FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429
FORM 10-Q

(Mark one)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2023

OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ________ to ________.

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine **(State or other jurisdiction of incorporation or organization)**	**01-0029040** **(I.R.S. Employer Identification No.)**
27 Pearl Street, Portland, Maine **(Address of principal executive offices)**	**04101** **(Zip Code)**

(207) 786-3245
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Voting Common Stock, $1.00 par value	**NBN**	**The NASDAQ Stock Market LLC**
(Title of each class)	**(Trading Symbol)**	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subjected to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of February 6, 2024, the registrant had outstanding 7,797,554 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NORTHEAST BANK
BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except share and per share data)

	December 31, 2023	June 30, 2023
Assets		
Cash and due from banks	$ 2,366	$ 2,515
Short-term investments	222,534	195,394
Total cash and cash equivalents	224,900	197,909
Available-for-sale debt securities, at fair value	53,230	53,404
Equity securities, at fair value	6,962	6,770
Total securities	60,192	60,174
Loans:		
Commercial real estate	2,053,639	1,940,563
Commercial and industrial	483,240	499,815
Residential real estate	73,694	79,497
Consumer	486	485
Total loans	2,611,059	2,520,360
Less: Allowance for credit losses	27,594	7,304
Loans, net	2,583,465	2,513,056
Premises and equipment, net	27,878	27,737
Federal Home Loan Bank stock, at cost	19,665	24,644
Loan servicing rights, net	1,212	1,530
Bank-owned life insurance	18,596	18,364
Other assets	33,068	26,524
Total assets	$ 2,968,976	$ 2,869,938
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 143,442	$ 143,738
Savings and interest checking	680,668	596,347
Money market	221,226	277,939
Time	1,084,371	919,183
Total deposits	2,129,707	1,937,207
Short-term Federal Home Loan Bank advances	90,000	311,000
Long-term Federal Home Loan Bank advances	357,191	251,615
Lease liability	21,232	21,918
Other liabilities	43,306	51,535
Total liabilities	2,641,436	2,573,275
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at December 31 and June 30, 2023	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 7,804,052 and 7,668,650 shares issued and outstanding at December 31 and June 30, 2023, respectively	7,804	7,669
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; no shares issued and outstanding at December 31 and June 30, 2023	-	-
Additional paid-in capital	44,888	42,840
Retained earnings	275,074	246,872
Accumulated other comprehensive loss	(226)	(718)
Total shareholders' equity	327,540	296,663
Total liabilities and shareholders' equity	$ 2,968,976	$ 2,869,938

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

NORTHEAST BANK
STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands, except share and per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Interest and dividend income:				
Interest and fees on loans	$ 60,311	$ 37,228	$ 119,425	$ 63,307
Interest on available-for-sale securities	560	270	1,043	419
Other interest and dividend income	3,261	1,703	6,361	2,339
Total interest and dividend income	64,132	39,201	126,829	66,065
Interest expense:				
Deposits	21,175	9,896	40,433	12,698
Federal Home Loan Bank advances	5,701	538	11,847	933
Obligation under capital lease agreements	256	15	425	33
Total interest expense	27,132	10,449	52,705	13,664
Net interest and dividend income before provision for credit losses	37,000	28,752	74,124	52,401
Provision for credit losses	436	325	625	1,175
Net interest and dividend income after provision for credit losses	36,564	28,427	73,499	51,226
Noninterest income:				
Fees for other services to customers	492	503	899	770
Gain on sales of SBA loans	570	35	822	71
Net unrealized gain (loss) on equity securities	230	11	72	(207)
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	(9)	(29)	(9)	23
Correspondent fee income	52	618	143	2,000
Gain on termination of interest rate swap	-	-	-	96
Bank-owned life insurance income	116	110	231	219
Other noninterest income	15	53	87	(12)
Total noninterest income	1,466	1,301	2,245	2,960
Noninterest expense:				
Salaries and employee benefits	9,905	8,452	19,625	16,717
Occupancy and equipment expense	1,101	1,200	2,206	2,052
Professional fees	499	464	1,281	979
Data processing fees	1,347	1,216	2,447	2,320
Marketing expense	221	219	482	395
Loan acquisition and collection expense	939	749	1,589	1,390
FDIC insurance expense	287	144	644	241
Other noninterest expense	1,370	1,260	2,784	2,243
Total noninterest expense	15,669	13,704	31,058	26,337
Income before income tax expense	22,361	16,024	44,686	27,849
Income tax expense	8,307	4,726	15,460	8,264
Net income	$ 14,054	$ 11,298	$ 29,226	$ 19,585
Weighted-average shares outstanding:				
Basic	7,505,109	7,256,281	7,492,310	7,305,331
Diluted	7,590,913	7,323,402	7,572,450	7,379,790
Earnings per common share:				
Basic	$ 1.87	$ 1.56	$ 3.90	$ 2.68
Diluted	1.85	1.54	3.86	2.65
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.02	$ 0.02

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

NORTHEAST BANK
STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
Net income	$ 14,054	$ 11,298	$ 29,226	$ 19,585
Other comprehensive income (loss), before tax:				
Change in net unrealized gain (loss) on available-for-sale debt securities	470	150	675	(322)
Change in accumulated loss on effective cash flow hedges	-	-	-	221
Total other comprehensive income (loss), before tax	470	150	675	(101)
Income tax expense (benefit) related to other comprehensive income	128	40	183	(27)
Other comprehensive income (loss), net of tax	342	110	492	(74)
Comprehensive income	$ 14,396	$ 11,408	$ 29,718	$ 19,511

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

NORTHEAST BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(In thousands, except share and per share data)

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at September 30, 2022	-	$ -	7,477,158	$ 7,477	-	$ -	$ 34,526	$ 211,194	$ (1,034)	$ 252,163
Net income	-	-	-	-	-	-	-	11,298	-	11,298
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	110	110
Common stock issued, net of issuance costs			33,505	34	-	-	1,111	-	-	1,145
Common stock repurchased	-	-	(28,161)	(28)	-	-	(1,054)	-	-	(1,082)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(75)	-	(75)
Stock-based compensation	-	-	-	-	-	-	892	-	-	892
Cancellation and forfeiture of restricted common stock	-	-	(1,695)	(2)	-	-	(66)	-	-	(68)
Stock options exercised, net	-	-	30,237	30	-	-	(986)	-	-	(956)
Balance at December 31, 2022	-	$ -	7,511,044	$ 7,511	-	$ -	$ 34,423	$222,417	$ (924)	$ 263,427
Balance at September 30, 2023	-	$ -	7,796,691	$ 7,797	-	$ -	$ 43,241	$ 261,099	$ (568)	$ 311,569
Net income	-	-	-	-	-	-	-	14,054	-	14,054
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	342	342
Common stock issued, net of issuance costs	-	-	12,760	12	-	-	532	-	-	544
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(79)	-	(79)
Stock-based compensation	-	-	-	-	-	-	1,363	-	-	1,363
Cancellation and forfeiture of restricted common stock	-	-	(5,399)	(5)	-	-	(248)	-	-	(253)
Balance at December 31, 2023	-	$ -	7,804,052	$ 7,804	-	$ -	$ 44,888	$ 275,074	$ (226)	$ 327,540

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at June 30, 2022	-	$ -	7,442,103	$ 7,442	-	$ -	$ 38,749	$ 202,980	$ (850)	$ 248,321
Net income	-	-	-	-	-	-	-	19,585	-	19,585
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(74)	(74)
Common stock issued, net of issuance costs	-	-	33,505	34	-	-	1,111	-	-	1,145
Common stock repurchased	-	-	(135,883)	(136)	-	-	(5,027)	-	-	(5,163)
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(148)	-	(148)
Stock-based compensation	-	-	-	-	-	-	1,701	-	-	1,701
Issuance of restricted common stock	-	-	132,715	133			(133)			-
Cancellation and forfeiture of restricted common stock	-	-	(10,936)	(11)	-	-	(440)	-	-	(451)
Stock options exercised, net	-	-	49,540	49	-	-	(1,538)	-	-	(1,489)
Balance at December 31, 2022	-	$ -	7,511,044	$ 7,511	-	$ -	$ 34,423	$ 222,417	$ (924)	$ 263,427
Balance at June 30, 2023	-	$ -	7,668,650	$ 7,669	-	$ -	$ 42,840	$ 246,872	$ (718)	$ 296,663
Cumulative effect adjustment due to adoption of CECL accounting standard under ASC 326, net of income taxes	-	-	-	-	-	-	-	(870)	-	(870)
Net income	-	-	-	-	-	-	-	29,226	-	29,226
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	492	492
Common stock issued, net of issuance costs	-	-	12,760	12	-	-	532	-	-	544
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(154)	-	(154)
Stock-based compensation	-	-	-	-	-	-	2,803	-	-	2,803
Issuance of restricted common stock	-	-	147,991	148	-	-	(148)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(25,349)	(25)	-	-	(1,139)	-	-	(1,164)
Balance at December 31, 2023	-	$ -	7,804,052	$ 7,804	-	$ -	$ 44,888	$ 275,074	$ (226)	$ 327,540

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

NORTHEAST BANK
STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended December 31, 2023	Six Months Ended December 31, 2022
Operating activities:		
Net income	$ 29,226	$ 19,585
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for credit losses	625	1,175
Loss (gain) recognized on real estate owned and other repossessed collateral and premises and equipment, net	9	(23)
Net unrealized (gain) loss on equity securities	(72)	207
Accretion of loans, net	(22,340)	(1,510)
Originations of loans held for sale	(16,679)	(2,080)
Net proceeds from sales of loans held for sale	18,356	2,252
Gain on sales of SBA loans held for sale	(822)	(71)
Net decrease (increase) in servicing rights	318	(575)
Bank-owned life insurance income, net	(231)	(219)
Depreciation and amortization of premises and equipment	1,593	1,606
Deferred income tax expense	898	-
Stock-based compensation	2,803	1,701
Amortization of available-for-sale debt securities, net	(127)	104
Changes in other assets and liabilities:		
Other assets	(7,266)	(8,766)
Other liabilities	(8,229)	2,605
Net cash (used in) provided by operating activities	(1,938)	15,991
Investing activities:		
Purchases of available-for-sale debt securities	(13,591)	(16,978)
Proceeds from maturities and principal payments on investment securities, net	14,447	17,691
Loan purchases	(238,477)	(1,076,064)
Loan originations, principal collections, and purchased loan paydowns, net	187,569	(122,210)
Purchases and disposals of premises and equipment	(1,734)	(1,919)
Net redemptions (purchases) of Federal Home Loan Bank stock	4,979	(9,871)
Proceeds from sales of real estate owned and other repossessed collateral	120	61
Net cash used in investing activities	(46,687)	(1,209,290)
Financing activities:		
Net change in deposits	192,500	947,716
(Paydowns on) proceeds from short-term Federal Home Loan Bank advances, net	(221,000)	245,000
Proceeds from long-term Federal Home Loan Bank advances	124,098	-
Paydowns on long-term Federal Home Loan Bank advances	(18,522)	-
Repayment of lease liability	(686)	(1,074)
Dividends paid on common stock	(154)	(148)
Issuances of common stock	544	1,145
Repurchases of common stock	-	(5,163)
Cancellations for tax withholdings on restricted common stock	(1,164)	(451)
Stock options exercised, net	-	(1,489)
Net cash provided by financing activities	75,616	1,185,536
Net increase (decrease) in cash and cash equivalents	26,991	(7,763)
Cash and cash equivalents, beginning of period	197,909	172,079
Cash and cash equivalents, end of period	$ 224,900	$ 164,316
Supplemental schedule of noncash investing activities:		
Transfers from loans to allowance for credit losses	$ 18,885	$ -
Transfers from retained earnings and deferred tax asset to allowance for credit losses	1,230	-
Transfers from loans to real estate owned and other repossessed collateral, net	129	-
Transfers from fixed assets to real estate owned and other repossessed collateral, net	-	90
Capitalization of right-of-use asset and lease liability	-	17,526

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Northeast Bank (the "Bank"). These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2023 included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

Adoption of New Accounting Standards

On July 1, 2023, the Bank adopted Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended ("ASC 326"), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities, management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Bank adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning July 1, 2023 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable generally accepted accounting principles. The Bank recorded a net decrease to retained earnings of $870 thousand as of July 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment includes a $1.2 million impact primarily due to the qualitative adjustment established related to the collateral values of loans within the loan portfolio given the uncertain market around commercial real estate values.

The Bank adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration ("PCD") that were previously classified as purchased credit impaired ("PCI") and accounted for under ASC 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On July 1, 2023, the amortized cost basis of the PCD assets were adjusted to reflect the addition of $18.1 million of the allowance for credit losses ("ACL"). The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of July 1, 2023.

The following table illustrates the impact of ASC 326 as of July 1, 2023:

	As Reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
		(In thousands)	
Assets			
Loans			
Commercial real estate	$ 1,952,721	$ 1,940,563	$ 12,158
Commercial	505,634	499,815	5,819
Residential real estate	79,663	79,497	166
Consumer	485	485	-
Allowance for credit losses on loans	(26,678)	(7,304)	(19,374)
Loans, net	$ 2,511,825	$ 2,513,056	$ (1,231)
Liabilities			
Allowance for credit losses on off-balance sheet credit exposures	$ 135	$ 76	$ 59
Shareholders' Equity			
Retained earnings	$ 246,002	$ 246,872	$ (870)

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the ACL. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. As a practical expedient, an entity may exclude the accrued interest receivable balance that is included in the amortized cost basis of financing receivables. The Bank elected this practical expedient upon adoption of ASC 326 on July 1, 2023. Accrued interest receivable totaled $13.2 million at December 31, 2023 and was reported in Other Assets on the balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The past due status of a loan is determined in accordance with its contractual repayment terms. All loan types are reported past due when one scheduled payment is due and unpaid for 30 days or more. Loan delinquencies can be attributed to many factors, such as but not limited to, a continuing weakness in, or deteriorating, economic conditions in the region in which the collateral is located, the loss of a tenant or lower lease rates for commercial borrowers, or the loss of income for consumers and the resulting liquidity impacts on the borrowers.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when, in management's judgment, the collectability of interest or principal of the loan is not expected as scheduled. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest income on loans. Interest on nonaccrual loans is accounted for on a cash basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when the collectability of principal is reasonably assured and the loan has performed for a reasonable period of time.

PCD Loans:

Loans that the Bank acquired in acquisitions include some loans that have experienced more than insignificant credit deterioration since origination. The initial ACL is determined on a collective basis and allocated to individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through provision for credit loss expense.

ACL – Loans:

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed, with expected recoveries to not exceed the aggregate of amounts previously charged off and expected to be charged off. Management periodically evaluates the adequacy of the ACL to maintain it at a level it believes to be reasonable.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. A reversion methodology is applied beyond the reasonable and supportable forecasts. Management uses an open pool method for all segments. Qualitative adjustments are then considered for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors, that may include, but are not limited to, results of internal loan reviews, examinations by bank regulatory agencies, or other such events such as a natural disaster.

The ACL consists of two components: a loan-specific component for estimating credit losses for individual loans that do not share similar risk characteristics with other loans; and a pooled component for estimating credit losses for pools of loans that share similar risk characteristics. The qualitative adjustment for the pooled component is derived from an estimate of expected credit losses primarily using an expected loss methodology that incorporates risk parameters such as probability of default ("PD") and loss given default ("LGD") which are derived from internally developed model estimation approaches.

The PD represents the best estimate as of the reporting date of the loans in the portfolio to enter a state of default. This is inherently forward-looking and therefore incorporates both recent data as well as supportable estimates of the future delinquency of the portfolio. This in turn may be a function of forecasts, including economic forecasts.

LGD is derived from the Bank's internally developed stress scenarios on the underlying real estate collateral securing loans, which vary by collateral type and loan risk characteristics.

The estimation of the ACL for pools of loans that share similar risk characteristics involves inputs and assumptions, many of which are derived from vendor and internally-developed models. These inputs and assumptions include, among others, the selection, evaluation and measurement of the reasonable and supportable forecast scenarios, PD and LGD which requires management to apply a significant amount of judgment and involves a high degree of estimation uncertainty. The ACL estimation process applies an economic forecast scenario based on management's judgment and expectations around the current and future macroeconomic outlook. Expected credit losses are estimated over the contractual term of the loans and adjusted for expected prepayments when appropriate. The contractual term of a loan excludes expected extensions, renewals, and modification under certain conditions.

The ACL on loans represents the Bank's estimated risk of loss within its loan portfolio as of the reporting date. To appropriately measure expected credit losses, management disaggregates the loan portfolio into pools of similar risk characteristics. The Bank's loan portfolio is segmented as follows based on the various risk profiles of the Bank's loans:

- The commercial loan portfolio has been segmented between (i) commercial real estate ("CRE"), which is collateralized by real estate, and (ii) commercial, which is typically utilized for general business purposes. CRE is further segmented between non-owner-occupied (i.e., investment properties) and owner-occupied properties. Commercial, non-owner-occupied CRE and owner-occupied CRE are further segmented between pass-rated and criticized loans (special mention or substandard).
- Retail loans are a homogenous group, generally consisting of standardized products that are smaller in amount and distributed over a large number of individual borrowers. The group is segmented into two categories – residential real estate and consumer.

Individually Evaluated Loans

Prior to the adoption of CECL on July 1, 2023, a loan was individually evaluated when the loan was considered impaired. Impaired loans were based on current information and events that indicated that it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments.

With the adoption of CECL, loans that do not share risk characteristics with existing pools are evaluated on an individual basis. For all PCD loans and any loans on nonaccrual status and/or risk-rated substandard or worse, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

Allowance for Off-Balance Sheet Credit Exposures

The exposure is a component of Other Liabilities on the Bank's balance sheet and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unused portions of lines of credit and standby and commercial letters of credit. The process used to determine the allowance for these exposures is consistent with the process for determining the allowance for loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge (credit) to provision for credit losses in the statements of income is made to account for the change in the allowance on off-balance sheet exposures between reporting periods.

2. <u>Recent Accounting Pronouncements</u>

In March 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326)* ("ASU 2022-02"). This guidance provides updates on Troubled Debt Restructurings ("TDRs") by Creditors and Vintage Disclosures. The amendments in this Update eliminate the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The Bank adopted ASU 2022-02, effective July 1, 2023 on a prospective basis, and upon adoption there was no impact to the financial statements. The adoption of ASU 2022-02 eliminates the accounting and disclosure requirements for TDRs, including the requirement to measure the allowance using a discounted cash flow ("DCF") methodology. Beginning July 1, 2023, the Bank no longer establishes a specific reserve for newly modified loans to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective segments, and the ACL is calculated utilizing models that consider the borrowers' probability of default, loss given default and exposure at default. ASU 2022-02 also requires disclosure of modifications of loans to borrowers experiencing financial difficulty if the modification involves principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or a combination of any of these types of modifications. Additionally, ASU 2022-02 requires the disclosure of current period gross charge-offs by year of loss origination (vintage) which are required to be applied prospectively as of July 1, 2023, the Bank's date of adoption. Refer to Note 4 of the financial statements for further details.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments* ("ASU 2020-03"). This guidance provides updates on a wide variety of Topics in the Codification, including updates to the interaction of Topic 842 and Topic 326, and the interaction of Topic 326 and Subtopic 860-20. The Bank adopted ASU 2020-03, effective July 1, 2023, in connection with its adoption of ASU 2016-13, and upon adoption there was no impact to the financial statements.

3. Securities

The following presents a summary of the amortized cost, gross unrealized holding gains and losses, and fair value of securities.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023		(In thousands)		
U.S. Government agency securities	$ 50,756	$ 66	$ (241)	$ 50,581
Agency mortgage-backed securities	2,783	-	(134)	2,649
Total available-for-sale debt securities	53,539	66	(375)	53,230
Equity investments measured at net asset value	7,660	-	(698)	6,962
Total securities	$ 61,199	$ 66	$ (1,073)	$ 60,192
June 30, 2023				
U.S. Government agency securities	$ 51,024	$ -	$ (775)	$ 50,249
Agency mortgage-backed securities	3,364	-	(209)	3,155
Total available-for-sale securities	54,388	-	(984)	53,404
Equity investments measured at net asset value	7,541	-	(771)	6,770
Total securities	$ 61,929	$ -	$ (1,755)	$ 60,174

At December 31, 2023, the Bank held no securities of any single issuer (excluding the U.S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the quarters ended December 31, 2023 or 2022. At December 31, 2023, securities with a fair value of $53.2 million were pledged as collateral to secure potential or outstanding Federal Home Loan Bank of Boston ("FHLBB") advances or letters of credit.

The following summarizes the Bank's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2023			(In thousands)			
U.S. Government agency securities	$ 6,005	$ (17)	$ 27,771	$ (224)	$ 33,776	$ (241)
Agency mortgage-backed securities	-	-	2,649	(134)	2,649	(134)
Equity investments measured at net asset value	-	-	5,180	(698)	5,180	(698)
Total investment securities	$ 6,005	$ (17)	$ 35,600	$ (1,056)	$ 41,605	$ (1,073)
June 30, 2023						
U.S. Government agency securities	$ 25,646	$ (402)	$ 24,603	$ (373)	$ 50,249	$ (775)
Agency mortgage-backed securities	-	-	3,155	(209)	3,155	(209)
Equity investments measured at net asset value	-	-	5,041	(771)	5,041	(771)
Total investment securities	$ 25,646	$ (402)	$ 32,799	$ (1,353)	$ 58,445	$ (1,755)

For the quarters ended December 31, 2023 and 2022, the unrealized losses on the Bank's available-for-sale ("AFS") securities have not been recognized into income because management does not intend to sell and it is not more-likely-than-not it will be required to sell any of the AFS securities before recovery of its amortized cost basis..

At December 31, 2023, all of the Bank's securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The change in fair value of the Bank's securities at December 31, 2023 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's investment portfolio, management considers the Bank's ability and intent to hold such securities to maturity or recovery of cost.

The securities measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of Small Business Administration ("SBA") 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of December 31, 2023, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 4.51 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of December 31, 2023. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 39,726	$ 39,517
Due after one year through five years	11,030	11,064
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	50,756	50,581
Agency mortgage-backed securities	2,783	2,649
Total available-for-sale debt securities	$ 53,539	$ 53,230

4. Loans and ACL

Loans are carried at the principal amounts outstanding or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees and purchase discounts or premiums. Loan fees, certain direct origination costs, and purchase discounts are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off in full, the unamortized portion is recognized in interest income. Interest income is accrued based upon the daily principal amount outstanding, except for loans on nonaccrual status.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectability of interest or principal of the loan has been impaired. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest on nonaccrual loans is accounted for on a cash basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal and interest is reasonably assured and the loan has performed for a reasonable period of time.

PCD Loans

The Bank has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. The initial ACL is determined on an individual basis and allocated to the individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through provision for credit loss expense.

The composition of the Bank's loan portfolio is as follows on the dates indicated:

	December 31, 2023	June 30, 2023
	(In thousands)	
Commercial real estate: non-owner occupied	$ 1,949,948	$ 1,653,070
Commercial real estate: owner occupied	287,571	288,037
Commercial and industrial	483,782	499,699
Residential real estate	74,387	79,431
Consumer	491	492
	2,796,179	2,520,729
Net deferred loan fees and costs	(693)	(369)
Net discount on purchased loans	(184,427)	-
Allowance for credit losses	(27,594)	(7,304)
Loans, net	$ 2,583,465	$ 2,513,056

Allowance for Credit Losses

The Allowance for Credit Losses ("ACL") is comprised of the allowance for loan losses and the allowance for unfunded commitments which is accounted for as a separate liability in other liabilities on the balance sheet. The level of the ACL represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date.

Upon adoption of CECL on July 1, 2023, the Bank replaced the incurred loss impairment model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The

ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis.

The Bank manages its loan portfolio proactively to effectively identify problem credits and assess trends early, implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Bank continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. The Bank monitors and manages the ACL through the following governance structure:

- The adequacy of the ACL is overseen by the Allowance for Credit Losses Committee, which is an internal management committee comprised of various executives and managers across business lines, including Accounting and Finance and Credit Risk Management. The ACL Committee supports the oversight efforts of the Loan and Investment Committee (the "L&I") and the Audit Committee of the Board of Directors.
- The L&I of the Board of Directors is responsible for reviewing and approving the ACL calculation on a quarterly basis. The L&I will ensure that all ACL methodology is appropriate for the Bank and will periodically validate and, if appropriate, recommend revising the methodology used.
- The Audit Committee of the Board of Directors is responsible for oversight and monitoring of internal controls in place over the ACL process.

<u>*Segmentation*</u>

For the purpose of determining the ACL on loans, the Bank disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. As of December 31, 2023, the Bank's loan portfolio segments, as determined based on the unique risk characteristics of each, include the following:

- *Commercial Real Estate – Non-Owner-Occupied:* Non-owner-occupied commercial real estate loans are, in substance, all commercial real estate loans that are not categorized by the Bank as owner-occupied commercial real estate loans. Non-owner-occupied commercial estate loans are investment properties for which the primary source for repayment of the loan by the borrower is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent refinancing of the property. Non-owner-occupied commercial real estate loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, multi-family residential, commercial/retail office space, industrial/warehouse space, hotels, assisted living facilities and other specific use properties. For purposes of the ACL, this segment also includes construction loans. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines.

- *Commercial Real Estate – Owner-Occupied:* Generally, owner-occupied commercial real estate loans are properties that are owned and operated by the borrower, and the primary source for repayment is the cash flow from the ongoing operations and activities conducted by the borrower's business. Owner-occupied commercial real estate loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, commercial/retail office space, restaurants, and other specific use properties. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines.

- *Commercial and Industrial:* Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. This segment also includes loans to non-bank lenders, which are generally secured by a collateral assignment of the notes and mortgages on loans originated by the non-bank lenders. Weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

- *Residential Real Estate:* All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality, loan-to-value ratio and income of the individual borrower. The overall health of the economy, particularly unemployment rates and housing prices, has a significant effect on the credit quality in this segment. For purposes of the Bank's ACL calculation, home equity loans and lines of credit are included in residential real estate.

- *Consumer:* Loans in this segment are generally secured, and repayment is dependent on the credit quality of the individual borrower. Repayment of consumer loans is generally based on the earnings of individual borrowers, which may be adversely impacted by regional labor market conditions.

The following table presents the Bank's activity in the ACL by portfolio segment for the periods ended:

	Commercial Real Estate – Non-Owner Occupied	Commercial Real Estate – Owner Occupied	Commercial and Industrial	Residential Real Estate	Consumer	Total
			(In thousands)			
Three Months Ended December 31, 2023						
Beginning balance	$ 15,608	$ 1,539	$ 7,640	$ 516	$ -	$ 25,303
Impact of adopting ASC 326	501	43	137	60	-	741
Initial allowance on PCD loans	2,073	-	37	-	-	2,110
Provision for credit losses	(1,488)	1,465	594	(135)	-	436
Recoveries	-	-	4	2	-	6
Charge-offs	(509)	(43)	(368)	(82)	-	(1,002)
Ending balance	$ 16,185	$ 3,004	$ 8,044	$ 361	$ -	$ 27,594
Three Months Ended December 31, 2022						
Beginning balance	$ 2,759	$ 1,096	$ 1,773	$ 259	$ 11	$ 5,898
Provision (credit)	144	(117)	259	42	(3)	325
Recoveries	165	21	1	1	-	188
Charge-offs	-	-	-	-	-	-
Ending balance	$ 3,068	$ 1,000	$ 2,033	$ 302	$ 8	$ 6,411
Six Months Ended December 31, 2023						
Beginning balance, prior to adoption of ASC 326	$ 3,425	$ 910	$ 2,679	$ 281	$ 9	$ 7,304
Impact of adopting ASC 326	13,083	887	5,856	298	(9)	20,115
Initial allowance on PCD loans	2,073	-	37	-	-	2,110
Provision for credit losses	(1,541)	1,582	694	(139)	29	625
Recoveries	-	5	7	3	-	15
Charge-offs	(855)	(380)	(1,229)	(82)	(29)	(2,575)
Ending balance	$ 16,185	$ 3,004	$ 8,044	$ 361	$ -	$ 27,594
Six Months Ended December 31, 2022						
Beginning balance	$ 2,135	$ 1,066	$ 1,564	$ 253	$ 10	$ 5,028
Provision (credit)	768	(111)	466	47	5	1,175
Recoveries	165	45	3	2	-	215
Charge-offs	-	-	-	-	(7)	(7)
Ending balance	$ 3,068	$ 1,000	$ 2,033	$ 302	$ 8	$ 6,411

Methodology

The ACL consists of two components: a loan-specific component for estimating credit losses for individual loans that do not share similar risk characteristics with other loans; and a pooled component for estimating credit losses for pools of loans that share similar risk characteristics.

Assumptions and model inputs are reviewed in accordance with model monitoring practices and as information becomes available. As of December 31, 2023, the significant model inputs and assumptions used within the model for purposes of estimating the ACL on loans were:

Macroeconomic (loss) drivers: The following macroeconomic variables were used to calculate the expected probability of default over the forecast and reversion period:

- Real GDP growth
- Unemployment rate
- House price index

The forecasts utilized at December 31, 2023 reflect the immediate and longer-term effects of a rising interest rate environment and inflationary conditions.

Reasonable and supportable forecast period: The ACL on loans estimate used a reasonable and supportable forecast period of various macro-economic variables over the remaining life of loans and leases. The development of the reasonable and supportable forecast assumes each macro-economic variable will revert to long-term expectations, with reversion characteristics unique to specific economic indicators and forecasts. The reasonable and supportable forecast period is two years for all segments. Management will continue to assess the appropriate period on an ongoing basis.

Reversion period: The ACL on loans estimate used a reversion period of one year. Management will continue to assess the appropriate period on an ongoing basis.

Prepayment speeds: The estimate of prepayment speed for each loan segment was derived using internally sourced prepayment data, which is updated on a periodic basis.

Qualitative factors: The ACL on loans estimate incorporates various qualitative factors into the calculation. The qualitative adjustment for the pooled component is derived from an estimate of expected credit losses primarily using an expected loss methodology that incorporates risk parameters such as PD and LGD which are derived from internally developed model estimation approaches. The PD represents the best estimate as of the reporting date of the loans in the portfolio to enter a state of default. This is inherently forward-looking and therefore incorporates both recent data as well as supportable estimates of the future delinquency of the portfolio. This in turn may be a function of forecasts, including economic forecasts. LGD is derived from the Bank's internally developed stress scenarios on the underlying real estate collateral securing loans, which vary by collateral type and loan risk characteristics.

The estimation of the ACL for pools of loans that share similar risk characteristics involves inputs and assumptions, many of which are derived from vendor and internally-developed models. These inputs and assumptions include, among others, the selection, evaluation and measurement of the reasonable and supportable forecast scenarios, PD and LGD which requires management to apply a significant amount of judgment and involves a high degree of estimation uncertainty. The ACL estimation process applies an economic forecast scenario based on management's judgment and expectations around the current and future macroeconomic outlook. Expected credit losses are estimated over the contractual term of the loans and adjusted for expected prepayments when appropriate. The contractual term of a loan excludes expected extensions, renewals, and modification under certain conditions.

Loans that do not share risk characteristics with existing pools are evaluated on an individual basis. For all PCD loans and any loans on nonaccrual status and/or risk-rated substandard or worse, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

As of December 31, 2023, management believes that the methodology for calculating the allowance is sound and that the allowance provides a reasonable basis for determining and reporting on expected losses over the lifetime of the Bank's loan portfolios.

Credit Quality

The Bank utilizes a ten-point internal loan rating system for commercial real estate, construction, commercial and industrial, and certain residential loans as follows:

Loans rated 1-6: Loans in these categories are considered "pass" rated loans. Loans in categories 1-5 are considered to have low to average risk. Loans rated 6 are considered marginally acceptable business credits and have more than average risk.

Loans rated 7: Loans in this category are considered "special mention." These loans show signs of potential weakness and are being closely monitored by management.

Loans rated 8: Loans in this category are considered "substandard." Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt.

Loans rated 9: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in one graded 8 with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans rated 10: Loans in this category are considered "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 credit quality and ratings of all loans subject to risk ratings. The Bank typically does not assign risk ratings to Community Banking Division's residential real estate loans; however, management reviews certain credit indicators such as delinquency and nonaccrual status to review for potential impairment on these 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. Risk ratings on purchased loans, with and without evidence of credit deterioration at acquisition, are determined relative to the Bank's recorded investment in that loan, which may be significantly lower than the loan's unpaid principal balance.

Based on the most recent analysis performed, the risk category of loans by portfolio segment by vintage was as follows as of and for the dates indicated (origination year is on a calendar year basis). Balances include net deferred loan fees of $693 thousand and net discount on purchased loans of $184.4 million:

As of and for the six months ended December 31, 2023	2023	2022	2021	2020 (In thousands)	2019	Prior	Revolving	Total
Commercial real estate – non owner-occupied								
Loans rated 1-6	$ 84,095	$ 248,405	$ 197,085	$ 141,788	$ 146,054	$ 926,871	$ 15,348	$ 1,759,646
Loans rated 7	-	2,402	-	-	-	6,499	-	8,901
Loans rated 8	200	-	-	4,159	528	5,326	-	10,213
Loans rated 9	-	-	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-	-	-
Total commercial real estate – non owner-occupied	$ 84,295	$ 250,807	$ 197,085	$ 145,947	$ 146,582	$ 938,696	$ 15,348	$ 1,778,760
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 855	$ -	$ 855
Commercial real estate – owner-occupied								
Loans rated 1-6	$ 20,229	$ 53,832	$ 11,538	$ 9,948	$ 20,072	$ 150,970	$ -	$ 266,589
Loans rated 7	-	-	-	-	-	1,373		1,373
Loans rated 8	-	37	9	-	-	6,871		6,917
Loans rated 9	-	-	-	-	-	-		-
Loans rated 10	-	-	-	-	-	-	-	-
Total commercial real estate – owner-occupied	$ 20,229	$ 53,869	$ 11,547	$ 9,948	$ 20,072	$ 159,214	$ -	$ 274,879
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 380	$ -	$ 380
Commercial and industrial								
Loans rated 1-6	$ 181,377	$ 187,235	$ 37,683	$ 37,060	$ 14,289	$ 15,028	$ 353	$ 473,025
Loans rated 7	78	7	-	-	-	125	-	210
Loans rated 8	86	18	273	-	584	9,044	-	10,005
Loans rated 9	-	-	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-	-	-
Total commercial and Industrial	$ 181,541	$ 187,260	$ 37,956	$ 37,060	$ 14,873	$ 24,197	$ 353	$ 483,240
Current period gross charge-offs	$ 7	$ -	$ -	$ 11	$ -	$ 1,211	$ -	$ 1,229
Residential real estate								
Loans rated 1-6	$ 1,788	$ 30,780	$ 7,163	$ 7,571	$ 99	$ 22,652	$ 308	$ 70,361
Loans rated 7	-	-	-	-	-	-	-	-
Loans rated 8	-	2,284	-	1,018	-	31	-	3,333
Loans rated 9	-	-	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-	-	-
Total Residential real estate	$ 1,788	$ 33,064	$ 7,163	$ 8,589	$ 99	$ 22,683	$ 308	$ 73,694
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 82	$ -	$ 82
Consumer	$ 109	$ 13	$ 8	$ 7	$ 5	$ 344	$ -	$ 486
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The following table summarizes credit risk exposure indicators by portfolio segment, under the incurred loss methodology, as of the period indicated:

June 30, 2023	Commercial Real Estate	Commercial and Industrial	SBA	Residential[1] (In thousands)	Purchased Portfolio	Total
Loans rated 1- 6	$ 462,249	$ 466,751	$ 23,500	$ 69,424	$ 1,465,933	$ 2,487,857
Loans rated 7	4,415	6,900	283	2,305	2,773	16,676
Loans rated 8	2,855	3	1,090	-	11,413	15,361
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 469,519	$ 473,654	$ 24,873	$ 71,729	$ 1,480,119	$ 2,519,894

Past Due and Nonaccrual Loans

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of the following dates:

	December 31, 2023			June 30, 2023		
	Nonaccrual with No ACL	Total Nonaccrual	Past due Over 89 Days Still Accruing	Nonaccrual with No ACL	Total Nonaccrual	Past due Over 89 Days Still Accruing
	(Dollars in thousands)					
Commercial real estate - non-owner-occupied	$ 935	$ 10,232	$ -	$ 947	$ 6,067	$ -
Commercial real estate – owner-occupied	4,000	6,918		2,296	8,038	
Commercial and industrial	3,345	10,022	-	1,211	1,298	-
Residential real estate	1,019	3,600	-	-	280	-
Consumer	-	-	-	-	-	-
Total	$ 9,299	$ 30,772	$ -	$ 4,454	$ 15,683	$ -

The following is a loan aging analysis by portfolio segment (including loans past due over 90 days and nonaccrual loans) and loans past due over 90 days and accruing as of the following dates:

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(In thousands)							
December 31, 2023								
Commercial real estate – non-owner-occupied	$ 1,815	$ 448	$ -	$ 8,667	$ 10,930	$ 1,767,829	$ 1,778,759	$ 10,232
Commercial real estate – owner-occupied	550	50		5,988	6,588	268,292	274,880	6,918
Commercial and industrial	794	343	-	9,328	10,465	472,775	483,240	10,022
Residential real estate	181	258	-	3,479	3,918	69,776	73,694	3,600
Consumer	13	-	-	-	13	473	486	-
Total loans	$ 3,353	$ 1,099	$ -	$ 27,462	$ 31,914	$ 2,579,145	$ 2,611,059	$ 30,772
June 30, 2023								
Commercial real estate – non-owner-occupied	$ -	$ 1,003	$ -	$ 4,245	$ 5,248	$ 1,647,278	$ 1,652,526	$ 6,067
Commercial real estate – owner-occupied	3,198	314		3,130	6,642	281,395	288,037	8,038
Commercial and industrial	22	151	-	789	962	498,853	499,815	1,298
Residential real estate	54	4		150	208	79,289	79,497	280
Consumer	-	-	-	-	-	485	485	-
Total loans	$ 3,274	$ 1,472	$ -	$ 8,314	$ 13,060	$ 2,507,300	$ 2,520,360	$ 15,683

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms is estimated to have been $842 thousand for the quarter ended December 31, 2023.

The Bank's policy is to reverse previously recorded interest income when a loan is placed on nonaccrual. As a result, the Bank did not record any interest income on its nonaccrual loans for the three months ended December 31, 2023 and 2022. At December 31, 2023 and June 30, 2023, total accrued interest receivable on loans, which has been excluded from reported amortized cost basis on loans, was $13.2 million and $6.3 million, respectively, and reported within Other Assets on the balance sheet. An allowance was not carried on the accrued interest receivable at either date.

Pre-Adoption of ASC 326 – Impaired Loans

For periods prior to the adoption of CECL, loans were 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 or interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. For the purchased loan segment, a loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to realize cash flows as expected at acquisition. For loans accounted for under ASC 310-30 for which cash flows can reasonably be estimated, loan impairment is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to changes in interest rate indices and other non-credit related factors, discounted at the loan's effective rate assumed at acquisition. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the scheduled principal and interest payments when due.

The tables reflect the activity associated with impaired loans as of the following date and for the following period prior to the adoption of CECL.

	June 30, 2023		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Originated:			
Commercial real estate	$ 6,127	$ 6,127	$ -
Commercial and industrial	3	3	-
SBA	947	947	-
Residential real estate	887	887	-
Consumer	13	13	-
Purchased:			
Commercial real estate	9,459	12,440	-
Commercial and industrial	-	169	-
Residential real estate	827	848	-
Total	18,263	21,434	-
Impaired loans with a valuation allowance:			
Originated:			
Commercial real estate	3,952	3,952	195
Commercial and industrial	6,900	6,900	152
SBA	432	432	2
Residential real estate	433	433	34
Consumer	-	-	-
Purchased:			
Commercial real estate	6,198	7,107	697
Commercial and industrial	778	1,071	709
Residential real estate	-	-	-
Total	18,693	19,895	1,789
Total impaired loans	$ 36,956	$ 41,329	$ 1,789

	Three Months Ended December 31, 2022		Six Months Ended December 31, 2022	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
		(In thousands)		
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 6,624	$ 128	$ 8,367	$ 195
Commercial and industrial	3	-	11	-
SBA	802	2	840	5
Residential real estate	1,129	9	1,120	14
Consumer	28	1	30	2
Purchased:				
Commercial real estate	12,536	56	11,670	131
Commercial and industrial	136	-	90	-
Residential real estate	897	-	897	-
Total	22,155	196	23,025	347
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	3,612	60	2,408	120
Commercial and industrial	6,900	66	6,900	132
SBA	294	-	237	-
Residential real estate	508	11	544	22
Consumer	-	-	-	-
Purchased:				
Commercial real estate	3,586	50	3,616	100
Commercial and industrial	57	-	47	-
Residential real estate	-	-	-	-
Total	14,957	187	13,752	374
Total impaired loans	$ 37,112	$ 383	$ 36,777	$ 721

Loan Modifications for Borrowers Experiencing Financial Difficulty

Effective July 1, 2023, the Bank adopted prospectively ASU No. 2022-02, Financial Instruments - Credit Losses *(Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"). ASU 2022-02 provided guidance that eliminated the recognition and measurement of TDRs. Following the adoption of this guidance, the Bank evaluates all loan modifications made to borrowers experiencing financial difficulty according to the accounting guidance for loan refinancing and restructuring to determine whether such loan modification should be accounted for as a new loan or a continuation of the existing loan. Our loan modifications for borrowers experiencing financial difficulty are generally accounted for as a continuation of the existing loan.

We offer several types of loans and receivables modification programs to borrowers experiencing financial difficulty, primarily interest rate reductions, term extensions, principal forgiveness, and other-than-insignificant payment deferrals. In such instances, we may modify loans and receivables with the intention to minimize future losses and improve collectability, while providing customers with temporary or permanent financial relief.

In some cases, the Bank provides multiple types of concessions on one loan. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, an other-than-insignificant payment delay, and/or an interest rate reduction.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the quarter ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each financing receivable is also presented below:

	Payment Deferral	Total Class of Financing Receivable	Financial Effect
	(In thousands)		
Commercial real estate	5,182	0.25%	Loan was given 2-month payment deferral. The financial effect was deemed "de minimis."
Commercial and industrial	188	0.04%	All 9 commercial and industrial loans were given 6-month payment deferrals to assist borrowers. The financial effect was deemed "de minimis."
Residential real estate	-	0.00%	
Consumer	-	0.00%	
Total	$ 5,370	0.21%	

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the six months ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each financing receivable is also presented below:

	Payment Deferral	Total Class of Financing Receivable	Financial Effect
	(In thousands)		
Commercial real estate	5,182	0.25%	Loan was given 2-month payment deferral. The financial effect was deemed "de minimis."
Commercial and industrial	231	0.04%	All 13 commercial and industrial loans were given 6-month payment deferrals to assist borrowers. The financial effect was deemed "de minimis."
Residential real estate	-	0.00%	
Consumer	-	0.00%	
Total	$ 5,413	0.21%	

The Bank has not committed to lend any additional amounts to the borrowers included in the previous tables.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due
December 31, 2023		(In thousands)		
Commercial real estate	$ -	$ -	$ 1,402	$ 1,402
Commercial and industrial	19	15	239	273
Residential real estate	-	-	-	-
Consumer	-	-	-	-
Total loans	$ 19	$ 15	$ 1,641	$ 1,675

The following table presents the amortized cost basis of loans that had a payment default during the quarter ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Payment Deferral
	(In thousands)
Commercial real estate	$ -
Commercial and industrial	190
Residential real estate	-
Consumer	-
Total	$ 190

The following table presents the amortized cost basis of loans that had a payment default during the six months ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Payment Deferral
	(In thousands)
Commercial real estate	$ -
Commercial and industrial	239
Residential real estate	-
Consumer	-
Total	$ 239

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Troubled Debt Restructuring Disclosures Prior to Adoption of ASU 2022-02

The following table shows the Bank's post-modification balance of TDRs by type of modification.

	Three Months Ended December 31, 2022		Six Months Ended December 31, 2022	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	-	$ -	-	$ -
Rate and maturity	1	88	4	244
Adjusted interest rate	-	-	-	-
Principal/interest deferment	2	69	3	88
	3	$ 157	7	$ 332

The following table shows loans modified in a TDR and the change in the recorded investment subsequent to the modifications occurring.

	Three Months Ended December 31, 2022			Six Months Ended December 31, 2022		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	-	$ -	$ -	2	$ 72	$ 72
Commercial real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	-	-	-	2	72	72
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	3	121	157	5	224	260
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	3	121	157	7	224	260
Total	3	$ 121	$ 157	7	$ 296	$ 332

As of December 31, 2022, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three and six months ended December 31, 2022.

Purchased Credit Deteriorated Loans

From time to time, the Bank purchases loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination. The carrying amount of those loans is as follows as of December 31, 2023:

	(Dollars in thousands)
Purchase price of loans at acquisition	$ 10,646
Allowance for credit losses at acquisition	2,073
Noncredit discount (premium) at acquisition	1,114
Par value of acquired loans at acquisition	$ 13,833

ASC 310-30 Loans Disclosures Prior to Adoption of ASC 326

The following tables present a summary of loans accounted for under ASC 310-30 that were acquired by the Bank during the period indicated.

	For the Three Months Ended December 31, 2022	For the Six Months Ended December 31, 2022
	(Dollars in thousands)	
Contractually required payments receivable	$ 1,751,354	$ 1,863,272
Nonaccretable difference	(18,965)	(20,915)
Cash flows expected to be collected	1,732,389	1,842,357
Accretable yield	(733,862)	(766,293)
Fair value of loans acquired	$ 998,527	$ 1,076,064

Certain loans accounted for under ASC 310-30 that were acquired by the Bank are not accounted for using the income recognition model because the Bank cannot reasonably estimate cash flows expected to be collected. These loans when acquired are placed on nonaccrual. The carrying amounts of such loans are as follows.

	As of and for the Three Months Ended December 31, 2022	As of and for the Six Months Ended December 31, 2022
	(In thousands)	
Loans acquired during the period	$ 431	$ 1,218
Loans at end of period	7,940	7,940

The following tables summarize the activity in the accretable yield for loans accounted for under ASC 310-30.

	For the Three Months Ended December 31, 2022	For the Six Months Ended December 31, 2022
	(In thousands)	
Beginning balance	$ 157,914	$ 132,700
Acquisitions	733,862	766,293
Accretion	(12,726)	(20,097)
Reclassifications from non-accretable difference to accretable yield	4,730	8,366
Disposals and other changes	(7,350)	(10,832)
Ending balance	$ 876,430	$ 876,430

The following table provides information related to the unpaid principal balance and carrying amounts of ASC 310-30 loans.

	June 30, 2023
	(In thousands)
Unpaid principal balance	$ 1,660,147
Carrying amount	1,473,405

5. Borrowings

Short-term Federal Home Loan Bank Advances

At December 31, 2023, the Bank had $90.0 million in short-term FHLBB advances at a weighted average rate of 5.52%. At June 30, 2023, the Bank had $311.0 million in short-term FHLBB advances at a weighted average rate of 5.26%.

Long-term Federal Home Loan Bank Advances

At December 31, 2023, the Bank had six long-term FHLBB advances totaling $357.2 million. The advances consist of one amortizing advance with a balance of $9.9 million, which matures on November 3, 2025, one amortizing advance with a balance of $10.0 million, which matures on November 2, 2026, one fixed-rate advance for $15.0 million, which matures on June 21, 2027, one amortizing advance with a balance of $226.5 million, which matures on January 3, 2028, one amortizing advance with a balance of $45.9 million, which matures on November 1, 2028, and one FHLBB option advance with a balance of $50.0 million, which matures on November 2, 2026, with a call option beginning on February 2, 2024. The weighted average interest rate on long-term FHLBB advances was 4.30% as of December 31, 2023. At June 30, 2023, the Bank had two long-term FHLBB advances totaling $251.6 million. The advances consist of one fixed-rate advance for $15.0 million, which matures on June 21, 2027 and one amortizing advance with a balance of $236.6 million, which matures on January 3, 2028. The weighted average interest rate on long-term FHLBB advances was 4.12% as of June 30, 2023.

At December 31, 2023, one FHLBB advance totaling $50.0 million was subject to call provisions, and as such, may be called prior to the stated maturity. At June 30, 2023, no FHLBB advances were subject to call provisions and as such, may not be called prior to the stated maturity. Certain mortgage loans and available-for-sale securities, free of liens, pledges and encumbrances have been pledged under a blanket agreement to secure these advances. The Bank is required to own stock in the FHLBB in order to borrow from the FHLBB.

At December 31, 2023 and June 30, 2023, the Bank had approximately $467.5 million and $318.4 million, of additional capacity to borrow from the FHLBB, respectively.

Federal Reserve Bank of Boston Borrower-in-Custody

The Bank has a borrower-in-custody collateral arrangement 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 of the Bank under the agreement. At December 31 and June 30, 2023, there were no borrowings outstanding under this agreement. At December 31, 2023 and June 30, 2023, the Bank had $288.4 million and $325.7 million, respectively, of capacity to borrow from the Federal Reserve Borrower-in-Custody program.

6. Earnings Per Share (EPS)

EPS is computed by dividing net income allocated to common shareholders by the weighted-average common shares outstanding. The following table shows the weighted-average number of common shares outstanding for the periods indicated. Shares issuable relative to stock options granted have been reflected as an increase in the shares outstanding used to calculate diluted EPS, after applying the treasury stock method. The number of shares outstanding for basic and diluted EPS is presented as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
	(In thousands, except share and per share data)			
Net income	$ 14,054	$ 11,298	$ 29,226	$ 19,585
Average number of common shares outstanding	7,793,759	7,468,357	7,766,275	7,487,556
Less: average unvested non-participating restricted stock awards	(288,650)	(212,076)	(273,965)	(182,225)
Weighted average shares used in calculation of basic EPS	7,505,109	7,256,281	7,492,310	7,305,331
Effect of dilutive stock options	-	23,825	-	37,182
Effect of dilutive unvested restricted stock awards	85,804	43,296	80,140	37,277
Weighted average shares used in calculation of diluted EPS	7,590,913	7,323,402	7,572,450	7,379,790
Basic earnings per common share	$ 1.87	$ 1.56	$ 3.90	$ 2.68
Diluted earnings per common share	$ 1.85	$ 1.54	$ 3.86	$ 2.65

No stock options were excluded from the calculation of diluted EPS for the three and six months ended December 31, 2023 and 2022.

7. **Other Comprehensive Income**

The components of other comprehensive income are as follows:

	Three Months Ended December 31,					
	2023			2022		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized loss on available-for-sale debt securities	$ 470	$ 128	$ 342	$ 150	$ 40	$ 110
Total other comprehensive (loss) income	$ 470	$ 128	$ 342	$ 150	$ 40	$ 110

	Six Months Ended December 31,					
	2023			2022		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized loss on available-for-sale debt securities	$ 675	$ 183	$ 492	$ (322)	$ (87)	$ (235)
Change in accumulated loss on effective cash flow hedges	-	-	-	221	60	161
Total other comprehensive income	$ 675	$ 183	$ 492	$ (101)	$ (27)	$ (74)

Accumulated other comprehensive loss is comprised of the following:

	December 31, 2023	June 30, 2023
	(In thousands)	
Unrealized loss on available-for-sale debt securities	$ (309)	$ (984)
Tax effect	83	266
After tax amount	(226)	(718)
Accumulated other comprehensive loss	$ (226)	$ (718)

8. **Commitments and Contingencies**

Commitments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and commitments to fund investments. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit 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.

Financial instruments with contractual amounts which represent credit risk are as follows:

	December 31, 2023	June 30, 2023
	(In thousands)	
Commitments to originate loans	$ 22,095	$ 13,249
Unused lines of credit	50,411	32,883
Standby letters of credit	-	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. 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 Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. At December 31, 2023 and June 30, 2023, the Bank recorded an allowance for possible losses on commitments and unfunded loans totaling $167 thousand and $76 thousand, recorded in other liabilities, respectively.

Contingencies

The Bank may be party to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Bank's financial position or results of operations.

9. <u>Fair Value Measurements</u>

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Bank uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from one level to another. When market assumptions are not readily available, the Bank's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. If there has been a significant decrease in the volume and level of activity for the asset or liability, regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same.

ASC 820, Fair Value Measurement, defines fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

> Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> Level 2 — Valuations based on significant observable inputs other than Level 1 prices 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.
>
> Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Bank in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

*Valuation technique*s **-** There have been no changes in the valuation techniques used during the current period.

Transfers **-** There were no transfers of assets and liabilities measured at fair value on a recurring or nonrecurring basis during the current period.

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

> *Securities* - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Examples of such instruments include publicly traded common and preferred stocks. If quoted prices are not available, then fair values are estimated by using pricing models (*i.e.*, matrix pricing) and market interest rates and credit assumptions or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency and government sponsored enterprise mortgage-backed securities, as well as certain preferred and trust preferred stocks. Level 3 securities are securities for which significant unobservable inputs are utilized.
>
> Certain investments are measured at fair value using the net asset value per share as a practical expedient. These investments include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. The Bank's investment in securities either issued or guaranteed by the U.S. government or its agencies can be redeemed daily at the closing net asset value per share. The Bank's investment in SBA 7(a) loans can be redeemed quarterly with 60 days' notice. In accordance with ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (Or Its Equivalent), these investments have not been included in the fair value hierarchy.
>
> *Derivative financial instruments* **-** The valuation of the Bank's interest rate swaps and caps are determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including forward interest rate curves and implied volatilities. Unobservable inputs, such as credit valuation adjustments are insignificant to the overall valuation of the Bank's derivative financial instruments. Accordingly, the Bank has determined that its interest rate derivatives fall within Level 2 of the fair value hierarchy.

The fair value of derivative loan commitments and forward loan sale agreements are estimated using the anticipated market price based on pricing indications provided from syndicate banks. These commitments and agreements are categorized as Level 2. The fair value of such instruments was nominal at each date presented.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:

Collateral dependent criticized loans **-** Valuations of criticized loans measured at fair value are determined by a review of collateral values. Certain inputs used in appraisals are not always observable, and therefore impaired loans are generally categorized as Level 3 within the fair value hierarchy.

Real estate owned and other repossessed collateral **-** The fair values of real estate owned and other repossessed collateral are estimated based upon appraised values less estimated costs to sell. Certain inputs used in appraisals are not always observable, and therefore may be categorized as Level 3 within the fair value hierarchy. When inputs used in appraisals are primarily observable, they are classified as Level 2.

Loan servicing rights **-** The fair value of the SBA and mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Certain inputs are not observable, and therefore loan servicing rights are generally categorized as Level 3 within the fair value hierarchy.

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

	Total	Level 1	Level 2	Level 3
December 31, 2023		(In thousands)		
Assets				
Securities:				
U.S. Government agency securities	$ 50,581	$ -	$ 50,581	$ -
Agency mortgage-backed securities	2,649	-	2,649	-
Equity investments measured at net asset value(1)	6,962	-	-	-
June 30, 2023				
Assets				
Securities:				
U.S. Government agency securities	$ 50,249	$ -	$ 50,249	$ -
Agency mortgage-backed securities	3,155	-	3,155	-
Equity investments measured at net asset value(1)	6,770	-	-	-

(1) In accordance with ASU 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the table is intended to permit reconciliation of the fair value amount to the financial statements.

Assets measured at fair value on a nonrecurring basis are summarized below.

	Total	Level 1	Level 2	Level 3
December 31, 2023		(In thousands)		
Collateral dependent criticized loans	$ 5,412	$ -	$ -	$ 5,412
Loan servicing rights	1,212	-	-	1,212
June 30, 2023				
Collateral dependent criticized loans	$ 3,201	$ -	$ -	$ 3,201
Loan servicing rights	1,530	-	-	1,530

The table below presents quantitative information about significant unobservable inputs (Level 3) for assets measured at fair value on a nonrecurring basis at the dates indicated.

	Fair Value		
	December 31, 2023	June 30, 2023	Valuation Technique
	(In thousands)		
Collateral dependent criticized loans	$ 5,412	$ 3,201	Appraisal of collateral(1)
Loan servicing rights	1,212	1,530	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. This adjustment was 20%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 0.0% to 36.3%. For discount rates, the range was 0.0% to 27.0%. The weighted average prepayment rate was 21.0% and the weighted average discount rate was 21.5%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the three months ended December 31, 2023 and 2022.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Collateral dependent criticized loans	$ (749)	$ (230)	$ (2,222)	$ (230)
Loan servicing rights	104	(78)	114	94
Total	$ (645)	$ (308)	$ (2,108)	$ (136)

The following table presents the estimated fair value of the Bank's financial instruments.

	Carrying Amount	Total	Level 1	Level 2	Level 3
December 31, 2023			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 224,900	$ 224,900	$ 224,900	$ -	$ -
Securities	53,230	53,230	-	53,230	-
Equity investments measured at net asset value[1]	6,962	6,962	-	-	-
Federal Home Loan Bank stock	19,665	19,665	-	19,665	-
Loans, net	2,583,465	2,571,027	-	-	2,571,027
Accrued interest receivable	13,627	13,627	-	13,627	-
Financial liabilities:					
Deposits	2,129,707	2,117,427	-	2,117,427	-
Federal Home Loan Bank advances	447,191	447,275	-	447,275	-
Lease liability	21,232	21,765	-	21,765	-
June 30, 2023					
Financial assets:					
Cash and cash equivalents	$ 197,909	$ 197,909	$ 197,909	$ -	$ -
Securities	53,403	53,403	-	53,403	-
Equity investments measured at net asset value[1]	6,771	6,771	-	-	-
Federal Home Loan Bank stock	24,644	24,644	-	24,644	-
Loans, net	2,513,056	2,540,240	-	-	2,540,240
Accrued interest receivable	6,638	6,638	-	6,638	-
Financial liabilities:					
Deposits	1,937,207	1,931,648	-	1,931,648	-
Federal Home Loan Bank advances	562,615	559,324	-	559,324	-
Lease liability	21,918	21,965	-	21,965	-
Accrued interest payable	12,104	12,104	-	12,104	-

(1) In accordance with ASU 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the table is intended to permit reconciliation of the fair value amount to the financial statements.

10. Subsequent Events

We evaluate subsequent events through the date of issuance in the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended December 31, 2023.

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2023, filed with the Federal Deposit Insurance Corporation ("FDIC").

A Note about Forward Looking Statements

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to the financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss allowance adequacy, simulation of changes in interest rates, capital spending, finance sources and revenue sources of Northeast Bank ("we," "our," "us," "Northeast" or the "Bank"). These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward looking statements, which are based on various assumptions (some of which are beyond the Bank's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would".

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, deterioration in general business and economic conditions on a national basis and in the local markets in which the Bank operates, including changes which adversely affect borrowers' ability to service and repay loans; changes in customer behavior due to changing political, business and economic conditions, including inflation and concerns about liquidity; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; reductions in net interest income resulting from interest rate volatility as well as changes in the balances and mix of loans and deposits; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan collectability and increases in defaults and charge-off rates; changes in the value of securities and other assets, adequacy of credit loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; changes in legislation or regulation and accounting principles, policies and guidelines; changes in information technology, cybersecurity incidents, fraud, natural disasters, war, terrorism, civil unrest, and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2023 as updated in the Bank's Quarterly Reports on Form 10-Q and other filings submitted to the FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

<u>Business Overview</u>

Northeast Bank, a Maine state-chartered bank organized in 1872, is a full-service financial institution.

As of December 31, 2023, the Bank had total assets of $2.97 billion, total deposits of $2.13 billion, and shareholders' equity of $327.5 million. We gather retail deposits through our seven full-service branches in Maine and through our online deposit program, ableBanking; purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division; and originate loans through our Community Banking Division.

<u>Strategy</u>

The Bank's goal is to prudently grow its franchise, while maintaining sound operations and risk management, by means of the following strategies:

Continuing to grow the National Lending Division's national originated and purchased loan business. We purchase primarily commercial real estate loans nationally, at prices that on average have produced yields significantly higher than those available on our originated loan portfolio. We also originate loans nationally, taking advantage of our core expertise in underwriting and servicing national credits.

Continuing our community banking tradition. With a history that dates back to 1872, our Community Banking Division maintains its focus on sales and service, with the goal of attracting and retaining deposits.

Generating deposits to fund our business. We offer a full line of deposit products through our seven-branch network located in the Community Banking Division's market. ableBanking is a direct savings platform providing an additional channel to raise core deposits (defined as non-maturity deposits and non-brokered insured time deposits) to fund our asset strategy.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in our Annual Report on Form 10-K for the year ended June 30, 2023, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported.

Refer to Note 1 of the financial statements for additional details of the Bank's accounting policies, including new accounting standards recently adopted and those yet to be adopted.

Allowance for Credit Losses ("ACL")

The Bank adopted ASU 2016-13 (Topic 326), "Measurement of Credit Losses on Financial Instruments," which replaces the current incurred loss accounting model with a current expected credit loss ("CECL") approach, effective July 1, 2023. The Bank adopted ASC 326 using the modified retrospective approach method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after July 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. For more information, see "Note 1 – Adoption of New Accounting Standards" to the financial statements in this report.

Other than the above, there has been no material change in critical accounting policies during the three and six months ended December 31, 2023.

Overview

Net income increased by $2.8 million to $14.1 million for the quarter ended December 31, 2023, compared to net income of $11.3 million for the quarter ended December 31, 2022. The increase was primarily due to an increase in net interest, partially offset by an increase in non-interest expense and income tax expense.

Financial Condition

<u>Overview</u>

As of December 31, 2023, total assets were $2.97 billion, an increase of $99.0 million, or 3.5%, from total assets of $2.87 billion as of June 30, 2023.

The following table highlights the changes in the loan portfolio for the three and six months ended December 31, 2023:

Loan Portfolio Changes

	Three Months Ended December 31, 2023			
	December 31, 2023 Balance	September 30, 2023 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 1,646,756	$ 1,516,379	$ 130,377	8.60%
National Lending Originated	910,213	958,232	(48,019)	(5.01%)
SBA National	29,052	27,205	1,847	6.79%
Community Banking	25,038	26,394	(1,356)	(5.14%)
Total	$ 2,611,059	$ 2,528,210	$ 82,849	3.28%

	Six Months Ended December 31, 2023			
	December 31, 2023 Balance	June 30, 2023 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 1,646,756	$ 1,480,119	$ 166,637	11.26%
National Lending Originated	910,213	987,832	(77,619)	(7.86%)
SBA National	29,052	24,873	4,179	16.80%
Community Banking	25,038	27,536	(2,498)	(9.07%)
Total	$ 2,611,059	$ 2,520,360	$ 90,699	3.60%

Loans generated by the National Lending Division for the quarter ended December 31, 2023 totaled $249.6 million, which consisted of $186.1 million of purchased loans, at an average price of 89.5% of unpaid principal balance, and $63.5 million of originated loans.

An overview of the National Lending Division portfolio follows:

	National Lending Portfolio					
	Three Months Ended December 31,					
	2023			2022		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 208,045	$ 63,485	$ 271,530	$ 1,152,957	$ 173,992	$ 1,326,949
Net investment basis	186,131	63,485	249,616	995,973	173,992	1,169,965
Loan returns during the period:						
Yield	9.19%	9.81%	9.43%	8.69%	8.50%	8.59%
Total Return on Purchased Loans (1)	9.21%	N/A	9.21%	8.69%	N/A	8.69%
	Six Months Ended December 31,					
	2023			2022		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 271,741	$ 131,528	$ 403,269	$ 1,236,815	$ 355,712	$ 1,592,527
Net investment basis	238,477	131,528	370,005	1,073,510	355,712	1,429,222
Loan returns during the period:						
Yield	9.10%	9.92%	9.41%	8.07%	8.19%	8.14%
Total Return on Purchased Loans (1)	9.13%	N/A	9.13%	8.07%	N/A	8.07%
Total loans as of period end:						
Unpaid principal balance	$ 1,831,183	$ 910,213	$ 2,741,396	$ 1,673,158	$ 963,775	$ 2,636,933
Net investment basis	1,646,756	910,213	2,556,969	1,483,567	963,775	2,447,342

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on real estate owned, release of allowance for credit losses on purchased loans, and other noninterest income recorded during the period divided by the average invested balance on an annualized basis. The total return on purchased loans does not include the effect of purchased loan charge-offs or recoveries during the period. Total return on purchased loans is considered a non-GAAP financial measure. See reconciliation in below table entitled "Total Return on Purchased Loans."

Assets

Cash and Due from Banks, Short-Term Investments, and Securities

Cash and cash equivalents were $224.9 million as of December 31, 2023, an increase of $27.0 million, or 13.6%, from $197.9 million at June 30, 2023.

Securities totaled $60.2 million as of December 31, 2023, compared to $60.2 million as of June 30, 2023, representing an increase of $18 thousand, primarily due to change in net unrealized loss, partially offset by principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.2 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.8 million in a CRA-qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At December 31, 2023, securities with a fair value of $53.2 million were pledged for potential and outstanding borrowings with the Federal Home Loan Bank of Boston ("FHLBB").

Loans

The Bank's loan portfolio (excluding loans held for sale) by lending division follows:

	Community Banking	National Lending	SBA Division	Total	Percent of Total
December 31, 2023		(Dollars in thousands)			
Originated loans:					
Commercial real estate: non-owner occupied	$ 3,284	$ 324,408	$ 6,676	$ 334,368	12.81%
Commercial real estate: owner occupied	3,011	89,479	10,370	102,860	3.94%
Commercial and industrial	1,259	447,930	12,006	461,195	17.66%
Residential real estate	16,998	48,396	-	65,394	2.50%
Consumer	486	-	-	486	0.02%
Subtotal	25,038	910,213	29,052	964,303	36.93%
Purchased loans:					
Commercial real estate: non-owner occupied	-	1,444,391	-	1,444,391	55.32%
Commercial real estate: owner occupied	-	172,020	-	172,020	6.59%
Commercial and industrial	-	22,045	-	22,045	0.84%
Residential real estate	-	8,300	-	8,300	0.32%
Subtotal	-	1,646,756	-	1,646,756	63.07%
Total	$ 25,038	$ 2,556,969	$ 29,052	$ 2,611,059	100.00%
June 30, 2023					
Originated loans:					
Commercial real estate: non-owner occupied	$ 3,607	$ 365,906	$ 8,381	$ 377,894	14.99%
Commercial real estate: owner occupied	3,418	96,588	10,760	110,766	4.39%
Commercial and industrial	1,444	472,210	5,732	479,386	19.01%
Residential real estate	18,582	53,128	-	71,710	2.85%
Consumer	485	-	-	485	0.02%
Subtotal	27,536	987,832	24,873	1,040,241	41.27%
Purchased loans:					
Commercial real estate: non-owner occupied	-	1,274,632	-	1,274,632	50.57%
Commercial real estate: owner-occupied	-	177,271	-	177,271	7.03%
Commercial and industrial	-	20,429	-	20,429	0.81%
Residential real estate	-	7,787	-	7,787	0.31%
Subtotal	-	1,480,119	-	1,480,119	58.73%
Total	$ 27,536	$ 2,467,951	$ 24,873	$ 2,520,360	100.00%

Classification of Assets

Loans are classified as nonperforming when 90 or more days past due, unless a loan is well-secured and in the process of collection. Loans less than 90 days past due, for which collection of principal or interest is considered doubtful, also may be designated as nonperforming. In both situations, accrual of interest ceases. The Bank typically maintains such loans as nonperforming until the respective borrowers have demonstrated a sustained period of payment performance.

Other nonperforming assets include other real estate owned ("OREO") and other personal property securing loans repossessed by the Bank. The real estate and personal property collateral for commercial and consumer loans is recorded at fair value less estimated costs to sell upon repossession. Revenues and expenses are recognized in the period when received or incurred on OREO and in-substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

The following table details the Bank's nonperforming assets and other credit quality indicators as of December 31, 2023 and June 30, 2023. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	December 31, 2023			June 30, 2023		
	Originated	Purchased	Total	Originated	Purchased	Total
			(Dollars in thousands)			
Non-performing loans:						
Commercial real estate	$ 2,075	$ 15,074	$ 17,149	$ 3,548	$ 10,557	$ 14,105
Commercial and industrial	6,950	3,072	10,022	520	778	1,298
Residential real estate	2,582	1,019	3,601	280	-	280
Consumer	-	-	-	-	-	-
Total non-performing loans	11,607	19,165	30,772	4,348	11,335	15,683
Other real estate owned	-	-	-	-	-	-
Total non-performing assets	$ 11,607	$ 19,165	$ 30,772	$ 4,348	$ 11,335	$ 15,683
Total loans			$ 2,611,059			$ 2,520,360
Total assets			2,968,976			2,869,938
ACL on loans			27,594			7,304
ACL on loans to nonaccrual loans			89.67%			46.57%
Non-performing loans to total loans			1.18%			0.62%
Non-performing assets to total assets			1.04%			0.55%

As of December 31 and June 30, 2023, nonperforming assets totaled $30.8 million and $15.7 million, or 1.04% and 0.55% of total assets, respectively.

Allowance for Credit Losses

The Bank adopted the Current Expected Credit Loss methodology during the six months ended December 31, 2023. The significant key assumptions used with the ACL on loans calculation at December 31, 2023 included: (i) Bank-specific factors (i.e., loss history), (ii) macroeconomic factors over our forecast period and reversion speed, (iii) prepayment speeds, and (iv) various qualitative factors.

The overall global and national markets continue to be volatile and carry a high degree of uncertainty, and any changes to our forecast or qualitative factors subject our ACL estimate to a higher risk of fluctuation between periods.

We may adjust our assumptions to account for differences between expected and actual losses from period to period. A future change in our assumptions likely will alter the level of ACL required and may have a material impact on future results of operations and financial condition. The ACL on loans is reviewed periodically within a calendar quarter to assess trends in CECL key assumptions and asset quality, and their effects on the Bank's financial condition.

The following table summarizes the changes in the Bank’s allowance for credit losses for the periods indicated:

	Six Months Ended December 31, 2023	Year Ended June 30, 2023
	(Dollars in thousands)	
Period-end loans outstanding (net of unearned discount and deferred loan fees)	$ 2,611,059	$ 2,520,360
Average loans outstanding (net of unearned discount and deferred loan fees)	$ 2,523,870	$ 2,021,787
Balance of allowance for credit losses at the beginning of year – loans	$ 7,304	$ 5,028
Loans charged-off:		
Commercial and industrial	(1,229)	(3)
Commercial real estate	(1,235)	-
Purchased	-	(295)
SBA	-	(57)
Residential	(82)	
Consumer	(29)	(15)
Total loans charged-off	(2,575)	(370)
Recovery of loans previously charged-off:		
Commercial and industrial	7	-
Commercial real estate	5	66
Purchased	-	273
SBA	-	2
Residential	3	2
Total recovery of loans previously charged-off	15	343
Net loan charge-offs	(2,560)	(27)
Adoption of CECL accounting standards – loans	20,115	-
Initial allowance on PCD loans	2,110	-
Provision for credit losses – loans	625	2,303
Balance at end of period	$ 27,594	$ 7,304
Ratio of net charge-offs (annualized) to average loans outstanding	0.20%	0.00%
Ratio of allowance for credit losses to loan outstanding	1.06%	0.29%

The level of charge-offs depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Although the allowance is allocated between categories, the entire allowance is available to absorb losses attributable to all loan categories. Management believes that the allowance for credit losses is adequate.

Other Assets

Premises and equipment, net, increased by $141 thousand, or 0.5%, to $27.9 million at December 31, 2023, compared to $27.7 million at June 30, 2023. The increase was primarily due to additions, partially offset by depreciation and amortization.

Loan servicing rights, net totaled $1.2 million and $1.5 million at December 31 and June 30, 2023, respectively. The decrease was primarily the result of amortization and payoffs during the six months ended December 31, 2023, partially offset by the revaluation of the servicing rights performed on a quarterly basis, which resulted in a $114 thousand recovery recognized during the six months ended December 31, 2023.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased $232 thousand, or 1.3% to $18.6 million at December 31, 2023, compared to $18.4 million at June 30, 2023. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 5.2% of the Bank's regulatory total capital at December 31, 2023.

Deposits, FHLBB Advances, Liquidity, and Capital

Deposits

The Bank's principal source of funding is its core deposit accounts (defined as non-maturity deposits and non-brokered insured time deposits). At December 31, 2023, non-maturity accounts and non-brokered insured time deposits represented 64.0% of total deposits.

As of December 31, 2023, $109.0 million, or 5% of the Bank's total deposits, were uninsured. This balance included $38.8 million of interest reserves and restricted deposit accounts.

Total deposits increased by $192.5 million, or 9.9%, from June 30, 2023. The increase was primarily attributable to increases in time deposits of $165.2 million, or 18.0%, and savings and interest checking deposits of $84.3 million, or 14.1%, partially offset by a decrease in money market deposits of $56.7 million, or 20.4%. The significant drivers in the change in time deposits was the increase in Community Banking Division time deposits, which increased by $111.2 million, and brokered time deposits, which increased by $97.4 million compared to June 30, 2023, partially offset by the intentional runoff of Bulletin Board time deposits of $40.4 million.

The composition of total deposits at December 31 and June 30, 2023 is as follows:

	December 31, 2023		June 30, 2023	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 143,442	6.75%	$ 143,738	7.42%
NOW accounts	548,429	25.75%	518,528	26.77%
Regular and other savings	132,239	6.21%	77,819	4.02%
Money market deposits	221,226	10.39%	277,939	14.34%
Total non-certificate accounts	1,045,336	49.08%	1,018,024	52.55%
Term certificates of $250 thousand or less	317,203	14.90%	244,754	12.63%
Term certificates greater than $250 thousand	69,426	3.26%	74,058	3.82%
Brokered term certificates	697,742	32.76%	600,371	31.00%
Total certificate accounts	1,084,371	50.92%	919,183	47.45%
Total deposits	$ 2,129,707	100.00%	$ 1,937,207	100.00%

FHLBB Advances

Advances from the FHLBB were $447.2 million and $562.6 million at December 31 and June 30, 2023, respectively. The decrease was primarily a result of an increase in deposits.

As of December 31, 2023, the Bank had pledged certain residential real estate loans and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of December 31, 2023, securities with a fair value of $53.2 million were pledged for potential and outstanding borrowings and letters of credit with the FHLBB.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at December 31, 2023, in addition to traditional retail deposit products:

	As of December 31, 2023	
	(In thousands)	
Brokered time deposits	$ 733,334	Subject to policy limitation of 50% of total assets and capital level requirements
Federal Home Loan Bank of Boston	467,534	Unused advance capacity subject to eligible and qualified collateral
Federal Reserve Borrower-in-Custody	288,398	Unused advance capacity subject to eligible and qualified collateral
Other available lines	7,500	
Total unused borrowing capacity	$ 1,496,766	

Retail deposits and other core deposit sources, including deposit listing services, are used by the Bank to manage its overall liquidity position. Additionally, the Bank uses wholesale funding, such as FHLBB advances and brokered deposits, as a source of liquidity, and also has the ability to raise additional amounts, which remains an important part of our liquidity contingency planning. While we closely monitor and forecast our liquidity position, it is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of our forecast assumptions may increase or decrease our overall available liquidity. To utilize the FHLBB advance capacity, the purchase of additional capital stock of the FHLBB may be required.

At December 31, 2023, the Bank had $1.50 billion of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 50.4% of total assets. The Bank also had $224.9 million of cash and cash equivalents at December 31, 2023.

Management believes that there are adequate funding sources to meet its liquidity needs for the foreseeable future. Primary funding sources are the repayment of principal and interest on loans, the renewal of time deposits, the potential for growth in the deposit base, and the credit availability from the FHLBB. Management does not believe that the terms and conditions that will be present at the renewal of these funding sources will significantly impact the Bank's operations, due to its management of the maturities of its assets and liabilities.

Capital

At December 31, 2023, shareholders' equity was $327.5 million, an increase of $30.9 million, or 10.4%, from June 30, 2023. Book value per common share was $41.97 at December 31, 2023 and $38.69 at June 30, 2023.

As of December 31, 2023, the Bank's Tier 1 leverage capital ratio was 11.3%, compared to 10.4% at June 30, 2023, and the total risk-based capital ratio was 13.7% at December 31, 2023, compared to 12.3% at June 30, 2023. Capital ratios increased primarily due to increased earnings and the total risk-based capital ratio increased due to an increase in Tier 2 capital associated with the allowance for credit losses under CECL.

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

Regulations regarding prompt corrective actions define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized."

As of December 31, 2023 and June 30, 2023, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum common equity Tier 1 capital, total risk-based capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At December 31, 2023 and June 30, 2023, the Bank's ratios exceeded the regulatory requirements. Management believes that the Bank met all capital adequacy requirements to which they were subject as of December 31, 2023 and June 30, 2023. The Bank's regulatory capital ratios are set forth below as of December 31, 2023 and June 30, 2023.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(Dollars in thousands)						
December 31, 2023							
Common equity Tier 1 capital to risk weighted assets	$ 327,336	12.63%	$ 116,584	≥4.5%	$ 168,398	≥6.5%	7.0%
Total capital to risk weighted assets	355,096	13.71%	207,260	≥8.0%	259,074	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	327,336	12.63%	155,445	≥6.0%	207,260	≥8.0%	8.5%
Tier 1 capital to average assets (Tier 1 leverage)	327,336	11.28%	116,119	≥4.0%	145,148	≥5.0%	4.0%
June 30, 2023							
Common equity Tier 1 capital to risk weighted assets	$ 296,830	12.00%	$ 111,311	≥4.5%	$ 160,782	≥6.5%	7.0%
Total capital to risk weighted assets	304,210	12.30%	197,886	≥8.0%	247,358	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	296,830	12.00%	148,415	≥6.0%	197,886	≥8.0%	8.5%
Tier 1 capital to average assets (Tier 1 leverage)	296,830	10.38%	114,375	≥4.0%	142,969	≥5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Bank is required to maintain a capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses and to engage in share repurchases.

At-the-Market Offering

On December 12, 2022, the Board of Directors approved and initiated an at-the-market offering of up to $50.0 million of common stock. The Bank issued 193,611 shares at a weighted average net proceeds per share of $41.29 through June 30, 2023. During the quarter ended December 31, 2023, the Bank extended the at-the-market offering through November 30, 2024. During the three and six months ended December 31, 2023, the Bank issued 12,760 shares at a weighted average net proceeds per share of $42.74, which resulted in an increase of $544 thousand to capital.

Off-Balance Sheet Financial Instruments

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, standby letters of credit, and commitments to fund investments. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized on the condensed balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank’s involvement in particular classes of financial instruments.

See Part I. Item 1. “Notes to Unaudited Financial Statements – Note 8: Commitments and Contingencies” for further discussion.

Risk Management

The Bank’s Board of Directors and management have identified significant risk categories which affect the Bank. The risk categories include: credit; compliance; interest rate; liquidity; operational and cybersecurity; and strategic. The Board of Directors has approved an Enterprise Risk Management ("ERM") Policy that addresses each category of risk. The direct oversight and responsibility for the Bank's risk management program has been delegated to the Senior Management Risk and Compliance Committee, which includes executive management, and reports to the Risk Management Committee of the Bank’s Board of Directors.

There have been no material changes to the Bank's risk categories and risk management policies as described in Item 7 of the Bank's Annual Report on Form 10-K for the year ended June 30, 2023. Please refer to Item 7 of the Bank's Annual Report on Form 10-K for the year ended June 30, 2023 for further details regarding the Bank's risk management.

Interest rate risk

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with our financial instruments also change, thereby impacting net interest income, the primary component of our earnings. The Bank’s Asset Liability Management Committee (“ALCO”) utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, they also utilize additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on our balance sheet, as well as for derivative financial instruments. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming a static balance sheet, given a 200 basis point upward and 100 basis point downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed. Using this approach, we are able to produce simulation results that illustrate the effect that both a gradual change of rates and a “rate shock” have on earnings expectations.

The sensitivity analysis below does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

As of December 31, 2023 and 2022, our net interest income sensitivity analysis reflected the following changes to net interest income, as compared to our modeled Year 1 Base net interest income, assuming no balance sheet growth and a parallel shift in interest rates. All rate changes were “ramped” over the first 12-month period.

	Estimated Changes In Net Interest Income	
Rate Change from Year 1 — Base	**December 31, 2023**	**December 31, 2022**
Year 1		
+200 basis points	(0.85)%	1.30%
-100 basis points	1.72%	(1.05)%

If rates increase 200 basis points, net interest income is projected to decrease in the first year of the simulation as the funding base adjusts into the higher rate environment to a greater degree than asset yields increase.

If rates decrease 100 basis points, net interest income is projected to increase in the first year of the simulation as reductions in funding costs more than offset near-term asset yield deterioration.

Results of Operations

General

Net income increased by $2.8 million to $14.1 million for the quarter ended December 31, 2023, compared to net income of $11.3 million for the quarter ended December 31, 2022.

Net Interest Income

Three Months Ended December 31, 2023 and 2022

Net interest and dividend income before provision for loan losses increased by $8.2 million to $37.0 million for the quarter ended December 31, 2023, compared to $28.8 million for the quarter ended December 31, 2022. The increase was primarily due to the following:

- An increase in interest income earned on loans of $23.1 million, primarily due to an increase in interest income earned on the National Lending Division’s purchased and originated portfolios, due to higher average balances and rates earned on both portfolios; and
- An increase in interest income earned on short-term investments of $1.6 million, primarily due to higher rates earned and higher average balances; partially offset by,

- An increase in deposit interest expense of $11.3 million, due to higher interest rates and higher average balances in interest-bearing deposits; and
- An increase in FHLB borrowings interest expense of $5.2 million, primarily due to higher average balances.

The following table summarizes interest income and related yields recognized on the loan portfolios:

	Interest Income and Yield on Loans					
	Three Months Ended December 31,					
	2023			2022		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 25,559	$ 419	6.51%	$ 30,920	$ 586	7.52%
SBA National	28,331	888	12.47%	27,757	610	8.72%
National Lending:						
Originated	939,383	23,155	9.81%	899,562	19,274	8.50%
Purchased	1,551,038	35,849	9.19%	765,085	16,758	8.69%
Total National Lending	2,490,421	59,004	9.43%	1,664,647	36,032	8.59%
Total	$ 2,544,311	$ 60,311	9.43%	$ 1,723,324	$ 37,228	8.57%

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended December 31, 2022, transactional income decreased by $1.3 million for the quarter ended December 31, 2023, and regularly scheduled interest and accretion increased by $20.4 million primarily due to the increase in average balances. The total return on purchased loans for the quarter ended December 31, 2023 was 9.2%, an increase from 8.7% for the quarter ended December 31, 2022. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended December 31,			
	2023		2022	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 33,430	8.57%	$ 13,014	6.75%
Transactional income:				
Release of allowance for credit losses on purchased loans	46	0.02%	-	0.00%
Accelerated accretion and loan fees	2,419	0.62%	3,744	1.94%
Total transactional income	2,465	0.64%	3,744	1.94%
Total	$ 35,895	9.21%	$ 16,758	8.69%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on real estate owned, and release of allowance for credit losses on purchased loans recorded during the period divided by the average invested balance on an annualized basis. The total return does not include the effect of purchased loan charge-offs or recoveries in the periods shown. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended December 31, 2023 and 2022.

	Three Months Ended December 31,					
	2023			2022		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Securities	$ 59,797	$ 560	3.73%	$ 60,402	$ 270	1.77%
Loans (1) (2)	2,544,311	60,311	9.43%	1,723,324	37,228	8.57%
Federal Home Loan Bank stock	21,222	468	8.77%	4,549	47	4.10%
Short-term investments (3)	206,090	2,793	5.39%	170,756	1,656	3.85%
Total interest-earning assets	2,831,420	64,132	9.01%	1,959,031	39,201	7.94%
Cash and due from banks	2,508			2,495		
Other non-interest earning assets	69,245			143,481		
Total assets	$ 2,903,173			$ 2,105,007		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 511,217	$ 5,636	4.39%	$ 551,998	$ 3,575	2.57%
Money market accounts	229,154	2,009	3.49%	243,953	805	1.31%
Savings accounts	122,643	917	2.97%	124,990	356	1.13%
Time deposits	1,022,767	12,613	4.91%	621,248	5,160	3.30%
Total interest-bearing deposits	1,885,781	21,175	4.47%	1,542,189	9,896	2.55%
Federal Home Loan Bank advances	481,824	5,701	4.71%	83,560	538	2.55%
Capital lease obligations	21,361	256	4.77%	16,679	15	0.36%
Total interest-bearing liabilities	2,388,966	27,132	4.52%	1,642,428	10,449	2.52%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	167,358			195,907		
Other liabilities	24,616			10,226		
Total liabilities	2,580,940			1,848,561		
Shareholders' equity	322,233			256,446		
Total liabilities and shareholders' equity	$ 2,903,173			$ 2,105,007		
Net interest income		$ 37,000			$ 28,752	
Interest rate spread			4.49%			5.42%
Net interest margin (4)			5.20%			5.82%
Cost of funds (5)			4.22%			2.26%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.
(2) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.
(3) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.
(4) Net interest margin is calculated as net interest income divided by total interest-earning assets.
(5) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

The following table presents the extent to which changes in volume and interest rates of interest-earning assets and interest-bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) changes attributable to a combination of changes in rate and volume (change in rates multiplied by the changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Three Months Ended December 31, 2023 Compared to 2022		
	Change Due to Volume	Change Due to Rate	Total Change
	(In thousands)		
Interest-earning assets:			
Securities	$ (3)	$ 293	$ 290
Loans	19,068	4,015	23,083
Federal Home Loan Bank stock	322	99	421
Short-term investments	387	750	1,137
Total interest-earning assets	19,774	5,157	24,931
Interest-bearing liabilities:			
Interest-bearing deposits	3,406	7,873	11,279
Federal Home Loan Bank advances	4,387	776	5,163
Lease liability	5	236	241
Total interest-bearing liabilities	7,798	8,885	16,683
Total change in net interest income	$ 11,976	$ (3,728)	$ 8,248

Six Months Ended December 31, 2023 and 2022

Net interest and dividend income before provision for loan losses increased by $21.7 million to $74.1 million for the six months ended December 31, 2023, compared to $52.4 million for the six months ended December 31, 2022. The increase was primarily due to the following:

- An increase in interest income earned on loans of $56.1 million, primarily due to an increase in interest income earned on the National Lending Division's purchased and originated portfolios, due to higher average balances and rates earned on both portfolios; and
- An increase in interest income earned on short-term investments of $4.0 million, primarily due to higher rates earned and higher average balances; partially offset by,
- An increase in deposit interest expense of $27.7 million, due to higher interest rates and higher average balances in interest-bearing deposits; and
- An increase in FHLB borrowings interest expense of $10.9 million, primarily due to higher average balances.

The following table summarizes interest income and related yields recognized on the loan portfolios:

	Interest Income and Yield on Loans					
	Six Months Ended December 31,					
	2023			2022		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 26,355	$ 857	6.47%	$ 31,904	$ 1,052	6.54%
SBA National	27,294	1,674	12.20%	29,267	1,340	9.08%
National Lending:						
Originated	950,006	47,375	9.92%	857,775	35,425	8.19%
Purchased	1,520,215	69,519	9.10%	626,552	25,490	8.07%
Total National Lending	2,470,221	116,894	9.41%	1,484,327	60,915	8.14%
Total	$ 2,523,870	$ 119,425	9.41%	$ 1,545,498	$ 63,307	8.13%

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the six months ended December 31, 2022, transactional income for the six months ended December 31, 2023 increased by $483 thousand, while regularly scheduled interest and accretion increased by $43.8 million due to the increase in average balances. The total return on purchased loans for the six months ended December 31, 2023 was 9.1%, an increase from 8.1% for the six months ended December 31, 2022. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Six Months Ended December 31,			
	2023		2022	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 64,460	8.44%	$ 20,688	6.55%
Transactional income:				
Release of allowance for credit losses on purchased loans	226	0.03%	-	0.00%
Accelerated accretion and loan fees	5,059	0.66%	4,802	1.52%
Total transactional income	5,285	0.69%	4,802	1.52%
Total	$ 69,745	9.13%	$ 25,490	8.07%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on real estate owned, and release of allowance for credit losses on purchased loans recorded during the period divided by the average invested balance on an annualized basis. The total return does not include the effect of purchased loan charge-offs or recoveries in the periods shown. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the six months ended December 31, 2023 and 2022.

	Six Months Ended December 31,					
	2023			2022		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Securities	$ 59,986	$ 1,043	3.46%	$ 61,064	$ 419	1.36%
Loans (1) (2)	2,523,870	119,425	9.41%	1,545,498	63,307	8.13%
Federal Home Loan Bank stock	21,790	881	8.04%	4,069	61	2.97%
Short-term investments (3)	203,946	5,480	5.34%	156,123	2,278	2.89%
Total interest-earning assets	2,809,592	126,829	8.98%	1,766,754	66,065	7.42%
Cash and due from banks	2,500			2,514		
Other non-interest earning assets	62,753			94,831		
Total assets	$ 2,874,845			$ 1,864,099		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 499,331	$ 10,781	4.29%	$ 522,845	$ 5,169	1.96%
Money market accounts	243,725	4,142	3.38%	247,304	1,211	0.97%
Savings accounts	106,820	1,477	2.75%	131,191	567	0.86%
Time deposits	999,993	24,033	4.78%	387,480	5,751	2.94%
Total interest-bearing deposits	1,849,869	40,433	4.35%	1,288,820	12,698	1.95%
Federal Home Loan Bank advances	496,169	11,847	4.75%	72,949	933	2.54%
Capital lease obligations	21,568	425	3.92%	10,429	33	0.63%
Total interest-bearing liabilities	2,367,606	52,705	4.43%	1,372,198	13,664	1.98%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	168,348			228,800		
Other liabilities	24,842			9,118		
Total liabilities	2,560,796			1,610,116		
Shareholders' equity	314,049			253,983		
Total liabilities and shareholders' equity	$ 2,874,845			$ 1,864,099		
Net interest income		$ 74,124			$ 52,401	
Interest rate spread			4.55%			5.44%
Net interest margin (4)			5.25%			5.88%
Cost of funds (5)			4.13%			1.69%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.
(2) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.
(3) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.
(4) Net interest margin is calculated as net interest income divided by total interest-earning assets.
(5) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest-bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) changes attributable to a combination of changes in rate and volume (change in rates multiplied by the changes in volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Six Months Ended December 31, 2023 Compared to 2022		
	Change Due to Volume	Change Due to Rate	Total Change
	(In thousands)		
Interest-earning assets:			
Securities	$ (7)	$ 631	$ 624
Loans	44,890	11,228	56,118
Federal Home Loan Bank stock	590	230	820
Short-term investments	851	2,351	3,202
Total interest-earning assets	46,324	14,440	60,764
Interest-bearing liabilities:			
Interest-bearing deposits	10,660	17,075	27,735
Federal Home Loan Bank advances	9,487	1,427	10,914
Capital lease obligations	66	326	392
Total interest-bearing liabilities	20,213	18,828	39,041
Total change in net interest income	$ 26,111	$ (4,388)	$ 21,723

Provision for Credit Losses

On a quarterly basis, the Bank determines the amount of the ACL that is appropriate to provide for losses inherent in the Bank's loan portfolios, with the provision for credit losses determined by the net change in the ACL. See Part I. Item 1. "Notes to Unaudited Financial Statements — Note 4: Loans, Allowance for Loan Losses and Credit Quality" for further discussion.

Three Months Ended December 31, 2023 and 2022

The provision for credit losses for the quarter ended December 31, 2023 was reported using the CECL methodology, whereas the provision for loan losses for the quarter ended December 31, 2022 was reported using the incurred loss methodology. Provision for credit losses increased by $111 thousand to $436 thousand for the quarter ended December 31, 2023, compared to $325 thousand in the quarter ended December 31, 2022.

Six Months Ended December 31, 2023 and 2022

The provision for credit losses for the six months ended December 31, 2023 was reported using the CECL methodology, whereas the provision for loan losses for the six months ended December 31, 2022 was reported using the incurred loss methodology. Provision for credit losses decreased by $550 thousand to $625 thousand for the six months ended December 31, 2023, compared to $1.2 million in the six months ended December 31, 2022. The decrease in the provision for credit losses reflects a decrease in originated loans during the six months ended December 31, 2023, compared to an increase in the general reserve due to loan growth during the six months ended December 31, 2022.

Noninterest Income

Three Months Ended December 31, 2023 and 2022

Noninterest income increased by $165 thousand for the quarter ended December 31, 2023, compared to the quarter ended December 31, 2022, principally due to the following:

- An increase in gain on sale of Small Business Administration ("SBA") loans of $535 thousand, due to the sale of $11.5 million in SBA loans during the quarter ended December 31, 2023 as compared to the sale of $1.1 million during the quarter ended December 31, 2022; and
- An increase in unrealized gain on equity securities of $219 thousand; partially offset by,
- A decrease in correspondent fee income of $566 thousand from the recognition of correspondent fees and related net servicing income.

Six Months Ended December 31, 2023 and 2022

Noninterest income decreased by $715 thousand for the six months ended December 31, 2023, compared to the six months ended December 31, 2022, principally due to the following:

- A decrease in correspondent fee income of $1.9 million from the recognition of correspondent fees and related net servicing income; partially offset by,
- An increase in gain on sale of SBA loans of $751 thousand, due to the sale of $16.8 million in SBA loans during the six months ended December 31, 2023 as compared to the sale of $2.1 million during the six months ended December 31, 2022; and
- An increase in unrealized gain on equity securities of $279 thousand.

Noninterest Expense

Three Months Ended December 31, 2023 and 2022

Noninterest expense increased by $2.0 million for the quarter ended December 31, 2023 compared to the quarter ended December 31, 2022, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.5 million, primarily due to increases in stock compensation expense, regular compensation expense, and incentive compensation expense;
- An increase in loan expense of $190 thousand, primarily due to increased loan collection expense;
- An increase in deposit insurance expense of $143 thousand, primarily due to the increase in average assets and decrease in Tier 1 leverage ratio, which increased the Bank's assessment rate; and
- An increase in data processing fees of $131 thousand, primarily due to increased IT hardware hosted expense and IT software subscription expense.

Six Months Ended December 31, 2023 and 2022

Noninterest expense increased by $4.7 million for the six months ended December 31, 2023 compared to the six months ended December 31, 2022, primarily due to the following:

- An increase in salaries and employee benefits expense of $2.9 million, primarily due to increases in stock compensation expense, regular compensation expense, and incentive compensation expense;
- An increase in other noninterest expense of $541 thousand, primarily due to increased travel expense, charitable contributions expense, and directors' fee expense;
- An increase in deposit insurance expense of $403 thousand, primarily due to the increase in average assets and decrease in Tier 1 leverage ratio, which increased the Bank's assessment rate;
- An increase in professional fees of $302 thousand, primarily due to increased other professional fees and accounting and audit fees; and
- An increase in loan expense of $199 thousand, primarily due to increased loan collection expense.

Income Taxes

Three Months Ended December 31, 2023 and 2022

Income tax expense increased by $3.6 million to $8.3 million, or an effective tax rate of 37.1%, for the quarter ended December 31, 2023, compared to $4.7 million, or an effective tax rate of 29.5%, for the quarter ended December 31, 2022. The increase in income tax expense is due to an increase in pre-tax income, a decrease in tax benefits arising from the exercise of stock options of $673 thousand, and a write-down of the Bank's deferred tax asset of $957 thousand related to a Massachusetts income tax law passed in the quarter ended December 31, 2023. The law changes the apportionment factors for Massachusetts income and requires entities to write-down any deferred tax assets to the enacted rate at which it expects to realize the deferred tax asset in the future. Excluding the deferred tax asset write-down, the effective tax rate for the quarter ended December 31, 2023 was 32.9%.

Six Months Ended December 31, 2023 and 2022

Income tax expense increased by $7.2 million to $15.5 million, or an effective tax rate of 34.6%, for the six months ended December 31, 2023, compared to $8.3 million, or an effective tax rate of 29.7%, for the six months ended December 31, 2022. The increase in income tax expense is due to an increase in pre-tax income, a decrease in tax benefits arising from the exercise of stock options of $1.0 million, and a write-down of the Bank's deferred tax asset of $957 thousand related to a Massachusetts income tax law passed in the six months ended December 31, 2023. The law changes the apportionment factors for Massachusetts income and requires entities to write-down any deferred tax assets to the enacted rate at which it expects to realize the deferred tax asset in the future. Excluding the deferred tax asset write-down, the effective tax rate for the six months ended December 31, 2023 was 32.5%.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Information required by this Item 3 is included in Item 2. *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management"* and such information is incorporated into this Item 3 by reference.

Item 4. Controls and Procedures

The Bank maintains controls and procedures designed to ensure that information required to be disclosed in the reports the Bank files or submits under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the FDIC, and that such information is accumulated and communicated to the Bank's management, including the Chief Executive Officer and Chief Financial Officer (the Bank's principal executive officer and principal financial officer, respectively), as appropriate to allow for timely decisions regarding timely disclosure. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

The Bank's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q.

Based on this evaluation of the Bank's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 31, 2023.

During the six months ended December 31, 2023, the Bank implemented new CECL accounting policies, procedures, and controls as part of its adoption of ASU No. 2016-13 and subsequent ASUs issued to amend ASC Topic 326. There were no other changes in the Bank's internal control over financial reporting that have materially affected, or are reasonable likely to materially affect, the Bank's internal control over financial reporting during the six months ended December 31, 2023.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended June 30, 2023 filed with the FDIC on September 8, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes issuances of the Bank's outstanding common shares in the second quarter of fiscal year 2024:

Period	Total Number of Shares Issued	Average Price Received Per Share	Total Number of Shares Issued as Part of Publicly Announced Plans or Programs	Maximum Amount that May be Issued Under the Plans or Programs
October 1, 2023 - October 31, 2023	-	$ 0.00	-	$ -
November 1, 2023 - November 30, 2023	-	0.00	-	-
December 1, 2023 - December 31, 2023	12,760	42.74	12,760	40,923,679
	12,760	$ 42.74	12,760	$ 40,923,679

On December 12, 2022, the Board of Directors approved and initiated an at-the-market offering of up to $50.0 million of common stock. On November 6, 2023, the Bank received approval to extend the plan through November 30, 2024. The Bank has issued 206,371 shares at a weighted average net price per share of $41.38 through December 31, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended December 31, 2023, none of the Bank's directors or executive officers (as defined in Rule 16a-1(f) of the Exchange Act had in place, or adopted, modified, or terminated any contract, instruction, or written plan for the purchase or sale of Bank securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" (as such term is defined in the Item 408 of Regulation S-K).

Item 6. Exhibits

Exhibits No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
10.1+	Letter Agreement between Northeast Bank and Richard Cohen, dated January 17, 2024 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on January 24, 2024).

* Filed herewith
** Furnished herewith
\+ Management contract or compensatory plan or agreement

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 8, 2024

NORTHEAST BANK

By:/s/ Richard Wayne
Richard Wayne
President and Chief Executive Officer

By:/s/ Richard Cohen
Richard Cohen
Chief Financial Officer

Exhibit 31.1 Certification of the Chief Executive Officer

Chief Executive Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, Richard Wayne, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Northeast Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 8, 2024

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

Chief Financial Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, Richard Cohen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Northeast Bank;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 8, 2024

/s/ Richard Cohen
Richard Cohen
Chief Financial Officer

Exhibit 32.1. Certificate of the Chief Executive Officer

Certification of the Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank for the dates and the periods covered by the Report.

This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 8, 2024

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

Certification of the Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Cohen, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank for the dates and the periods covered by the Report.

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

February 8, 2024

/s/ Richard Cohen
Richard Cohen
Chief Financial Officer