a customer, revenues are either recognized at a point in time when a performance obligation is satisfied, or over time, as satisfaction of a performance obligation progresses. The standard does not apply to customer contracts that are within the scope of other accounting standards such as financial instruments and their transfer and servicing. As such, the standard does not apply to the Bank's interest income on loans, investment income, sale of financial assets and related mortgage banking and servicing income.

Revenues from contracts with customers that are subject to the principles of ASC Topic 606 are included in "non-interest income" in the Bank's consolidated statements of income. The following table is a summary of such revenues from contracts with customers for the years ended December 31:

	2021	2020
Customer deposit service fees	**$ 524,629**	$ 488,839
Retail banking fees	**256,840**	221,967
Miscellaneous loan fee income	**227,906**	440,876
Interchange income, net of related expenses	**431,347**	366,394
Investment and insurance commissions	**248,548**	131,389
	$ 1,689,270	$1,649,465

Customer deposit service fees are primarily comprised of NSF and overdraft protection fees, which represent fees charged to customers to cover or protect customer transactions in case of insufficient customer funds, and deposit account maintenance fees. Retail banking fees are primarily comprised of ATM and wire transfer fees. Miscellaneous loan fee income is primarily comprised of commercial underwriting, partial release, and certain annual review fees.

Note 1 – Organization, Activities and Significant Accounting Policies (Cont.)

Interchange income, reported net of directly related expenses, is earned by the Bank when customers use their ATM/debit cards issued by the Bank through a third-party payment network. Investment and insurance commissions represent income earned by the Bank when investment and insurance products are sold through the Bank's financial management third-party agent. All of these fees and commissions are recognized at a point in time. Transaction based fees are recognized at the time of the transaction, while account maintenance and protection fees are both charged and recognized on a monthly basis.

In each of the revenue streams identified above, there were no significant judgements made in determining or allocating the transaction price, as the consideration and service requirements are generally explicitly identified in the associated contracts and consist of a single performance obligation.

<u>Advertising Costs</u> – The Bank participates in certain advertising activities in order to attract more customers. The advertising costs of the Bank are considered to benefit the period in which they are incurred. The Bank's advertising expenses approximated $436,000 and $331,000 for the years ended December 31, 2021 and 2020, respectively.

<u>Income Taxes</u> – The Mutual Holding Company ("MHC") and its subsidiaries file a consolidated federal income tax return. The Bank recognizes certain revenue and expense items in periods which are different for financial accounting purposes than for federal income tax purposes. Deferred income tax assets and liabilities are computed under the liability method based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary, to reduce deferred tax assets to the amount expected to be realized.

In accordance with generally accepted accounting principles, management assesses the likelihood that tax positions taken will be sustained upon examination based on their technical merit, considering the facts, circumstances, and information available at the end of each period. The Bank recognizes the effects of significant income tax positions taken on tax returns only if the positions are "more likely than not" to be sustained upon examination by the taxing authorities. Positions taken on tax returns that do not meet that threshold are not recognized in the Bank's provision for income taxes. The measurement of uncertain tax positions is adjusted when new information is available, or when an event occurs that requires a change. The Bank's policy is to analyze its tax positions for all open tax years. Interest and penalties, if any, associated with uncertain tax positions, are classified as additional income tax expense on the consolidated statements of income. See Note 10, Income Taxes, for additional information.

<u>New Lease Accounting Standard Effective in 2022</u> – In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases". ASU 2016-02 and subsequent amendments, together known as Accounting Standards Codification (ASC) 842, replaces existing accounting standards on leases. ASU 2020-05 deferred the effective date of ASC 842, which makes it effective for the Bank's 2022 annual reporting period.

Under ASC 842, lessees are required to recognize lease "right of use" assets and future lease obligations on their balance sheets, substantially for all leases with original terms longer than twelve months. Leases will be classified as either finance or operating leases based on established criteria, with classification affecting the pattern of expense recognition in the lessee's statement of income. Management has subsequently implemented ASC 842 effective January 1, 2022 by electing to use the permitted modified retrospective method of adoption whereby the financial statements for periods prior to 2022 have not been restated. The Bank has recorded an operating lease "right of use" asset of approximately $805,000 for its lease commitment as a lessee (Note 5) with a corresponding lease liability of approximately $813,000 as of January 1, 2022. The cumulative effect of this accounting change as of January 1, 2022 was negligible.

<u>Evaluation of Subsequent Events</u> – Management has evaluated subsequent events involving the Bank for potential recognition or disclosure in the accompanying consolidated financial statements. Subsequent events are events or transactions that occurred after December 31, 2021 up through April 12, 2022, the date the accompanying consolidated financial statements were available to be issued.

Note 2 – Investment Securities

Available-for-Sale Securities – The amortized cost and estimated fair values of securities classified as Available-for-Sale (“AFS”) at December 31 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2021				
Government sponsored mortgage-backed securities	**$ 16,884,605**	**$ 135,843**	**$ (117,148)**	**$ 16,903,300**
SBA agency loan pools	**4,974,900**	**66,145**	**(491)**	**5,040,554**
Commercial mortgage-backed securities	**15,341,275**	**33,285**	**(270,016)**	**15,104,544**
Government sponsored CMO	**14,928,268**	**138,095**	**(173,436)**	**14,892,927**
Municipal bonds	**22,171,606**	**328,215**	**(60,858)**	**22,438,963**
Corporate bonds	**5,750,000**	**150,319**	**(8,970)**	**5,891,349**
	$ 80,050,654	**$ 851,902**	**$ (630,919)**	**$ 80,271,637**
2020				
Government sponsored mortgage-backed securities	$ 19,746,034	$ 240,678	$ (44,418)	$ 19,942,294
SBA agency loan pools	7,043,999	240,956	-	7,284,955
Commercial mortgage-backed securities	3,698,197	93,820	-	3,792,017
Government sponsored CMO	17,491,548	469,369	(1,709)	17,959,208
Municipal bonds	23,471,882	538,505	-	24,010,387
Corporate bonds	2,500,000	16,887	(940)	2,515,947
	$ 73,951,660	$ 1,600,215	$ (47,067)	$ 75,504,808

During 2020, the Bank sold certain AFS securities for approximately $2,628,000, resulting in a realized net gain of $15,000. The Bank did not sell any AFS securities during 2021.

The net unrealized gain (loss) on AFS securities is reported, net of deferred income tax effects, as a separate component of the Bank's equity, "Accumulated Other Comprehensive Income (Loss)", and consists of the following at December 31:

	2021	2020
Net unrealized gains	**$ 220,983**	$ 1,553,148
Deferred income tax liability	**(53,355)**	(342,358)
	$ 167,628	$ 1,210,790

See Note 17 for Other Comprehensive Income disclosures related to AFS investment securities.

Maturities of Debt Securities – The contractual maturities of investment securities by estimated fair value and amortized cost as of December 31, 2021 are summarized as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 5,278,335	$ 5,304,221
Over one year to five years	7,357,653	7,539,417
Over five years to ten years	6,383,881	6,534,533
Over ten years	8,901,737	8,952,141
	27,921,606	28,330,312
Government sponsored mortgage-backed securities	16,884,605	16,903,300
SBA agency loan pools	4,974,900	5,040,554
Commercial mortgage-backed securities	15,341,275	15,104,544
Government sponsored CMO	14,928,268	14,892,927
	$ 80,050,654	$80,271,637

Actual maturities will differ from contractual maturities because obligors have the right to call or repay obligations, with or without call or prepayment penalties.

Note 2 – Investment Securities (Cont.)

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

	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Government sponsored mortgage-backed securities	$ 95,044	$ 9,466,667	$ 22,104	$ 1,300,103
SBA agency loan pools	491	106,845	-	-
Commercial mortgage-backed securities	269,844	13,200,041	172	270,617
Government sponsored CMO	173,436	7,215,998	-	-
Municipal bonds	60,858	3,979,606	-	-
Corporate bonds	8,970	1,491,030	-	-
	$ 608,643	$35,460,187	$ 22,276	$ 1,570,720

At December 31, 2021, the unrealized losses of the Bank's debt securities are primarily caused by changes in market interest rates, and it is expected that the securities would not be settled at prices less than their fair values. Because the declines in fair value are attributable to market changes in interest rates and not due to credit quality, management does not consider these investments to be other-than-temporarily impaired at December 31, 2021.

Note 3 – Loans Receivable

Loans consist of the following at December 31:

	2021	2020
One to four-family residential (1)	**$ 63,434,807**	$ 78,863,797
Home equity	**18,970,238**	20,595,620
Commercial real estate (2)	**312,201,127**	315,531,845
Construction and land development	**69,693,793**	37,985,109
Commercial and industrial (3)	**44,321,459**	79,042,907
Consumer	**7,330,431**	6,546,450
Gross loans	**515,951,855**	538,565,728
Deferred costs/income, net	**410,310**	(23,316)
Allowance for loan losses	**(3,989,791)**	(3,974,021)
Net loans	**$ 512,372,374**	$ 534,568,391

(1) This category includes owner-occupied one to four-family residential mortgage loans and one to four-family construction loans.
(2) This category includes multi-family residential, non-owner occupied residential and commercial real estate loans.
(3) This category includes SBA Payroll Protection Program ("PPP") loans in the amount of $9,779,000 and $44,722,000 at December 31, 2021 and 2020, respectively.

The Bank has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales, and are therefore not included in the Bank's accompanying consolidated balance sheets, or in the schedule above. The Bank and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2021, the Bank was servicing loans for participants aggregating $11,362,000 ($12,900,000 at December 31, 2020).

Note 3 – Loans Receivable (Cont.)

For purposes of the schedules included hereafter, the Bank has included construction and land development loans as commercial real estate.

Changes in the allowance for loan losses, by segment, are as follows:

	Residential	Home Equity	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
Balance December 31, 2019	$ 394,808	$ 146,234	$ 2,438,163	$ 365,767	$ 19,651	$ 158,503	$ 3,523,126
Provision for loan losses	(68,976)	(23,504)	748,734	(43,231)	1,252	(158,503)	455,772
Charge offs	-	-	-	(5,905)	(82,287)	-	(88,192)
Recoveries of loans previously charged off	-	-	-	2,018	81,297	-	83,315
Balance December 31, 2020	325,832	122,730	3,186,897	318,649	19,913	-	3,974,021
Provision for loan losses	(40,111)	(36,457)	179,437	(94,978)	4,631	-	12,522
Charge offs					(114,375)		(114,375)
Recoveries of loans							-
previously charged off				6,999	110,624		117,623
Balance December 31, 2021	$ 285,721	$ 86,273	$ 3,366,334	$ 230,670	$ 20,793	$ -	$ 3,989,791

Additional information pertaining to the allowance for loan losses is as follows at December 31:

	Real Estate						
	Residential	Home Equity	Commercial Real Estate	Commercial & Industrial	Consumer	Unallocated	Total
2021							
Allowance for loans individually evaluated for impairment	**$ 2,347**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,347**
Allowance for loans collectively evaluated for impairment	**283,374**	**86,273**	**3,366,334**	**230,670**	**20,793**	**-**	**3,987,444**
Total Allowance for Loan Losses	**$ 285,721**	**$ 86,273**	**$ 3,366,334**	**$ 230,670**	**$ 20,793**	**$ -**	**$ 3,989,791**
Loans individually evaluated for impairment	**$ 189,998**	**$ 51,188**	**$ 361,995**	**$ -**	**$ 16,748**	**$ -**	**$ 619,929**
Loans collectively evaluated for impairment	**63,244,809**	**18,919,050**	**381,532,925**	**44,321,459**	**7,313,683**	**-**	**515,331,926**
Total Loans	**$ 63,434,807**	**$ 18,970,238**	**$ 381,894,920**	**$ 44,321,459**	**$ 7,330,431**	**$ -**	**$ 515,951,855**
2020							
Allowance for loans individually evaluated for impairment	$ 2,492	$ -	$ -	$ -	$ -	$ -	$ 2,492
Allowance for loans collectively evaluated for impairment	323,340	122,730	3,186,897	318,649	19,913	-	3,971,529
Total Allowance for Loan Losses	$ 325,832	$ 122,730	$ 3,186,897	$ 318,649	$ 19,913	$ -	$ 3,974,021
Loans individually evaluated for impairment	$ 203,895	$ 59,603	$ 379,677	$ -	$ 62,662	$ -	$ 705,837
Loans collectively evaluated for impairment	78,659,902	20,536,017	353,137,277	79,042,907	6,483,788	-	537,859,891
Total Loans	$ 78,863,797	$ 20,595,620	$ 353,516,954	$ 79,042,907	$ 6,546,450	$ -	$ 538,565,728

The following is a summary of past due loans as well as all nonaccrual loans at December 31:

	Past Due				Past Due 90 Days or More & Still Accruing	Loans on Non-accrual
2021	30-59 Days	60-89 Days	90 Days or More	Total		
Real estate:						
One to four-family residential	**$ -**	**$ 189,472**	**$ -**	**$ 189,472**	**$ -**	**$ 34,546**
Home equity	**46,073**	**5,115**	**-**	**51,188**	**-**	**51,188**
Commercial real estate	**550**	**451,317**	**-**	**451,867**	**-**	**550**
Construction & land development loans	**-**	**-**	**-**	**-**	**-**	**-**
Commercial & industrial	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**	**-**	**16,199**
Total	**$ 46,623**	**$ 645,904**	**$ -**	**$ 692,527**	**$ -**	**$ 102,483**

Note 3 – Loans Receivable (Cont.)

	Past Due				Past Due 90 Days or More & Still Accruing	Loans on Non-accrual
	30-59 Days	60-89 Days	Greater than 90 days	Total		
2020						
Real estate:						
One to four-family residential	$ 44,462	$ -	$ -	$ 44,462	$ -	$ 44,462
Home equity	59,604	-	-	59,604	-	59,604
Commercial real estate	103,725	-	-	103,725	-	5,514
Construction & land development loans	-	-	-	-	-	-
Commercial & industrial	-	-	-	-	-	-
Consumer	2,494	20,199	120	22,813	-	51,409
Total	$ 210,285	$ 20,199	$ 120	$ 230,604	$ -	$ 160,989

The schedule above for December 31, 2020, does not include loans approximating $5.6 million that were modified to temporarily defer principal and interest payments as permitted under both the COVID-19 interagency regulatory guidelines and the CARES Act (none remaining at December 31, 2021).

The following is a summary of impaired loans at December 31:

	Unpaid Principal Balance	**Recorded Investment in Impaired Loans**	**Related Allowance for Loan Losses**	**Net Impaired Loan Balance**
2021				
Impaired loans with no related allowance recorded:				
Real Estate:				
Residential	**$ 34,546**	**$ 34,546**	**$ -**	**$ 34,546**
Home Equity	**51,188**	**51,188**	**-**	**51,188**
Commercial	**361,995**	**361,995**	**-**	**361,995**
Commercial and Industrial	**-**	**-**	**-**	**-**
Consumer	**16,748**	**16,748**	**-**	**16,748**
Total	**464,477**	**464,477**	**-**	**464,477**
Impaired loans with an allowance recorded:				
Real Estate:				
Residential	**155,452**	**155,452**	**2,347**	**153,105**
Home Equity	**-**	**-**	**-**	**-**
Commercial	**-**	**-**	**-**	**-**
Commercial and Industrial	**-**	**-**	**-**	**-**
Consumer	**-**	**-**	**-**	**-**
Total	**155,452**	**155,452**	**2,347**	**153,105**
Total impaired loans:				
Real Estate:				
Residential	**189,998**	**189,998**	**2,347**	**187,651**
Home Equity	**51,188**	**51,188**	**-**	**51,188**
Commercial	**361,995**	**361,995**	**-**	**361,995**
Commercial and Industrial	**-**	**-**	**-**	**-**
Consumer	**16,748**	**16,748**	**-**	**16,748**
Total impaired loans	**$ 619,929**	**$ 619,929**	**$ 2,347**	**$ 617,582**

Note 3 – Loans Receivable (Cont.)

	Unpaid Principal Balance	Recorded Investment in Impaired Loans	Related Allowance for Loan Losses	Net Impaired Loan Balance
2020				
Impaired loans with no related allowance recorded:				
Real Estate:				
Residential	$ 44,462	$ 44,462	$ -	$ 44,462
Home Equity	59,603	59,603	-	59,603
Commercial	379,677	379,677	-	379,677
Commercial and Industrial	-	-	-	-
Consumer	62,662	62,662	-	62,662
Total	546,404	546,404	-	546,404
Impaired loans with an allowance recorded:				
Real Estate:				
Residential	159,433	159,433	2,492	156,941
Home Equity	-	-	-	-
Commercial	-	-	-	-
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
Total	159,433	159,433	2,492	156,941
Total impaired loans:				
Real Estate:				
Residential	203,895	203,895	2,492	201,403
Home Equity	59,603	59,603	-	59,603
Commercial	379,677	379,677	-	379,677
Commercial and Industrial	-	-	-	-
Consumer	62,662	62,662	-	62,662
Total impaired loans	$ 705,837	$ 705,837	$ 2,492	$ 703,345

Additional information about impaired loans is as follows at December 31:

	2021	2020
Average recorded investment in impaired loans during the year	**$ 668,669**	$ 916,979
Related amount of interest income recognized during the time in the year that the loans were impaired:		
Total recognized	**$ 45,319**	$ 59,123

There are no real estate loans in process of foreclosure at December 31, 2021.

There were no loans modified as troubled debt restructurings ("TDRs") and no TDRs defaulted in the first twelve months after restructuring during the years ended December 31, 2021 or 2020.

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

Note 3 – Loans Receivable (Cont.)

Credit Quality Information

The Bank utilizes a seven-grade internal loan rating system for commercial real estate loans (which includes construction and land development loans) and commercial and industrial loans as follows:

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

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

Loans rated 5: Loans in this category are considered “substandard”. Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank 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 as 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 Bank formally reviews the ratings on most commercial real estate, construction and land development, and commercial and industrial loans. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table summarizes the Bank’s loans by risk rating category at December 31:

	Risk Rating	Residential	Home Equity	Commercial Real Estate	Commercial and Industrial	Consumer	Total Loans
2021							
Grade:							
Pass	**1-3**	**$ 62,045,279**	**$ 18,919,050**	**$379,019,498**	**$ 42,951,987**	**$ 7,313,683**	**$ 510,249,497**
Special Mention	**4**	**1,354,982**	**51,188**	**2,874,873**	**1,369,472**	**549**	**5,651,064**
Substandard	**5**	**34,546**		**549**		**16,199**	**51,294**
Doubtful	**6**						**-**
Loss	**7**						**-**
Total		**$ 63,434,807**	**$ 18,970,238**	**$381,894,920**	**$ 44,321,459**	**$ 7,330,431**	**$ 515,951,855**
2020							
Grade:							
Pass	1-3	$ 77,427,209	$ 20,536,017	$348,261,005	$ 76,776,845	$ 6,489,337	$ 529,490,413
Special Mention	4	1,392,126	59,603	5,250,435	2,266,062	36,914	9,005,140
Substandard	5	44,462	-	5,514	-	20,199	70,175
Doubtful	6	-	-	-	-	-	-
Loss	7	-	-	-	-	-	-
Total		$ 78,863,797	$ 20,595,620	$353,516,954	$ 79,042,907	$ 6,546,450	$ 538,565,728

Note 4 – Loan Sales and Servicing

One to four-family residential real estate loans sold to and serviced for investors are not included in the accompanying financial statements. The loans serviced for others were sold without recourse provisions. The aggregate outstanding unpaid principal balance of such loans approximates $64,293,000 and $59,544,000 at December 31, 2021 and 2020, respectively. Gains on loans sold for the year ended December 31, 2021 approximated $510,000 ($718,000 in 2020) and are included in "mortgage banking income" in the noninterest income section of the consolidated statements of income.

The fair value of the rights to service mortgage loans sold is estimated by management using independent market information. This estimated fair value is capitalized and amortized into income in proportion to, and over the period of, estimated net servicing income using the interest amortization method.

The following is a schedule of the changes in servicing assets during the year ended December 31:

	2021	2020
Balance at beginning of year	**$ 190,866**	$ 92,901
Additions:		
Servicing obligations that result from transfers of financial assets	**153,842**	160,531
Subtractions:		
Amortization	**(90,471)**	(62,566)
Disposals	**-**	-
Balance at end of year	**$ 254,237**	$ 190,866

The Bank has concluded that the carrying value of servicing assets does not exceed their estimated fair value, which is based on market prices for comparable mortgage servicing contracts. Accordingly, there was no adjustment for impairment. Servicing rights are included in “prepaid expenses and other assets” in the Bank’s consolidated balance sheets.

Note 5 – Banking Premises and Equipment

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

	2021	2020
Land and land improvements	**$ 2,833,532**	$ 2,852,499
Land held for sale, net of valuation write-down in 2020	**404,312**	450,000
Buildings and improvements	**7,944,348**	7,906,470
Furniture, fixtures and equipment	**4,796,175**	4,648,882
Construction in process	**220,473**	71,506
	16,198,840	15,929,357
Less accumulated depreciation	**(9,983,680)**	(9,353,410)
Banking premises & equipment, net	**$ 6,215,160**	$ 6,575,947

Depreciation expense for the years ended December 31, 2021 and 2020 was $638,172 and $600,672, respectively.

Note 5 – Banking Premises and Equipment (Cont.)

During 2021, the Bank recognized a $75,000 gain from the sale of two parcels of land which it had previously written-down to an estimated market value of $450,000 as of December 31, 2020 via a $229,497 charge to the 2020 statement of income. Additionally, during 2021 the Bank purchased a new parcel of land with a net book value of $404,000, which the Bank intends to sell in the near future.

Subsequent to year end, during February of 2022, the Bank purchased real estate, including an office building, for $4 million with the intention to rehab that space and move its existing headquarters, deposit operations and loan center into this centralized location.

Lease Commitment – During January of 2020, the Bank entered into a 10-year lease agreement with a rent commencement date of October of 2020 for a new branch location in New Bedford. The lease expires in September of 2030 and includes an extension renewal option for an additional ten years. Under this lease agreement, required annual payments are $90,000 for the first five lease years and $103,500 for lease years six through ten.

Total rent expense under this lease agreement amounted to $90,000 and $22,500 for the years ended December 31, 2021 and 2020, respectively.

Future minimum payments under this lease commitment at December 31, 2021 are as follows:

Year Ending December 31	
2022	$ 90,000
2023	90,000
2024	90,000
2025	93,375
2026	103,500
Thereafter	388,125
	$ 855,000

Note 6 – Redemption of Stock in the Co-operative Central Bank

The Bank was previously required by Massachusetts banking statutes to maintain stock in the Co-operative Central Bank (“Coop Central"). The amounts were not subject to withdrawal except with the approval of the directors of Coop Central, and the maximum deposit that had been required was .75% of total assets. During March 2020, in conjunction with the merger of the state depository insurance funds, Coop Central bought back ninety-five percent of the stock, approximately $625,000, and paid the Bank a one-time dividend of approximately $245,000 which was reported with interest and dividends in the 2020 statement of income. The cost of the remaining five percent of shares, approximately $30,000, was charged to operations in 2020.

Note 7 – Federal Home Loan Bank Stock

The Bank holds stock in the Federal Home Loan Bank of Boston, a regional member of the Federal Home Loan Bank (FHLB), as part of its membership requirements. Based upon the redemption provisions of the FHLB, the stock is restricted, has no quoted market value, and it is carried at original cost. The balance in the investment account at December 31, 2021 and 2020 was $1,042,000 and $4,024,700, respectively. The stock serves as additional collateral on FHLB borrowings, which determines the amount of stock the Bank is required to hold (see Note 12). The Bank reviews the stock for impairment based on the ultimate recoverability of its cost. As of December 31, 2021 and 2020, no impairment has been recognized.

Note 8 – Deposits

A comparative summary of deposits, by type, is as follows at December 31:

	2021	**Weighted Average Rate**	2020	Weighted Average Rate
Transactional accounts:				
Regular savings	**$ 125,932,553**	**0.06%**	$ 103,382,034	0.07%
Money market	**49,252,211**	**0.15%**	35,620,946	0.19%
Checking and NOW	**172,128,925**	**0.03%**	146,558,835	0.04%
Total transactional accounts	**347,313,689**		285,561,815	
Time deposits:				
Greater than $250,000	**40,845,874**		45,798,696	
Equal or less than $250,000	**146,382,493**		170,201,081	
Total time deposits	**187,228,367**	**0.93%**	215,999,777	1.40%
	$ 534,542,056		$ 501,561,592	

Contractual maturities of time deposits are as follows:

	December 31, 2021		December 31, 2020	
	Amount	**Weighted Average Rate**	Amount	Weighted Average Rate
Within 1 year	**$ 92,884,448**	**0.94%**	$ 109,552,941	1.39%
Over 1 year to 2 years	**50,147,309**	**0.84%**	59,651,328	1.32%
Over 2 years to 3 years	**35,829,553**	**1.01%**	30,166,141	1.21%
Over 3 years to 4 years	**4,974,637**	**1.41%**	11,450,423	2.47%
Over 4 years to 5 years	**3,392,420**	**0.62%**	5,178,944	1.44%
	$ 187,228,367	**0.93%**	$ 215,999,777	1.40%

Included in time deposits are institutional and brokered certificates of deposit of approximately $18,404,000 and $24,858,000 at December 31, 2021 and 2020, respectively.

Note 9 – Employee Pension Benefits

The Bank provides pension benefits for its employees through membership in the Cooperative Bank Employees Retirement Association (CBERA).

CBERA 401(k) Plan – The retirement benefits include a 401(k) savings plan which allows an employee to contribute between 1% and 75% of his or her base compensation to the plan on a tax-deferred basis. The Bank will match the employees' voluntary contributions up to 10% of their compensation. The Bank's pension costs under the 401(k) plan were approximately $482,000 and $475,000 for the years ended December 31, 2021 and 2020, respectively.

CBERA Defined Benefit Plan – In addition, the Bank maintains participation in CBERA's noncontributory defined benefit pension plan (see Note 1), whereby benefits are based upon years of service, and an average of the employee's three highest consecutive calendar years of earnings. In a prior year, future eligibility for new Bank employees to participate in the plan was frozen. Pension expense approximated $719,000 (including $550,000 in additional discretionary contributions) and $325,000 (including $150,000 in additional discretionary contributions) for the years ended December 31, 2021 and 2020, respectively.

Note 9 – Employee Pension Benefits (Cont.)

The Bank's participation in the CBERA Plan C defined benefit plan is provided in the schedule below:

Pension Fund	Number	Pension Protect Act Zone Status 2021	Pension Protect Act Zone Status 2020	FIP/RP Status Pending / Implemented	Bank's Contributions 2021	Bank's Contributions 2020	Bank's Contributions 2019	Surcharge Imposed
The Defined Benefit Plan (Plan C) of the CBERA Retirement Program	EIN: 04-6035593; Plan No. 334	Green	Green	No	$719,103	$324,448	$174,448	No

As disclosed above, the Bank's contributions exceeded 5% of total Plan contributions for the year ended December 31, 2021 (did not exceed 5% of total Plan contributions during 2020 and 2019).

The Plan's audited financial statements for the years ended December 31, 2020 and 2019 (most recently available) indicated total net assets available for benefits of $398,193,810 and $345,414,084, respectively, total actuarial present value of accumulated plan benefits of $280,197,872 and $270,304,185, respectively, and total contributions for all participating employers of $9,681,927 and $13,242,589, respectively.

Executive Retirement Plan Agreements – The Bank has in place certain supplemental executive retirement plans (SERPs) and deferred compensation agreements with certain current and former key executives, which provide for payment for specific periods upon retirement, subject to limitations as set forth in the agreements. The accrued liabilities related to these agreements was approximately $1,864,000 and $1,615,000 as of December 31, 2021 and 2020, respectively (see Note 1). The Bank recorded expenses of approximately $272,000 in 2021 and $222,000 in 2020 related to these plans.

Bank Owned Life Insurance (BOLI) – The Bank purchased, and is the named beneficiary of, BOLI policies on certain key directors, officers, and employees as a means of self-funding certain employee benefits. The premiums paid on the BOLI were one-time payments made at the inception of the respective policies in previous years in the aggregate amount of $7.5 million. During 2021, the Bank purchased additional BOLI with total premiums paid of $2 million. The cash surrender value of the BOLI policies approximates $12,437,000 and $10,149,000 at December 31, 2021 and 2020, respectively.

Director Fee Continuation Plan – During 2013, the Bank established a noncontributory, defined benefit pension plan covering substantially all of its directors. The benefits are based upon each director's last annual retainer (director fee). An eligible director becomes 20% vested upon completion of eleven years of service with the Bank, increasing by 20% for each additional year of service for the next four years. All existing non-employee directors of the Bank at the plan's inception were credited with ten years of service. The Plan is unfunded and has no assets as of December 31, 2021 and 2020.

In December of 2020, the Board of Directors voted to amend the Plan, effective January 1, 2021, to allow those who had been serving as both director and employee in 2013 vesting of service provisions similar to all other existing non-employee directors at the plan's inception. This resulted in an increase in net periodic pension cost of $27,000, which was recorded in 2020 via a charge to operations. In addition, during 2020, as a result of certain director retirements, the Bank incurred in an increase in net periodic pension cost of $88,000, which was recorded in 2020 via a charge to operations.

A comparison of the actuarial estimates of the benefit obligation to the recorded obligation are as follows as of December 31:

	2021	2020
Projected benefit obligation	**$ 1,072,226**	$ 1,036,506
Fair value of plan assets	**-**	-
Funded status	**$ (1,072,226)**	$(1,036,506)

Note 9 – Employee Pension Benefits (Cont.)

Amounts recognized in the consolidated balance sheet are as follows at December 31:

	2021	2020
Accrued director pension liability	**$ 1,072,226**	$ 1,036,506
Accumulated other comprehensive loss in equity, before taxes	**(111,765)**	(134,118)
Net amount recognized	**$ 960,461**	$ 902,388

Amounts included in "Accumulated Other Comprehensive Income (Loss)" that have not yet been recognized as components of net periodic pension cost, are as follows at December 31:

	2021	2020
Prior service costs	**$ (111,765)**	$ (134,118)
Deferred income tax effect	**31,294**	37,553
	$ (80,471)	$ (96,565)

See Note 17 for Other Comprehensive Income disclosures related to pension costs.

The following schedule reflects the net periodic pension cost, employer contributions and benefits paid for the years ended December 31:

	2021	2020
Service cost	**$ 34,788**	$ 72,661
Interest cost	**39,932**	72,036
Amortization of prior service cost	**22,353**	92,615
	$ 97,073	$ 237,312
Employer contribution	**$ 39,000**	$ 21,000
Benefits paid	**$ 39,000**	$ 21,000

The following represents the actuarial assumptions used to determine the benefit obligation and net periodic pension cost for the years ended December 31:

	2021	2020
Discount rate used for benefit obligation	**4%**	4%
Discount rate used for net periodic benefit cost	**4%**	4%
Rate of director fee increases	**0%**	0%
Benefit percentage	**100%**	100%

The components of projected net periodic pension costs for the year ending December 31, 2022 are as follows (amortization amounts will be recorded via credits to "other comprehensive income"):

Service cost	$ 34,788
Interest cost	45,233
Amortization of prior service cost	22,353
	$ 102,374

Note 9 – Employee Pension Benefits (Cont.)

Management of the Bank expects to contribute $48,000 to the plan during fiscal year 2022 representing estimated pension benefit payments for the year.

The following estimated pension benefit payments, which reflect expected future service as appropriate, are expected to be paid over the next ten years.

Year Ending December 31	
2022	$ 48,000
2023	$ 84,000
2024	$ 84,000
2025	$ 84,000
2026	$ 84,000
2027-2031	$ 498,000

Note 10 – Income Taxes

The tax effects of the principal temporary differences between the financial statement amounts and the tax basis of certain assets and liabilities as of December 31 are as follows:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	**$ 1,117,100**	$ 1,112,700
Executive retirement liabilities	**521,900**	452,200
Director retirement plan, including accumulated OCI	**300,200**	290,200
Non-accrual loan interest	**73,100**	69,400
Valuation write-down on land held for sale	**-**	64,300
Non-deductible accrued expenses	**165,000**	178,600
Merger and organization costs	**13,300**	17,900
Capital loss carryforward	**31,100**	-
Interest rate swap agreements, included in accumulated OCI	**-**	873,000
Other	**184**	5,675
Deferred income tax assets	**2,221,884**	3,063,975
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	**(53,400)**	(342,300)
Mortgage servicing rights	**(71,200)**	(53,400)
Interest rate swap agreements, included in accumulated OCI	**(77,500)**	-
Accumulated depreciation on premises and equipment	**(38,200)**	(124,000)
Deferred income tax liabilities	**(240,300)**	(519,700)
Net deferred tax asset	**$ 1,981,584**	$ 2,544,275

Note 10 – Income Taxes (Cont.)

The provisions for income taxes consist of the following for the year ended December 31:

	2021	2020
Federal tax (credit):		
Current	**$ 1,847,175**	$ 1,677,126
Deferred:	**(82,500)**	(128,600)
	1,764,675	1,548,526
State tax (credit):		
Current	**817,947**	722,062
Deferred:	**(22,500)**	(59,300)
	795,447	662,762
	$ 2,560,122	$ 2,211,288

The Bank's recorded effective tax rate was 26% of pre-tax income for the years ended December 31, 2021 and 2020. The principal reasons for the difference between the statutory tax rates and the Bank's effective tax rate are due to the amount of tax-exempt income received from municipal bonds, the build-up of tax-exempt earnings on BOLI, as well as revenue generated by MCB Securities Corporation, which is taxed at a lower state tax rate (1.32% for the Security Corporation versus 9% for the Bank).

In the past, the Internal Revenue Code provisions permitted co-operative banks a special bad debt deduction, irrespective of the amounts provided for financial reporting purposes. As a result, the Bank's total pre-1988 bad debt reserve for federal income tax purposes approximates $2,921,000 at December 31, 2021, for which no deferred income tax liabilities have been recognized. Reduction of this amount for purposes other than to absorb bad debt losses would be subject to income taxes.

The Bank has not identified any uncertain tax positions requiring accrual or disclosure at December 31, 2021 and 2020. The Bank’s income tax returns are subject to review and examination by federal and state taxing authorities; however, there are currently no examinations for any tax periods in progress. Management of the Bank believes it is no longer subject to examination for years prior to 2018.

Note 11 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

Off-Balance Sheet Risk – The Bank 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, to disburse funds to borrowers on unused construction and land development loans, and to disburse funds on committed but unused lines of credit. These financial agreements involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Commitments to originate loans and disburse additional funds to borrowers on lines of credit 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. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary to the Bank upon extension of credit, is based on management's credit evaluation of the borrower. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The commitments to originate loans and lines of credit may expire without being funded or drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements.

Note 11 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk (Cont.)

Financial instruments whose contract amounts represent off-balance sheet credit risk that are not reflected in the Bank's consolidated balance sheet at December 31, 2021 consist of the following: commitments to originate loans of approximately $18,496,000, undisbursed funds on construction and land development loans, and on home equity, commercial, and overdraft protection lines of credit of approximately $97,232,000, and standby letters of credit of approximately $1,103,000. The Bank also has entered into certain risk participation agreements in conjunction with commercial loan participations (see Note 14).

Concentrations of Credit Risk – The Bank's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investment securities, bank-owned life insurance, and loans receivable.

The Bank's cash and due from bank accounts are maintained in high credit quality financial institutions. At various times throughout the year, such amounts on deposit at any one financial institution may be in excess of the FDIC insurance limits. At December 31, 2021, the Bank has uninsured investments of approximately $1,934,000 in Federal Funds sold, which are obligations of the Federal Reserve.

The Bank's investment securities consist principally of government sponsored CMO's, mortgage-backed securities and municipal bonds. As summary of these and other investment securities at December 31, 2021 is disclosed in Note 2.

The cash values of bank-owned life insurance policies approximates $12,437,000 at December 31, 2021, and relate to policies maintained with four reputable and sound life insurance companies.

The Bank's most significant group of assets is its loan portfolio, which represents approximately 81% of its total assets at December 31, 2021. The majority of the Bank's loans are commercial real estate, construction and land development, and residential mortgage loans to customers in the Bank's geographic market area. The concentrations of credit by type of loan are set forth in Note 3 to these financial statements.

Note 12 – Borrowings

Federal Home Loan Bank – Borrowings consist primarily of funds borrowed from the Federal Home Loan Bank ("FHLB"). In order to establish the Bank's borrowing capacity with the FHLB, the Bank specifically pledges investments held in safekeeping with the FHLB (fair value of $27.1 million at December 31, 2021), and a certain percentage of the carrying value of owner and non-owner occupied first mortgage loans secured by one to four-family properties and commercial real estate loans ($186.7 million at December 31, 2021). In order to further secure these borrowings with the FHLB, the Bank is also required to invest in the stock of the FHLB (see Notes 2, 3 and 7).

Maturities on outstanding borrowings from the FHLB as of December 31 are summarized by year as follows:

	2021		2020	
	Amount	**Weighted average rate**	Amount	Weighted average rate
Advances maturing within:				
One year	**$ 11,063,041**	**0.32%**	$ 79,106,647	0.38%
One to two years	**-**	**0.00%**	63,041	1.65%
Over five years	**993,430**	**0.00%**	993,430	0.00%
	$ 12,056,471	**0.29%**	$ 80,163,118	0.38%

Note 12 – Borrowings (Cont.)

Included in the borrowings at December 31, 2021 is one amortizable advance requiring monthly principal and interest payments through maturity on July 1, 2022, with an outstanding balance of approximately $63,000. There is also one “Jobs for New England Advance” for approximately $993,000. This is a 10-year, interest free advance which matures in full during January of 2027. Jobs for New England offers FHLB Boston members zero-percent financing for small business loans that create or preserve jobs, expand woman, minority, or veteran-owned businesses, or otherwise stimulate the economy in the New England communities the members serve. All remaining borrowings, approximately $11 million, are fixed rate, interest-only borrowings with principal amounts due at maturity.

The Bank also has an Ideal Way line of credit agreement at the FHLB in the amount of $1,110,000. There were no borrowings outstanding under this agreement at December 31, 2021 and 2020.

Interest charges on FHLB borrowings approximated $189,000 and $616,000 for the years ended December 31, 2021 and 2020, respectively.

<u>Interest Rate Swap Contracts</u> – The Bank has entered into multiple International Swap and Derivative Association (ISDA) interest rate swap contracts with a separate financial institution (“counterparty”) to partially manage its exposure to interest rate changes associated with $11 million of FHLB borrowings at December 31, 2021 (representing the notional amounts of the swap contracts). These swap contracts mature during 2025. The notional amount of these swap contracts was $79 million at December 31, 2020, some of which matured or were early terminated during 2021. These contracts qualify as cash flow hedges and the Bank is required to record the fair value of the contracts on its consolidated balance sheet as an asset or liability, with an offset to AOCI, net of income tax impacts, with changes through other comprehensive income.

The effect of the swap contracts is to limit the interest rate exposure on the borrowings to fixed rates (ranging from 0.45% to 0.68%) versus the three-month LIBOR rate. In accordance with the swap agreements, the interest charge is calculated based upon the LIBOR rate and the fixed rates. If interest as calculated is greater based on the LIBOR rate, the counterparty pays the difference to the Bank. However, if interest as calculated is greater based on the fixed rates, the Bank pays the difference to the counterparty.

Depending on the fluctuations in the LIBOR rate, the Bank's interest rate exposure and its related impact on interest expense and net cash flow could increase or decrease. The fair values of the interest rate swap agreements are the estimated amounts the Bank would receive or pay to terminate the agreements at a particular point in time, considering current interest rates and the creditworthiness of the counterparty. The estimated fair values of these interest rate swap contracts are provided by the counterparty (see Note 15).

At December 31, 2021, the combined fair values of the swap contracts was estimated to be an asset of approximately $275,000 (a liability of $3,106,000 at December 31, 2020), which is reflected in the Bank's accompanying consolidated balance sheets. An unrealized gain on the swap contracts of approximately $198,000, net of income tax effects, is recorded in AOCI in the consolidated balance sheet at December 31, 2021 (unrealized loss of $2,233,000, net of income tax effects, at December 31, 2020). See Note 17 for additional information.

These financial instruments involve counterparty credit exposure. The counterparty for these interest rate exchanges is a major financial institution that meets the Bank’s criteria for financial stability and creditworthiness. In order to mitigate counterparty default risk, should there be a significant difference in the market value of the swap components and/or the projected net interest payments, the Bank or the counterparty could demand that collateral be pledged to cover the difference on each swap contract. The Bank maintains $120,000 and $3,580,000 of collateral deposits with the counterparty at December 31, 2021 and 2020, respectively (reported in “prepaid expenses and other assets” in the consolidated balance sheets).

Note 12 – Borrowings (Cont.)

The swap agreements resulted in an additional charge to the Bank's interest expense of approximately $2,375,000 for the year ended December 31, 2021, which includes $1,750,000 of termination costs incurred on interest rate swaps. During 2020, the swap agreements resulted in an additional charge to the Bank's interest expense of approximately $979,000, which includes $126,000 of termination costs incurred on two forward swap commitments.

The Federal Reserve Bank – The Bank has a line of credit agreement with the Federal Reserve Bank of Boston for usage of the discount window. The terms of the agreement call for the pledging of certain assets for any and all obligations of the Bank under the agreement.

During April of 2020, the Bank received additional availability with the Federal Reserve under the Paycheck Protection Program Liquidity Facility ("PPPLF") which provides additional liquidity to fund PPP loans to the Bank's customers. Any borrowings under the PPPLF must be collateralized by specific PPP loans pledged at the time of advance. The outstanding advances bear interest at 0.35%, and repayment of all principal and accrued interest is due at maturity, defined as the repayment/maturity of the specifically pledged PPP loans. There were no borrowings outstanding under this agreement at December 31, 2021 and 2020. There was no interest expense incurred under this agreement during 2021 ($26,000 incurred during 2020).

Zions First National Bank – The Bank has an unsecured line of credit agreement with Zions First National Bank, whereby it may borrow amounts up to $8,000,000. At December 31, 2021 and 2020, there were no borrowings outstanding under this agreement.

Atlantic Community Bankers Bank – The Bank also has a line of credit agreement with Atlantic Community Bankers Bank (ACBB) in the amount of $10,000,000. At December 31, 2021 and 2020, there were no borrowings outstanding under this agreement. The President/CEO of the Bank is a member of the Board of Directors of ACBB.

South State Bank – The Bank also has an unsecured line of credit agreement with South State Bank, whereby it may borrow amounts up to $8,500,000. At December 31, 2021 and 2020, there were no borrowings outstanding under this agreement.

PNC Bank – The Bank has an overnight line of credit agreement with PNC Bank where the Bank may borrow up to $10,000,000 that must be paid by the following day. At December 31, 2021 and 2020, there were no borrowings outstanding under this agreement.

Note 13 – Transactions with Officers, Directors, and Affiliates

The Bank has banking transactions in the ordinary course of business with certain of its directors, officers, and their affiliates. The following summarizes the activity with respect to loans made to such individuals at December 31:

	2021	2020
Balance at beginning of year	**$ 8,307,844**	$ 8,389,829
New loans and line of credit advances	**250,000**	610,536
Reductions	**(5,341,873)**	(692,521)
Balance at end of year	**$ 3,215,971**	$ 8,307,844

The aggregate amount of Bank deposit accounts owned by such individuals, both directly and indirectly, approximates $16,472,000 and $15,829,000 at December 31, 2021 and 2020, respectively.

Note 14 – Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives – The Bank is exposed to certain risks arising from both its business operations and economic conditions. The Bank principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Bank manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Bank enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Bank's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Bank's known or expected cash receipts and its known or expected cash payments principally related to the Bank's assets and liabilities.

Non-designated Hedges – Derivatives not designated as hedges are not speculative and are used to manage the Bank's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements and/or the Bank has not elected to apply hedge accounting. Changes in the fair value of derivatives not designated in hedging relationships, exclusive of credit valuation adjustments, are recorded directly in earnings.

The Bank executes interest rate swap agreements with commercial banking customers to facilitate its respective risk management strategies. Those interest rate swap agreements are simultaneously hedged by offsetting interest rate swaps that are executed with a third party, such that the Bank minimizes its net risk exposure resulting from such transactions. As of December 31, 2021, the Bank has interest rate swap agreements with an aggregate notional amount of $10,544,000 related to this program ($8,035,000 as of December 31, 2020). The fair value of these derivatives approximated $323,000 in both an asset and liability position on December 31, 2021 ($99,000 at December 31, 2020) (see Note 15).

The agreements with each of its derivative counterparties contain a provision where if the Bank defaults (or is capable of being declared in default) on any of its indebtedness, then the Bank could also be declared in default on its derivative obligations, and it could be required to terminate its derivative positions with the counterparty. The Bank also has agreements with certain of its derivative counterparties that contain a provision whereby if the counterparty fails to maintain its status as a well-capitalized institution, then the Bank could be required to terminate its derivative positions with the counterparty. In order to mitigate counterparty default risk in conjunction with these interest rate products, the Bank maintained $200,000 of collateral deposits with the counterparty at December 31, 2020, which were reported as "prepaid expenses and other assets" in the consolidated balance sheet. No collateral deposits were required at December 31, 2021.

Risk Participation Agreements - Risk Participation Agreements (RPAs) are guarantees issued by the Company to other parties for a fee, whereby the Bank agrees to participate in the credit risk of a derivative customer of the other party. Under the terms of these agreements, the "participating bank" receives a fee from the "lead bank" in exchange for the guarantee of reimbursement if the customer defaults on an interest rate swap. The interest rate swap is transacted such that any, and all, exchanges of interest payments (favorable and unfavorable) are made between the lead bank and the customer.

In the event that an early termination of the swap occurs, and the customer is unable to make a required close-out payment, the participating bank assumes that obligation and is required to make this payment. RPAs where the Bank acts as the lead bank are referred to as "participations-out," in reference to the credit risk associated with the customer derivatives being transferred out of the Bank. Participations-out generally occur concurrently with the sale of new customer derivatives. RPAs where the Bank acts as the participating bank are referred to as "participations-in," in reference to the credit risk associated with the counterparty's derivatives being assumed by the Bank. The Bank's maximum credit exposure is based on its proportionate share of the settlement amount of the referenced interest rate swap. Settlement amounts are generally calculated based on the fair value of the swap agreement plus outstanding accrued interest receivable from the customer. The current notional amounts of such risk participation agreements reflect the Bank's pro-rata share of the related loan participations. The Bank's notional amounts on risk "participations-out" approximate $944,000 and $1,036,000 at December 31, 2021 and 2020, respectively. The Bank's notional amounts on risk "participations-in" approximate $13,483,000 and $13,716,000 at December 31, 2021 and 2020, respectively. The Bank's estimate of the off-balance exposure associated with these risk "participation-in" agreements was $605,000 and $1,403,000 at December 31, 2021 and 2020, respectively. RPA's typically have terms ranging from one to five years; however, certain outstanding agreements have terms as long as ten years.

Note 15 - Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under generally accepted accounting principles, fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, quoted market prices are not available; therefore, fair values are based upon estimates using present value or other valuation techniques. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available to management.

Generally accepted accounting principles establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, and gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Observable inputs such as quoted prices in active markets.

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

Level 3 – Unobservable inputs that are supported by little or no market data and are significant to the fair value measurement of the assets or liabilities. Level 3 inputs include pricing models, discounted cash flow methodologies, or similar techniques, as well as significant management judgments or estimations.

The fair value of the Bank's investment debt securities is estimated through the use of a third-party pricing service. The third-party pricing service uses Level 2 inputs, including the use of pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. The fair values of derivative instruments are estimated by the Bank using valuation experts from the counterparties who rely on Level 2 inputs, namely interest cash flow models to determine a fair value estimate by calculating a settlement termination value with the counterparty.

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

	December 31, 2021			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Available-for-sale investment securities (Note 2):				
Government sponsored mortgage-backed securities	$ -	$ 16,903,300	$ -	$ 16,903,300
SBA agency loan pools	-	5,040,554	-	5,040,554
Commercial mortgage-backed securities	-	15,104,544	-	15,104,544
Government sponsored CMO	-	14,892,927	-	14,892,927
Municipal bonds	-	22,438,963	-	22,438,963
Corporate bonds	-	5,891,349	-	5,891,349
	$ -	$ 80,271,637	$ -	$ 80,271,637
Interest rate swap agreements (Note 12)	$ -	$ 275,539	$ -	$ 275,539
Derivative assets (Note 14)	$ -	$ 323,514	$ -	$ 323,514
Liabilities:				
Derivative liabilities (Note 14)	$ -	$ 323,514	$ -	$ 323,514

Note 15 - Fair Value Measurements (Cont.)

	December 31, 2020			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Available-for-sale investment securities (Note 2):				
Government sponsored mortgage-backed securities	$ -	$ 19,942,294	$ -	$ 19,942,294
SBA agency loan pools	-	7,284,955	-	7,284,955
Commercial mortgage-backed securities	-	3,792,017	-	3,792,017
Government Sponsored CMO	-	17,959,208	-	17,959,208
Municipal bonds	-	24,010,387		24,010,387
Corporate bonds	-	2,515,947	-	2,515,947
	$ -	$ 75,504,808	$ -	$ 75,504,808
Derivative assets (Note 14)	$ -	$ 99,041	$ -	$ 99,041
Liabilities:				
Interest rate swap agreements (Note 12)	$ -	$ 3,105,583	$ -	$ 3,105,583
Derivative liabilities (Note 14)	$ -	$ 99,041	$ -	$ 99,041

The Bank may also be required from time to time to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles, such as impaired loans and other real estate owned. These adjustments to fair value usually result in write-downs of individual assets. Losses applicable to impaired loans are estimated using the appraised value of the underlying collateral, discounting factors or other factors. The losses are not recorded as a direct adjustment to current earnings, but rather are considered a component in determining the overall adequacy of the allowance for loan losses. Losses applicable to real estate are determined by using the market value of the real estate property and are recorded as a direct write-down to the carrying value of the property.

The following table summarizes assets measured and reported at fair value on a non-recurring basis:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Losses**
Impaired loans (Note 3)	**$ -**	**$ -**	**$ 617,582**	**$ (2,347)**

	December 31, 2020			
	Level 1	Level 2	Level 3	Losses
Impaired loans (Note 3)	$ -	$ -	$ 703,345	$ (2,492)
Land held for sale (Note 5)	-	-	450,000	(229,497)
	$ -	$ -	$ 1,153,345	$ (231,989)

Note 16 – Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total Capital, Tier I Capital and Common Equity Tier I Capital to Risk-Weighted Assets, and Tier I Capital to Total Average Assets (as defined in the regulations). Management believes, as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

Note 16 – Regulatory Capital Requirements (Cont.)

As of December 31, 2021, the most recent notification from the FDIC, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain the minimum regulatory capital ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Bank's actual and required capital amounts and ratios, as per the FDIC call report filings, are as follows (dollars in thousands):

	Actual		For Minimum Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total Capital (to Risk Weighted Assets)	**$ 81,268**	**18.52%**	**$ 35,106**	**8.0%**	**$ 43,882**	**10.0%**
Tier I Capital (to Risk Weighted Assets)	**$ 76,830**	**17.51%**	**$ 26,329**	**6.0%**	**$ 35,106**	**8.0%**
Common Equity Tier 1 Capital (to Risk Weighted Assets)	**$ 76,830**	**17.51%**	**$ 19,747**	**4.5%**	**$ 28,523**	**6.5%**
Tier I Capital (to Total Average Assets)	**$ 76,830**	**11.78%**	**$ 26,097**	**4.0%**	**$ 32,622**	**5.0%**
December 31, 2020						
Total Capital (to Risk Weighted Assets)	$ 73,968	17.65%	$ 33,518	8.0%	$ 41,897	10.0%
Tier I Capital (to Risk Weighted Assets)	$ 69,520	16.59%	$ 25,138	6.0%	$ 33,518	8.0%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$ 69,520	16.59%	$ 18,854	4.5%	$ 27,233	6.5%
Tier I Capital (to Total Average Assets)	$ 69,520	11.24%	$ 24,743	4.0%	$ 30,929	5.0%

Note 17 – Other Comprehensive Income

The components of the Bank's "Accumulated Other Comprehensive Income (Loss)", along with the changes during the years (net of deferred income tax effects), are as follows:

	(See Note 2) Unrealized Gain (Loss) on AFS Securities, Net	(See Note 9) Unrecognized Service Cost Director Benefit Plan, Net	(See Note 12) Unrealized Gain (Loss) Interest Rate Swap, Net	Total Accumulated Other Comprehensive Income (Loss)
Balances at December 31, 2019	$ 89,768	$ (147,851)	$ (669,370)	$ (727,453)
Other comprehensive income (loss), net of taxes	1,121,022	51,286	(1,563,234)	(390,926)
Balances at December 31, 2020	1,210,790	(96,565)	(2,232,604)	(1,118,379)
Other comprehensive income (loss), net of taxes	(1,043,162)	16,094	2,430,687	1,403,619
Balances at December 31, 2021	$ 167,628	$ (80,471)	$ 198,083	$ 285,240

Note 17 – Other Comprehensive Income (Cont.)

The following table presents a reconciliation of the changes in the components of "other comprehensive income (loss)" and reclassifications out of "accumulated other comprehensive income (loss)":

	Year ended December 31, 2021			
	Before-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Affected Line Item in Consolidated Statements of Income - (Income) Expense
Unrealized losses on AFS securities (Note 2):				
Unrealized holding losses arising during the year	$ (1,332,165)	$ 289,003	$(1,043,162)	
Reclassification adjustment for gains on sales of securities realized in net income	- (a)	-	-	(a) Realized net gains on sales of securities
Net unrealized losses during the year	(1,332,165)	289,003	(1,043,162)	
Director Retirement Benefit Plan (Note 9):				
Net changes in prior service costs arising during the year	-	-	-	
Reclassification adjustments into net periodic pension cost:				
Amortization of prior service costs	22,353 (b)	(6,259)	16,094	(b) Director fees
Net change in unrecognized pension cost	22,353	(6,259)	16,094	
Interest rate swap agreements (Note 12):				
Unrealized gains arising during the year	1,630,372	(458,299)	1,172,073	
Reclassification adjustment for interest rate swap termination costs realized in net income	1,750,750 (c)	(492,136)	1,258,614	(c) Interest expense on borrowings
Net unrealized gains during the year	3,381,122	(950,435)	2,430,687	
Total other comprehensive income	$ 2,071,310	$ (667,691)	$ 1,403,619	

	Year ended December 31, 2020			
	Before-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Affected Line Item in Consolidated Statements of Income - (Income) Expense
Unrealized gains on AFS securities (Note 2):				
Unrealized holding gains arising during the year	$ 1,450,124	$ (317,404)	$ 1,132,720	
Reclassification adjustment for gains on sales of securities realized in net income	(14,976) (a)	3,278	(11,698)	(a) Realized net gains on sales of securities
Net unrealized gains during the year	1,435,148	(314,126)	1,121,022	
Director Retirement Benefit Plan (Note 9):				
Net changes in prior service costs arising during the year	(21,384)	5,987	(15,397)	
Reclassification adjustments into net periodic pension cost:				
Amortization of prior service costs	92,615 (b)	(25,932)	66,683	(b) Director fees
Net change in unrecognized pension cost	71,231	(19,945)	51,286	
Interest rate swap agreements (Note 12):				
Net unrealized losses during the year	(2,174,481)	611,247	(1,563,234)	
Total other comprehensive loss	$ (668,102)	$ 277,176	$ (390,926)	

Note 18 – Legal Contingencies

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will not have a material effect on the Bank's consolidated financial statements.

Note 19 – Application for Employee Retention Credits

As authorized and established by the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act, management believes that the Bank has met the criteria to receive Employee Retention Credits in the amount of approximately $1,822,000 from the IRS. During 2021, the Bank applied for these credits and received $1,335,000 before December 31, 2021. A receivable was recorded for the remaining $487,000 (included in "prepaid expenses and other assets"). As such, the consolidated statement of income for 2021 reflects a total credit of $1,822,000 to noninterest income.

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