Grand Bank Corporation

Annual Report

2024

National Grand Bank

We Make Things Happen!

OFFICERS

James E. Nye
President

Carl R. Edwards
Executive Vice President & CLO

Michael R. Spencer
Vice President & CFO

Rory R. Richards
Vice President Deposit & Cash Operations

Mark C. Dewling
Asst. Vice President

Kathy M. Green
Asst. Vice President

Leda J. Joyce
Asst. Vice President Deposit Operations

Karin McCarthy
Asst. Vice President Human Resources

Charles T. Ball
Senior Vice President

Timothy B. Thomas
Vice President Information Technology

Michael J. Bartholomew
Asst. Vice President

Robert L. Duzz
Asst. Vice President BSA/Compliance

Kelly M. Ingham
Asst. Vice President & Controller

Matthew C. Martin
Asst. Vice President Business Development

Michael O'Neil
Asst. Vice President Commercial Lending

DIRECTORS

Ralph C. Anderson

Peter C. Brown

John C. Doub

Paul G. Gregory

Jo-Mary Koopman

James E. Nye

Kenneth G. Steadman

To our shareholders:

The Federal Reserve was satisfied with slowing inflation and a lower unemployment rate, then lowered rates from 5.5% to 4.5% over the course of three rate cuts in 2024. This allowed deposit rates to inch lower but did little to change lending rates. The inverted yield curve caused deposit migration from checking and savings accounts to higher yielding time deposits, which reduced the bank's net interest margin by nearly 10% from the previous year. Local home sales declined 40% from 2022, as owners with low-rate mortgages are staying in their homes, restricting the flow of trade up and downsizing transactions. The homes that do come to market are bid up by buyers eager to enter the local community. The bank's interest income could not keep pace with the rapidly accelerating interest expense resulting in a net income decline of 44% to $1.52 million in 2024.

The Corporation had a very strong year, with increases in total assets of 4.5%, net loans up 3% and total deposits increasing by 4.8%. Because of our mark to market gains, surging investment values at Grand Bank Corporation (GBC) created a net income of $9.1 million. This resulted in the book value of Grand Bank Corporation shares increasing 8.4% to **$8,678** per share with a total yearly dividend of $155 per share.

The Corporation repurchased two hundred sixty-three (263) shares of its stock in 2024. When stock is offered for sale, the Corporation may purchase additional shares. However, shareholders who wish to sell their shares are not obligated to sell them to the Corporation.

In April, the following promotions were made. Rob Duzz was promoted to AVP BSA/Compliance, Leda Joyce to AVP Deposit Operations, Matt Martin AVP Business Development and Mike O'Neil AVP Commercial Loans. We are proud to honor these outstanding officers and thrilled with their advancement.

Executive VP Carl Edwards, our Chief Lending Officer, announced his retirement date of February 28, 2025. Carl and his team have grown the bank's loan portfolio since his arrival in 2008. We thank Carl for his many contributions, his keen insights and steady guidance and wish him a happy, healthy and long retirement.

Mike O'Neil follows Carl to lead our team as Vice President of Lending. Mike joined the bank in 2021. He is a lifelong Marblehead resident, a CPA and very active in town activities. Mike lives in Marblehead with his wife and daughter.

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

Respectfully,

James E. Nye
President

BAKER
NEWMAN
NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grand Bank Corporation

We have audited the consolidated financial statements of Grand Bank Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

To the Board of Directors
Grand Bank Corporation

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report

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

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

Baker Newman + Noyes LLC

Portsmouth, New Hampshire
February 20, 2025

Grand Bank Corporation & Subsidiaries
Consolidated Balance Sheets

December 31, 2024 and 2023

(In Thousands, Except Share Data)

	2024	2023
ASSETS		
Cash, due from banks and money market mutual funds	$ 24,017	$ 21,275
Federal funds sold	1,745	804
Federal Home Loan Bank interest-bearing accounts	354	109
Cash and cash equivalents	26,116	22,188
Investments in available-for-sale securities, at fair value	79,445	79,344
Marketable equity securities, at fair value	50,884	43,725
Federal Reserve Bank stock, at cost	106	102
Federal Home Loan Bank stock, at cost	1,247	988
Loans, net	317,591	308,265
Premises and equipment, net	2,417	2,489
Investment in real estate	1,573	1,590
Accrued interest receivable	1,233	1,226
Cash surrender value of life insurance	5,890	5,730
Other assets	559	654
Total assets	$487,061	$466,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$113,354	$110,448
Interest-bearing	258,329	244,087
Total deposits	371,683	354,535
Borrowed funds	23,284	26,054
Other liabilities	4,476	3,123
Total liabilities	399,443	383,712
Stockholders' equity:		
Common stock, par value $10.00 per share, authorized 500,000 shares, issued 17,500 shares; outstanding 10,097 shares in 2024 and 10,320 shares in 2023	175	175
Paid-in capital	10,815	10,606
Retained earnings	109,599	102,048
Treasury stock, at cost (7,403 shares in 2024 and 7,180 shares in 2023)	(25,776)	(23,765)
Accumulated other comprehensive loss	(7,195)	(6,475)
Total stockholders' equity	87,618	82,589
Total liabilities and stockholders' equity	$487,061	$466,301

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2024 and 2023

(In Thousands, Except Share Data)

	2024	2023
Interest and dividend income:		
Interest and fees on loans	$ 13,149	$ 11,820
Interest and dividends on securities:		
Taxable	2,163	2,010
Tax-exempt	688	724
Other interest	1,019	830
Total interest and dividend income	17,019	15,384
Interest expense:		
Interest on deposits	6,832	4,753
Interest on borrowed funds	1,287	835
Total interest expense	8,119	5,588
Net interest and dividend income	8,900	9,796
Benefit for credit losses	76	542
Net interest and dividend income after benefit for credit losses	8,976	10,338
Noninterest income:		
Trust department income	28	41
Service charges and fees	365	343
Gain on marketable equity securities, net	9,060	8,437
Mortgage banking activities, net	6	7
Credit card merchant processing fees	59	62
Increase in cash surrender value of life insurance	160	148
Other income	833	813
Total noninterest income	10,511	9,851
Noninterest expense:		
Salaries and employee benefits	4,297	4,235
Occupancy expense	434	428
Equipment expense	630	670
Data processing	796	749
Consultant fees	350	322
FDIC assessment	194	191
Other expense	1,397	1,187
Total noninterest expense	8,098	7,782
Income before income tax expense	11,389	12,407
Income tax expense	2,258	2,596
Net income	$ 9,131	$ 9,811
Earnings per common share, basic	$ 897.16	$ 921.34
Earnings per common share, diluted	$ 892.59	$ 918.11

Grand Bank Corporation & Subsidiaries
Consolidated Statements of Comprehensive Income

Years Ended December 31, 2024 and 2023

(In Thousands)

	2024	2023
Net income	$ 9,131	$ 9,811
Other comprehensive (loss) income, net of tax:		
Net unrealized holding (loss) gain on available-for-sale securities, net of tax	(720)	1,672
Other comprehensive (loss) income, net of tax	(720)	1,672
Comprehensive income	$ 8,411	$ 11,483

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

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

Years Ended December 31, 2024 and 2023

(In Thousands, Except Share Data)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2022	$ 175	$ 10,381	$ 93,969	$ (20,365)	$ (8,147)	$ 76,013
Cumulative effect of change in accounting principle (note 2)	–	–	(83)	–	–	(83)
Net income	–	–	9,811	–	–	9,811
Other comprehensive income, net of tax	–	–	–	–	1,672	1,672
Dividends declared on common stock ($155 per share)	–	–	(1,649)	–	–	(1,649)
Purchases of 479 shares of treasury stock	–	–	–	(3,544)	–	(3,544)
Issuance of 71 shares on exercise of stock options	–	123	–	115	–	238
Issuance of 9 shares for stock awards	–	35	–	29	–	64
Stock-based compensation – options	–	67	–	–	–	67
Balance, December 31, 2023	175	10,606	102,048	(23,765)	(6,475)	82,589
Net income	–	–	9,131	–	–	9,131
Other comprehensive loss, net of tax	–	–	–	–	(720)	(720)
Dividends declared on common stock ($155 per share)	–	–	(1,580)	–	–	(1,580)
Purchases of 263 shares of treasury stock	–	–	–	(2,147)	–	(2,147)
Issuance of 41 shares on exercise of stock options	–	105	–	112	–	217
Issuance of 7 shares for stock awards	–	37	–	24	–	61
Stock-based compensation – options	–	67	–	–	–	67
Balance, December 31, 2024	$ 175	$ 10,815	$ 109,599	$ (25,776)	$ (7,195)	$ 87,618

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2024 and 2023

(In Thousands)

	2024	2023
Cash flows from operating activities:		
Net income	$ 9,131	$ 9,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	13	64
Gain on marketable equity securities, net	(9,060)	(8,437)
Change in deferred origination fees/costs, net	(4)	(13)
Benefit for credit losses	(76)	(542)
Depreciation and amortization	200	290
Increase in accrued interest receivable	(7)	(101)
Decrease in other assets	95	114
Increase in cash surrender value of life insurance policies	(160)	(148)
(Decrease) increase in other liabilities	(242)	19
Deferred tax expense	1,834	1,580
Stock-based compensation expense – stock awards	61	64
Stock-based compensation expense – options	67	67
Net cash provided by operating activities	1,852	2,768
Cash flows from investing activities:		
Purchases of available-for-sale securities	(9,686)	(3,886)
Proceeds from paydowns, maturities and calls of available-for-sale securities	8,628	7,543
Purchases of equity securities	(1,233)	(8,263)
Proceeds from sales of equity securities	3,134	8,407
Purchases of Federal Reserve Bank stock	(4)	(3)
Purchases of Federal Home Loan Bank stock	(1,061)	(2,362)
Redemption of Federal Home Loan Bank stock	802	1,796
Loan originations and principal collections, net	(9,315)	(5,423)
Recoveries of loans previously charged off	54	15
Capital expenditures	(111)	(45)
Net cash used in investing activities	(8,792)	(2,221)

Years Ended December 31, 2024 and 2023

(In Thousands)

	2024	2023
Cash flows from financing activities:		
Net decrease in demand deposits, NOW and savings accounts	$ (3,172)	$ (78,613)
Net increase in time deposits	20,320	46,138
Net (decrease) increase in borrowed funds	(2,770)	22,896
Dividends paid to common stockholders	(1,580)	(1,649)
Proceeds from exercise of stock options	217	238
Purchases of treasury stock	(2,147)	(3,544)
Net cash provided by (used in) financing activities	10,868	(14,534)
Net increase (decrease) in cash and cash equivalents	3,928	(13,987)
Cash and cash equivalents at beginning of year	22,188	36,175
Cash and cash equivalents at end of year	$ 26,116	$ 22,188
Supplemental disclosures:		
Interest paid	$ 8,024	$ 5,442
Income taxes paid	421	1,104

NOTE 1 - NATURE OF OPERATIONS

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

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

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

BASIS OF PRESENTATION:

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

RISKS AND UNCERTAINTIES:

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

CASH AND CASH EQUIVALENTS:

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

SECURITIES:

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

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

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

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

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

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

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

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

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

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

FEDERAL RESERVE BANK STOCK:

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

FEDERAL HOME LOAN BANK STOCK:

The Corporation, as a member of the Federal Home Loan Bank of Boston (FHLB), is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. The Corporation reviews its investment in capital stock of the FHLB for impairment based on the ultimate recoverability of the cost basis of the FHLB stock.

LOANS AND ALLOWANCE FOR CREDIT LOSSES:

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

The accrual of interest on loans is discontinued at the time a loan is 90 days past due. Past due status is based on the contractual terms of the loan. Loans are placed on non-accrual at an earlier date if collection of principal or interest is considered doubtful. Interest income previously accrued for on such loans is reversed against interest income. The interest paid on these loans is accounted for on the cash basis if the remaining net carrying amount of the loan is deemed fully collectible or on the cost-recovery method to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan, until qualifying for return to accrual. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

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

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

Effective January 1, 2023, the Corporation adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaced the incurred loss methodology that is referred to as the current expected credit losses (CECL) Methodology. The CECL approach requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures).

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

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

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

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

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

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

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

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

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

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

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

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

LOAN CLASSES MODIFICATION TYPES:

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

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

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

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

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

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

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

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

ADVERTISING:
The Corporation directly expenses costs associated with advertising as they are incurred. Advertising expenses totaled approximately $102,000 and $103,000 in 2024 and 2023, respectively.

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

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

There were no material uncertain tax positions taken or expected to be taken at December 31, 2024 and 2023.

STOCK-BASED COMPENSATION:

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

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

EARNINGS PER SHARE:

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

REVENUE RECOGNITION:

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

NOTE 3 - INVESTMENTS IN SECURITIES

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

	Gross Amortized Cost Basis	Gross Unrealized Gains	Unrealized Losses	Fair Value
		(In Thousands)		
2024				
Available-for-sale debt securities:				
Political and state obligations	$25,516	$ 9	$ 2,705	$22,820
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,207	–	294	4,913
Mortgage-backed securities	58,406	93	6,787	51,712
Total available-for-sale debt securities	$89,129	$ 102	$ 9,786	$79,445
2023				
Available-for-sale debt securities:				
Political and state obligations	$26,037	$ 53	$ 2,200	$23,890
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,731	–	324	5,407
Corporate debt securities	1,000	–	2	998
Mortgage-backed securities	55,316	189	6,456	49,049
Total available-for-sale debt securities	$88,084	$ 242	$ 8,982	$79,344

The scheduled maturities of debt securities were as follows as of December 31, 2024:

	Fair Value (In Thousands)
Due within one year	$ 7,602
Due after one year through five years	11,300
Due after five years through ten years	7,349
Due after ten years	1,482
Mortgage-backed securities	51,712
	$79,445

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

During the fiscal years ended December 31, 2024 and December 31, 2023, there were no sales of available-for-sale debt securities.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2024 and 2023.

At December 31, 2024 and 2023, certain debt securities with a carrying value of $7,888,000 and $9,886,000, respectively, were pledged as collateral for FRB borrowings.

Information pertaining to debt securities with gross unrealized losses at December 31, 2024 and 2023 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
2024						
Available-for-sale debt securities:						
Political and state obligations	$ 7,098	$ 123	$ 13,609	$ 2,582	$ 20,707	$ 2,705
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	–	–	4,913	294	4,913	294
Mortgage-backed securities	8,143	108	35,004	6,679	43,147	6,787
Total available-for-sale debt securities	$ 15,241	$ 231	$ 53,526	$ 9,555	$ 68,767	$ 9,786
2023						
Available-for-sale debt securities:						
Political and state obligations	$ 4,491	$ 16	$ 11,029	$ 2,184	$ 15,520	$ 2,200
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	–	–	5,407	324	5,407	324
Corporate debt securities	–	–	998	2	998	2
Mortgage-backed securities	45	–	40,441	6,456	40,486	6,456
Total available-for-sale debt securities	$ 4,536	$ 16	$ 57,875	$ 8,966	$ 62,411	$ 8,982

As of December 31, 2024, the Corporation's available-for-sale debt security portfolio consisted of 160 securities below amortized cost (12.46% of amortized cost basis). Corporation management does not intend to sell, and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

The portion of unrealized gains and losses for the years ended December 31, 2024 and 2023 related to marketable equity securities still held at the reporting date is as follows (in thousands):

	2024	2023
Net gains during the period on equity securities	$ 9,060	$ 8,437
Less: net gains recognized on equity securities sold during the period	(871)	(1,747)
Net unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$ 8,189	$ 6,690

NOTE 4 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans consisted of the following as of December 31:

	2024	2023
	(In Thousands)	
Real estate:		
Residential	$297,046	$284,698
Commercial	13,592	15,340
Construction and land development	4,024	5,467
Commercial and industrial	2,383	2,468
Consumer	1,842	1,630
	318,887	309,603
Allowance for credit losses	(1,296)	(1,338)
Net loans	$317,591	$308,265

Certain directors and executive officers of the Corporation and companies in which they have significant ownership interest were customers of the Bank. Total loans to such persons and their companies amounted to $4,534,000 and $4,831,000 as of December 31, 2024 and 2023, respectively.

The Corporation elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of December 31, 2024 and 2023, accrued interest receivable for loans totaled $874,000 and $858,000, respectively, and is included in the "accrued interest receivable" line item on the Corporation's consolidated balance sheet.

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

	Real Estate		Commercial		
	Residential	Commercial	and Industrial	Consumer	Total
			(In Thousands)		
Allowance for credit losses activity					
2024					
Beginning balance	$1,233	$ 73	$ 20	$ 12	$1,338
Charge-offs	–	–	(30)	(5)	(35)
Recoveries	–	–	52	2	54
Provision (benefit)	(22)	(17)	(22)	–	(61)
Ending balance	$1,211	$ 56	$ 20	$ 9	$1,296
2023					
Beginning balance prior to adoption of Topic 326	$1,724	$ 74	$ 18	$ 4	$1,820
Impact of adoption of Topic 326	55	2	2	1	60
Charge-offs	–	–	(11)	(15)	(26)
Recoveries	–	–	12	3	15
Provision (benefit)	(546)	(3)	(1)	19	(531)
Ending balance	$1,233	$ 73	$ 20	$ 12	$1,338

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

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

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

	30-59 Days	60-89 Days	90 + Days	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Non-accrual Loans
					(In Thousands)			
2024								
Real estate:								
Residential	$ –	$ 165	$ –	$ 165	$ 296,881	$ 297,046	$ –	$ –
Commercial	–	–	–	–	13,592	13,592	–	–
Construction and land development	–	–	–	–	4,024	4,024	–	–
Commercial and industrial	17	11	–	28	2,355	2,383	–	–
Consumer	–	–	–	–	1,842	1,842	–	–
	$ 17	$ 176	$ –	$ 193	$ 318,694	$ 318,887	$ –	$ –
2023								
Real estate:								
Residential	$ 175	$ –	$ –	$ 175	$ 284,523	$ 284,698	$ –	$ 186
Commercial	–	–	–	–	15,340	15,340	–	–
Construction and land development	–	–	–	–	5,467	5,467	–	–
Commercial and industrial	–	–	–	–	2,468	2,468	–	–
Consumer	–	–	–	–	1,630	1,630	–	–
	$ 175	$ –	$ –	$ 175	$ 309,428	$ 309,603	$ –	$ 186

LOAN MODIFICATIONS MADE TO BORROWERS EXPERIENCING FINANCIAL DIFFICULTY

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

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

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

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

There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2024 or 2023.

At December 31, 2024 and 2023, there were no loans collateralized by residential real estate property in the process of foreclosure.

CREDIT QUALITY INFORMATION

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

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

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

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

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

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

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

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

	Real Estate: Residential	Real Estate: Commercial	Real Estate: Construction and Land Development	Commercial and Industrial	Consumer	Total
			(In Thousands)			
2024						
Grade:						
Pass (1-3)	$ –	$ 12,678	$ 4,024	$ 2,383	$ –	$ 19,085
Special mention (4)	338	914	–	–	–	1,252
Substandard (5)	–	–	–	–	–	–
Not formally rated	296,708	–	–	–	1,842	298,550
	$ 297,046	$ 13,592	$ 4,024	$ 2,383	$ 1,842	$ 318,887
2023						
Grade:						
Pass (1-3)	$ –	$ 14,092	$ 5,467	$ 2,368	$ –	$ 21,927
Special mention (4)	346	918	–	100	–	1,364
Substandard (5)	–	330	–	–	–	330
Not formally rated	284,352	–	–	–	1,630	285,982
	$ 284,698	$ 15,340	$ 5,467	$ 2,468	$ 1,630	$ 309,603

Loans serviced for others are not included in the accompanying consolidated balance sheets. As of December 31, 2024 and 2023, the Corporation serviced loans for others with unpaid principal balances of $2,579,000 and $2,847,000, respectively.

The balance of capitalized mortgage servicing rights included in other assets at December 31, 2024 and 2023 was immaterial. Management estimates that the fair value of those rights approximates carrying value.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2024	2023
	(In Thousands)	
Land	$ 1,559	$ 1,559
Buildings and improvements	2,621	2,599
Furniture and equipment	870	918
Leasehold improvements	106	100
	5,156	5,176
Accumulated depreciation and amortization	(2,739)	(2,687)
	$ 2,417	$ 2,489

NOTE 6 - INVESTMENT IN REAL ESTATE

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

	2024	2023
	(In Thousands)	
Land	$ 1,328	$ 1,328
Buildings	397	397
	1,725	1,725
Accumulated depreciation	(152)	(135)
	$ 1,573	$ 1,590

Rental income from investment in real estate amounted to $102,000 and $101,000 for the years ended December 31, 2024 and 2023, respectively.

NOTE 7 - DEPOSITS

The Bank uses brokered time deposits, and from time to time, deposits acquired through a deposit listing service, both of which are fully insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2024 and 2023, such deposits amounted to $21,279,000 and $15,592,000, respectively, and were composed of entirely of brokered time deposits.

The aggregate amount of time deposit accounts in denominations that meet or exceed the FDIC insurance limit (currently $250,000) at December 31, 2024 and 2023 amounted to $39,608,000 and $35,770,000, respectively. These totals exclude brokered time deposits and deposits acquired through a deposit listing service which have been bifurcated into amounts below the FDIC limit.

For time deposits as of December 31, 2024, the scheduled maturities for each of the following five years ended December 31 are (in thousands):

2025	$103,351
2026	1,390
2027	2,477
2028	139
2029	173
	$107,530

Deposits from related parties held by the Corporation as of December 31, 2024 and 2023 amounted to $3,152,000 and $2,579,000, respectively.

The Corporation has one customer with deposits amounting to $22,183,000, or 5.96% of total deposits, as of December 31, 2024. At December 31 2023, the Corporation did not have any customers with deposits exceeding 5% of total deposits.

NOTE 8 - BORROWED FUNDS

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

As of December 31, 2024, the Corporation had $23,284,000 of outstanding FHLB advances, all of which are scheduled to mature in 2025.

At December 31, 2024, the interest rates on FHLB advances ranged from 4.06% to 5.27%, and the weighted average interest rate on FHLB advances was 4.93%. At December 31, 2023, the interest rates on FHLB advances ranged from 0.41% to 5.53%, and the weighted average interest rate on FHLB advances was 5.11%.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets. At December 31, 2024 and 2023, the maximum available borrowing capacity amounted to $139,278,000 and $111,447,000, respectively, including $3,095,000 available under an Ideal Way line of credit from the FHLB.

At December 31, 2024 and 2023, the Bank had standby letters of credit with the FHLB in the amount of $20,000,000 for the benefit of and to collateralize certain deposits made by customers of the Bank.

In 2023, the Corporation established a secured credit facility with the Federal Reserve Bank – Bank Term Funding Program (BTFP). The Corporation borrowed $8,000,000 under the Federal Reserve Bank BTFP, at a fixed annual rate of 4.85%, which matured on December 23, 2024. There were no borrowings under the BTFP as of December 31, 2024.

NOTE 9 - INCOME TAXES

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

	2024	2023
	(In Thousands)	
Current:		
Federal	$ 363	$ 799
State	61	217
	424	1,016
Deferred:		
Federal	1,792	1,532
State	42	48
	1,834	1,580
Total income tax expense	$ 2,258	$ 2,596

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

	2024 % of Income	2023 % of Income
Federal income tax at statutory rate	21.0%	21.0%
Increase (decrease) in tax rates resulting from:		
Tax exempt income	(2.0)	(1.9)
State tax, net of federal tax benefit	0.7	1.7
Other, net	0.1	0.1
Effective tax rates	19.8%	21.1%

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

	2024	2023
	(In Thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 224	$ 245
Accrued deferred compensation	126	115
Net unrealized loss on available-for-sale securities	2,489	2,265
Other	–	11
Gross deferred tax assets	2,839	2,636
Deferred tax liabilities:		
Loan origination fees and costs, net	(55)	(54)
Depreciation	(114)	(116)
Mortgage servicing rights	(3)	(4)
Net unrealized holding gain on equity securities	(6,366)	(4,567)
Other	(17)	–
Gross deferred tax liabilities	(6,555)	(4,741)
Net deferred tax liability, included in other liabilities	$ (3,716)	$ (2,105)

As of December 31, 2024 and 2023, the Corporation had no operating loss tax credit carryovers for tax purposes.

NOTE 10 - EMPLOYEE BENEFITS

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

As of December 31, 2024 and 2023, the liability for the above agreements was $447,000 and $409,000, respectively. The Corporation recorded an expense for the agreements of $60,000 and $26,000 in 2024 and 2023, respectively.

The Corporation has a Profit Sharing Plan with a 401(k) feature for all employees who have attained age 21 and completed one year of service with the Corporation. Under this plan, employees may make voluntary contributions to the plan under salary reduction agreements and the Corporation will match these contributions by an amount equal to 50% of each participant's contribution on the first 4% of eligible compensation. In addition, the Corporation, at the discretion of its Board of Directors, can make annual contributions to this plan which will be allocated to a separate account for each employee based on the employee's compensation. Total expense for this plan for the years ended December 31, 2024 and 2023 was $98,000 and $129,000, respectively.

The Corporation adopted ASC 715-60, *Compensation – Retirement Benefits – Defined Benefit Plans –Other Postretirement*, and recognized a liability for the Corporation's future postretirement benefit obligations under endorsement split-dollar life insurance arrangements. The total liability for the arrangements included in other liabilities was $82,000 and $89,000 in 2024 and 2023, respectively. Benefits recorded for these arrangements amounted to $7,000 in 2024 and 2023.

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

NOTE 11 - STOCK COMPENSATION PLANS

Stock Option Plans

The Corporation has stock-based employee compensation plans where the aggregate number of shares of common stock of the Corporation for which options may be granted is a total of 2,575 shares with 1,239 shares remaining available for future grants as of December 31, 2024.

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

Employee stock options granted under the 2011 Stock Option Plan were subject to a three-year vesting period, with vesting occurring in accordance with the plan's terms. In contrast, employee stock options granted under the 2021 Stock Option Plan vest immediately upon issuance.

Options granted to directors vest immediately upon issuance.

Under each plan, options expire ten years after the grant date.

The fair value of each option granted in 2024 and 2023 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2024	2023
Expected volatility	9.99%	9.33%
Expected dividends	2.33%	2.59%
Expected term (in years) for directors	5.00	5.00
Expected term (in years) for employees	5.00	5.00
Risk-free rate	3.43%	4.41%

A summary of the status of the Corporation's stock option plans as of December 31, 2024 and 2023 and changes during the years ending on those dates is presented below:

	2024		2023	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	309	$ 6,760	310	$ 6,436
Granted	78	8,336	76	7,572
Exercised	(41)	6,222	(71)	3,971
Forfeited	–	–	(6)	7,894
Outstanding at end of year	346	$ 7,179	309	$ 6,760
Options exercisable at year end	346	$ 7,179	309	$ 6,760
Weighted-average fair value of options granted during the year	$ 859		$ 867	

The following table summarizes information about fixed stock options outstanding as of December 31, 2024:

Options Outstanding and Exercisable		
Number Outstanding and Exercisable as of 12/31/2024	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
9	0.65 years	$ 4,964
15	1.64 years	5,172
18	2.64 years	5,471
18	3.72 years	5,917
26	4.67 years	6,389
26	5.75 years	6,838
49	6.82 years	7,894
51	7.69 years	6,973
61	8.70 years	7,572
73	9.70 years	8,336
346	7.21 years	$ 7,179

As of December 31, 2024, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans.

Stock Awards

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

For the years ended December 31, 2024 and 2023, the Corporation awarded 22 and 30 shares, respectively, of common stock to key employees. For the years ended December 31, 2024 and 2023, the recipients elected to receive the equivalent value of 22 and 30 shares, respectively, in cash.

On an annual basis, the Board of Directors also receives awards that are vested immediately. For each of the years ended December 31, 2024 and 2023, the Corporation awarded 7 shares.

As of December 31, 2024, there was no unrecognized compensation cost related to nonvested stock awards granted. Expenses related to these stock awards totaled $242,000 and $272,000 for the years ended December 31, 2024 and 2023, respectively.

NOTE 12 - FINANCIAL INSTRUMENTS

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

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

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

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2024 and 2023, the maximum potential amount of the Corporation's obligation was $23,251,000 and $21,632,000, respectively, for financial and standby letters of credit. If a letter of credit is drawn upon, the Corporation may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Corporation may take possession of the collateral, if any, securing the line of credit.

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

	2024	2023
	(In Thousands)	
Commitments to originate loans	$ 2,838	$ 2,356
Standby letters of credit	23,251	21,632
Unadvanced portions of loans:		
Home equity loans	26,865	26,380
Construction loans	2,551	271
Other lines of credit	10,440	9,754
	$65,945	$60,393

The Corporation accrues credit losses related to off-balance sheet loan commitments. Potential losses are estimated using similar risk factors used to determine the allowance for credit losses. The Corporation has recorded a liability of $51,000 and $66,000 at December 31, 2024 and 2023, respectively, related to these loan commitments. The Corporation recorded a benefit for credit losses for off-balance sheet loan commitments in the amount of $15,000 and $10,000 for the years ended December 31, 2024 and 2023, respectively.

NOTE 13 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Corporation's financial assets and financial liabilities carried at fair value for December 31, 2024 and 2023.

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

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

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

INDIVIDUALLY EVALUATED LOANS

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

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

	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	(In Thousands)			
2024				
Available-for-sale debt securities:				
Political and state obligations	$ 22,820	$ –	$ 22,820	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	4,913	–	4,913	–
Mortgage-backed securities	51,712	–	51,712	–
Total securities available-for-sale	79,445	–	79,445	–
Marketable equity securities	50,884	50,884	–	–
Total securities	$130,329	$ 50,884	$ 79,445	$ –
2023				
Available-for-sale debt securities:				
Political and state obligations	$ 23,890	$ –	$ 23,890	$ –
Debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies	5,407	–	5,407	–
Corporate debt securities	998	–	998	–
Mortgage-backed securities	49,049	–	49,049	–
Total securities available-for-sale	79,344	–	79,344	–
Marketable equity securities	43,725	43,725	–	–
Total securities	$123,069	$ 43,725	$ 79,344	$ –

Under certain circumstances the Corporation makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. At December 31, 2024 and 2023, there were no assets carried on the consolidated balance sheets for which a nonrecurring change in fair value has been recorded.

NOTE 14 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

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

NOTE 15 - OTHER COMPREHENSIVE INCOME (LOSS)

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

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

	2024	2023
	(In Thousands)	
Net unrealized holding (losses) gains on available-for-sale securities	$ (944)	$ 2,224
Reclassification adjustment for realized gains on available-for-sale securities	–	–
Other comprehensive (loss) income before income tax effect	(944)	2,224
Income tax benefit (expense)	224	(552)
Other comprehensive (loss) income, net of tax	$ (720)	$ 1,672

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

	2024	2023
	(In Thousands)	
Tax effect related to:		
Unrealized losses (gains) on available-for-sale securities:		
Unrealized holding losses (gains) arising during the year	$ 224	$ (552)
Reclassification adjustment for net realized gains on available-for-sale securities included in net income	–	–
Income tax benefit (expense) related to items of other comprehensive (loss) income	$ 224	$ (552)

Accumulated other comprehensive loss as of December 31, 2024 and 2023 consists of net unrealized holding losses on available-for-sale securities of $9,684,000 and $8,740,000, respectively, net of taxes of $2,489,000 and $2,265,000, respectively.

NOTE 16 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal Reserve Board and the FDIC, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. Their capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2024, the Bank exceeded all of its respective regulatory capital requirements and is considered "well capitalized" under regulatory guidelines.

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

	As Reported		To Be Well Capitalized Under Prompt Corrective Action Guidelines (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)			
2024				
Tier 1 Capital to Average Total Assets	$45,096	10.28%	$39,472	9.0%
2023				
Tier 1 Capital to Average Total Assets	$44,630	10.39%	$38,645	9.0%

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restrictions, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2024, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to $3,181,000.

NOTE 17 - EARNINGS PER SHARE (EPS)

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Dollars in Thousands, Except Per Share Data)		
2024			
Basic EPS:			
Net income and income available to common stockholders	$ 9,131	10,178	$ 897.16
Effect of dilutive securities, options	–	52	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 9,131	10,230	$ 892.59
2023			
Basic EPS:			
Net income and income available to common stockholders	$ 9,811	10,648	$ 921.34
Effect of dilutive securities, options	–	38	
Diluted EPS:			
Income available to common stockholders and assumed conversions	$ 9,811	10,686	$ 918.11

NOTE 18 - LEGAL AND OTHER CONTINGENCIES

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

NOTE 19 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2025, which is the date the consolidated financial statements were available to be issued.

On February 11, 2025, the Board of Directors declared a dividend of $30 per share, including a $35 special dividend, payable on March 15, 2025 to shareholders of record as of March 1, 2025. There were no other subsequent events that require adjustment to or disclosure in the consolidated financial statements.

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ATM LOCATIONS IN MARBLEHEAD

(Full Service*)

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

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

Grand Bank Corporation

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Marblehead, Massachusets 01945

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