Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

This report is required by law: Section 5(c)(1) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)); section 10(b)(2) of the Home Owners' Loan Act (12 U.S.C. § 1467a(b)(2)); sections 102 (a)(1), 165, and 618 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. §§ 5311(a)(1), 5365, and 1850a(c)(1)); and sections 8(a) and 13(a) of the International Banking Act of 1978 (12 U.S.C. §§ 3106(a) and 3108(a)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

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

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

I, James J. Mawn
Name of the Holding Company Director and Official

Director and President
Title of the Holding Company Director and Official

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

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

James J. Mawn, Pres.
Signature of Holding Company Director and Official

3/29/2023
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2022
Month / Day / Year

Reporter's Name, Street, and Mailing Address

Northern Bancorp, Inc.
Legal Title of Holding Company

275 Mishawum Road
(Mailing Address of the Holding Company) Street / P.O. Box

Woburn	MA	01801
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Sean Mahoney	General Counsel
Name	Title

781.404.1952
Area Code / Phone Number / Extension

781.937.5416
Area Code / FAX Number

smahoney@nbtc.com
E-mail Address

None (subsidiary bank website is www.nbtc.com)
Address (URL) for the Holding Company's web page

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

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

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

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

For Federal Reserve Bank Use Only

RSSD ID ______________
C.I. ______________

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

Report Item 1: Annual Report to Shareholders

For holding companies not registered with the SEC, **indicate status of Annual Report to Shareholders:**

☐ is included with the FR Y-6 report

☐ will be sent under separate cover

☒ is not prepared

Checklist

The checklist below is provided to assist the holding company in filing all the necessary responses and verifying changes from the prior year to the various report items. The completed checklist should be submitted with the report. Please see section A of the General Instructions for additional guidance.

Verification of Changes

All Reporters must respond to the following questions by checking the Yes or No box below, as appropriate.

Did the holding company have changes to any reportable FR Y-6 items (2a, 2b, 3, or 4) from the prior year?

☒ Yes ☐ No

If checked Yes, complete the remaining checklist for Report Items 2a, 2b, 3, and 4. For each Report Item, indicate whether there are changes from the prior year by checking Yes or No below. See section A of the General Instructions for additional information.

Report Item 2a: Organization Chart

☒ Yes ☐ No

If checked Yes, the Reporter must submit the organization chart as specified in Report Item 2.a instructions.

Report Item 2b: Domestic Branch Listing

☐ Yes ☒ No

If checked Yes, the Reporter must submit the domestic branch listing as specified in Report Item 2.b instructions.

Report Item 3: Securities Holders

☐ Yes ☒ No

If checked Yes, the Reporter must submit the information as specified in Report Item 3 instructions.

Report Item 4: Insiders

☒ Yes ☐ No

If checked Yes, the Reporter must submit the information as specified in Report Item 4 instructions.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

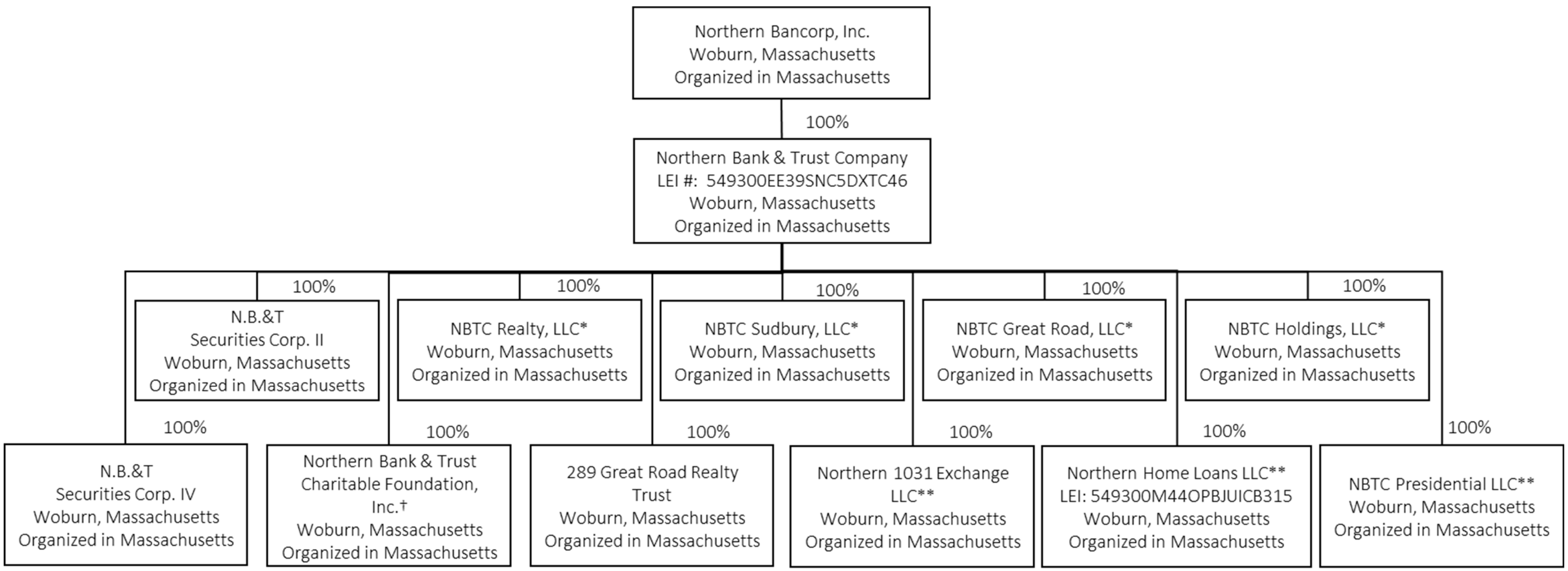
City State Zip Code

Physical Location (if different from mailing address)

Form FRY-6
Northern Bancorp, Inc.
Woburn, Massachusetts
Fiscal Year Ending December 31, 2022

Report Item 1: The bank holding company does not prepare an annual report for its securities holders and is not registered with the U.S. Securities and Exchange Commission. In lieu of an annual report, audited consolidated financial statements for Northern Bancorp, Inc. are attached.

Report Item 2a: Organizational Chart (an entity does not have an LEI unless one is noted for it in the chart below)



* Northern Bank & Trust Company is the sole member and appoints individual bank officers as managers.

** Northern Bank & Trust Company is the sole member and the managing member.

† Northern Bank & Trust Company has power to appoint all the directors of the foundation.

Report Item 2b: Branches

The list of Northern Bank & Trust Company branches provided at https://structurelists.federalreserve.gov/default.aspx is accurate.

Report Item 3: Securities Holders – no changes from December 31, 2021

Report Item 4: Insiders (1), (2), (3)(a)(b)(c), and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Fortunato Salvucci, Weston, Massachusetts, U.S.A.	N/A	Director	Director, Northern Bank & Trust Company	N/A	0.15%	None	Fred Salvucci Corp. (34.6%)
John C. Martini Woburn, Massachusetts, U.S.A.	N/A	Director	Director, Northern Bank & Trust Company	N/A	0.002%	None	None
John W. Sullivan Cohasset, Massachusetts, U.S.A.	Securities Broker	Director	Director, Northern Bank & Trust Company	President, Javelin Securities LLC	0.02%	None	JWS Properties LLC (100%) Javelin Securities LLC (50%)
Mary Elizabeth Mawn-Ferullo Woburn, Massachusetts, U.S.A.	Attorney	Director, Treasurer	Director, Northern Bank & Trust Company Director, Northern Bank & Trust Charitable Foundation, Inc.	Director, President, and Secretary, Mawn & Mawn P.C. Trustee, Mawn and Mawn P.C. 401(k) Plan, Thomas M. Mawn, Jr. Trust Fund B, Westford Center Trust, Franklin Street Nominee	See Dorothy Mawn Group, below	None	Mawn & Mawn, P.C. (50%)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
				Trust, Thomas M. Mawn Jr. 1989 Family Irrevocable Trust, Dorothy Mawn Grandchildren's Trust, Dorothy Mawn Family Children's Trust, Josephine Dalton Trust, Calvin J. Reid Family Trust, Jessica Toby Shoher Trust General Partner, Limited Partner, Thomas and Dorothy Mawn Family Limited Partnership Manager, BUNCRANA LLC Director, Burbeen Free Lecture Fund			
James J. Mawn	President and CEO, Northern Bank & Trust Company	President, Director, Chairman	Director, President and CEO, Northern Bank & Trust Company Director, Clerk, N. B. & T. Securities Corp. II Director, President, N.B. & T. Securities Corp. IV Manager, NBTC Holdings, LLC, NBTC	Director, PV Manager, Inc., Heading Home, Inc. Trustee, Franklin Street Nominee Trust, Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the James J. Mawn Revocable Trust, Old Road Nominee Trust, Mawn Family Mishawum Trust, Mawn Franklin Trust,	See James Mawn Group, below	None	Franklin Street Nominee Trust (35%) Old Road Nominee Trust (50%) Normac Warehouse LLC (33.33%) Normac Warehouse II LLC (33.33%) PV Manager, Inc. (50%)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
			Sudbury, LLC, NBTC Great Road, LLC Director, President, Northern Bank & Trust Charitable Foundation, Inc.	Westford Center Trust, Mawn Residence Remainder Trust, 27 CML Nominee Trust, 198 Mishawum Road Realty Trust Manager, BUNCRANA LLC, Mishawum Properties, LLC, Normac Warehouse LLC, Normac Warehouse II LLC, Presidential Ventures, LLC, Air Force One, LLC, JJM Investments, LLC, J.N. Marine LLC Limited Partner, General Partner, Mawn Family Limited Partnership			Air Force One, LLC (97.50%) JJM Investments, LLC (100%) J.N. Marine LLC (50%)
Alicia J. Mawn-Mahlau, South Easton, Massachusetts, U.S.A.	N/A	Director, Assistant Secretary	Director, Assistant Secretary, Northern Bank & Trust Company Director, Assistant Clerk, N. B. & T. Securities Corp. II Director, Northern Bank & Trust Charitable Foundation, Inc.	Director and Treasurer, Mawn and Mawn, P.C. Trustee, Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the James J. Mawn Revocable Trust Limited Partner, Mawn Family Limited Partnership	See James Mawn Group, below	None	Mawn & Mawn, P.C. (50%)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Donald P. Queenin Woburn, Massachusetts, U.S.A.	N/A	Assistant Treasurer	Director, Northern Bank & Trust Company Director, Treasurer, N B. & T. Securities Corp. II Director, Clerk, N.B. & T. Securities Corp. IV	Chairman, Woburn Redevelopment Authority Treasurer, Woburn Community Educational Foundation, Inc.	0.02%	None	N/A
Mary Catherine Riley Princeton, New Jersey, U.S.A.	N/A	Secretary	Director, Secretary, Northern Bank & Trust Company	Trustee, Mawn Family Children's Trust, Marital Trust under the James J. Mawn Revocable Trust, Family Trust under the James J. Mawn Revocable Trust Limited Partner, Mawn Family Limited Partnership	See James Mawn Group, below	None	N/A
Francis Kenney, Seabrook, New Hampshire, U.S.A.	Executive Vice President/CFO, Northern Bank & Trust Company	Chief Financial Officer	Executive Vice President, Treasurer, CFO, Northern Bank & Trust Company President, N B. & T. Securities Corp. II Treasurer, N.B. & T. Securities Corp. IV,	N/A	None	None	None

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
			Northern 1031 Exchange LLC Manager, NBTC Realty, LLC, NBTC Holdings, LLC, NBTC Sudbury LLC, NBTC Great Road, LLC Director and Treasurer, Northern Bank & Trust Charitable Foundation, Inc. Trustee, 289 Great Road Realty Trust				
Sean Mahoney Weston, Massachusetts, U.S.A.	N/A	General Counsel	General Counsel, Northern Bank & Trust Company Manager, NBTC Holdings, LLC, NBTC Sudbury LLC, NBTC Great Road, LLC	N/A	None	None	None
James Mawn Group (Mawn Family Limited Partnership ; Marital Trust under the James J. Mawn Revocable Trust; James J. Mawn; Family Trust under the James J.	N/A	N/A	N/A	N/A	43.79%	None	N/A

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Mawn Revocable Trust; Mawn Family Children's Trust; Northern Bank & Trust Company, Trustee for James J. Mawn, IRA; Mary Catherine Riley; Sheila E. Carpenter; Cede & Co. FBO Joseph A. Riley IRA; Northern Bank & Trust Company, Trustee for Sam A. Mawn-Mahlau, IRA ; Alicia J. Mawn-Mahlau; Northern Bank Trust & Company, Trustee for M. Catherine Riley, IRA; Louise Mawn; Dominic R. Negri; Marilyn Mawn; Rita M. Barger ; and Rita M. Mawn.)							
Dorothy Mawn Group (Dorothy Mawn Grandchildren's Trust; Thomas and Dorothy Mawn Family Limited Partnership; Mary Elizabeth Mawn-Ferullo; J. Lawrence Mawn; Russell A. Mawn; Catherine A. Webb; Martha J. Robillard;	N/A	N/A	N/A	N/A	34.17%	None	N/A

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3)(a) Title & Position with Holding Company	3(c) Title & Position with Subsidiaries (include names of subsidiaries)	3(c) Title & Position with Other Businesses (include names of other businesses)	4(a) Percentage of Voting Shares in Holding Company	4(b) Percentage of Voting Shares in Subsidiaries (include name of subsidiaries)	4(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (list names of companies and percentage of voting securities held)
Thomas M. Mawn III; Mawn and Mawn P.C. 401(k) Plan; Dorothy Mawn Family Children's Trust; and Hannah A. Robillard)							

Northern Bancorp, Inc. and Subsidiary

Audited Consolidated Financial Statements

Years Ended December 31, 2022 and 2021
With Independent Auditors' Report

NORTHERN BANCORP, INC. AND SUBSIDIARY

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Northern Bancorp, Inc. and Subsidiary

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Northern Bancorp, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March __, 2023 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

To the Board of Directors
Northern Bancorp, Inc. and Subsidiary

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary financial statements of Northern Home Loans, LLC are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Newman & Noyes LLC

Portsmouth, New Hampshire
March 22, 2023

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021

	2022	2021
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 107,113	$ 431,681
Securities available-for-sale, at fair value	96,779	67,220
Equity securities, at fair value	1,150	1,305
Federal Home Loan Bank of Boston stock, at cost	5,935	702
Loans held for sale	309	3,927
Loans	2,530,316	2,291,704
Allowance for loan losses	(45,678)	(40,332)
Loans, net	2,484,638	2,251,372
Accrued interest receivable	12,330	10,101
Premises and equipment, net	42,615	30,619
Cash surrender value of life insurance	45,658	36,929
Deferred tax asset, net	21,382	17,870
Other assets	14,112	17,749
Total assets	$2,832,021	$2,869,475
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$2,239,987	$2,457,103
Federal Home Loan Bank of Boston advances	125,000	-
Subordinated notes payable	91,551	91,287
Finance lease liabilities	1,621	1,697
Other liabilities	34,704	34,584
Total liabilities	2,492,863	2,584,671
Stockholders' equity:		
Preferred stock, $10 par value; 10,000 shares authorized no shares issued or outstanding	-	-
Common stock, $10 par value; 180,000 shares authorized; 100,905 shares issued	1,009	1,009
Additional paid-in capital	4,961	4,961
Retained earnings	373,604	314,749
Accumulated other comprehensive loss	(6,449)	(3,522)
Treasury stock, at cost (37,958 and 37,494 shares, respectively)	(33,967)	(32,393)
Total stockholders' equity	339,158	284,804
Total liabilities and stockholders' equity	$2,832,021	$2,869,475

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2022 and 2021

	2022	2021
	(In thousands, except share and per share data)	
Interest and dividend income:		
Loans	$150,475	$128,312
Securities	1,495	990
Other	1,692	313
Total interest and dividend income	153,662	129,615
Interest expense:		
Deposits	9,506	6,827
Federal Home Loan Bank of Boston advances	1,097	3
Other	33	35
Subordinated notes payable	4,339	4,405
Total interest expense	14,975	11,270
Net interest and dividend income	138,687	118,345
Provision for loan losses	6,015	3,035
Net interest and dividend income after provision for loan losses	132,672	115,310
Noninterest income:		
Customer service fees	2,022	1,778
Earnings on life insurance	729	815
Gains and referral fees on loans sold	583	2,868
Other, net	3,944	2,334
Total noninterest income	7,278	7,795
Noninterest expenses:		
Salaries and employee benefits	30,548	27,547
Net occupancy and equipment	5,032	4,824
Data processing	6,245	5,237
Professional fees	2,107	1,877
Marketing and advertising	1,421	861
FDIC assessment	697	650
Other	7,330	6,254
Total noninterest expenses	53,380	47,250
Income before income taxes	86,570	75,855
Provision for income taxes	24,436	21,197
Net income	$ 62,134	$ 54,658
Net income per common share	$ 982.51	$ 779.21
Weighted average common shares outstanding	63,240	70,146

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2022 and 2021

	2022	2021
	(In thousands)	
Net income	$62,134	$54,658
Other comprehensive loss:		
Unrealized holding losses on securities available-for-sale	(7,255)	(2,338)
Reclassification adjustment for amounts included in net income relating to securities	92	197
Pension liability adjustment	2,988	1,044
Reclassification adjustment for amounts included in net income relating to pension liability adjustment	475	812
Other comprehensive loss	(3,700)	(285)
Income taxes related to items of other comprehensive loss	773	(14)
Other comprehensive loss, net of tax	(2,927)	(299)
Comprehensive income	$59,207	$54,359

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2022 and 2021

(In thousands, except outstanding share data and per share data)

	Shares of Perpetual Preferred Stock Outstanding	Shares of Common Stock Outstanding	Perpetual Preferred Stock	Additional Paid-in Capital Perpetual Preferred Stock	Common Stock	Additional Paid-in Capital Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stock-holders' Equity
Balance, December 31, 2020	248	70,977	$ 2	$ 6,152	$ 1,009	$ 4,961	$262,491	$(3,223)	$(7,430)	$ 263,962
Net income	-	-	-	-	-	-	54,658	-	-	54,658
Dividends declared – common stock ($33.82 per share)	-	-	-	-	-	-	(2,400)	-	-	(2,400)
Redemption of perpetual preferred stock	(248)	-	(2)	(6,152)	-	-	-	-	-	(6,154)
Purchase of 600 shares of treasury stock ($2,200 per share)	-	(600)	-	-	-	-	-	-	(1,320)	(1,320)
Purchase of 6,966 shares of treasury stock ($3,394 per share)	-	(6,966)	-	-	-	-	-	-	(23,643)	(23,643)
Other comprehensive loss	-	-	-	-	-	-	-	(299)	-	(299)
Balance, December 31, 2021	-	63,411	-	-	1,009	4,961	314,749	(3,522)	(32,393)	284,804
Net income	-	-	-	-	-	-	62,134	-	-	62,134
Dividends declared – common stock ($51.71 per share)	-	-	-	-	-	-	(3,279)	-	-	(3,279)
Purchase of 464 shares of treasury stock ($3,394 per share)	-	(464)	-	-	-	-	-	-	(1,574)	(1,574)
Other comprehensive loss	-	-	-	-	-	-	-	(2,927)	-	(2,927)
Balance, December 31, 2022	-	62,947	$ -	$ -	$ 1,009	$ 4,961	$373,604	$(6,449)	$(33,967)	$ 339,158

See accompanying notes

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 62,134	$ 54,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,015	3,035
Gains and referral fees on loans sold	(583)	(2,868)
Amortization of debt issuance costs	264	259
(Accretion) amortization of deferred loan origination fees/costs	(393)	914
Amortization of low-income housing investment	399	445
Gain on disposal of assets	(161)	-
Depreciation and amortization of fixed assets	1,975	1,848
Net amortization of securities	92	226
Net loss on equity securities	181	38
Gain on sale of debt securities, available-for-sale	-	(29)
Deferred income tax benefit	(2,739)	(2,729)
Earnings on life insurance	(729)	(815)
Proceeds from sale of loans held for sale	53,219	290,457
Origination of loans held for sale	(49,018)	(279,746)
Change in accrued interest receivable	(2,229)	(1,062)
Change in other assets	3,239	(5,092)
Change in other liabilities	3,584	1,607
Net cash provided by operating activities	75,250	61,146
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Proceeds from sale	-	5,154
Purchases	(66,428)	(19,012)
Maturities, calls and repayments	29,613	11,495
Activity in equity securities:		
Purchases	(26)	(25)
Proceeds from redemption of Federal Home Loan Bank of Boston stock	9,849	2,751
Purchase of Federal Home Loan Bank of Boston stock	(15,082)	(2,780)
Purchase of bank owned life insurance	(8,000)	-
Loan originations, net of principal payments	(238,888)	(104,645)
Additions to premises and equipment	(13,980)	(2,575)
Proceeds from disposal of assets	170	-
Net cash used in investing activities	(302,772)	(109,637)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(217,116)	293,409
Net borrowings of short-term Federal Home Loan Bank of Boston advances	115,000	-
Net borrowings of long-term Federal Home Loan Bank of Boston advances	10,000	-
Repayments of subordinated debt	-	(25,000)
Repayment of financing lease liabilities	(77)	(67)
Redemption of perpetual preferred stock	-	(6,154)
Stock repurchases, net of sales	(1,574)	(24,963)
Dividends paid	(3,279)	(2,400)
Net cash (used in) provided by financing activities	(97, 046)	234,825
Net (decrease) increase in cash, cash equivalents and restricted cash	(324,568)	186,334
Cash, cash equivalents and restricted cash at beginning of year	431,681	245,347
Cash, cash equivalents and restricted cash at end of year	$107,113	$431,681

NORTHERN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2022 and 2021

	2022	2021
	(In thousands)	
Supplemental disclosures:		
Interest paid	$12,996	$12,413
Income taxes paid	19,670	26,736
Supplemental disclosure of noncash transactions:		
Initial recognition of finance lease right-of-use assets	-	1,764
Initial recognition of finance lease liabilities	-	1,764
Net impact of accounting for available-for-sale securities:		
Investments	(7,163)	(2,141)
Deferred income taxes	1,775	523
Other comprehensive loss	(5,388)	(1,618)
Net impact of accounting for defined benefit retirement plan:		
Other liabilities	3,463	1,856
Deferred income taxes	(1,002)	(537)
Other comprehensive income	2,461	1,319

See accompanying notes

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Northern Bancorp, Inc. and Subsidiary (the Company) include the accounts of its wholly-owned subsidiary, Northern Bank & Trust Company (the Bank) and the Bank's subsidiaries, of which two engage in the purchase and sale of securities on their own behalf and two other entities were established to hold real estate. A subsidiary of the Bank, Northern 1031 Exchange LLC, was created to facilitate Internal Revenue Code (IRC) Section 1031 exchanges. A subsidiary of the Bank, Northern Home Loans LLC, was created as a residential mortgage company. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the industry and were prepared using the accrual basis of accounting. The significant accounting policies of the Company are summarized below to assist the reader in better understanding the consolidated financial statements.

Business

Substantially all of the Company's activities are carried out through the Bank, a state-chartered commercial bank, with thirteen branch locations principally in Middlesex County, Massachusetts. The Bank's primary deposit products are demand, savings and time certificates and its primary lending products are real estate and commercial business loans. The Company also engages in mortgage banking, including the origination, sale and servicing of mortgage loans.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheets and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses and the determination of the funded status of the defined benefit plan.

Revenue Recognition

The core principles of ASC/Topic 606 *Revenue from Contracts with Customers* require an entity to recognize revenue to depict the transfer of goods and services to customers as performance obligations are satisfied. While the majority of the Company's revenue is generated from contracts with customers, our primary sources of revenue, interest and dividend income (primarily loan interest income), mortgage banking activities, and gains/losses on securities, are outside of the scope of ASC/Topic 606.

The Company notes that the applicable revenue streams and related contracts within the scope of ASC/Topic 606 include customer service fees, investment sales income, and other service charges. Noninterest revenue streams in-scope of ASC/Topic 606 are discussed below.

Customer Service Fees

Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service

1. Summary of Significant Accounting Policies (Continued)

charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Investment Sales Income
Investment sales income consists of commissions from sales of mutual funds and other investments. The Company's performance obligation for investment sales income is satisfied on the trade date of the investment sales. The related revenue is recognized when payment is received, which is typically in the following month.

Other Service Charges
Other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM, or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for other service charges is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The continued spread of COVID-19 has caused disruptions in the national and local economies and across a variety of industries due in part to public health measures implemented by state and local governments and the resulting sustained economic uncertainty. These issues have affected the financial markets including a significant decline in market interest rates and volatility in the securities market. Despite the many government stimulus programs introduced during the pandemic, the extent of any prolonged impact to the economy could adversely affect the ability of the Company's borrowers to satisfy their obligations, decrease the demand for loans, disrupt banking operations, impact liquidity, or cause a decline in collateral values. While management has taken measures to mitigate the impact of the pandemic, such as temporary branch closures, transitioning to a larger remote workforce, and participating in government stimulus programs, the long-term impact to the Company remains uncertain.

A significant component of the Company's business activities is with customers located within New England.

Cash and Due from Banks

Cash and due from banks include cash on hand, amounts due from banks and short-term investments with an original maturity of ninety days or less.

1. Summary of Significant Accounting Policies (Continued)

Securities

Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive (loss) income, net of tax effects. Equity securities with readily determinable fair values are recorded at fair value, with changes in fair value reported in earnings, net of tax effects.

Premiums and discounts on securities are recognized in interest income using the interest method. Premiums are recognized to the securities' earliest call date, while discounts are recognized over the full term of the securities. For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For any other declines in the estimated fair value of available-for-sale securities below their cost that are deemed to be other than temporary, the credit loss portion of impairment is recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Interest income on debt securities is included in income as earned, based on rates applied to principal amounts outstanding.

Federal Home Loan Bank of Boston (FHLBB) Stock

The Company, as a member of the Federal Home Loan Bank, is required to maintain an investment in capital stock in the FHLBB in order to borrow from the FHLBB. This stock is carried at its cost and can only be sold to the FHLBB based on its current redemption policies. The Company reviews its investment for impairment based on the ultimate recoverability of the cost basis in the FHLBB stock. As of December 31, 2022 and 2021, no impairment has been recognized.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value as determined in the aggregate by outstanding commitments from investors or, in the absence of such commitments, the current investor yield requirements. Cost approximates fair value.

Loans

The Company grants mortgage, commercial and consumer loans to customers in a broad, diversified geographic area. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the loan's geographic market.

1. Summary of Significant Accounting Policies (Continued)

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

Interest on loans is included in income as earned based on rates applied to principal amounts outstanding. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest and principal, or when a loan becomes contractually past due by ninety days, unless the loan is well secured and in the process of collection. Past due status is based on contractual terms of the loan. When a loan is placed on non-accrual status, all interest previously accrued is reversed against current period interest income. Interest subsequently received on non-accrual loans, including impaired loans, is either applied against principal or recorded as income according to management's judgment as to the collectability of principal. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) established the Paycheck Protection Program (PPP), a stimulus program which granted SBA-guaranteed, forgivable loans to businesses to encourage employee retention by subsidizing payroll and certain other costs during the pandemic. These loans were originated and funded by financial institutions and are an extension of the Small Business Administration's (SBA) 7(a) loan program. The SBA reopened the PPP to new lending in January 2021, pursuant to the Consolidated Appropriations Act (CAA), which was signed into law on December 27, 2020. The Company funded PPP loans originated in 2020 with borrowings from the Paycheck Protection Program Liquidity Facility (PPPLF) administered by the Federal Reserve Bank. As of December 31, 2022 and 2021, the Company fully repaid all PPPLF funding. The Company originated 0 and 579 PPP loans totaling $0 and $93,370,000 and recorded deferred fees of $0 and $3,759,000 and deferred costs of $0 and $433,000 during the years ended December 31, 2022 and 2021, respectively. Origination fees, net of costs, are being amortized into interest income over the contractual life of each loan. Included in the loan portfolio at December 31, 2022 and 2021 was 2 and 256 PPP loans amounting to $27,000 and $37,897,000, respectively, which are classified within commercial and industrial loans.

Allowance for Loan Losses

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

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

1. Summary of Significant Accounting Policies (Continued)

Specific Component:

The specific component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payments 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, reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring (TDR). All TDRs are classified as impaired and therefore subject to a specific review for impairment.

The Company has granted requests for payment deferrals to borrowers affected by the COVID-19 pandemic which are not classified as TDRs in accordance with Section 4013 of the CARES Act and regulatory guidelines for working with borrowers affected by COVID-19. Interest continues to accrue during the deferral period with a balloon payment due upon maturity. Such loans are not considered delinquent if they are being paid in accordance with the modified terms.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate at the time of impairment or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent. Generally, impairment on TDRs is measured using the discounted cash flow method by discounting expected cash flows by the loan's contractual rate of interest in effect prior to the loan's modification. Loans that have been classified as TDRs and which subsequently default are reviewed to determine if the loan should be deemed collateral dependent. In such an instance, any shortfall between the value of the collateral and the book value of the loan is determined by measuring the recorded investment in the loans against the fair value of the collateral less costs to sell. All loans on non-accrual status are considered to be impaired. When the measurement of the impaired loans is less than the recorded investment in the loan, the impairment is recorded through the allowance for loan losses. The Company charges off the amount of any confirmed loan loss in the period when the loans, or portion of loans, are deemed uncollectible.

General Component:

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the loan segments listed below. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: level/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2022 or 2021.

1. Summary of Significant Accounting Policies (Continued)

Although not separately segmented, loans subject to COVID-19 modifications are monitored within their respective segments for purposes of identifying any potential problem loans and to ensure that their respective risks are captured in the allowance model. PPP Loans are considered fully guaranteed loans within the allowance model therefore no reserve is being applied.

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

Commercial & Industrial (C&I) – 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. A weakened economy, and the resulting decreased consumer spending, will have an effect on the credit quality in this segment. Also included within this segment are PPP loans. These loans are 100% guaranteed by the SBA and are subject to forgiveness if the borrower complies with the employee retention requirements and other terms of the legislation.

Commercial real estate – Loans in this segment include both income-producing properties and owner-occupied properties. The underlying cash flows generated by the properties may be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which will, in turn, have an effect on the credit quality of this segment.

Construction – Loans in this segment are collateralized by real estate for construction and land intended for development. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are predominantly collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Home equity lines of credit – Loans in this segment are typically collateralized by a subordinate lien position on owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Other – secured & unsecured – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Unallocated Component:

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

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded

1. Summary of Significant Accounting Policies (Continued)

or become payable. The credit risk associated with the commitments is evaluated in a manner similar to the allowance for loans losses. The reserve for off-balance commitments is included in other liabilities in the balance sheet. The related provision for off-balance sheet credit losses is included in non-interest expense in the consolidated income statement.

Servicing Assets

The Company services mortgage loans for others. Mortgage servicing assets are recognized at fair value as separate assets when rights are acquired through sale of financial assets. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income, giving consideration to prepayment speeds. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing assets by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount. Changes in the valuation allowance are reported in income from mortgage banking activities.

Derivative Financial Instruments- Mortgage Banking Derivatives

The Company enters into interest rate lock commitments (IRLCs) for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments. Outstanding IRLCs expose the Company to the risk that the price of mortgage loans underlying the IRLCs may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes in fair value recorded as a component of gain and referral fees on loans sold in the consolidated statements of income. Changes in the fair value of IRLCs subsequent to inception are based on changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and changes in the probability that the loan will fund within the terms of the commitment, which is affected primarily by changes in mortgage interest rates and the passage of time. The notional amount of IRLCs was $456,000 and $20,018,000 as of December 31, 2022 and 2021, respectively. The fair value of such commitments was an asset (included in other assets) of $3,000 and $108,000, and a liability (included in other liabilities) of $0 and $16,000 at December 31, 2022 and 2021, respectively.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government-guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing.

1. Summary of Significant Accounting Policies (Continued)

In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to transfer other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. It is a general practice to charge the cost of maintenance and repairs to earnings when incurred. Leasehold improvements are amortized on a straight-line basis over their estimated useful lives, or the expected lease term, whichever is less. The expected lease term includes option periods to the extent that the exercise of such options is reasonably assured. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

Other Real Estate Owned

Other real estate owned (OREO) consists of properties acquired through, or in lieu of, foreclosure as well as former banking premises for which banking use is no longer contemplated. Assets are held for sale and are initially recorded at fair value, less estimated costs to sell, at the date of foreclosure or when control is established, establishing a new cost basis. Any initial valuation adjustment is recorded against the allowance for loan losses with subsequent adjustment recognized as OREO expense. Valuations are periodically performed by management and the assets are carried at the lower of cost or fair value less estimated costs to sell. Other real estate owned amounted to $0 as of December 31, 2022 and 2021.

The recorded investment in residential mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $375,000 and $0 as of December 31, 2022 and 2021, respectively.

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor’s assets regardless of whether formal foreclosure proceedings take place. The Company classifies residential real estate as in-substance repossessed or foreclosed upon either obtaining legal title to the property upon completion of a foreclosure or when the borrower conveys all interest in the property to the Company to satisfy the loan through a completion of a deed in lieu of foreclosure or through a similar legal agreement.

Debt Issuance Costs

Debt issuance costs incurred relating to the issuance of subordinated notes payable, less amortization, are recorded against the principal balance of the related debt and are being amortized on a level yield basis, to the call date of the related notes.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

1. Summary of Significant Accounting Policies (Continued)

Net Income per Common Share

Net income per common share is the equivalent of basic and diluted earnings per share. It is computed by dividing net income available to common stockholders, which consists of net income reduced by dividends declared on preferred stock, by the weighted average number of common shares outstanding.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Accumulated Other Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, and certain pension liability adjustments, are reported as a separate component of the equity section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income.

The change in accumulated other comprehensive loss for the years ended December 31, 2022 and 2021 is comprised of the following:

	Net Unrealized (Losses) Gains On Securities Available-for-Sale	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Loss
		(In thousands)	
Balance at December 31, 2020	$ 1,390	$ (4,613)	$ (3,223)
Other comprehensive (loss) income, net of taxes of $523, and $(537), respectively	(1,618)	1,319	(299)
Balance at December 31, 2021	(228)	(3,294)	(3,522)
Other comprehensive (loss) income, net of taxes of $1,775 and $(1,002), respectively	(5,388)	2,461	(2,927)
Balance at December 31, 2022	$ (5,616)	$ (833)	$ (6,449)

1. Summary of Significant Accounting Policies (Continued)

The reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2022 and 2021 are comprised of the following:

Details About Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss		Affected Line in the Statements Where Net Income is Presented
	2022	2021	
	(In thousands)		
Net amortization of securities	$ 92	$ 226	Interest income on securities
Gain realized through sale of securities	-	(29)	Other income
Tax effect	(23)	(48)	Provision for income taxes
	$ 69	$ 149	Net income
Amortization of defined benefit pension items			
Prior service costs	$ 48	$ (3)	
Actuarial losses	427	815	
	475	812	Other expense
Tax effect	(137)	(235)	Provision for income taxes
	$ 338	$ 577	Net income

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some of the deferred taxes will not be realized.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the “more-likely-than-not” threshold, based upon the technical merits of the position. Estimated interest and penalties, if applicable, related to uncertain tax positions are included as a component of income tax expense. No interest or penalties were recorded for the years ended December 31, 2022 or 2021. Management has determined that the Company has not taken, nor does it expect to take, any material uncertain tax positions in any income tax return at December 31, 2022 or 2021 which require accrual or disclosure.

1. Summary of Significant Accounting Policies (Continued)

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is possible and an amount or range of loss can be reasonably established. Management does not believe there currently are such matters that will have a material effect on the consolidated financial statements.

Marketing and Advertising

The Company's policy is to expense marketing and advertising costs as incurred. These expenses were $1,421,000 and $861,000 for the years ended December 31, 2022 and 2021, respectively.

Operating Segments

While senior management monitors profitability of several segments and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating results are not reviewed by senior management to make resource allocation or performance decisions. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications

Certain 2021 accounts have been reclassified to conform to the 2022 presentation.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. In May 2019, the FASB issued ASU 2019-05 to provide entities impacted by ASU 2016-13 with targeted transition relief upon adoption. ASU 2019-05 provided that for certain instruments within the scope of ASU 2016 - 13 the option to irrevocably elect the fair value option in accordance with Subtopic 825-10, Financial Instruments – Overall (ASC 825), applied on an instrument-by-instrument basis. The fair value option election does not apply to HTM debt securities. An entity that elects the fair value option is to apply the guidance in Subtopics 820-10, Fair Value Measurement – Overall, and ASC 825-10. This ASU is effective for fiscal years beginning after December 15, 2022 and for interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.

1. Summary of Significant Accounting Policies (Continued)

Upon the adoption of this ASU, the change from the incurred loss methodology to the CECL methodology will be recognized through an adjustment to retained earnings, net of tax. Based on a preliminary analysis of its current expected credit loss methodology, management has estimated the adoption of this guidance will result in an increase of $2,722,000 to its allowance for loan losses and an increase of $1,519,000 to its reserve for unused commitments.

In December 2022 the FASB issued ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848, which extends the period of time preparers can utilize the reference rate reform relief guidance. In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)- Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU contains practical expedients for reference rate reforms related activities that impact debt, leases, and other contracts that utilize LIBOR as the benchmark interest rate. This guidance is optional and may be elected over time as reference rate reform activities occur. ASU No. 2020-04 became effective for all entities on March 12, 2020 and, due to the issuance of ASU 2022-06, will be in effect through December 31, 2024 (previously December 31, 2022). Although the Company is party to contracts which utilize LIBOR as a benchmark, this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments- Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures. This ASU eliminates the TDR recognition and measurement guidance and, instead, requires that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. This ASU also enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For public business entities, this amendment requires than an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross write-off information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination. ASU No. 2022-02 is effective for entities that have adopted ASU No. 2016-13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU No. 2016-13, the effective date is the same as the effective dates in ASU No. 2016-13. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

2. Investment Securities

The Company carries investment securities at fair value. A summary of the amortized cost and fair values of investment securities at December 31 follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(In thousands)		
2022				
Available for sale securities:				
U.S. Treasuries	$ 75,520	$ –	$ (4,630)	$70,890
Bonds of U.S. Government-sponsored entities	6,529	–	(1,260)	5,269
Municipal	451	–	(9)	442
Mortgage-backed	21,741	18	(1,581)	20,178
Total debt securities	$104,241	$ 18	$ (7,480)	$96,779
Equity securities:				
Mutual fund CRA investment				$ 1,150
Total equity securities				$ 1,150

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(In thousands)		
2021				
Available for sale securities:				
U.S. Treasuries	$35,118	$ –	$ (858)	$34,260
Bonds of U.S. Government-sponsored entities	6,520	–	(284)	6,236
Municipal	459	23	–	482
Mortgage-backed	25,422	912	(92)	26,242
Total debt securities	$67,519	$ 935	$ (1,234)	$67,220
Equity securities:				
Mutual fund CRA investment				$ 1,305
Total equity securities				$ 1,305

At December 31, 2022, debt securities with an estimated fair value of $49,585,000 were pledged as collateral to secure municipal deposits. At December 31, 2021, debt securities with an estimated fair value of $60,881,000, were pledged as collateral to secure municipal deposits.

2. Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the issuer, in certain instances, has the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 38,624	$ 38,560
Due after one year through five years	30,538	26,973
Due after five years	13,338	11,068
Mortgage-backed securities, amortizing monthly	21,741	20,178
Total debt securities	$104,241	$ 96,779

For the years ended December 31, 2022 and 2021, proceeds from sales of debt securities available-for-sale amounted to $0, and $5,154,000, respectively. Gross realized gains from the sales of securities available-for-sale amount to $0, and $29,000, respectively.

At December 31, 2022 and 2021, there were no holdings of securities of any issuer, other than U.S. Government and agency securities, in an amount greater than 10% of stockholders' equity.

Unrealized losses relating to the change in fair value of equity securities, recorded in non-interest expense, amounted to $181,000 and $38,000 for the years ended December 31, 2022 and 2021, respectively. No equity securities were sold during the years ended December 31, 2022 or 2021.

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

	Less Than Twelve Months			Twelve Months or Greater		
	Number Of Securities	Gross Unrealized Losses	Fair Value	Number Of Securities	Gross Unrealized Losses	Fair Value
Available-for-sale securities			(Dollars in Thousands)			
2022						
Debt Securities:						
U.S. Treasuries	13	$ (120)	$40,498	15	$ (4,510)	$30,392
Bonds of U.S. Government sponsored agencies	–	–	–	2	(1,260)	5,269
Municipal	2	(9)	442	–	–	–
Mortgage-backed	20	(986)	15,177	4	(595)	3,423
Total available-for-sale securities	35	$(1,115)	$56,117	21	$(6,365)	$39,084

2. Investment Securities (Continued)

	Less Than Twelve Months			Twelve Months or Greater		
	Number Of Securities	Gross Unrealized Losses	Fair Value	Number Of Securities	Gross Unrealized Losses	Fair Value
Available-for-sale securities			(Dollars in Thousands)			
2021						
Debt Securities:						
U.S. Treasuries	15	$(858)	$34,260	–	$ –	$ –
Bonds of U.S. Government sponsored agencies	–	–	–	2	(284)	6,236
Mortgage-backed	5	(92)	4,877	–	–	–
Total available-for-sale securities	20	$(950)	$39,137	2	$(284)	$ 6,236

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

These unrealized losses were primarily caused by changes in interest rates as compared to the underlying yields on the securities. Accordingly, it is expected that the securities would not be settled at an amount less than the par value of the investment. Because the decline in fair value is attributable to changes other than credit quality, and because the Company does not intend to sell the securities before recovery of their amortized cost bases, which may be maturity, the Company does not consider these securities to be other-than-temporarily impaired at December 31, 2022 or 2021.

3. Loans

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

	2022	2021
	(In thousands)	
Commercial and industrial (C & I)	$ 1,085,107	$ 989,231
Real estate:		
Commercial	811,332	811,310
Construction	416,557	302,984
Residential	181,738	152,095
Home equity	29,089	26,441
Other – secured and unsecured	513	1,425
Gross loans	2,524,336	2,283,486
Deferred loan origination fees and other items, net of costs	5,980	8,218
Allowance for loan losses	(45,678)	(40,332)
Total loans	$2,484,638	$2,251,372

3. Loans (Continued)

Within the table above, deferred interest receivable on COVID-modified loans has been presented in the "Deferred loan origination fees and other items, net of costs" line item, totaling $3,856,000 and $9,217,000 as of December 31, 2022 and 2021, respectively.

Management has identified a concentration of credit with borrowers that conduct business with one franchisor. The loan concentration balances total $673,092,000 and $606,883,000 to fifty and forty-eight borrowers as of December 31, 2022 and 2021, respectively. In addition to these figures, as of December 31, 2022 and 2021, the Company has outstanding PPP loan balances of $0 and $3,381,000, respectively, with borrowers that conduct business with this franchisor. At December 31, 2022 and 2021, approximately $584,932,000 and $491,604,000 of the loan concentration balances are to franchisees where the stores are located outside the New England states, respectively. Of the loan concentration balances to franchisee stores located outside the New England states, approximately $95,140,000 and $84,686,000 are collateralized with real estate as of December 31, 2022 and 2021, respectively. Management has taken steps to monitor the concentration and evaluate the risks associated with the concentration.

The Company sold loans and has retained the servicing responsibility and received fees for the services provided. Mortgage loans sold in the secondary mortgage market and serviced for others amounted to $191,313,000 and $209,590,000 as of December 31, 2022 and 2021, respectively. Servicing rights related to these loans are $860,000 and $1,123,000 as of December 31, 2022 and 2021, respectively. No valuation allowance was required as the fair value exceeded the carrying value for each year. Included in those loans were $46,000 and $50,000 at December 31, 2022 and 2021, respectively, which were sold with limited recourse. At December 31, 2022, the maximum liability associated with these limited recourse loans is insignificant.

As of December 31, 2022 and 2021, loans amounting to approximately $864,766,000 and $762,607,000, respectively, are pledged as collateral for the ability to borrow up to approximately $662,886,000 and $544,195,000, respectively, through the Federal Reserve's discount window.

The following tables present activity in the allowance for loan losses and select loan information, by portfolio segment, for the years ended December 31 (in thousands):

	Real Estate							
	Commercial	Construction	Residential	Home Equity	C & I	Other – Secured and Unsecured	Unallocated	Total
2022								
Allowance:								
Beginning balance	$ 9,238	$ 5,472	$ 836	$ 221	$ 23,001	$ 10	$ 1,554	$ 40,332
Provision	(312)	1,272	191	22	4,626	(16)	232	6,015
Charge-offs	–	–	–	–	(1,082)	(1)	–	(1,083)
Recoveries	337	–	5	–	58	14	–	414
Ending balance	$ 9,263	$ 6,744	$ 1,032	$ 243	$ 26,603	$ 7	$ 1,786	$ 45,678
Ending balance: Individually evaluated for impairment	$ –	$ –	$ –	$ –	$ 8,126	$ –	$ –	$ 8,126
Ending balance: Collectively evaluated for impairment	$ 9,263	$ 6,744	$ 1,032	$ 243	$ 18,477	$ 7	$ 1,786	$ 37,552
Loans ending balance:								
Ending balance: Individually evaluated for impairment	$ 2,601	$ 6,505	$ 824	$ –	$ 17,555	$ –	$ –	$ 27,485
Ending balance: Collectively evaluated for impairment	808,731	410,052	180,914	29,089	1,067,552	513	–	2,496,851
Loans ending balance	$ 811,332	$ 416,557	$181,738	$ 29,089	$1,085,107	$ 513	$ –	$2,524,336

3. Loans (Continued)

	Real Estate					Other –		
	Commercial	Construction	Residential	Home Equity	C & I	Secured and Unsecured	Unallocated	Total
2021								
Allowance:								
Beginning balance	$ 8,612	$ 4,212	$ 942	$ 235	$ 21,817	$ 54	$ 1,815	$ 37,687
Provision	530	1,260	(111)	(14)	1,690	(59)	(261)	3,035
Charge-offs	–	–	–	–	(526)	(6)	–	(532)
Recoveries	96	–	5	–	20	21	–	142
Ending balance	$ 9,238	$ 5,472	$ 836	$ 221	$ 23,001	$ 10	$ 1,554	$ 40,332
Ending balance: Individually evaluated for impairment	$ –	$ 523	$ –	$ –	$ 7,092	$ –	$ –	$ 7,615
Ending balance: Collectively evaluated for impairment	$ 9,238	$ 4,949	$ 836	$ 221	$ 15,909	$ 10	$ 1,554	$ 32,717
Loans ending balance:								
Ending balance: Individually evaluated for impairment	$ 13,074	$ 6,578	$ 699	$ –	$ 21,394	$ –	$ –	$ 41,745
Ending balance: Collectively evaluated for impairment	798,236	296,406	151,396	26,441	967,837	1,425	–	2,241,741
Loans ending balance	$ 811,310	$ 302,984	$ 152,095	$ 26,441	$ 989,231	$1,425	$ –	$ 2,283,486

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

The following tables present an aged analysis of past due and nonaccrual loans, by portfolio segment, as of December 31 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Held for Investment	Greater than 90 Days and Still Accruing	Non-Accrual Loans
2022								
C & I	$ -	$ -	$ -	$ -	$1,085,107	$1,085,107	$ -	$14,251
Real estate:								
Commercial Real Estate	-	-	-	-	811,332	811,332	-	2,367
Construction	-	-	6,000	6,000	410,557	416,557	-	6,000
Residential Real Estate	-	-	662	662	181,076	181,738	-	662
Home Equity	-	-	-	-	29,089	29,089	-	-
Other– secured and unsecured	1	-	-	1	512	513	-	-
Total	$ 1	$ -	$ 6,662	$ 6,663	$2,517,673	$2,524,336	$ -	$23,280
2021								
C & I	$ 47	$ 949	$ -	$ 996	$ 988,235	$ 989,231	$ -	$12,608
Real estate:								
Commercial Real Estate	540	-	10,300	10,840	800,470	811,310	10,300	2,532
Construction	-	-	6,000	6,000	296,984	302,984	-	6,000
Residential Real Estate	-	305	390	695	151,400	152,095	-	702
Home Equity	-	-	-	-	26,441	26,441	-	-
Other– secured and unsecured	2	-	-	2	1,423	1,425	-	-
Total	$ 589	$ 1,254	$16,690	$18,533	$2,264,953	$2,283,486	$10,300	$21,842

3. Loans (Continued)

The Company may modify certain loans to retain customers or to maximize collection of the loan balance. All loan modifications are made on a case-by-case basis. When a modification is made on an impaired loan, the Company will evaluate the modified terms to current market terms. When a concession is granted that is not at market terms based on the borrower's financial condition, these loans would be classified as a TDR. As of December 31, 2022 and 2021, loans classified as TDRs totaled approximately $5,815,000 and $4,151,000, respectively.

During 2022 and 2021, new TDRs amounted to $3,077,000 and $908,000, respectively. The pre-modification outstanding recorded investment for 2022 and 2021 amounted to $3,832,000 and $928,000, respectively. New TDRs in 2022 included one commercial and industrial (C&I) loan. The restructured C&I loan resulted in the origination of a new note which was charged off and will be forgiven if the borrower can find alternate financing within a year of the modification date. New TDRs in 2021 included one commercial and industrial (C&I) loan. The restricted C&I loan refinanced existing debt at a below market interest rate.

Additionally, all TDRs in 2022 are performing in accordance with the modified terms and there have been no subsequent defaults or losses on TDRs in 2022 or 2021. The new 2022 TDR is on nonaccrual status and the Company has not allocated a specific allowance at December 31, 2022. The Company has not committed to lend additional amounts to customers with outstanding loans that are classified as TDRs as of December 31, 2022 and 2021.

In March 2020, the Company began granting COVID-19 related loan modifications in accordance with applicable interagency guidance and the provisions of Section 4013 of the CARES Act. As of December 31, 2022 and 2021, 18 and 35 loans amounting to $121,072,000 and $272,524,000, respectively, were subject to modifications under either the interagency guidance or Section 4013 and were performing under the modified terms.

The Company continues to accrue interest on these loans during the deferral period as specified in the guidance. In accordance with interagency guidance issued in March 2020 and Section 4013 (Temporary Relief from Troubled Debt Restructurings) of the CARES Act, these deferrals are not considered TDRs unless the borrower was previously experiencing financial difficulty. Loans are not considered to be delinquent provided the borrower complies with the modified terms of the agreement. Management will continue to periodically assess each loan subject to a modification for purposes of identifying potential problem loans that should be evaluated for impairment.

Certain section 4013-modified loans that are being individually evaluated remain on accrual status due to continued performance of the loans under amended terms and the Company's expectation that it will receive full principal and interest. However, due to uncertainty related to the pandemic, the Company may have recognized an impairment reserve to account for this uncertainty. Management will evaluate the performance of these loans on an individual basis and take appropriate steps when warranted including adjusting the impairment reserve and/or placing the loan on non-accrual status should circumstances dictate.

3. Loans (Continued)

The following tables present impaired loans with no related allowance and with an allowance recorded, by portfolio segment, as of and for the years ended December 31 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2022					
With no related allowance recorded:					
C & I	$ 6,559	$ 8,007	$ -	$ 7,787	$ 498
Real estate:					
Commercial real estate	2,601	2,716	-	6,125	116
Construction	6,505	6,505	-	6,542	33
Residential real estate	824	1,065	-	783	35
Total	16,489	18,293	-	21,237	682
With a related allowance recorded:					
C & I	10,996	11,356	8,126	11,263	553
Real estate:					
Commercial real estate	-	-	-	-	-
Construction	-	-	-	-	-
Residential real estate	-	-	-	-	-
Total	10,996	11,356	8,126	11,263	553
Total:					
C & I	17,555	19,363	8,126	19,050	1,051
Real estate:					
Commercial real estate	2,601	2,716	-	6,125	116
Construction	6,505	6,505	-	6,542	33
Residential real estate	824	1,065	-	783	35
Total impaired loans	$27,485	$29,649	$ 8,126	$32,500	$ 1,235

3. Loans (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2021					
With no related allowance recorded:					
C & I	$12,791	$13,845	$ -	$14,177	$ 717
Real estate:					
Commercial real estate	13,074	13,088	-	13,477	160
Construction	578	578	-	959	59
Residential real estate	699	925	-	2,543	86
Home equity	-	-	-	149	1
Total	27,142	28,436	-	31,305	1,023
With a related allowance recorded:					
C & I	8,603	8,633	7,092	8,234	520
Real estate:					
Commercial real estate	-	-	-	-	-
Construction	6,000	6,000	523	6,000	-
Residential real estate	-	-	-	-	-
Home equity	-	-	-	-	-
Total	14,603	14,633	7,615	14,234	520
Total:					
C & I	21,394	22,478	7,092	22,411	1,237
Real estate:					
Commercial real estate	13,074	13,088	-	13,477	160
Construction	6,578	6,578	523	6,959	59
Residential real estate	699	925	-	2,543	86
Home equity	-	-	-	149	1
Total impaired loans	$41,745	$43,069	$ 7,615	$45,539	$ 1,543

Loan principal and interest payments on impaired loans are recorded as principal reductions, if the remaining balance is not expected to be repaid in full.

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

3. Loans (Continued)

Credit Quality Indicators

The Company utilizes an internal loan risk rating system for commercial and residential loans as a means of monitoring portfolio credit quality and identifying both problem and potential problem loans. Under the risk rating system, problem loans are classified as either “Substandard”, “Doubtful”, or “Loss” which correspond to risk ratings eight, nine and ten, respectively. Substandard loans represent those credits with well-defined weaknesses that jeopardize the orderly liquidation of the debt. Loans classified as Doubtful possess all the weaknesses inherent in those classified Substandard with the added characteristic that collection or liquidation in full, on the basis of existing facts, conditions and values, is highly questionable and/or improbable. Loss loans represent loans where the borrower is deemed incapable of debt repayment. Loans not meeting the aforementioned criteria are considered to be Pass rated loans (risk ratings one through five and one half). Loans that do not currently expose the Company to sufficient enough risk of loss to warrant classification in one of the aforementioned categories but possess qualities to warrant continued supervision and attention and potential weakness, are classified as Management Attention (risk rating six) and Special Mention (risk rating seven), respectively. Risk ratings are updated as warranted on a periodic basis. Other – secured and unsecured loans are evaluated based on their delinquency status as disclosed in a previous table. Risk ratings on loans within the consumer, residential real estate, and HELOC loan portfolios are based upon payment performance or other knowledge or events that call into question the borrower’s repayment ability.

The following tables present loans by internal risk ratings as of December 31:

	C&I	Construction	Commercial Real Estate	Total
2022		(In thousands)		
Commercial credit exposure:				
Grade:				
Pass (1 – 5.5)	$1,033,979	$402,938	$761,266	$2,198,183
Pass – Management attention (6)	36,565	7,619	46,204	90,388
Special mention (7)	11,486	-	3,862	15,348
Substandard (8)	3,077	6,000	-	9,077
Doubtful and loss (9 – 10)	-	-	-	-
Total	$1,085,107	$416,557	$811,332	$2,312,996

	Residential Real Estate	Home Equity	Other	Total
		(In thousands)		
Residential and other credit exposure:				
Grade:				
Pass (1 – 5.5)	$180,069	$ 28,947	$ 510	$209,526
Pass – Management attention (6)	1,007	142	3	1,152
Special mention (7)	-	-	-	-
Substandard (8)	662	-	-	662
Doubtful and loss (9 – 10)	-	-	-	-
Total	$181,738	$ 29,089	$ 513	$211,340

3. Loans (Continued)

2021	C&I	Construction	Commercial Real Estate	Total
	(In thousands)			
Commercial credit exposure:				
Grade:				
Pass (1 – 5.5)	$968,875	$296,984	$795,782	$2,061,641
Pass – Management attention (6)	-	-	1,603	1,603
Special mention (7)	15,670	-	3,625	19,295
Substandard (8)	3,778	6,000	10,300	20,078
Doubtful and loss (9 – 10)	908	-	-	908
Total	$989,231	$302,984	$811,310	$2,103,525

	Residential Real Estate	Home Equity	Other	Total
	(In thousands)			
Residential and other credit exposure:				
Grade:				
Pass (1 – 5.5)	$150,780	$ 26,299	$ 1,425	$178,504
Pass – Management attention (6)	613	142	-	755
Special mention (7)	-	-	-	-
Substandard (8)	702	-	-	702
Doubtful and loss (9 – 10)	-	-	-	-
Total	$152,095	$ 26,441	$ 1,425	$179,961

4. Premises and Equipment

Premises and equipment consist of the following at December 31:

	2022	2021
	(In thousands)	
Land	$ 7,104	$ 7,112
Land improvements	2,818	2,818
Buildings	19,959	21,831
Finance lease right-of-use asset	1,773	1,773
Leasehold improvements	4,469	4,361
Furniture, fixtures and equipment	4,865	5,018
Construction in progress	15,287	167
Total	56,275	43,080
Less accumulated depreciation and amortization	(13,660)	(12,461)
Balance at end of year	$ 42,615	$ 30,619

Depreciation and amortization expense for the years ended December 31, 2022 and 2021 amounted to $1,975,000 and $1,848,000, respectively.

5. Leases

A lease is defined as a contract, or part of a contract that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

Lessor Leases

The Company has entered into noncancelable leases of space to others at its main office building and its Littleton location. Pursuant to the terms of these leases, in effect at December 31, 2022, future minimum rentals are as follows:

Years Ending	Amount (In thousands)
2023	$ 166
2024	52
2025	36
2026	36
2027	9
Thereafter	–
	$ 299

Rental income under these leases was $284,000 and $251,000 for the years ended December 31, 2022 and 2021, respectively.

Certain lease agreements contain both options to extend and cost of living adjustments.

See note 8 for information on leases discussed above and below which are with related parties.

Lessee Leases

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches with terms extending through 2035. The Company determines if an arrangement is a lease at inception and if the lease is an operating lease or a finance lease. Most of the Company's leases are classified as operating leases.

Operating and Finance lease right-of-use assets represent the Company’s right to use an underlying asset during the lease term and operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease. The period over which the right-of-use asset is amortized is generally the lesser of the expected remaining term or the remaining useful life of the leased asset. The lease liability is decreased as periodic lease payments are made. The Company performs impairment assessments for right-of-use assets when events or changes in circumstances indicate that their carrying values may not be recoverable.

5. Leases (Continued)

The following table represents the balance sheet classification of the Company's ROU assets and lease liabilities:

	Classification	December 31,2022	December 31, 2021
		(In thousands)	
Lease right-of-use assets			
Operating lease right-of-use assets	Other Assets	$3,073	$3,728
Finance lease right-of-use assets	Premises and equipment, net	1,534	1,653
Total lease right-of-use assets		$4,607	$5,381
Lease liabilities			
Operating lease liabilities	Other Liabilities	$3,183	$3,817
Finance lease liabilities	Finance lease liabilities	1,621	1,697
Total lease liabilities		$4,804	$5,515

The calculated amounts of the right-of-use assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to calculate the present value of the minimum remaining lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If, at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company includes the extended term in the calculation of the right-of-use asset and lease liability. Generally, the Company cannot practically determine the interest rate implicit in the lease so the Company's incremental borrowing rate, on a collateralized basis, is used as the discount rate for the lease.

	December 31, 2022	December 31, 2021
Weighted-average remaining lease term:		
Operating leases	6 years	7 years
Finance Leases	13 years	14 years
Weighted-average discount rate:		
Operating leases	3.34%	3.30%
Finance Leases	2.01	2.01

The following table represents lease costs and other lease information. Lease expense, variable lease expense and short-term lease expense are included in occupancy expense in the Company's consolidated statements of income. The Company elected to not separate lease and non-lease components and instead to account for them as a single lease component. Variable lease expense primarily represents payments such as common area maintenance. Lease expense is recognized on a straight-line basis over the lease term. Short-term lease expense relates to leases with an initial term of 12 months or less. The Company has elected to not record a right-of-use asset or lease liability for short-term leases or equipment leases (deemed immaterial).

5. Leases (Continued)

	December 31	
	2022	2021
	(In thousands)	
Lease costs:		
Operating lease cost	$791	$ 851
Variable lease cost	20	8
Short-term lease cost	12	20
Finance lease cost:		
Interest on lease liabilities[1]	33	32
Amortization of right-of-use-assets	120	119
	976	1,030
Sub-lease income	(284)	(251)
Net lease cost	$ 692	$ 779
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 789	$ 625
Operating cash flows from finance leases	33	32
Financing cash flows from finance leases	77	67
Right-of-use assets obtained in exchange for finance lease liabilities	–	1,764

Future minimum payments for operating leases and finance leases with initial or remaining terms of one year or more as of December 31, 2022 were as follows (In thousands):

Years Ending	Operating Leases	Finance Leases
2023	$ 803	$ 110
2024	671	110
2025	451	115
2026	410	138
2027	359	138
Thereafter	842	1,249
Total future minimum lease payments	3,536	1,860
Amounts representing interest	(353)	(239)
Present values of net future minimum lease payments	$ 3,183	$1,621

[1] Included in other interest expense in the Company's consolidated statements of income. All other lease costs in the table are included in occupancy expense, net.

6. Deposits

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

	2022	2021
	(In thousands)	
Demand	$ 705,707	$ 947,938
NOW	161,111	183,345
Regular savings	467,517	570,521
Money market accounts	439,105	507,047
Total non-certificate accounts	1,773,440	2,208,851
Term certificates over $250,000	59,487	58,833
Other term certificates	407,060	189,419
Total certificate accounts	466,547	248,252
Total deposits	$2,239,987	$2,457,103

Included in NOW accounts for the years ended December 31, 2022 and 2021 were brokered deposits amounting to $13,307,000 and $12,802,000, respectively. Included in money market accounts for the years ended December 31, 2022 and 2021 were brokered deposits amounting to $41,795,000 and $42,265,000, respectively.
A summary of term certificates, by maturity, at December 31, is as follows:

	2022		2021	
Maturity Dates	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
2022	$ –	– %	$ 198,058	0.60%
2023	301,941	3.06	34,249	0.84
2024	160,035	3.43	12,838	0.70
2025	3,078	0.54	2,111	0.55
2026	954	0.49	985	0.52
2027	539	0.44	11	0.40
Thereafter	–	–	–	–
Total term certificates	$ 466,547	3.17%	$ 248,252	0.64%

Included in certificate accounts for the years ended December 31, 2022 and 2021 were brokered deposits amounting to $290,825,000 and $12,500,000, with weighted average rates of 4.03% and 1.25%, respectively. Reciprocal deposits of $162,016,000 and $320,251,000 as of December 31, 2022 and 2021, respectively, under most circumstances, were not considered brokered.

7. Borrowed Funds

Federal Home Loan Bank of Boston (FHLBB) Advances

The Company's fixed-rate FHLBB advances at December 31 are as follows:

	2022		2021	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Maturity Dates	(Dollars in thousands)			
2022	$ –	–%	$ –	–%
2023	115,000	4.29	–	–
2024	10,000	4.92	–	–
2025	–	–	–	–
2026	–	–	–	–
	$125,000	4.34%	$ –	–%

The Company has an Ideal Way line of credit in the amount of $5,000,000 with the FHLBB with an interest rate that adjusts daily. There were no advances under this line of credit as of December 31, 2022 and 2021.

All borrowings from the FHLBB are secured by a blanket lien on qualified collateral, as defined by the FHLBB.

Federal Funds Purchased

The Company maintains federal funds lines of credit with Zions Bank (up to $25,000,000), and brokered federal funds lines. The interest rates adjust daily. There were no federal funds purchased outstanding at Zions Bank, or brokered federal funds relationships at December 31, 2022 and 2021.

Subordinated Notes Payable

On January 13, 2016, the Company issued unsecured subordinated notes payable in amounts totaling $25,000,000. The balance outstanding on all notes at December 31, 2022 and 2021 was $0. The notes' interest rates at issuance were 5.50% per annum and interest was payable semi-annually. The rates converted to floating on January 15, 2021 to the prevailing LIBOR three-month index rate plus 382 basis points, adjusting quarterly. The final maturity dates are January 15, 2026 and were callable, in part or whole, after five years. On January 15, 2021, the notes were paid off. The payoff did not have a material impact on the Company's total risk-based capital ratio.

On December 27, 2019, the Company issued unsecured subordinated notes payable in amounts totaling $52,250,000. The balance outstanding on all notes at December 31, 2022 and 2021 was $52,250,000. The notes' interest rate at issuance was 4.75% per annum and is payable semi-annually. The rates convert to floating on December 30, 2024 to the prevailing SOFR three-month index rate plus 327.50 basis points, adjusting quarterly. The final maturity dates are December 30, 2029 and are callable at par, in part or whole, after five years. $52,250,000 of the borrowings qualify as Tier 2 capital for regulatory purposes as of December 31, 2022 and 2021.

7. Borrowed Funds (Continued)

On November 24, 2020, the Company issued unsecured subordinated notes payable in amounts totaling \$40,000,000. The balance outstanding on all notes at December 31, 2022 and 2021 was \$40,000,000. The notes' interest rates at issuance were 4.00% per annum and interest is payable semi-annually. The rates convert to floating on December 1, 2025 to the prevailing SOFR three-month index rate plus 375 basis points, adjusting quarterly. The final maturity dates are December 1, 2030 and are callable at par, in part or whole, after five years. \$40,000,000 of the borrowings qualify as Tier 2 capital for regulatory purposes as of December 31, 2022 and 2021.

Debt issuance costs related to subordinated notes payable, net of accumulated amortization, at December 31, 2022 and 2021 amount to approximately \$699,000 and \$963,000, respectively.

8. Related-Party Transactions

The Company leases its Westford branch from the Westford Center Trust, a real estate trust controlled by certain directors of the Company. The Company is required to pay annual rent in the amount of \$60,000. The lease expires in 2025.

The Company leases its Melrose branch from the Franklin Street Nominee Trust, a real estate trust controlled by two directors of the Company. The Company is required to pay annual rent in the amount of \$68,000. The lease expires in 2024.

The Company leases its Chelmsford branch and its disaster recovery location from C.L.M. Realty Trust, a real estate trust controlled by certain directors of the Company under two separate leases. The Company is required to pay annual rent in the aggregate amount of \$199,000, plus real estate taxes. The leases expire in 2024 and 2026, respectively.

The Company leases its Reading branch and its residential mortgage location from Haven Properties, LLC, a real estate trust controlled by certain directors of the Company under two separate leases. The Company is required to pay annual rent in the aggregate amounting to \$331,000. The leases expire in 2024 and 2031, respectively. The Reading branch lease includes a renewal option through 2029, which the Company expects to exercise.

The Company leases a portion of its main office building to Mawn & Mawn, P.C. (the Firm), a law firm in which certain directors and executive officers of the Company and the Bank have a controlling ownership interest. The lease expires in 2023. Rental income recorded by the Company in 2022 and 2021 amounted to \$220,000 and \$214,000, respectively. The Firm also provides legal services to the Company. Legal fees paid to the Firm for the years ended December 31, 2022 and 2021 amounted to \$348,000 and \$356,000, respectively.

The Company uses Darling Consulting Group for financial consulting services, a company in which a director of the Bank has a controlling ownership interest. Consulting fees paid to Darling for the years ended December 31, 2022 and 2021 amounted to \$102,000 and \$98,000, respectively.

Loans to officers, directors and their affiliates amounted to \$6,683,000 and \$5,854,000 at December 31, 2022 and 2021, respectively. In 2022, there were additions of \$2,767,000 and payments and reductions amounted to \$1,938,000. In 2021, there were additions of \$3,407,000 and payments and reductions

8. Related-Party Transactions (Continued)

amounted to $4,178,000. Additionally, at December 31, 2022 and 2021, unadvanced loan commitments to these related parties totaled $11,370,000 and $9,607,000, respectively.

Deposits from related parties totaled approximately $21,331,000 and $28,257,000 as of December 31, 2022 and 2021, respectively.

9. Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31 is as follows:

	2022	2021
	(In thousands)	
Current provision:		
Federal	$17,849	$15,583
State	9,326	8,343
Total current	27,175	23,926
Deferred benefit:		
Federal	(1,790)	(1,787)
State	(949)	(942)
Total deferred	(2,739)	(2,729)
Total provision for income taxes	$24,436	$21,197

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

	2022 % of Income	2021 % of Income
Statutory federal income tax rate	21.0%	21.0%
Increase (decrease) resulting from:		
State taxes, net of federal benefit	7.6	7.7
Tax-exempt interest income	(0.2)	(0.2)
Tax credits	(0.5)	(0.7)
Other, net	0.3	0.1
Effective tax rates	28.2%	27.9%

9. Income Taxes (Continued)

The tax effects of each item that give rise to net deferred tax assets at December 31 are as follows:

	2022	2021
	(In thousands)	
Deferred tax assets (liabilities):		
Employee benefit plans	$ 3,945	$ 3,789
Allowance for loan losses	12,974	11,438
Pension liability adjustment	338	1,339
Net unrealized losses on securities available-for-sale	1,845	85
Premises and equipment	(1,799)	(2,068)
Other	4,079	3,287
Total deferred tax asset, net	$21,382	$17,870

A summary of the change in the net deferred tax asset for the years ended December 31 is as follows:

	2022	2021
	(In thousands)	
Balance at beginning of year	$17,870	$15,155
Deferred tax benefit	2,739	2,729
Deferred tax effect of net unrealized losses on securities available-for-sale	1,775	523
Deferred tax effect of minimum pension liability adjustment	(1,002)	(537)
Total deferred tax asset, net	$21,382	$17,870

In 2017, the Company invested in a Qualified Housing Project (Housing Project) that generates low-income housing credits and uses the proportional amortization method. Under this method, the Company recognizes amortization as a component of income tax expense on the initial cost of the tax credit investment in proportion to anticipated total tax benefits over the life of the investment. The Company's investment in the Housing Project is $3,185,000 and $3,584,000 (included in other assets) at December 31, 2022 and 2021, respectively. The Company's capital commitment outstanding to the Housing Project is $841,000 and $885,000 at December 31, 2022 and 2021, respectively, which is included in other liabilities and is expected to be paid in quarterly installments through 2025. Amortization expense recorded as a component of tax expense amounted to $399,000 and $445,000 for the years ended December 31, 2022 and 2021, respectively.

In 2022, the Company invested in a historic tax credit project (Historic Project) that generates historic tax credits and uses the proportional amortization method. Under this method, the Company recognizes amortization as a component of income tax expense on the initial cost of the tax credit investment in proportion to anticipated total tax benefits over the life of the investment. The Company's investment in the Historic Project is $3,636,000 (included in other assets) at December 31, 2022. The Company's capital commitment outstanding to the Housing Project is $3,454,000 at December 31, 2022, which is included in other liabilities and is expected to be paid in installments through 2024. Amortization expense recorded as a component of tax expense amounted to $0 for the year ended December 31, 2022.

9. Income Taxes (Continued)

The Company purchased Massachusetts historical tax credits totaling $5,160,000 with purchase prices totaling $4,489,000 for the year ended December 31, 2021. These credits reduced the Company's liability for state income taxes by $5,160,000 for the year ended December 31, 2021.

The Company uses the flow-through method of accounting for the income tax credits whereby the income tax credits are treated as a reduction of state or federal income taxes immediately in the year in which the credit is generated.

The Company has made an investment in the development of special use software for which a portion of certain research and development expenses can be recorded as income tax credits. During the years ended December 31, 2022 and 2021, the Company recorded $0 and $1,441,000 in qualified expenses, respectively. During the years ended December 31, 2022 and 2021, respectively, these research and development expenses resulted in a federal tax credit of $0 and $108,000. The research and development expenses of $108,000 in 2022 reduced the Company's provision for income taxes.

As of December 31, 2022 and 2021, the Company had no operating loss and tax credit carryovers for tax purposes.

The Company's income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2019 through 2022. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2019 are open.

10. Other Commitments, Contingencies and Concentrations

In the normal course of business, there are outstanding commitments and contingencies which are not reflected in the accompanying consolidated financial statements.

Loan Commitments

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

10. Other Commitments, Contingencies and Concentrations (Continued)

At December 31, the following financial instruments were outstanding for which contract amounts represent credit risk:

	Contract Amount	
	2022	2021
	(In thousands)	
Commitments to grant loans	$ 19,980	$ 18,678
Unadvanced funds on commercial lines of credit	188,195	130,815
Unadvanced funds on home equity lines of credit	42,337	31,847
Unadvanced construction funds	207,298	165,908
Undrawn commitment on closed loans	35,179	25,661
Standby letters-of-credit	19,708	4,932
Other lines of credit and credit reserves	84,179	63,016
Total	$596,876	$440,857

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. The commitments for lines of credit may expire without being drawn upon, therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Company accrues credit losses related to off-balance sheet financial instruments. Potential losses on off-balance sheet loan commitments are estimated using similar risk factors to determine the allowance for loan losses. The allowance for off-balance sheet loan losses is recorded within other liabilities and the balance is $475,000 and $346,000 at December 31, 2022 and 2021, respectively.

Employment Agreements

The Company has entered into employment agreements with certain executive officers that generally provide for specified compensation and the continuation of certain benefits currently received. Such employment may be terminated for cause, as defined, without incurring any continuing obligations. The agreements have initial terms of three years and are renewable annually thereafter. The Company has also entered into change in control agreements with certain executive officers which would provide the executive officers with severance payments based on salary, and the continuation of other benefits, upon a change in control as defined in the agreements.

Other Contingencies

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

10. Other Commitments, Contingencies and Concentrations (Continued)

Concentration

As of December 31, 2022 and 2021, approximately $23,304,000 and $18,829,000, respectively, of cash surrender value of life insurance was with one insurance company.

11. Retirement Plans

401(k)/Profit Sharing Plan

The Company has a 401(k)/Profit Sharing Plan, which covers substantially all full-time employees. Employees become eligible for employer matching contributions after one year of employment. The Company may make matching contributions based on employees' contributions, and/or make other "discretionary" contributions, which are allocated based upon salary to "non-highly compensated eligible participants." Employer contributions vest throughout the first five years of participation, with 100% vesting after year six. During the years ended December 31, 2022 and 2021, expenses relating to the plan amounted to $290,000 and $343,000, respectively.

Supplemental Executive Retirement Plan – Defined Benefits

In accounting for its defined benefit plan, the Company (a) recognizes in its statement of financial position the funded status of the benefit plan, (b) measures the plan's assets and its obligations that determine its funded status as of the end of the fiscal year, (c) recognizes, through other comprehensive income (loss), net of tax, changes in the funded status of the benefit plan that are not recognized as net periodic benefit cost, and (d) discloses additional information about certain effects on net periodic benefit cost for the next fiscal year that relates to the delayed recognition of certain benefit cost elements.

The Company has entered into salary continuation and supplemental life insurance agreements with its executives. The salary continuation agreements provide for a predetermined supplemental retirement benefit based upon a percentage of the executive's salary with the amount subject to vesting requirements, to be provided for until death, after the individual reaches a defined 'retirement age'. In addition, upon an executive's death during his period of active employment, a death benefit will be paid to his designated beneficiaries.

These non-qualified plans represent direct liabilities of the Company, and as such have no specific assets set aside to settle the benefit obligation. The funded status is the aggregate amount accrued, or the "Projected Benefit Obligation", which is equal to the present value of the retirement benefits to be provided to the employee or any beneficiary in exchange for the employee's service rendered to that date.

The amounts charged to expense for supplemental retirement programs were $1,200,000 and $1,482,000 for the years ended December 31, 2022 and 2021, respectively.

11. Retirement Plans (Continued)

Information pertaining to activity in the plan at December 31 is as follows:

	2022	2021
	(In thousands)	
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 18,111	$ 19,030
Service cost	174	198
Plan amendments	1,918	-
Interest cost	551	472
Actuarial gain	(4,906)	(1,044)
Benefits paid	(646)	(545)
Projected benefit obligation at end of year	$ 15,202	$ 18,111
Fair value of plan assets	-	-
Funded status, included in other liabilities	$(15,202)	$(18,111)

The change in actuarial gain is mainly driven by the change in the discount rate being used to calculate the benefit obligation.

The accumulated benefit obligation for the plan was $11,774,000 and $18,355,000 as of December 31, 2022 and 2021, respectively.

At December 31, 2022 and 2021, the discount rate used in determining the actuarial present value of the benefit obligation was 5.02% and 2.83%, respectively, and the rate of increase in compensation was 5%.

A summary of the components of net periodic pension expense and other plan data for the years ended December 31 follows:

	2022	2021
	(In thousands)	
Service cost	$ 174	$ 198
Interest cost	551	472
Amortization	475	812
Net periodic pension expense	$1,200	$1,482

The service cost component of net periodic pension expense is presented in salaries and benefits in the consolidated statements of income for the periods presented. All other components of net periodic pension expense are presented in other expense in the consolidated statements of income.

For the years ended December 31, 2022 and 2021, the discount rate on benefit obligations used to determine net periodic pension cost was 2.83% and 2.52%, respectively, and the rate of increase in future compensation was 5%.

11. Retirement Plans (Continued)

At December 31, the following amounts were reflected in accumulated other comprehensive loss, before tax:

	2022	2021
	(In thousands)	
Prior service cost (credit)	$1,844	$ (25)
Net actuarial (gain) loss	(675)	4,657
	$1,169	$4,632

Estimated future benefit payments which reflect expected future service, as appropriate, are as follows:

Years Ending	Amount (In thousands)
2023	$ 632
2024	749
2025	695
2026	630
2027	571
2028 – 2032	2,238

Deferred Compensation Plan

Effective January 1, 2018, the Company has created a voluntary Deferred Compensation Plan for certain executives established to provide employees the ability to defer compensation until retirement or death. The Plan allows executives to voluntarily defer salary, commission and/or bonus compensation for a period of up to 10 years as a personal tax management strategy. The participants will realize an earnings credit on the funds from the Company which is subject to the discretion of the Board of Directors. At the Company's option, funds may also be contributed to an employee's account by the Company to attract and retain Bank employees. Contributions to this plan amounted to $73,000 and $63,000 during the years ended December 31, 2022 and 2021, respectively.

12. Capital

Minimum Regulatory Capital Requirements

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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The Bank became subject to capital requirements adopted by the FDIC, which implemented the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The required minimum regulatory capital ratios to which the Bank is subject and the minimum ratios required for the Bank to be categorized as "well capitalized" under the prompt corrective action framework are noted in the table

12. Capital (Continued)

below. In addition, the regulations established a capital conservation buffer of 2.5% effective January 1, 2019. Failure to maintain the capital conservation buffer will limit the ability of the Company and the Bank to pay discretionary bonuses and dividends. At December 31, 2022, the Company and the Bank exceeded the minimum requirement for the capital conservation buffer.

As of December 31, 2022 and 2021, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There were no conditions or events since that notification that management believes have changed the Bank's category.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Company as of December 31, 2022						
Total capital to risk-weighted assets	$471,285	17.3%	N/A	N/A	N/A	N/A
Common equity tier 1 to risk-weighted assets	345,607	12.7	N/A	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	345,607	12.7	N/A	N/A	N/A	N/A
Tier 1 capital to average assets	345,607	12.6	N/A	N/A	N/A	N/A
Bank as of December 31, 2022						
Total capital to risk-weighted assets	$449,078	16.5%	$217,448	≥ 8.0%	$271,810	≥10.0%
Common equity tier 1 to risk-weighted assets	414,951	15.3	122,314	≥ 4.5	176,676	≥ 6.5
Tier 1 capital to risk-weighted assets	414,951	15.3	163,086	≥ 6.0	217,448	≥ 8.0
Tier 1 capital to average assets	414,951	15.1	110,112	≥ 4.0	137,640	≥ 5.0

12. Capital (Continued)

Company as of December 31, 2021						
Total capital to risk-weighted assets	$409,614	17.1%	N/A	N/A	N/A	N/A
Common equity tier 1 to risk-weighted assets	288,327	12.1	N/A	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	288,327	12.1	N/A	N/A	N/A	N/A
Tier 1 capital to average assets	288,327	10.9	N/A	N/A	N/A	N/A
Bank as of December 31, 2021						
Total capital to risk-weighted assets	$397,578	16.6%	$191,136	≥ 8.0%	$238,920	≥10.0%
Common equity tier 1 to risk-weighted assets	367,579	15.4	107,514	≥ 4.5	155,298	≥ 6.5
Tier 1 capital to risk-weighted assets	367,579	15.4	143,352	≥ 6.0	191,136	≥ 8.0
Tier 1 capital to average assets	367,579	13.9	105,989	≥ 4.0	132,486	≥ 5.0

For the Company, total risk-weighted assets factored into the risk-based capital calculations, including the common equity tier 1 ratio, were $2,718,095,000 and $2,389,330,000 at December 31, 2022 and 2021, respectively. Average assets utilized in the leverage capital calculation were $2,752,671,000 and $2,642,156,000 at December 31, 2022 and 2021, respectively.

For the Bank, total risk-weighted assets factored into the risk-based capital calculations, including the common equity tier 1 ratio, were $2,718,095,000 and $2,389,202,000 at December 31, 2022 and 2021, respectively. Average assets utilized in the leverage capital calculation were $2,752,800,000 and $2,649,720,000 at December 31, 2022 and 2021, respectively.

Restrictions on Subsidiary's Loans, Advances and Dividends

Bank regulatory authorities restrict the amounts available for payment of dividends by the Bank to the Company if the effect thereof would cause the capital of the Bank to be reduced below applicable capital requirements. These restrictions indirectly restrict the Company's ability to pay common stock dividends.

Federal laws and regulations also prohibit the Company from borrowing from the Bank unless the loans are secured by specified amounts of collateral. In addition, such secured loans to the Company from the Bank generally are limited to ten percent of the Bank's capital and surplus. At December 31, 2022 and 2021, no such transactions existed between the Company and the Bank.

Cash Reserve

The Company is required at times to maintain reserve balances with the Federal Reserve Bank of Boston. At December 31, 2022 and 2021, there were no reserve requirements.

12. Capital (Continued)

Perpetual Preferred Stock

The Company offered and sold, to accredited investors, 248 shares of 7.00% Series A Non-Cumulative Redeemable Perpetual Preferred Stock (the Preferred Stock), par value $10.00 per share (liquidation preference $25,000 per share) at an offer price of $25,000 per share. On January 15, 2021 the Company redeemed the Preferred Stock at a price of $25,000 per share, totaling $6.2 million.

Tender Offers

On December 10, 2021, the Company completed a tender offer which resulted in the purchase of 6,966 shares of common stock at a price of $3,394 per share for a total amount of approximately $23,643,000.

On June 9, 2022, the Company completed a tender offer which resulted in the purchase of 264 shares of common stock at a price of $3,394 per share for a total amount of approximately $896,000.

Stock Repurchases

On November 4, 2022, the Company repurchased 200 shares of common stock at a price of $3,394 per share for a total amount of approximately $678,000.

13. Fair Values of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset, including assumptions about risk and/or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of these inputs, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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

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

13. Fair Values of Financial Instruments (Continued)

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are measured and reported on a fair value basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Securities – Fair value measurements for Level l and Level 2 securities are obtained from a third-party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Derivative financial instruments – Fair values for derivative financial instruments are based on prices currently charged to enter into similar agreements, taking into account the probability that the commitment will be exercised.

Interest-rate lock commitments – Fair values for interest-rate lock commitments are based on current secondary mortgage market prices. Interest-rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The commitments to sell loans are also considered derivative instruments. The Company generally does not pool mortgage loans for sale, but instead sells the loans on an individual basis. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into the commitment to sell these loans at essentially the same time that the interest-rate lock commitment is quoted on the origination of the loan.

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31:

	2022 (In thousands)			
	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
U.S. Treasuries	$ 70,890	$ –	$ 70,890	$ –
Bonds of U.S. Government-sponsored entities	5,269	–	5,269	–
Municipal	442	–	442	–
Mortgage-backed	20,178	–	20,178	–
Equity securities:				
Mutual fund CRA investment	1,150	1,150	–	–
Interest rate lock commitments (included in other assets)	3	–	–	3
Total assets measured at fair value	$ 97,932	$1,150	$ 96,779	$ 3
Interest rate lock commitments (included in other liabilities)	$ –	$ –	$ –	$ –
Total liabilities measured at fair value	$ –	$ –	$ –	$ –

13. Fair Values of Financial Instruments (Continued)

	2021 (In thousands)			
	Total	Level 1	Level 2	Level 3
Securities available-for-sale:				
U.S. Treasuries	$ 34,260	$ –	$ 34,260	$ –
Bonds of U.S. Government-sponsored entities	6,236	–	6,236	–
Municipal	482	–	482	–
Mortgage-backed	26,242	–	26,242	–
Equity securities:				
Mutual fund CRA investment	1,305	1,305	–	–
Interest rate lock commitments (included in other assets)	108	–	–	108
Total assets measured at fair value	$ 68,633	$1,305	$ 67,220	$ 108
Interest rate lock commitments (included in other liabilities)	$ 16	$ –	$ –	$ 16
Total liabilities measured at fair value	$ 16	$ –	$ –	$ 16

Fair Value on a Nonrecurring Basis

There are no assets measured at fair value on a nonrecurring basis during the years ending December 31, 2022 or 2021, since there were no partial write-downs of impaired loans.

The table below presents the carrying values and estimated fair values of the Company's financial instruments as of December 31.

	2022 (In thousands)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 107,113	$ 107,113	$ 107,113	$ –	$ –
Securities available-for-sale	96,779	96,779	–	96,779	–
Equity securities	1,150	1,150	1,150	–	–
Federal Home Loan Bank of Boston stock	5,935	5,935	–	–	5,935
Loans and loans held for sale, net	2,484,947	2,505,068	–	–	2,505,068
Interest rate lock commitments	3	3	–	–	3
Accrued interest receivable	12,330	12,330	12,330	–	–
Cash surrender value of life insurance	45,658	45,658	–	45,658	–
Servicing assets	860	1,758	–	–	1,758
Financial liabilities:					
Deposits	2,239,987	2,234,116	–	–	2,234,116
Interest rate lock commitment	–	–	–	–	–
Federal Home Loan Bank of Boston advances	125,000	124,813	–	–	124,813
Subordinated notes payable	91,551	83,894	–	–	83,894
Accrued interest payable	2,188	2,188	2,188	–	–
Finance lease liabilities	1,621	1,621	–	–	1,621

13. Fair Values of Financial Instruments (Continued)

	2021 (In thousands)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and due from banks	$ 431,681	$ 431,681	$ 431,681	$ –	$ –
Securities available-for-sale	67,220	67,220	–	67,220	–
Equity securities	1,305	1,305	1,305	–	–
Federal Home Loan Bank of Boston stock	702	702	–	–	702
Loans and loans held for sale, net	2,255,299	2,307,500	–	–	2,307,500
Interest rate lock commitments	108	108	–	–	108
Accrued interest receivable	10,101	10,101	10,101	–	–
Cash surrender value of life insurance	36,929	36,929	–	36,929	–
Servicing assets	1,123	1,718	–	–	1,718
Financial liabilities:					
Deposits	2,457,103	2,457,339	–	–	2,457,339
Interest rate lock commitment	16	16	–	–	16
Federal Home Loan Bank of Boston advances	–	–	–	–	–
Subordinated notes payable	91,287	91,205	–	–	91,205
Accrued interest payable	209	209	209	–	–
Finance lease liabilities	1,697	1,697	–	–	1,697

14. Subsequent Events

Events occurring after the balance sheet date are evaluated by management to determine whether such events should be recognized or disclosed in the consolidated financial statements. Management has evaluated subsequent events through March 22, 2023, which is the date the consolidated financial statements were available to be issued.

The Company's Board of Directors declared a $59.22 per common share cash dividend at their January 18, 2023 meeting. The dividend was paid on February 6, 2023, to shareholders of record as of February 1, 2023.

Supplementary Information

NORTHERN BANCORP, INC. AND SUBSIDIARY

BALANCE SHEETS
Northern Home Loans, LLC

December 31, 2022 and 2021

	2022	2021
	(In thousands)	
ASSETS		
Cash and due from banks	$ 2,500	$ -
Total assets	$ 2,500	$ -
LIABILITIES AND STOCKHOLDER'S EQUITY		
Stockholders' equity:		
Additional paid-in capital	2,500	-
Total stockholder's equity	2,500	-
Total liabilities and stockholder's equity	$ 2,500	$ -

*There were no income statement transactions in 2022 or 2021 therefore no income statement is presented.