

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2024
or

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

Commission File Number: 001-16767

Western New England Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

73-1627673

(IRS Employer Identification Number)

141 Elm Street, Westfield, Massachusetts

(Address of principal executive offices)

01086

(Zip Code)

(413) 568-1911

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, \$0.01 par value per share | WNEB | NASDAQ |

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

At May 1, 2024 the registrant had 21,627,690 shares of common stock, \$0.01 par value, issued and outstanding.

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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the Company's financial condition, liquidity, results of operations, future performance, and business. Forward-looking statements may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- unpredictable changes in general economic conditions, financial markets, fiscal, monetary and regulatory policies, including actual or potential stress in the banking industry;
- the duration and scope of potential pandemics, including the emergence of new variants and the response thereto;
- unstable political and economic conditions which could materially impact credit quality trends and the ability to generate loans and gather deposits;
- inflation and governmental responses to inflation, including recent and potential future increases in interest rates that reduce margins;
- the effect on our operations of governmental legislation and regulation, including changes in accounting regulation or standards, the nature and timing of the adoption and effectiveness of new requirements under the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010, Basel guidelines, capital requirements and other applicable laws and regulations;
- significant changes in accounting, tax or regulatory practices or requirements;
- new legal obligations or liabilities or unfavorable resolutions of litigation;
- disruptive technologies in payment systems and other services traditionally provided by banks;
- the highly competitive industry and market area in which we operate;
- changes in business conditions and inflation;
- operational risks or risk management failures by us or critical third parties, including without limitation with respect to data processing, information systems, cybersecurity, technological changes, vendor issues, business interruption, and fraud risks;
- failure or circumvention of our internal controls or procedures;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation deposit insurance premiums and assessments;
- the soundness of other financial services institutions which may adversely affect our credit risk;
- certain of our intangible assets may become impaired in the future;
- new lines of business or new products and services, which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business; and
- other risk factors detailed from time to time in our SEC filings.

Investors should consider these risks, uncertainties, and other factors in addition to the factors under the heading "Risk Factors" included in this filing and our other filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except to the extent required by law.

PART I – FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS.
WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - UNAUDITED
(Dollars in thousands, except per share data)

| | March 31, 2024 | December 31, 2023 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 19,244 | \$ 20,784 |
| Federal funds sold | 709 | 2,991 |
| Interest-bearing deposits and other short-term investments | 2,660 | 5,065 |
| Cash and cash equivalents | <u>22,613</u> | <u>28,840</u> |
| Available-for-sale securities, at fair value | 138,362 | 137,115 |
| Held-to-maturity securities, at amortized cost (Fair value of \$ 181,679 at March 31, 2024 and \$ 187,692 at December 31, 2023) | 221,242 | 223,370 |
| Marketable equity securities, at fair value | 222 | 196 |
| Federal Home Loan Bank stock and other restricted stock, at cost | 3,105 | 3,707 |
| Loans, net of allowance for credit losses of \$ 19,884 at March 31, 2024 and \$ 20,267 at December 31, 2023 | 2,005,682 | 2,007,050 |
| Premises and equipment, net | 24,968 | 25,575 |
| Accrued interest receivable | 8,622 | 8,528 |
| Bank-owned life insurance | 75,598 | 75,145 |
| Deferred tax asset, net | 14,278 | 13,636 |
| Goodwill | 12,487 | 12,487 |
| Core deposit intangible | 1,719 | 1,813 |
| Other assets | 28,338 | 27,109 |
| TOTAL ASSETS | <u>\$ 2,557,236</u> | <u>\$ 2,564,571</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Deposits: | | |
| Non-interest-bearing | \$ 559,928 | \$ 579,594 |
| Interest-bearing | 1,583,819 | 1,564,150 |
| Total deposits | <u>2,143,747</u> | <u>2,143,744</u> |
| Short-term borrowings | 11,470 | 16,100 |
| Long-term debt | 120,646 | 120,646 |
| Subordinated debt | 19,722 | 19,712 |
| Other liabilities | 25,855 | 26,960 |
| TOTAL LIABILITIES | <u>2,321,440</u> | <u>2,327,162</u> |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock - \$0.01 par value, 5,000,000 shares authorized, none outstanding at March 31, 2024 and December 31, 2023 | — | — |
| Common stock - \$0.01 par value, 75,000,000 shares authorized, 21,627,690 shares issued and outstanding at March 31, 2024; 21,666,807 shares issued and outstanding at December 31, 2023 | 216 | 217 |
| Additional paid-in capital | 125,213 | 125,448 |
| Unearned compensation – ESOP | (2,272) | (2,394) |
| Unearned compensation - Equity Incentive Plan | (2,174) | (1,111) |
| Retained earnings | 138,450 | 136,993 |
| Accumulated other comprehensive loss | (23,637) | (21,744) |
| TOTAL SHAREHOLDERS' EQUITY | <u>235,796</u> | <u>237,409</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 2,557,236</u> | <u>\$ 2,564,571</u> |

See accompanying notes to unaudited consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME – UNAUDITED
(Dollars in thousands, except per share data)

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2024 | 2023 |
| Interest and dividend income: | | |
| Residential and commercial real estate loans | \$ 20,953 | \$ 18,252 |
| Commercial and industrial loans | 3,205 | 3,002 |
| Consumer loans | 83 | 75 |
| Debt securities, taxable | 2,112 | 2,076 |
| Debt securities, tax-exempt | 1 | 2 |
| Marketable equity securities | 1 | 71 |
| Other investments | 136 | 106 |
| Short-term investments | 113 | 54 |
| Total interest and dividend income | 26,604 | 23,638 |
| Interest expense: | | |
| Deposits | 9,293 | 4,103 |
| Short-term borrowings | 283 | 703 |
| Long-term debt | 1,428 | 74 |
| Subordinated debt | 254 | 254 |
| Total interest expense | 11,258 | 5,134 |
| Net interest and dividend income | 15,346 | 18,504 |
| Reversal of credit losses | (550) | (388) |
| Net interest and dividend income after reversal of credit losses | 15,896 | 18,892 |
| Non-interest income: | | |
| Service charges and fees | 2,219 | 2,187 |
| Income from bank-owned life insurance | 453 | 440 |
| Loss on disposal of premises and equipment | (6) | — |
| Net unrealized gain on marketable equity securities | 8 | — |
| Gain on non-marketable equity investments | — | 352 |
| Total non-interest income | 2,674 | 2,979 |
| Non-interest expense: | | |
| Salaries and employee benefits | 8,244 | 8,431 |
| Occupancy | 1,363 | 1,348 |
| Furniture and equipment | 484 | 486 |
| Data processing | 862 | 753 |
| Software | 699 | 514 |
| Net ATM network | 552 | 490 |
| Professional fees | 569 | 757 |
| FDIC insurance assessment | 410 | 352 |
| Advertising | 349 | 417 |
| Other expenses | 1,250 | 1,348 |
| Total non-interest expense | 14,782 | 14,896 |
| Income before income taxes | 3,788 | 6,975 |
| Income tax provision | 827 | 1,671 |
| Net income | \$ 2,961 | \$ 5,304 |
| Earnings per common share: | | |
| Basic earnings per share | \$ 0.14 | \$ 0.24 |
| Weighted average shares outstanding | 21,180,968 | 21,699,042 |
| Diluted earnings per share | \$ 0.14 | \$ 0.24 |
| Weighted average diluted shares outstanding | 21,271,323 | 21,716,869 |
| Dividends per share | \$ 0.07 | \$ 0.07 |

See accompanying notes to unaudited consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) – UNAUDITED
(Dollars in thousands)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2024 | 2023 |
| Net income | \$ 2,961 | \$ 5,304 |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on available-for-sale securities: | | |
| Unrealized holding (loss) gain | (2,536) | 2,616 |
| Net amount | (2,536) | 2,616 |
| Tax effect | 643 | (675) |
| Net-of-tax amount | <u>(1,893)</u> | <u>1,941</u> |
| Other comprehensive (loss) income | <u>(1,893)</u> | <u>1,941</u> |
| Comprehensive income | <u>\$ 1,068</u> | <u>\$ 7,245</u> |

See accompanying notes to unaudited consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY - UNAUDITED
THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(Dollars in thousands, except per share data)

| | Common Stock | | | | | | | | | | |
|---|---------------------|------------------|-----------------------------------|-----------------------------------|--|--------------------------|--------------------|-------------------|---|---|--------------|
| | Shares | Par Value | Additional Paid-in Capital | Unearned Compensation-ESOP | Unearned Compensation-Equity Incentive Plan | Retained Earnings | | | Accumulated Other Comprehensive Loss | | Total |
| BALANCE AT DECEMBER 31, 2022 | 22,216,789 | \$ 222 | \$ 128,899 | \$ (2,906) | \$ (1,012) | \$ 127,982 | \$ (25,042) | \$ 228,143 | | | |
| Cumulative effect accounting adjustment ⁽¹⁾ | — | — | — | — | — | 9 | — | — | — | — | 9 |
| Comprehensive income | — | — | — | — | — | 5,304 | 1,941 | 7,245 | | | |
| Common stock held by ESOP committed to be released (74,993 shares) | — | — | 52 | 128 | — | — | — | — | — | — | 180 |
| Share-based compensation - equity incentive plan | — | — | — | — | 529 | — | — | — | — | — | 529 |
| Forfeited equity incentive plan shares reissued in connection with 2020 LTI performance share grant (19,761 shares) | — | — | 180 | — | (180) | — | — | — | — | — | — |
| Common stock repurchased | (143,896) | (1) | (1,350) | — | — | — | — | — | — | — | (1,351) |
| Issuance of common stock in connection with equity incentive plan | 136,454 | 1 | 1,348 | — | (1,349) | — | — | — | — | — | — |
| Forfeited equity incentive plan shares reissued in connection with 2023 LTI grant (2,742 shares) | — | — | 27 | — | (27) | — | — | — | — | — | — |
| Cash dividends declared and paid on common stock (\$0.07 per share) | — | — | — | — | — | (1,533) | — | — | — | — | (1,533) |
| BALANCE AT MARCH 31, 2023 | 22,209,347 | \$ 222 | \$ 129,156 | \$ (2,778) | \$ (2,039) | \$ 131,762 | \$ (23,101) | \$ 233,222 | | | |
| BALANCE AT DECEMBER 31, 2023 | 21,666,807 | \$ 217 | \$ 125,448 | \$ (2,394) | \$ (1,111) | \$ 136,993 | \$ (21,744) | \$ 237,409 | | | |
| Comprehensive income | — | — | — | — | — | 2,961 | (1,893) | 1,068 | | | |
| Common stock held by ESOP committed to be released (71,240 shares) | — | — | 30 | 122 | — | — | — | — | — | — | 152 |
| Share-based compensation - equity incentive plan | — | — | — | — | 505 | — | — | — | — | — | 505 |
| Forfeited equity incentive plan shares reissued in connection with 2021 LTI performance share grant (4,219 shares) | — | — | 35 | — | (35) | — | — | — | — | — | — |
| Common stock repurchased | (221,947) | (3) | (1,831) | — | — | — | — | — | — | — | (1,834) |
| Issuance of common stock in connection with equity incentive plan | 182,830 | 2 | 1,531 | — | (1,533) | — | — | — | — | — | — |
| Cash dividends declared and paid on common stock (\$0.07 per share) | — | — | — | — | — | (1,504) | — | — | — | — | (1,504) |
| BALANCE AT MARCH 31, 2024 | 21,627,690 | \$ 216 | \$ 125,213 | \$ (2,272) | \$ (2,174) | \$ 138,450 | \$ (23,637) | \$ 235,796 | | | |

See accompanying notes to unaudited consolidated financial statements.

(1) Represents gross transition adjustment amount of \$13,000, net of taxes of \$4,000, to reflect the cumulative impact on retained earnings pursuant to the Company's adoption of Accounting Standards Update ("ASU") 2016-13 *Financial Instruments-Credit Losses on Financial Instruments* and relevant amendments.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
(Dollars in thousands)

| | Three Months Ended March 31, | |
|---|-------------------------------------|------------------|
| | 2024 | 2023 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 2,961 | \$ 5,304 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Reversal of credit losses | (550) | (388) |
| Depreciation and amortization of premises and equipment | 560 | 562 |
| Net (accretion) amortization of purchase accounting adjustments | (71) | 72 |
| Amortization of core deposit intangible | 94 | 94 |
| Net amortization of premiums and discounts on securities and mortgage loans | 291 | 330 |
| Net amortization of deferred costs on loans | 103 | 106 |
| Net amortization of premiums on subordinated debt | 10 | 9 |
| Share-based compensation expense | 505 | 529 |
| ESOP expense | 152 | 180 |
| Net change in unrealized gain on marketable equity securities | (8) | — |
| Loss on the disposal of premises and equipment | 6 | — |
| Income from bank-owned life insurance | (453) | (440) |
| Net change in: | | |
| Accrued interest receivable | (94) | 131 |
| Other assets | (1,207) | (1,424) |
| Other liabilities | (1,127) | (11,043) |
| Net cash provided by (used in) operating activities | 1,172 | (5,978) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of held-to-maturity securities | (1,100) | — |
| Proceeds from calls, maturities and principal collections of held-to-maturity securities | 3,126 | 3,065 |
| Purchases of available-for-sale securities and marketable equity securities | (9,362) | — |
| Proceeds from calls, maturities, and principal collections of available-for-sale securities | 5,374 | 2,949 |
| Loan originations and principal payments, net | 1,895 | (15,770) |
| Redemption (purchase) of Federal Home Loan Bank of Boston stock | 602 | (3,821) |
| Purchases of premises and equipment | 19 | 2 |
| Proceeds from disposal of premises and equipment | 12 | — |
| Net cash provided by (used in) investing activities | 566 | (13,575) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase (decrease) in deposits | 3 | (72,315) |
| Net (decrease) increase in short-term borrowings | (4,630) | 57,640 |
| Proceeds from issuance of long-term debt | — | 30,000 |
| Cash dividends paid on common stock | (1,504) | (1,533) |
| Common stock repurchased | (1,834) | (1,351) |
| Net cash (used in) provided by financing activities | (7,965) | 12,441 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | (6,227) | (7,112) |
| End of period | 28,840 | 30,342 |
| | \$ 22,613 | \$ 23,230 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 10,153 | \$ 4,984 |
| Taxes paid | 627 | 3,077 |

See the accompanying notes to unaudited consolidated financial statements.

WESTERN NEW ENGLAND BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MARCH 31, 2024

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation. Western New England Bancorp, Inc. ("WNEB," "Company," "we," or "us") is a Massachusetts-chartered stock holding company for Westfield Bank, a federally-chartered savings bank ("Bank").

The Bank operates 25 banking offices in Hampden County and Hampshire County in western Massachusetts and Hartford County and Tolland County in northern Connecticut, and its primary sources of revenue are interest income from loans as well as interest income from investment securities. The West Hartford Financial Services Center serves as the Company's Connecticut hub, housing Commercial Lending, Cash Management and a Mortgage Loan Officer. The Bank's deposits are insured up to the maximum Federal Deposit Insurance Corporation ("FDIC") coverage limits.

Wholly-owned Subsidiaries. Elm Street Securities Corporation, WFD Securities, Inc. and CSB Colts, Inc., are Massachusetts-chartered securities corporations, formed for the primary purpose of holding qualified securities. WB Real Estate Holdings, LLC is a Massachusetts-chartered limited liability company that holds real property acquired as security for debts previously contracted by the Bank.

Principles of Consolidation. The consolidated financial statements include the accounts of Western New England Bancorp, Inc., the Bank, CSB Colts, Inc., Elm Street Securities Corporation, WB Real Estate Holdings, LLC and WFD Securities, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for each. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses and goodwill impairment.

Basis of Presentation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of our financial condition as of March 31, 2024, and the results of operations, changes in shareholders' equity and cash flows for the interim periods presented. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results of operations for the year ending December 31, 2024. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires the recognition of the allowance for credit losses be estimated using the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2023, included in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Annual Report").

Reclassifications. Amounts in the prior period financial statements are reclassified when necessary to conform to the current year presentation.

2. EARNINGS PER SHARE

Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested awards are non-forfeitable, these unvested awards are considered outstanding in the computation of basic earnings per share. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by us relate to stock options and certain performance-based restricted stock awards and are determined using the treasury stock method. Unallocated Employee Stock Ownership Plan ("ESOP") shares are not deemed outstanding for earnings per share calculations. There were no anti-dilutive shares outstanding during the three months ended March 31, 2024 and 2023.

Earnings per common share for the three months ended March 31, 2024 and 2023 have been computed based on the following:

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2024 | 2023 |
| (In thousands, except per share data) | | |
| Net income applicable to common stock | \$ 2,961 | \$ 5,304 |
| Average number of common shares issued | 21,640 | 22,220 |
| Less: Average unallocated ESOP Shares | (291) | (367) |
| Less: Average unvested performance-based equity incentive plan shares | (168) | (154) |
| Average number of common shares outstanding used to calculate basic earnings per common share | 21,181 | 21,699 |
| Effect of dilutive performance-based equity incentive plan shares | 90 | 18 |
| Average number of common shares outstanding used to calculate diluted earnings per common share | 21,271 | 21,717 |
| Basic earnings per share | \$ 0.14 | \$ 0.24 |
| Diluted earnings per share | \$ 0.14 | \$ 0.24 |

3. COMPREHENSIVE INCOME (LOSS)

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

The components of accumulated other comprehensive loss included in shareholders' equity are as follows:

| | March 31, 2024 | December 31, 2023 |
|--|--------------------|--------------------|
| (In thousands) | | |
| Net unrealized losses on available-for-sale securities | \$ (31,702) | \$ (29,166) |
| Tax effect | 8,065 | 7,422 |
| Net-of-tax amount | (23,637) | (21,744) |
| Accumulated other comprehensive loss | \$ (23,637) | \$ (21,744) |

4. INVESTMENT SECURITIES

Available-for-sale and held-to-maturity investment securities at March 31, 2024 and December 31, 2023 are summarized as follows:

| | March 31, 2024 | | | |
|---|-------------------|------------------------|-------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (In thousands) | | | | |
| Available-for-sale securities: | | | | |
| Debt securities: | | | | |
| Government-sponsored enterprise obligations | \$ 14,927 | \$ — | \$ (3,095) | \$ 11,832 |
| State and municipal bonds | 135 | — | (1) | 134 |
| Corporate bonds | 5,000 | — | (929) | 4,071 |
| Total debt securities | 20,062 | — | (4,025) | 16,037 |
| Mortgage-backed securities: | | | | |
| Government-sponsored mortgage-backed securities | 143,410 | — | (26,321) | 117,089 |
| U.S. government guaranteed mortgage-backed securities | 6,592 | — | (1,356) | 5,236 |
| Total mortgage-backed securities | 150,002 | — | (27,677) | 122,325 |
| Total available-for-sale | 170,064 | — | (31,702) | 138,362 |
| Held-to-maturity securities: | | | | |
| Debt securities: | | | | |
| U.S. Treasury securities | 9,997 | — | (534) | 9,463 |
| U.S. government guaranteed obligations | 1,100 | 3 | — | 1,103 |
| Total debt securities | 11,097 | 3 | (534) | 10,566 |
| Mortgage-backed securities: | | | | |
| Government-sponsored mortgage-backed securities | 210,145 | 36 | (39,068) | 171,113 |
| Total mortgage-backed securities | 210,145 | 36 | (39,068) | 171,113 |
| Total held-to-maturity | 221,242 | 39 | (39,602) | 181,679 |
| Total | \$ 391,306 | \$ 39 | \$ (71,304) | \$ 320,041 |

| | December 31, 2023 | | | |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| (In thousands) | | | | |
| Available-for-sale securities: | | | | |
| Debt securities: | | | | |
| Government-sponsored enterprise obligations | \$ 14,924 | \$ — | \$ (2,898) | \$ 12,026 |
| State and municipal bonds | 135 | — | — | 135 |
| Corporate bonds | 8,000 | — | (1,038) | 6,962 |
| Total debt securities | 23,059 | — | (3,936) | 19,123 |
| Mortgage-backed securities: | | | | |
| Government-sponsored mortgage-backed securities | 136,533 | — | (23,976) | 112,557 |
| U.S. government guaranteed mortgage-backed securities | 6,689 | — | (1,254) | 5,435 |
| Total mortgage-backed securities | 143,222 | — | (25,230) | 117,992 |
| Total available-for-sale | 166,281 | — | (29,166) | 137,115 |
| Held-to-maturity securities: | | | | |
| Debt securities: | | | | |
| U.S. Treasury securities | 9,995 | — | (545) | 9,450 |
| Total debt securities | 9,995 | — | (545) | 9,450 |
| Mortgage-backed securities: | | | | |
| Government-sponsored mortgage-backed securities | 213,375 | 107 | (35,240) | 178,242 |
| Total mortgage-backed securities | 213,375 | 107 | (35,240) | 178,242 |
| Total held-to-maturity | 223,370 | 107 | (35,785) | 187,692 |
| Total | \$ 389,651 | \$ 107 | \$ (64,951) | \$ 324,807 |

The following table presents the unrealized gains recognized on marketable equity securities for the periods indicated:

| | Three Months Ended March 31 | |
|--|--------------------------------|-------------|
| | 2024 | 2023 |
| | (In thousands) | |
| Net gains recognized during the period on marketable equity securities | \$ 8 | \$ — |
| Net losses recognized during the period on equity securities sold during the period | — | — |
| Unrealized gains recognized during the period on marketable equity securities still held at end of period | \$ 8 | \$ — |

At March 31, 2024, U.S. Treasury securities with a fair value of \$ 9.5 million, government-sponsored enterprise obligations with a fair value of \$ 7.8 million and mortgage-backed securities with a fair value of \$169.4 million were pledged to secure public deposits, the Bank Term Funding Program ("BTFP") and for other purposes as required or permitted by law. The securities collateralizing public deposits are subject to fluctuations in fair value. We monitor the fair value of the collateral on a periodic basis, and pledge additional collateral if necessary based on changes in fair value of collateral or the balances of such deposits.

The amortized cost and fair value of available-for-sale and held-to-maturity securities at March 31, 2024, by final maturity, are shown below. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations.

| | Available-for-Sale | | Held-to-Maturity | |
|---|--------------------|-------------------|-------------------|-------------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| (In thousands) | | | | |
| Debt securities: | | | | |
| Due in one year or less | \$ 135 | \$ 134 | \$ 4,994 | \$ 4,864 |
| Due after one year through five years | — | — | 5,003 | 4,599 |
| Due after five years through ten years | 19,927 | 15,903 | — | — |
| Due after ten years | — | — | 1,100 | 1,103 |
| Total debt securities | \$ 20,062 | \$ 16,037 | \$ 11,097 | \$ 10,566 |
| Mortgage-backed securities: | | | | |
| Due after one year through five years | \$ 962 | \$ 916 | \$ — | \$ — |
| Due after five years through ten years | 844 | 767 | — | — |
| Due after ten years | 148,196 | 120,642 | 210,145 | 171,113 |
| Total mortgage-backed securities | 150,002 | 122,325 | 210,145 | 171,113 |
| Total securities | \$ 170,064 | \$ 138,362 | \$ 221,242 | \$ 181,679 |

There were no sales of available-for-sale securities for the three months ended March 31, 2024 and 2023.

Allowance for Credit Losses – Available-for-Sale Securities

The Company measures expected credit losses on available-for-sale debt securities based upon the gain or loss position of the security. For available-for-sale debt securities in an unrealized loss position which the Company does not intend to sell, and it is not more likely than not that the Company will be required to sell the security before recovery of the Company's amortized cost, the Company evaluates qualitative criteria to determine any expected loss. This includes among other items the financial health of, and specific prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. The Company also evaluates quantitative criteria including determining whether there has been an adverse change in expected future cash flows of the security. Available-for-sale securities which are guaranteed by government agencies do not currently have an allowance for credit loss as the Company determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. In assessing the Company's investments in government-sponsored and U.S. government guaranteed mortgage-backed securities and government-sponsored enterprise obligations, the contractual cash flows of these investments are guaranteed by the respective government-sponsored enterprise; Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Federal Farm Credit Bank ("FFCB"), or Federal Home Loan Bank ("FHLB"). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. The Company will evaluate this position no less than annually, however, certain items which may cause the Company to change this methodology include legislative changes that remove a government-sponsored enterprise's ability to draw funds from the U.S. government, or legislative changes to housing policy that reduce or eliminate the U.S. government's implicit guarantee on such securities. Accrued interest receivable on available-for-sale securities guaranteed by government agencies totaled \$360,000 at March 31, 2024 and \$333,000 at December 31, 2023, and is excluded from the estimate of credit losses. If the Company does not expect to recover the entire amortized cost basis of the security, an allowance for credit losses would be recorded, with a related charge to earnings, limited by the amount of the fair value of the security less its amortized cost. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the debt security before recovery of its amortized cost basis, the Company recognizes the entire difference between the amortized cost basis of the security and its fair value in earnings. Any impairment that has not been recorded through an allowance for credit loss is recognized in other comprehensive income. Accrued interest receivable on available-for-sale debt securities not guaranteed by government agencies totaled \$51,000 at March 31, 2024 and \$178,000 at December 31, 2023, and is excluded from the estimate of credit losses. There were no allowance for credit losses established on available-for-sale debt securities during the three months ended March 31, 2024.

Allowance for Credit Losses – Held-to-Maturity Securities

The Company measures expected credit losses on held-to-maturity debt securities on a collective basis by security type and risk rating where available. The reserve for each pool is calculated based on a Probability of Default/Loss Given Default basis taking into consideration the expected life of each security. Held-to-maturity securities which are issued by the United States Treasury or are guaranteed by government agencies do not currently have an allowance for credit loss as the Company determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. In assessing the Company's investments in government-sponsored and U.S. government guaranteed mortgage-backed securities and government-sponsored enterprise obligations, the contractual cash flows of these investments are guaranteed by the respective government-sponsored enterprise; FHLMC, FNMA, FFCB, or FHLB. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. The Company will evaluate this position no less than annually, however, certain items which may cause the Company to change this methodology include legislative changes that remove a government-sponsored enterprise's ability to draw funds from the U.S. government, or legislative changes to housing policy that reduce or eliminate the U.S. government's implicit guarantee on such securities. Any expected credit losses on held-to-maturity securities would be presented as an allowance for credit loss. Accrued interest receivable on held-to-maturity securities totaled \$482,000 at March 31, 2024 and \$454,000 at December 31, 2023, and is excluded from the estimate of credit losses. There were no allowance for credit losses established on held-to-maturity securities during the three months ended March 31, 2024.

At March 31, 2024 and December 31, 2023, management attributed the unrealized losses to increases in current market yields compared to the yields at the time the investments were purchased by the Company and not due to credit quality. There was no credit loss during the three months ended March 31, 2024 and March 31, 2023, respectively. At March 31, 2024, there was one available-for-sale corporate bond that was rated below investment grade by one or more ratings agencies, while at December 31, 2023, there were two available-for-sale corporate bonds that were rated below investment grade by one or more ratings agencies. At March 31, 2024, the Company reviewed the financial strength of the one available-for-sale corporate bond below investment grade and concluded that the amortized cost remains supported by the expected future cash flows of the security.

Information pertaining to investment securities with gross unrealized losses as of March 31, 2024 and December 31, 2023 for which the Company did not recognize a provision for credit losses under CECL, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

| March 31, 2024 | | | | | | | | | | | |
|---|-------------------------|------------------|-----------------------|--|----------------------|-------------------|-----------------------|--|--|-------|--|
| | Less Than Twelve Months | | | | Over Twelve Months | | | | Depreciation from Amortized Cost Basis (%) | | |
| | Number of Securities | Fair Value | Gross Unrealized Loss | Depreciation from Amortized Cost Basis (%) | Number of Securities | Fair Value | Gross Unrealized Loss | | | | |
| | (Dollars in thousands) | | | | | | | | | | |
| Available-for-sale: | | | | | | | | | | | |
| Government-sponsored mortgage-backed securities | 2 | \$ 9,295 | \$ 13 | 0.1% | 70 | \$ 107,794 | \$ 26,308 | | | 19.6% | |
| U.S. government guaranteed mortgage-backed securities | — | — | — | — | 9 | 5,236 | 1,356 | | | 20.6 | |
| Government-sponsored enterprise obligations | — | — | — | — | 3 | 11,832 | 3,095 | | | 20.7 | |
| Corporate bonds | — | — | — | — | 2 | 4,071 | 929 | | | 18.6 | |
| State and municipal bonds | 1 | 134 | 1 | 0.7 | — | — | — | | | — | |
| Total available-for-sale | 3 | 9,429 | 14 | | 84 | 128,933 | 31,688 | | | | |
| Held-to-maturity: | | | | | | | | | | | |
| U.S. Treasury securities | — | — | — | —% | 2 | 9,463 | 534 | | | 5.3% | |
| Government-sponsored mortgage-backed securities | 3 | 5,711 | 80 | 1.4 | 37 | 159,059 | 38,988 | | | 19.7 | |
| Total held-to-maturity | 3 | 5,711 | 80 | | 39 | 168,522 | 39,522 | | | | |
| Total | 6 | \$ 15,140 | \$ 94 | | 123 | \$ 297,455 | \$ 71,210 | | | | |

| December 31, 2023 | | | | | | | | | | |
|---|-------------------------|------------|-----------------------|--|----------------------|------------|-----------------------|-------|--|--|
| | Less Than Twelve Months | | | | Over Twelve Months | | | | Depreciation from Amortized Cost Basis (%) | |
| | Number of Securities | Fair Value | Gross Unrealized Loss | Depreciation from Amortized Cost Basis (%) | Number of Securities | Fair Value | Gross Unrealized Loss | | | |
| | | | | | | | | | | |
| (Dollars in thousands) | | | | | | | | | | |
| Available-for-sale: | | | | | | | | | | |
| Government-sponsored mortgage-backed securities | — | \$ — | \$ — | —% | 70 | \$ 112,557 | \$ 23,976 | 17.6% | | |
| U.S. government guaranteed mortgage-backed securities | — | — | — | — | 9 | 5,435 | 1,254 | 18.7 | | |
| Government-sponsored enterprise obligations | — | — | — | — | 3 | 12,026 | 2,898 | 19.4 | | |
| Corporate bonds | — | — | — | — | 3 | 6,962 | 1,038 | 13.0 | | |
| Total available-for-sale | — | — | — | — | 85 | 136,980 | 29,166 | | | |
| Held-to-maturity: | | | | | | | | | | |
| U.S. Treasury securities | — | — | — | —% | 2 | 9,450 | 545 | 5.5% | | |
| Government-sponsored mortgage-backed securities | 4 | 7,097 | 56 | 0.8 | 36 | 164,395 | 35,184 | 17.6 | | |
| Total held-to-maturity | 4 | 7,097 | 56 | | 38 | 173,845 | 35,729 | | | |
| Total | 4 | \$ 7,097 | \$ 56 | | 123 | \$ 310,825 | \$ 64,895 | | | |

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Major classifications of loans at the periods indicated were as follows:

| | March 31, 2024 | | December 31, 2023 | |
|---|----------------|--|-------------------|--------------|
| | (In thousands) | | | |
| Commercial real estate | | | \$ 1,083,910 | \$ 1,079,751 |
| Residential real estate: | | | | |
| Residential one-to-four family | | | 615,277 | 612,315 |
| Home equity | | | 111,488 | 109,839 |
| Total residential real estate | | | 726,765 | 722,154 |
| Commercial and industrial | | | 207,307 | 217,447 |
| Consumer | | | 4,998 | 5,472 |
| Total gross loans | | | 2,022,980 | 2,024,824 |
| Unearned premiums and deferred loan fees and costs, net | | | 2,586 | 2,493 |
| Total loans, net | | | 2,025,566 | 2,027,317 |
| Allowance for credit losses | | | (19,884) | (20,267) |
| Net loans | | | \$ 2,005,682 | \$ 2,007,050 |

Loans Serviced for Others.

The Company has transferred a portion of its originated commercial loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in our accompanying consolidated balance sheets. We continue to service the loans on behalf of the participating lenders. We share with participating lenders, on a pro-rata basis, any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. At March 31, 2024 and December 31, 2023, the Company was servicing commercial loans participated out to various other institutions totaling \$59.1 million and \$65.0 million, respectively.

Residential real estate mortgages are originated by the Company both for its portfolio and for sale into the secondary market. The Company may sell its loans to institutional investors such as the FHLMC. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed upon rate on the loan, which is less than the interest rate received from the borrower. The Company retains the difference as a fee for servicing the residential real estate mortgages. The Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The significant assumptions used by a third party to estimate the fair value of capitalized servicing rights at March 31, 2024, include weighted average prepayment speed for the portfolio using the Public Securities Association Standard Prepayment Model (104 PSA), weighted average internal rate of return (10.01%), weighted average servicing fee (0.25%), and average cost to service loans (\$ 83.38 per loan). The estimated fair value of capitalized servicing rights may vary significantly in subsequent periods primarily due to changing market interest rates, and their effect on prepayment speeds and discount rates. There were no sales of residential real estate mortgages to the secondary market during the three months ended March 31, 2024.

At March 31, 2024 and December 31, 2023, the Company was servicing residential mortgage loans owned by investors totaling \$ 71.4 million and \$72.3 million, respectively. Servicing fee income of \$44,000 and \$50,000 was recorded for the three months ended March 31, 2024 and 2023, respectively, and is included in service charges and fees on the consolidated statements of net income.

A summary of the activity in the balances of mortgage servicing rights follows:

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------|
| | 2024 | 2023 |
| | (In thousands) | |
| Balance at the beginning of year: | \$ 422 | \$ 550 |
| Capitalized mortgage servicing rights | — | — |
| Amortization | (22) | (35) |
| Balance at the end of period | \$ 400 | \$ 515 |
| Fair value at the end of period | \$ 707 | \$ 779 |

Loans are recorded at the principal amount outstanding, adjusted for charge-offs, unearned premiums and deferred loan fees and costs. Interest on loans is calculated using the effective yield method on daily balances of the principal amount outstanding and is credited to income on the accrual basis to the extent it is deemed collectable. Our general policy is to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more based on the contractual terms of the loan, or earlier if there are concerns regarding the collectability of the loan. Any unpaid amounts previously accrued on these loans are reversed from income. Subsequent cash receipts are applied to the outstanding principal balance or to interest income if, in the judgment of management, collection of the principal balance is not in question. Loans are returned to accrual status when they become current as to both principal and interest and perform in accordance with contractual terms for a period of at least six months, reducing the concern as to the collectability of principal and interest. Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income over the estimated average lives of the related loans.

Allowance for Credit Losses.

The allowance for credit losses is an estimate of expected losses inherent within the Company's existing loans held for investment portfolio. The allowance for credit losses for loans held for investment, as reported in our consolidated balance sheet, is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Accrued interest receivable on loans held for investment was \$7.6 million at March 31, 2024 and \$7.5 million at December 31, 2023 and is excluded from the estimate of credit losses.

The loan loss estimation process involves procedures to appropriately consider the unique characteristics of loan portfolio segments, which consist of commercial real estate loans, residential real estate loans, commercial and industrial loans, and consumer loans. These segments are further disaggregated into loan classes, the level at which credit risk is monitored. For each of these pools, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speed, curtailments, time to recovery, probability of default, and loss given default. The modeling of expected prepayment speeds, curtailment rates, and time to recovery are based on historical internal data. The quantitative component of the ACL on loans is model-based and utilizes a forward-looking macroeconomic forecast. The Company uses a discounted cash flow method, incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers, to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, and considering historical experience, current conditions, and future expectations for pools of loans over a reasonable and supportable forecast period. The historical information either experienced by the Company or by a selection of peer banks, when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available.

Commercial real estate loans. Loans in this segment include commercial real estate, multi-family dwellings, owner-occupied commercial real estate and income producing investment properties, as well as commercial construction loans for commercial development projects throughout New England. The underlying cash flows generated by the properties or operations can be adversely impacted by a downturn in the economy due to increased vacancy rates or diminished cash flows, which in turn, would have an effect on the credit quality in this segment. Management obtains financial information annually and continually monitors the cash flows of these loans.

Residential real estate loans. This portfolio segment consists of first mortgages, home equity loans, and home equity lines secured by one-to-four family residential properties. First mortgages may be underwritten to a maximum loan-to-value of 97% for owner-occupied homes, 90% for second homes and 85% for investment properties. Mortgages with loan-to-values greater than 80% require private mortgage insurance. We do not grant subprime loans. Home equity loans and lines are secured by first or second mortgages on one-to-four family owner-occupied properties. Equity loans and lines are underwritten to a maximum combined loan-to-value of 85% of the appraised value of the property. Underwriting approval is dependent on review of the borrower's ability to repay and credit history in accordance with Westfield Bank's policy. The overall health of the economy, including unemployment rates and housing pricing, will have an effect on the credit quality in this segment.

Commercial and industrial loans. Loans in this segment include commercial business loans and are generally secured by assignments of corporate assets and personal guarantees of the business owners. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Consumer loans. Loans in this segment are both secured and unsecured and repayment is dependent on the credit quality of the individual borrower.

Discounted cash flow method ("DCF")

In estimating the component of the allowance for credit losses for loans that share similar risk characteristics with other loans, such loans are segregated into loan classes. Loans are designated into loan classes based on loans pooled by product types and similar risk characteristics or areas of risk concentration. In determining the allowance for credit losses, we derive an estimated credit loss assumption from a model that categorizes loan pools based on loan type and purpose. This model calculates an expected loss percentage for each loan class by considering the probability of default, using life-of-loan analysis periods for all loan segments, and the historical severity of loss, based on the aggregate net lifetime losses incurred per loan class. The default and severity factors used to calculate the allowance for credit losses for loans that share similar risk characteristics with other loans are adjusted for differences between the historical period used to calculate historical default and loss severity rates and expected conditions over the remaining lives of the loans in the portfolio related to: (1) lending policies and procedures; (2) international, national, regional and local economic business conditions and developments that affect the collectability of the portfolio; (3) the nature and volume of the loan portfolio including the terms of the loans; (4) the experience, ability, and depth of the lending management and other relevant staff; (5) the volume and severity of past due and adversely classified loans and the volume of nonaccrual loans; (6) the quality of our loan review system and (7) the value of underlying collateral for collateralized loans. Additional factors include the existence and effect of any concentrations of credit, and changes in the level of such concentrations and the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio. Such factors are used to adjust the historical probabilities of default and severity of loss so that they reflect management expectation of future conditions based on a reasonable and supportable forecast. The Company uses regression analysis of historical internal and peer data to determine which variables are best suited to be economic variables utilized when modeling lifetime probability of default and loss given default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the economic variables.

For all DCF models, management has determined that four quarters represents a reasonable and supportable forecast period and reverts back to a historical loss rate over four quarters on a straight-line basis. Other internal and external indicators of economic forecasts are also considered by management when developing the forecast metrics.

Individually evaluated financial assets

For a loan that does not share risk characteristics with other loans, expected credit loss is measured based on net realizable value, that is, the difference between the discounted value of the expected future cash flows, based on the original effective interest rate, and the amortized cost basis of the loan. For these loans, we recognize expected credit loss equal to the amount by which the net realizable value of the loan is less than the amortized cost basis of the loan (which is net of previous charge-offs and deferred loan fees and costs), except when the loan is collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In these cases, expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of the collateral is adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only on the operation) of the collateral.

Allowance for credit losses on off-balance sheet credit exposures, including unfunded loan commitments

The Company maintains a separate allowance for credit losses from off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the balance sheet. Management estimates the amount of expected losses by calculating a commitment usage factor over the contractual period for exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the ACL methodology to the results of the usage calculation to estimate the liability for credit losses related to unfunded commitments for each loan type. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company, such as undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement. The allowance for credit losses on off-balance sheet credit exposures is adjusted as credit loss expense. Categories of off-balance sheet credit exposures correspond to the loan portfolio segments described above. Management evaluates the need for a reserve on unfunded loan commitments in a manner consistent with loans held for investment.

An analysis of changes in the allowance for credit losses by segment for the three months ended March 31, 2024 and March 31, 2023 is as follows:

| | Commercial Real Estate | Residential Real Estate | Commercial and Industrial | Consumer | Unallocated | Total |
|--|---------------------------|----------------------------|------------------------------|---------------|-------------|------------------|
| | (In thousands) | | | | | |
| Balance at December 31, 2023 | \$ 15,141 | \$ 2,548 | \$ 2,537 | \$ 41 | \$ — | \$ 20,267 |
| Provision (reversal) for credit losses | (398) | (71) | (95) | 114 | — | (450) |
| Charge-offs | — | (7) | (1) | (59) | — | (67) |
| Recoveries | 28 | 11 | 67 | 28 | — | 134 |
| Balance at March 31, 2024 | \$ 14,771 | \$ 2,481 | \$ 2,508 | \$ 124 | \$ — | \$ 19,884 |
| Allowance for credit losses for off-balance sheet exposures | | | | | | |
| Balance at December 31, 2023 | \$ 375 | \$ 163 | \$ 59 | \$ — | \$ — | \$ 597 |
| Provision (reversal) for credit losses | (111) | 21 | (10) | — | — | (100) |
| Balance at March 31, 2024 | \$ 264 | \$ 184 | \$ 49 | \$ — | \$ — | \$ 497 |

| | Commercial Real Estate | Residential Real Estate | Commercial and Industrial | Consumer | Unallocated | Total |
|--|---------------------------|----------------------------|------------------------------|--------------|-------------|------------------|
| | (In thousands) | | | | | |
| Balance at December 31, 2022 | \$ 12,199 | \$ 4,312 | \$ 3,160 | \$ 245 | \$ 15 | \$ 19,931 |
| Cumulative effect of change in accounting principle | 3,989 | (2,518) | (75) | (199) | (15) | 1,182 |
| Adjusted Beginning Balance | \$ 16,188 | \$ 1,794 | \$ 3,085 | 46 | — | \$ 21,113 |
| Provision (reversal) for credit losses | (349) | 83 | 3 | 31 | — | (232) |
| Charge-offs | (414) | — | (1,413) | (35) | — | (1,862) |
| Recoveries | — | — | 1 | 11 | — | 12 |
| Balance at March 31, 2023 | \$ 15,425 | \$ 1,877 | \$ 1,676 | \$ 53 | \$ — | \$ 19,031 |
| Allowance for credit losses for off-balance sheet exposures | | | | | | |
| Balance at December 31, 2022 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Cumulative effect of change in accounting principle | 611 | 267 | 40 | — | — | 918 |
| Provision (reversal) for credit losses | (93) | (62) | (1) | — | — | (156) |
| Balance at March 31, 2023 | \$ 518 | \$ 205 | \$ 39 | \$ — | \$ — | \$ 762 |

The \$550,000 reversal of credit losses during the three months ended March 31, 2024 was comprised of a \$ 450,000 reversal of credit losses for loans and a \$100,000 reversal of credit losses for unfunded commitments. The \$ 100,000 reversal of credit losses for unfunded commitments for the three months ended March 31, 2024 was primarily related to the impact of lower unfunded loan commitments. Total unfunded loan commitments decreased \$12.4 million, or 7.6%, to \$149.9 million at March 31, 2024 from \$ 162.3 million at December 31, 2023.

The provision for credit losses was determined by a number of factors: the continued strong credit performance of the Company's loan portfolio, changes in the loan portfolio mix and management's consideration of existing economic conditions and the economic outlook from the Federal Reserve's actions to control inflation. Management continues to monitor macroeconomic variables related to increasing interest rates, inflation and the concerns of an economic downturn, and believes it is appropriately reserved for the current economic environment and supportable forecast period.

Past Due Loans.

The following tables present an age analysis of past due loans as of the dates indicated:

| | 30 – 59 Days Past Due | 60 – 89 Days Past Due | 90 Days or More Past Due | Total Past Due Loans | Total Current Loans | Total Loans | Nonaccrual Loans |
|--------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------|---------------------------|---------------------|---------------------|
| | (In thousands) | | | | | | |
| March 31, 2024 | | | | | | | |
| Commercial real estate | \$ 522 | \$ 3 | \$ 799 | \$ 1,324 | \$ 1,082,586 | \$ 1,083,910 | \$ 1,035 |
| Residential real estate: | | | | | | | |
| Residential one-to-four family | 1,547 | 514 | 800 | 2,861 | 612,416 | 615,277 | 4,492 |
| Home equity | 347 | — | 101 | 448 | 111,040 | 111,488 | 101 |
| Total: | 1,894 | 514 | 901 | 3,309 | 723,456 | 726,765 | 4,593 |
| Commercial and industrial | 60 | — | 9 | 69 | 207,238 | 207,307 | 201 |
| Consumer | 7 | — | 7 | 14 | 4,984 | 4,998 | 8 |
| Total loans | \$ 2,483 | \$ 517 | \$ 1,716 | \$ 4,716 | \$ 2,018,264 | \$ 2,022,980 | \$ 5,837 |

| | 30 – 59 Days Past Due | 60 – 89 Days Past Due | 90 Days or More Past Due | Total Past Due Loans | Total Current Loans | Total Loans | Nonaccrual Loans |
|--------------------------------|--------------------------|--------------------------|--------------------------------|----------------------------|---------------------------|---------------------|---------------------|
| (In thousands) | | | | | | | |
| December 31, 2023 | | | | | | | |
| Commercial real estate | \$ 272 | \$ 647 | \$ 403 | \$ 1,322 | \$ 1,078,429 | \$ 1,079,751 | \$ 1,347 |
| Residential real estate: | | | | | | | |
| Residential one-to-four family | 2,354 | 934 | 881 | 4,169 | 608,146 | 612,315 | 4,739 |
| Home equity | 263 | 112 | 102 | 477 | 109,362 | 109,839 | 109 |
| Total: | <u>2,617</u> | <u>1,046</u> | <u>983</u> | <u>4,646</u> | <u>717,508</u> | <u>722,154</u> | <u>4,848</u> |
| Commercial and industrial | 20 | — | 8 | 28 | 217,419 | 217,447 | 218 |
| Consumer | 3 | — | — | 3 | 5,469 | 5,472 | 8 |
| Total loans | \$ 2,912 | \$ 1,693 | \$ 1,394 | \$ 5,999 | \$ 2,018,825 | \$ 2,024,824 | \$ 6,421 |

At March 31, 2024, total past due loans totaled \$ 4.7 million, or 0.23% of total loans, and at December 31, 2023, total past due loans totaled \$ 6.0 million, or 0.30% of total loans.

Nonaccrual Loans.

Accrual of interest on loans is generally discontinued when contractual payment of principal or interest becomes past due 90 days or, if in management's judgment, reasonable doubt exists as to the full timely collection of interest. Exceptions may be made if the loan has matured and is in the process of renewal or is well-secured and in the process of collection. When a loan is placed on nonaccrual status, interest accruals cease and uncollected accrued interest is reversed and charged against current interest income. Interest payments on nonaccrual loans are generally applied to principal. If collection of the principal is reasonably assured, interest payments are recognized as income on the cash basis. Loans are generally returned to accrual status when principal and interest payments are current, full collectability of principal and interest is reasonably assured and a consistent record of at least six consecutive months of performance has been achieved.

The following table presents information regarding nonaccrual loans as of the dates indicated:

| | As of March 31, 2024 | | | For the Three Months Ended March 31, 2024 | |
|---------------------------|--|---|------------------------------|---|-------------------------|
| | Nonaccrual Loans with Allowance for Credit Loss | Nonaccrual Loans Without Allowance for Credit Loss | Total Nonaccrual Loans | Accrued Interest Receivable | Reversed from Income |
| | (In thousands) | | | | |
| Commercial real estate | \$ — | \$ 1,035 | \$ 1,035 | \$ 24 | |
| Residential real estate: | | | | | |
| Residential | — | 4,492 | 4,492 | 55 | |
| Home equity | — | 101 | 101 | 3 | |
| Commercial and industrial | — | 201 | 201 | 39 | |
| Consumer | 8 | — | 8 | — | |
| Total loans | \$ 8 | \$ 5,829 | \$ 5,837 | \$ 121 | |

| | As of December 31, 2023 | | | For the Three Months Ended March 31, 2023 | |
|---------------------------|---|--|------------------------|---|----------------------|
| | Nonaccrual Loans with Allowance for Credit Loss | Nonaccrual Loans Without Allowance for Credit Loss | Total Nonaccrual Loans | Accrued Interest Receivable | Reversed from Income |
| | (In thousands) | | | | |
| Commercial real estate | \$ — | \$ 1,347 | \$ 1,347 | \$ 23 | |
| Residential real estate: | | | | | |
| Residential | — | 4,739 | 4,739 | 45 | |
| Home equity | — | 109 | 109 | 3 | |
| Commercial and industrial | — | 218 | 218 | 58 | |
| Consumer | — | 8 | 8 | — | |
| Total loans | \$ — | \$ 6,421 | \$ 6,421 | \$ 129 | |

At March 31, 2024 and December 31, 2023, nonaccrual loans totaled \$ 5.8 million, or 0.29% of total loans, and \$ 6.4 million, or 0.32%, of total loans, respectively. The Company did not recognize any interest income on nonaccrual loans for the three months ended March 31, 2024 and 2023. At March 31, 2024 and December 31, 2023, there were no commitments to lend additional funds to any borrower on nonaccrual status. At March 31, 2024 and December 31, 2023, there were no loans 90 or more days past due and still accruing interest.

Individually Evaluated Collateral Dependent Loans.

Loans that do not share similar risk characteristics with loans that are pooled into portfolio segments are individually evaluated. A loan is considered collateral dependent when, based on current information and events, the borrower is experiencing financial difficulty and repayment, both principal and interest, is expected to be provided substantially through the operation or sale of the collateral. Loans that are rated Substandard, have a loan-to-value above 85% or have demonstrated a specific weakness (e.g. slow payment history, industry weakness, or other clear credit deterioration) may be considered for individual evaluation if they are determined not to share similar risk characteristics within the segment. Individually evaluated assets will be measured primarily using the collateral dependent financial asset practical expedient, although the discounted cash flow method may be used when management deems it more appropriate or collateral values cannot be supported. For individually evaluated assets, an ACL is determined separately for each financial asset. At March 31, 2024, the Company had \$822,000 in individually evaluated commercial loans, collateralized by business assets, and \$14.8 million in individually evaluated real estate loans, collateralized by real estate property.

The following table summarizes the Company's individually evaluated collateral dependent loans by class as of the dates indicated:

| | As of March 31, 2024 | |
|---|----------------------|-------------------|
| | Recorded Investment | Related Allowance |
| | (In thousands) | |
| With no related allowance recorded: | | |
| Commercial real estate | \$ 10,063 | \$ — |
| Residential real estate: | | |
| Residential one-to-four family | 4,665 | — |
| Home equity | 101 | — |
| Commercial and industrial | 305 | — |
| Consumer | — | — |
| Loans with no related allowance recorded | \$ 15,134 | \$ — |
| With an allowance recorded: | | |
| Commercial real estate | \$ — | \$ — |
| Residential real estate: | | |
| Residential one-to-four family | — | — |
| Home equity | — | — |
| Commercial and industrial | 517 | 179 |
| Consumer | — | — |
| Loans with an allowance recorded | \$ 517 | \$ 179 |
| Total individually evaluated loans | \$ 15,651 | \$ 179 |

| | As of December 31, 2023 | |
|--|-------------------------|----------------------|
| | Recorded Investment | Related Allowance |
| | (In thousands) | |
| With no related allowance recorded: | | |
| Commercial real estate | \$ 10,648 | \$ — |
| Residential real estate: | | |
| Residential one-to-four family | 5,163 | — |
| Home equity | 109 | — |
| Commercial and industrial | 13,273 | — |
| Consumer | 8 | — |
| Loans with no related allowance recorded | <u>\$ 29,201</u> | <u>\$ —</u> |
| With an allowance recorded: | | |
| Commercial real estate | \$ — | \$ — |
| Residential real estate: | | |
| Residential one-to-four family | — | — |
| Home equity | — | — |
| Commercial and industrial | 517 | 179 |
| Consumer | — | — |
| Loans with an allowance recorded | <u>\$ 517</u> | <u>\$ 179</u> |
| Total individually evaluated loans | <u>\$ 29,718</u> | <u>\$ 179</u> |

Modified Loans.

Loans are designated as modified when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Company grants the borrower a concession on the terms that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, extension of additional credit based on receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) which materially alters the Company's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination.

There were no loan modifications during the three months ended March 31, 2024 and for the year ended December 31, 2023. During the three months ended March 31, 2024 and 2023, no modified loans defaulted (defined as 30 days or more past due) within 12 months of restructuring. There were no charge-offs on modified loans during the three months ended March 31, 2024 or 2023.

Credit Quality Information.

The Company utilizes an eight-grade internal loan rating system for commercial real estate and commercial and industrial loans. The Company's internal credit risk grades are based on the definitions currently utilized by the banking regulatory agencies. The grades assigned and definitions are as follows, and loans graded excellent, above average, good (risk ratings 1-4) are treated as "pass" for grading purposes. All loans risk rated Special Mention (5), Substandard (6), Doubtful (7) and Loss (8) are listed on the Company's criticized report and are reviewed not less than on a quarterly basis to assess the level of risk and to ensure that appropriate actions are being taken to minimize potential loss exposure. In addition, the Company closely monitors classified loans, defined as Substandard, Doubtful, and loss for signs of deterioration to mitigate the growth in nonaccrual loans, including performing additional due diligence, updating valuations and requiring additional financial reporting from the borrower. Loans identified as containing a loss are partially charged-off or fully charged-off. Performing residential real estate, home equity and consumer loans are grouped with "Pass" rated loans. Nonperforming residential real estate, home equity and consumer loans are risk rated as "Substandard" and individually evaluated.

Loans rated 1 – 4: Loans rated 1-4 represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent acceptable risk.

Loans rated 5: Loans rated 5 are considered “*Special Mention*” and may exhibit potential credit weaknesses or downward trends and are being monitored by management. Loans in this category are currently protected based on collateral and repayment capacity and do not constitute undesirable credit risk, but have potential weakness that may result in deterioration of the repayment process at some future date. This classification is used if a negative trend is evident in the obligor’s financial situation. Special Mention loans do not sufficiently expose the Company to warrant adverse classification.

Loans rated 6: Loans rated 6 are considered “*Substandard*.” A loan is classified as Substandard if the borrower exhibits a well-defined weakness and may be inadequately protected by the current net worth and cash flow capacity to pay the current debt.

Loans rated 7: Loans rated 7 are considered “*Doubtful*.” Loans classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation of the loan highly questionable and improbable. The possibility of some loss is extremely high, but because of specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Loans rated 8: Loans rated 8 are considered uncollectible. The loss classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset because recovery and collection time may be affected in the future.

On an annual basis, or more often if needed, we formally review the ratings on all commercial real estate and commercial and industrial loans. In addition, management utilizes delinquency reports, the criticized loan report and other loan reports to monitor credit quality. In addition, at least on an annual basis, the Company contracts with an external loan review company to review the internal credit ratings assigned to loans in the commercial loan portfolio on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan. During the course of its review, the third party examines a sample of loans, including new loans, existing relationships over certain dollar amounts and classified assets.

The following tables detail the amortized cost balances of the Company’s loan portfolio presented by risk rating and origination year as of the periods presented. In addition, payment activity has been included as an additional credit quality indicator:

| | Term Loan Origination by Year | | | | | | Revolving Loans | | |
|---|-------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|---|-----------------|---------------------|
| | | | | | | | Revolving Loans Converted to Term Loans | Total | |
| | March 31, 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving Loans | | |
| (Dollars in thousands) | | | | | | | | | |
| Commercial Real Estate: | | | | | | | | | |
| Pass (Rated 1- 4) | \$ 8,558 | \$ 43,495 | \$ 187,387 | \$ 235,012 | \$ 111,791 | \$ 403,778 | \$ 77,388 | \$ — | \$ 1,067,409 |
| Special Mention (Rated 5) | — | — | — | — | 174 | 3,684 | 693 | — | 4,551 |
| Substandard (Rated 6) | — | — | — | — | 8,492 | 3,458 | — | — | 11,950 |
| Total commercial real estate loans | \$ 8,558 | \$ 43,495 | \$ 187,387 | \$ 235,012 | \$ 120,457 | \$ 410,920 | \$ 78,081 | \$ — | \$ 1,083,910 |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Payment Performance: | | | | | | | | | |
| Performing | \$ 8,558 | \$ 43,495 | \$ 187,387 | \$ 235,012 | \$ 120,457 | \$ 409,885 | \$ 78,081 | \$ — | \$ 1,082,875 |
| Nonperforming | — | — | — | — | — | 1,035 | — | — | 1,035 |
| Residential One-to-Four Family: | | | | | | | | | |
| Pass | \$ 11,361 | \$ 57,844 | \$ 91,010 | \$ 93,134 | \$ 123,881 | \$ 224,744 | \$ 7,904 | \$ — | \$ 609,878 |
| Substandard | — | — | 446 | 484 | 872 | 3,597 | — | — | 5,399 |
| Total residential one-to-four family | \$ 11,361 | \$ 57,844 | \$ 91,456 | \$ 93,618 | \$ 124,753 | \$ 228,341 | \$ 7,904 | \$ — | \$ 615,277 |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Payment Performance: | | | | | | | | | |
| Performing | \$ 11,361 | \$ 57,844 | \$ 91,010 | \$ 93,134 | \$ 123,881 | \$ 225,651 | \$ 7,904 | \$ — | \$ 610,785 |
| Nonperforming | — | — | 446 | 484 | 872 | 2,690 | — | — | 4,492 |
| Home Equity: | | | | | | | | | |
| Pass | \$ 2,599 | \$ 10,003 | \$ 10,462 | \$ 6,680 | \$ 6,849 | \$ 11,976 | \$ 60,612 | \$ 2,206 | \$ 111,387 |
| Substandard | — | — | — | — | — | — | 90 | 11 | 101 |
| Total home equity loans | \$ 2,599 | \$ 10,003 | \$ 10,462 | \$ 6,680 | \$ 6,849 | \$ 11,976 | \$ 60,702 | \$ 2,217 | \$ 111,488 |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 7 | \$ — | \$ 7 |
| Payment Performance: | | | | | | | | | |
| Performing | \$ 2,599 | \$ 10,003 | \$ 10,462 | \$ 6,680 | \$ 6,849 | \$ 11,976 | \$ 60,612 | \$ 2,206 | \$ 111,387 |
| Nonperforming | — | — | — | — | — | — | 90 | 11 | 101 |

| | Term Loans Originated by Year | | | | | | Revolving Loans | | | |
|--|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------|-------------------|--------|
| | March 31, | | | | | | Revolving | | Revolving | |
| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Loans | Loans | Converted to | Total |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial and Industrial: | | | | | | | | | | |
| Pass (Rated 1-4) | \$ 6,463 | \$ 23,412 | \$ 34,411 | \$ 30,525 | \$ 17,998 | \$ 25,793 | \$ 53,851 | \$ 68 | \$ 192,521 | |
| Special Mention (Rated 5) | — | 6,200 | 95 | 35 | — | 2,052 | 2,266 | — | — | 10,648 |
| Substandard (Rated 6) | — | — | — | — | 527 | 74 | 3,537 | — | — | 4,138 |
| Total commercial and industrial loans | \$ 6,463 | \$ 29,612 | \$ 34,506 | \$ 30,560 | \$ 18,525 | \$ 27,919 | \$ 59,654 | \$ 68 | \$ 207,307 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1 | \$ 1 |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 6,463 | \$ 29,612 | \$ 34,506 | \$ 30,560 | \$ 18,525 | \$ 27,913 | \$ 59,459 | \$ 68 | \$ 207,106 | |
| Nonperforming | — | — | — | — | — | 6 | 195 | — | — | 201 |
| Consumer: | | | | | | | | | | |
| Pass | \$ 299 | \$ 1,895 | \$ 1,205 | \$ 449 | \$ 163 | \$ 210 | \$ 770 | \$ — | \$ 4,991 | |
| Substandard | — | — | — | — | — | 7 | — | — | — | 7 |
| Total consumer loans | \$ 299 | \$ 1,895 | \$ 1,205 | \$ 449 | \$ 163 | \$ 217 | \$ 770 | \$ — | \$ 4,998 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 59 | \$ 59 |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 299 | \$ 1,895 | \$ 1,205 | \$ 449 | \$ 163 | \$ 210 | \$ 769 | \$ — | \$ 4,990 | |
| Nonperforming | — | — | — | — | — | 7 | 1 | — | — | 8 |

| | Term Loan Origination by Year | | | | | | Revolving Loans | | | |
|---|-------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|---|-----------------|---------------------|--------|
| | | | | | | | Revolving Loans Converted to Term Loans | | Total | |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | | | |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial Real Estate: | | | | | | | | | | |
| Pass (Rated 1- 4) | \$ 42,764 | \$ 175,829 | \$ 228,739 | \$ 113,631 | \$ 91,353 | \$ 320,806 | \$ 81,483 | \$ 9,289 | \$ 1,063,894 | |
| Special Mention (Rated 5) | — | — | — | 180 | 915 | 3,237 | 164 | — | 4,496 | |
| Substandard (Rated 6) | — | — | — | 8,013 | — | 3,348 | — | — | — | 11,361 |
| Total commercial real estate loans | \$ 42,764 | \$ 175,829 | \$ 228,739 | \$ 121,824 | \$ 92,268 | \$ 327,391 | \$ 81,647 | \$ 9,289 | \$ 1,079,751 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 764 | \$ — | \$ — | \$ — | \$ 764 |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 42,764 | \$ 175,829 | \$ 228,739 | \$ 121,824 | \$ 92,268 | \$ 326,044 | \$ 81,647 | \$ 9,289 | \$ 1,078,404 | |
| Nonperforming | — | — | — | — | — | 1,347 | — | — | — | 1,347 |
| Residential One-to-Four Family: | | | | | | | | | | |
| Pass | \$ 59,257 | \$ 88,213 | \$ 94,290 | \$ 125,917 | \$ 54,263 | \$ 174,688 | \$ 10,401 | \$ — | \$ 607,029 | |
| Substandard | — | 447 | 495 | 445 | — | 3,899 | — | — | — | 5,286 |
| Total residential one-to-four family | \$ 59,257 | \$ 88,660 | \$ 94,785 | \$ 126,362 | \$ 54,263 | \$ 178,587 | \$ 10,401 | \$ — | \$ 612,315 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 59,257 | \$ 88,213 | \$ 94,290 | \$ 125,540 | \$ 54,263 | \$ 175,612 | \$ 10,401 | \$ — | \$ 607,576 | |
| Nonperforming | — | 447 | 495 | 822 | — | 2,975 | — | — | — | 4,739 |
| Home Equity: | | | | | | | | | | |
| Pass | \$ 9,937 | \$ 10,885 | \$ 6,861 | \$ 7,108 | \$ 5,234 | \$ 7,261 | \$ 60,115 | \$ 2,329 | \$ 109,730 | |
| Substandard | — | — | — | — | — | 7 | 90 | 12 | 109 | |
| Total home equity loans | \$ 9,937 | \$ 10,885 | \$ 6,861 | \$ 7,108 | \$ 5,234 | \$ 7,268 | \$ 60,205 | \$ 2,341 | \$ 109,839 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 9,937 | \$ 10,885 | \$ 6,861 | \$ 7,108 | \$ 5,234 | \$ 7,261 | \$ 60,115 | \$ 2,329 | \$ 109,730 | |
| Nonperforming | — | — | — | — | — | 7 | 90 | 12 | 109 | |

| | Term Loans Originated by Year | | | | | | Revolving Loans | | | |
|--|-------------------------------|------------------|------------------|------------------|------------------|-----------------|------------------|--------------|---|-------|
| | | | | | | | Revolving Loans | | Revolving Loans Converted to Term Loans | Total |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | | | | |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial and Industrial: | | | | | | | | | | |
| Pass (Rated 1-4) | \$ 31,108 | \$ 35,705 | \$ 26,553 | \$ 19,780 | \$ 19,765 | \$ 8,825 | \$ 57,393 | \$ 69 | \$ 199,198 | |
| Special Mention (Rated 5) | — | 101 | — | — | 8 | 498 | 707 | — | 1,314 | |
| Substandard (Rated 6) | — | — | 1,408 | 8,156 | — | 85 | 7,286 | — | 16,935 | |
| Total commercial and industrial loans | \$ 31,108 | \$ 35,806 | \$ 27,961 | \$ 27,936 | \$ 19,773 | \$ 9,408 | \$ 65,386 | \$ 69 | \$ 217,447 | |
| Current period gross charge-offs | \$ — | \$ 147 | \$ — | \$ — | \$ — | \$ 221 | \$ — | \$ 1,193 | \$ 1,561 | |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 31,108 | \$ 35,806 | \$ 27,961 | \$ 27,936 | \$ 19,773 | \$ 9,401 | \$ 65,175 | \$ 69 | \$ 217,229 | |
| Nonperforming | — | — | — | — | — | 7 | 211 | — | 218 | |
| Consumer: | | | | | | | | | | |
| Pass | \$ 2,168 | \$ 1,381 | \$ 524 | \$ 241 | \$ 68 | \$ 270 | \$ 812 | \$ — | \$ 5,464 | |
| Substandard | — | — | — | — | — | 8 | — | — | 8 | |
| Total consumer loans | \$ 2,168 | \$ 1,381 | \$ 524 | \$ 241 | \$ 68 | \$ 278 | \$ 812 | \$ — | \$ 5,472 | |
| Current period gross charge-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 3 | \$ 182 | \$ 185 | |
| Payment Performance: | | | | | | | | | | |
| Performing | \$ 2,168 | \$ 1,381 | \$ 524 | \$ 241 | \$ 68 | \$ 271 | \$ 811 | \$ — | \$ 5,464 | |
| Nonperforming | — | — | — | — | — | 7 | 1 | — | 8 | |

6. GOODWILL AND OTHER INTANGIBLES

Goodwill

Goodwill is measured as the excess of the cost of a business combination over the sum of the amounts assigned to identifiable intangible assets acquired less liabilities assumed. Goodwill is not amortized but rather assessed for impairment annually or more frequently if circumstances warrant. Management has the option of first assessing qualitative factors, such as events and circumstances, to determine whether it is more likely than not, meaning a likelihood of more than 50%, the value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, management determines it is not more likely than not the fair value of a reporting unit is less than its carrying amount, then performing an impairment test is unnecessary. At March 31, 2024 and December 31, 2023, the Company's goodwill was related to the acquisition of Chicopee Savings Bank in October 2016. For the three months ended March 31, 2024, management determined that it was not more likely than not the fair value of the reporting unit was less than its carrying amount. If management had determined otherwise, a fair value analysis would have been completed to determine the impairment and necessary write-down of goodwill. For the year ended December 31, 2023, the carrying value of the Company's equity exceeded its market capitalization for a period in 2023 due to events affecting the banking industry, specifically three large bank failures and the continued impact of higher interest rates, resulting in declines in bank stock prices. Therefore, the Company completed a fair value analysis to assess potential impairment and any necessary write-down of the carrying value of goodwill. Management used valuation multiples from recent comparable whole bank merger and acquisition transactions to determine the estimated fair value of the Company. Based on the results of this analysis, management determined that the fair value of the Company exceeded the carrying value of the reporting unit, and as a result, goodwill was not impaired at December 31, 2023.

Core Deposit Intangibles

In connection with the acquisition of Chicopee, the Bank recorded a core deposit intangible of \$ 4.5 million, which is amortized over twelve years using the straight-line method. Amortization expense was \$94,000 for the three months ended March 31, 2024 and 2023. At March 31, 2024, future amortization of the core deposit intangible totaled \$375,000 for each of the next four years and \$ 219,000 thereafter.

7. SHARE-BASED COMPENSATION

Restricted Stock Awards.

In May 2021, the Company's shareholders approved the 2021 Omnibus Incentive Plan, a stock-based compensation plan (the "2021 Omnibus Plan"). Under the 2021 Omnibus Plan, up to 700,000 shares of the Company's common stock were reserved for grants of stock awards, including stock options and restricted stock, which may be granted to any officer, key employee or non-employee director of the Company. Any shares that are not issued because vesting requirements are not met will be available for future issuance under the 2021 Omnibus Plan.

On an annual basis, the Compensation Committee (the "Committee") approves long-term incentive awards out of the 2021 Omnibus Plan, whereby shares will be granted to eligible participants of the Company that are nominated by the Chief Executive Officer and approved by the Committee, with vesting over a three-year term for employees and a one-year term for directors. Annual employee grants provide for a periodic award that is both performance and time-based and is designed to recognize the executive's responsibilities, reward performance and leadership and as a retention tool. The objective of the award is to align compensation for the named executive officers and directors over a multi-year period directly with the interests of our shareholders by motivating and rewarding creation and preservation of long-term financial strength, shareholder value and relative shareholder return.

In May 2021, 122,362 shares were granted under the 2021 Long-Term Incentive Plan (the "2021 Incentive Plan"). Of the 122,362 shares, 61,181 shares were time-based, vesting ratably over a three-year period. The remaining 61,181 shares granted are performance-based and are subject to the achievement of the 2021 Incentive Plan performance metrics, with 50% of the performance-based shares vesting for each performance metric. The primary performance metrics for the 2021 Incentive Plan grants are return on equity and earnings per share. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period for return on equity metrics and for a three-year cumulative performance period for earnings per share, but will be distributed at the end of the three-year period as earned.

The threshold, target and stretch metrics under the 2021 Incentive Plan are as follows:

| Performance Period Ending | Return on Equity Metrics | | |
|---------------------------|--------------------------|--------|---------|
| | Threshold | Target | Stretch |
| December 31, 2021 | 5.63% | 6.25% | 7.50% |
| December 31, 2022 | 5.85% | 6.50% | 7.80% |
| December 31, 2023 | 6.08% | 6.75% | 8.10% |

| Performance Period Ending | Earnings Per Share Metrics | | |
|--|----------------------------|---------|---------|
| | Threshold | Target | Stretch |
| Three-year Cumulative Diluted Earnings Per Share | \$ 1.58 | \$ 1.97 | \$ 2.36 |

As of December 31, 2023, the three-year performance period for the 2021 Long-Term Incentive Plan (the "2021 LTI Plan") ended. The 2021 LTI Plan included a "catch-up" provision allowing unearned performance-based shares from the 2021 and 2022 performance periods to be earned at the end of the three-year period based on the final year performance. Of the 50,205 performance-based shares granted in 2021 based on achieving target, 69,376 performance-based shares were eligible for vesting during the first quarter of 2024 based on achieving stretch.

In March 2022, 137,151 shares were granted under the 2022 Long-Term Incentive Plan (the "2022 Incentive Plan"). Of the 137,151 shares, 77,463 shares were time-based, with 17,775 vesting in one year and 59,688 vesting ratably over a three-year period. The remaining 59,688 shares granted are performance-based and are subject to the achievement of the 2022 Incentive Plan performance metrics, with 50% of the performance-based shares vesting for each performance metric. The primary performance metrics for the 2022 Incentive Plan grants are return on equity and earnings per share. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period for return on equity metrics and for a three-year cumulative performance period for earnings per share, but will be distributed at the end of the three-year period as earned.

The threshold, target and stretch metrics under the 2022 Incentive Plan are as follows:

| Performance Period Ending | Return on Equity Metrics | | |
|---------------------------|--------------------------|--------|---------|
| | Threshold | Target | Stretch |
| December 31, 2022 | 7.79% | 8.20% | 8.61% |
| December 31, 2023 | 7.93% | 8.35% | 8.77% |
| December 31, 2024 | 8.03% | 8.45% | 8.87% |

| Performance Period Ending | Earnings Per Share Metrics | | |
|---|----------------------------|---------|---------|
| | Threshold | Target | Stretch |
| Three-year Cumulatzive Diluted Earnings Per Share | \$ 2.35 | \$ 2.61 | \$ 2.85 |

In March 2023, 139,196 shares were granted under the 2023 Long-Term Incentive Plan (the "2023 Incentive Plan"). Of the 139,196 shares, 78,697 shares were time-based, with 18,198 vesting in one year and 60,499 vesting ratably over a three-year period. The remaining 60,499 shares granted are performance-based and are subject to the achievement of the 2023 Incentive Plan performance metrics, with 50% of the performance-based shares vesting for each performance metric. The primary performance metrics for the 2023 Incentive Plan grants are return on equity and earnings per share. Performance shares will be earned based upon how the Company performs relative to threshold, target and maximum absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period for return on equity metrics and for a three-year cumulative performance period for earnings per share, but will be distributed at the end of the three-year period as earned.

The threshold, target and stretch metrics under the 2023 Incentive Plan are as follows:

| Performance Period Ending | Return on Equity Metrics | | |
|---------------------------|--------------------------|--------|---------|
| | Threshold | Target | Stretch |
| December 31, 2023 | 8.00% | 8.45% | 8.85% |
| December 31, 2024 | 8.75% | 9.25% | 9.75% |
| December 31, 2025 | 9.00% | 9.50% | 10.00% |

| Performance Period Ending | Earnings Per Share Metrics | | |
|--|----------------------------|---------|---------|
| | Threshold | Target | Stretch |
| Three-year Cumulative Diluted Earnings Per Share | \$ 2.39 | \$ 2.65 | \$ 2.89 |

In March 2024, 167,878 shares were granted under the 2024 Long-Term Incentive Plan (the "2024 Incentive Plan"). Of the 167,878 shares, 94,667 shares were time-based, with 21,456 vesting in one year and 73,211 vesting ratably over a three-year period. The remaining 73,211 shares granted are performance-based and are subject to the achievement of the 2024 Incentive Plan performance metrics, with 50% of the performance-based shares vesting for each performance metric. The primary performance metrics for the 2024 Incentive Plan grants are return on equity and earnings per share. Performance shares will be earned based upon how the Company performs relative to threshold, target and stretch absolute goals (i.e. Company-specific, not relative to a peer index) on an annual performance period for return on equity metrics and for a three-year cumulative performance period for earnings per share, but will be distributed at the end of the three-year period as earned.

The threshold, target and stretch metrics under the 2024 Incentive Plan are as follows:

| Performance Period Ending | Return on Equity Metrics | | |
|---------------------------|--------------------------|--------|---------|
| | Threshold | Target | Stretch |
| December 31, 2024 | 5.05% | 5.61% | 6.17% |
| December 31, 2025 | 6.18% | 6.86% | 7.55% |
| December 31, 2026 | 7.30% | 8.11% | 8.92% |

| Performance Period Ending | Earnings Per Share Metrics | | |
|--|----------------------------|---------|---------|
| | Threshold | Target | Stretch |
| Three-year Cumulative Diluted Earnings Per Share | \$ 2.25 | \$ 2.50 | \$ 2.75 |

At March 31, 2024, there were 121,203 remaining shares available to grant under the 2021 Plan.

A summary of the status of restricted stock awards at March 31, 2024 and 2023 is presented below:

| | Shares | Weighted Average Grant Date Fair Value (\$) |
|----------------------------------|----------------|---|
| Balance at December 31, 2023 | 220,635 | 9.29 |
| Shares granted | 187,049 | 8.38 |
| Shares vested | (69,376) | 8.34 |
| Balance at March 31, 2024 | 338,308 | 8.98 |

| | Shares | Weighted Average Grant Date Fair Value (\$) |
|----------------------------------|----------------|---|
| Balance at December 31, 2022 | 206,092 | 8.85 |
| Shares granted | 158,957 | 9.79 |
| Shares vested | (59,270) | 9.11 |
| Balance at March 31, 2023 | 305,779 | 9.29 |

We recorded total expense for restricted stock awards of \$ 505,000 and \$529,000 for the three months ended March 31, 2024 and 2023, respectively.

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

We utilize short-term borrowings and long-term debt as additional sources of funds to finance our lending and investing activities and to provide liquidity for daily operations. Total borrowing capacity includes borrowing arrangements at the FHLB, the Federal Reserve Bank ("FRB"), and borrowing arrangements with correspondent banks.

Short-term borrowings can consist of FHLB advances with an original maturity of less than one year, overnight Ideal Way line of credit advances and other borrowings held as collateral for customer swap arrangements. Other borrowings totaled \$6.7 million with a weighted average rate of 5.33% at March 31, 2024, compared to \$6.1 million with a weighted average rate of 5.33% at December 31, 2023. Short-term borrowings issued by the FHLB were \$4.8 million with a weighted average rate of 5.54% at March 31, 2024 and \$ 10.0 million with a weighted average rate of 5.56% at December 31, 2023.

FHLB advances provide more pricing and option alternatives for particular asset/liability needs. The FHLB provides a central credit facility primarily for member institutions. As an FHLB member, the Company is required to own capital stock of the FHLB, calculated periodically based primarily on its level of borrowings from the FHLB. FHLB borrowings are secured by certain securities from the Company's investment portfolio not otherwise pledged as well as certain residential real estate and commercial real estate loans. Advances are made under several different credit programs with different lending standards, interest rates and range of maturities. This relationship is an integral component of the Company's asset-liability management program. At March 31, 2024, the Bank had \$508.1 million in additional borrowing capacity from the FHLB.

The Company also has a standing available overnight Ideal Way line of credit with the FHLB of \$ 9.5 million. Interest on this line of credit is payable at a rate determined and reset by the FHLB on a daily basis. The outstanding principal is due daily but the portion not repaid will be automatically renewed. The Company has an available line of credit of \$72.2 million with the FRB Discount Window at an interest rate determined and reset on a daily basis. Borrowings from the FRB Discount Window are secured by certain securities from the Company's investment portfolio not otherwise pledged. As of March 31, 2024 and December 31, 2023, there were no advances outstanding under either of these lines.

The Company also has pre-established, non-collateralized overnight borrowing arrangements with large national and regional correspondent banks to provide additional overnight and short-term borrowing capacity for the Company. The Company has a \$15.0 million line of credit with a correspondent bank and a \$10.0 million line of credit with another correspondent bank, both at an interest rate determined and reset on a daily basis. As of March 31, 2024 and December 31, 2023, there were no advances outstanding under these lines.

Long-term debt consists of FHLB and FRB advances with an original maturity of one year or more. On March 12, 2023, the FRB made available the BTFP, which enhances the ability of banks to borrow greater amounts against certain high-quality, unencumbered investments at par value. During 2023, the Company participated in the BTFP, which enabled the Company to pay off higher rate FHLB advances. With the BTFP, the Company has the ability to pay off the BTFP advance prior to maturity without incurring a penalty or termination fee. Interest expense on BTFP advances is payable at maturity.

At March 31, 2024 and December 31, 2023, long-term debt consisted of \$ 30.6 million in outstanding advances with the FHLB with a weighted average fixed rate of 4.81% and \$90.0 million in outstanding advances under the BTFP with a weighted average fixed rate of 4.71%. At March 31, 2024, the Company had no remaining borrowing capacity under the BTFP.

9. SUBORDINATED DEBT

On April 20, 2021, the Company completed an offering of \$ 20 million in aggregate principal amount of its 4.875% fixed-to-floating rate subordinated notes (the "Notes") to certain qualified institutional buyers in a private placement transaction. At March 31, 2023, \$19.7 million aggregate principle amount of the Notes was outstanding.

Unless earlier redeemed, the Notes mature on May 1, 2031. The Notes will bear interest from the initial issue date to, but excluding, May 1, 2026, or the earlier redemption date, at a fixed rate of 4.875% per annum, payable quarterly in arrears on May 1, August 1, November 1 and February 1 of each year, beginning August 1, 2021, and from and including May 1, 2026, but excluding the maturity date or earlier redemption date, equal to the benchmark rate, which is the 90-day average secured overnight financing rate, plus 412 basis points, determined on the determination date of the applicable interest period, payable quarterly in arrears on May 1, August 1, November 1 and February 1 of each year. The Company may also redeem the Notes, in whole or in part, on or after May 1, 2026, and at any time upon the occurrence of certain events, subject in each case to the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Notes were designed to qualify as Tier 2 capital under the Federal Reserve's capital adequacy regulations.

The Notes are presented net of issuance costs of \$278,000 as of March 31, 2024, which are being amortized into interest expense over the life of the Notes. Amortization of issuance costs into interest expense was \$10,000 and \$9,000 for the three months ended March 31, 2024 and 2023, respectively.

10. DERIVATIVES AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives.

The Company is exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our assets and liabilities and the use of derivative financial instruments. Specifically, we entered into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to certain variable rate loan assets and variable rate borrowings.

Fair Value Hedges of Interest Rate Risk.

The Company is exposed to changes in the fair value of certain pools of fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. The Company's interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

As of March 31, 2024 and December 31, 2023, the following amounts were recorded on the balance sheet related to cumulative basis adjustment of fair value hedges:

| Item in the Balance Sheet in which the Hedged Item is Included | Carrying Amount of Hedged Assets/(Liabilities) | | Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities) | |
|--|--|-------------------|--|-----------------|
| | At | | At | |
| | At | December 31, | At | December 31, |
| (In thousands) | | | | |
| Loans | \$ 199,192 | \$ 199,393 | \$ (808) | \$ (607) |
| Total | \$ 199,192 | \$ 199,393 | \$ (808) | \$ (607) |

These amounts include the amortized cost basis of closed portfolios of fixed rate residential loans used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the designated hedged period. At March 31, 2024, the amortized cost basis of the closed portfolios used in these hedging relationships was \$454.1 million; the cumulative basis adjustments associated with these hedging relationships was approximately \$808,000; and the notional amount of the designated hedged items were \$ 200 million. At December 31, 2023, the amortized cost basis of the closed portfolios used in these hedging relationships was \$461.2 million; the cumulative basis adjustments associated with these hedging relationships was approximately \$607,000; and the notional amount of the designated hedged items were \$ 200 million. The notional amounts of these agreements do not represent amounts exchanged by the parties and, thus, are not a measure of the potential loss exposure. At March 31, 2024, the Company's fair value hedges had a remaining maturity of 0.6 years, and an average fixed rate of 4.43%.

Non-hedging Derivatives.

Derivatives not designated as hedges are not speculative, but rather result from a service the Company provides to certain customers. The Company executes loan-level derivative products such as interest-rate swap agreements with commercial banking customers to aid them in managing their interest-rate risk by converting floating-rate loan payments to fixed-rate loan payments. The Company concurrently enters into offsetting swaps with a third-party financial institution, effectively minimizing the Company's net risk exposure resulting from such transactions. The third-party financial institution exchanges the customer's fixed-rate loan payments for floating-rate loan payments. As the interest-rate swap agreements associated with this program do not meet hedge accounting requirements, changes in the fair value are recognized directly in earnings.

Fair Values of Derivative Instruments on the Balance Sheet.

The table below presents the fair value of our derivative financial instruments designated as hedging and non-hedging instruments as well as our classification on the balance sheet as of March 31, 2024 and December 31, 2023.

| March 31, 2024 | Asset Derivatives | | Liability Derivatives | |
|--|------------------------|-----------------|------------------------|-----------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| (In thousands) | | | | |
| Hedging Derivatives | | | | |
| Interest rate swaps - fair value hedges | | \$ 845 | | \$ — |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swap – with customer counterparties | | — | | 5,875 |
| Interest rate swap – with dealer counterparties | | 5,875 | | — |
| Total derivatives | Other Assets | <u>\$ 6,720</u> | Other Liabilities | <u>\$ 5,875</u> |

| December 31, 2023 | Asset Derivatives | | Liability Derivatives | |
|--|------------------------|-----------------|------------------------|-----------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| (In thousands) | | | | |
| Hedging Derivatives | | | | |
| Interest rate swaps - fair value hedges | | \$ 651 | | \$ — |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate swap – with customer counterparties | | — | | 5,239 |
| Interest rate swap – with dealer counterparties | | 5,239 | | — |
| Total derivatives | Other Assets | <u>\$ 5,890</u> | Other Liabilities | <u>\$ 5,239</u> |

Effect of Derivative Instruments in the Consolidated Statements of Net Income.

The table below presents the effect of the Company's fair value hedge derivative on the statements of net income as of March 31, 2024. There were no fair value hedge derivatives at March 31, 2023.

| | Location and Amount of Gain (Loss) Recognized in Income on Fair Value Hedging Relationships | |
|---|---|--------------------|
| | Three Months Ended | Three Months Ended |
| | March 31, 2024 | March 31, 2023 |
| (In thousands) | | |
| Total amounts of income line items presented in the statements of net income in which the effects of fair value hedges are recorded | \$ 443 | \$ — |
| Gain (loss) on fair value hedging relationships | | |
| Interest rate contracts: | | |
| Hedged items | \$ (6) | — |
| Derivatives designated as hedging instruments | 449 | — |

There were no gains or losses recognized in accumulated other comprehensive income during the three months ended March 31, 2024.

Credit-risk-related Contingent Features

By using derivative financial instruments, we expose ourselves to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative is negative, we owe the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that we believe to be creditworthy and by limiting the amount of exposure to each counterparty.

We have agreements with our derivative counterparties that contain a provision where if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then we could also be declared in default on our derivative obligations. We also have agreements with certain of our derivative counterparties that contain a provision where if we fail to maintain our status as well capitalized, then the counterparty could terminate the derivative positions and we would be required to settle our obligations under the agreements. Certain of our agreements with our derivative counterparties contain provisions where if a formal administrative action by a federal or state regulatory agency occurs that materially changes our creditworthiness in an adverse manner, we may be required to fully collateralize our obligations under the derivative instrument.

At March 31, 2024, we had minimum collateral posting thresholds with certain of our derivative counterparties. As of March 31, 2024, we were not required to post collateral under these agreements because we did not have any derivatives in a liability position with those counterparties.

11. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for our various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Methods and assumptions for valuing our financial instruments are set forth below. Estimated fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction cost.

Securities. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. All other securities are measured at fair value in Level 2 and 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. These securities include government-sponsored enterprise obligations, state and municipal obligations, corporate bonds, residential mortgage-backed securities guaranteed and sponsored by the U.S. government or an agency thereof. Fair value measurements are obtained from a third-party pricing service and are not adjusted by management.

Interest rate swaps. The valuation of our interest rate swaps is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. We have determined that the majority of the inputs used to value our interest rate derivatives fall within Level 2 of the fair value hierarchy.

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

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

| | March 31, 2024 | | | |
|-------------------------------|----------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Available-for-sale securities | \$ — | \$ 138,362 | \$ — | \$ 138,362 |
| Marketable equity securities | 222 | — | — | 222 |
| Interest rate swaps | — | 6,720 | — | 6,720 |
| Total assets | <u>\$ 222</u> | <u>\$ 145,082</u> | <u>\$ —</u> | <u>\$ 145,304</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ — | \$ 5,875 | \$ — | \$ 5,875 |

| | December 31, 2023 | | | |
|-------------------------------|-------------------|-------------------|-------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Available-for-sale securities | \$ — | \$ 137,115 | \$ — | \$ 137,115 |
| Marketable equity securities | 196 | — | — | 196 |
| Interest rate swaps | — | 5,890 | — | 5,890 |
| Total assets | <u>\$ 196</u> | <u>\$ 143,005</u> | <u>\$ —</u> | <u>\$ 143,201</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ — | \$ 5,239 | \$ — | \$ 5,239 |

There were no transfers to or from Level 1 and 2 for assets measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023.

Assets Measured at Fair Value on a Non-recurring Basis.

We may also be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. There were no collateral dependent loans measured at fair value on a nonrecurring basis as of March 31, 2024. The following table summarizes the fair value hierarchy used to determine the carrying values of the related assets as of December 31, 2023:

| | At December 31, 2023 | | | Three Months Ended March 31, 2023 |
|----------------------------|----------------------|---------|----------|--------------------------------------|
| | Level 1 | Level 2 | Level 3 | Total Losses |
| | (In thousands) | | | (In thousands) |
| Collateral dependent loans | \$ — | \$ — | \$ 1,100 | \$ 2,178 |

The amount of impaired loans represents the carrying value, net of the related write-down or valuation allowance of collateral dependent loans for which adjustments are based on the estimated fair value of the underlying collateral. The fair value of collateral dependent loans with specific allocations of the allowance for loan losses is generally based on real estate appraisals performed by independent licensed or certified appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management will discount appraisals as deemed necessary based on the date of the appraisal and new information deemed relevant to the valuation. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Summary of Fair Values of Financial Instruments.

The estimated fair values of our financial instruments are as follows:

| | March 31, 2024 | | | | | |
|---|----------------|------------|---------|-----------|-----------|--|
| | Carrying Value | Fair Value | | | | |
| | | Level 1 | Level 2 | Level 3 | Total | |
| Assets: | | | | | | |
| Cash and cash equivalents | \$ 22,613 | \$ 22,613 | \$ — | \$ — | \$ 22,613 | |
| Securities held-to-maturity | 221,242 | 9,463 | 172,216 | — | 181,679 | |
| Securities available-for-sale | 138,362 | — | 138,362 | — | 138,362 | |
| Marketable equity securities | 222 | 222 | — | — | 222 | |
| Federal Home Loan Bank of Boston and other restricted stock | 3,105 | — | — | 3,105 | 3,105 | |
| Loans - net | 2,005,682 | — | — | 1,837,472 | 1,837,472 | |
| Accrued interest receivable | 8,622 | — | — | 8,622 | 8,622 | |
| Mortgage servicing rights | 400 | — | 707 | — | 707 | |
| Derivative asset | 6,720 | — | 6,720 | — | 6,720 | |
| Liabilities: | | | | | | |
| Deposits | 2,143,747 | — | — | 2,140,561 | 2,140,561 | |
| Short-term borrowings | 11,470 | — | 11,459 | — | 11,459 | |
| Long-term debt | 120,646 | — | 120,459 | — | 120,459 | |
| Subordinated debt | 19,722 | — | 17,281 | — | 17,281 | |
| Accrued interest payable | 4,414 | — | — | 4,414 | 4,414 | |
| Derivative liabilities | 5,875 | — | 5,875 | — | 5,875 | |

| | December 31, 2023 | | | | | |
|---|-------------------|------------|---------|-----------|-----------|--|
| | Carrying Value | Fair Value | | | | |
| | | Level 1 | Level 2 | Level 3 | Total | |
| Assets: | | | | | | |
| Cash and cash equivalents | \$ 28,840 | \$ 28,840 | \$ — | \$ — | \$ 28,840 | |
| Securities held-to-maturity | 223,370 | 9,450 | 178,242 | — | 187,692 | |
| Securities available-for-sale | 137,115 | — | 137,115 | — | 137,115 | |
| Marketable equity securities | 196 | 196 | — | — | 196 | |
| Federal Home Loan Bank of Boston and other restricted stock | 3,707 | — | — | 3,707 | 3,707 | |
| Loans - net | 2,007,050 | — | — | 1,841,913 | 1,841,913 | |
| Accrued interest receivable | 8,528 | — | — | 8,528 | 8,528 | |
| Mortgage servicing rights | 422 | — | 724 | — | 724 | |
| Derivative asset | 5,890 | — | 5,890 | — | 5,890 | |
| Liabilities: | | | | | | |
| Deposits | 2,143,744 | — | — | 2,140,930 | 2,140,930 | |
| Short-term borrowings | 16,100 | — | 16,100 | — | 16,100 | |
| Long-term debt | 120,646 | — | 120,460 | — | 120,460 | |
| Subordinated debt | 19,712 | — | 17,938 | — | 17,938 | |
| Accrued interest payable | 3,310 | — | — | 3,310 | 3,310 | |
| Derivative liabilities | 5,239 | — | 5,239 | — | 5,239 | |

12. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2023, the Financial Accounting Standards Board issued ASU 2023-09, *Income Taxes—Improvements to Income Tax Disclosures* (Topic 740), which requires entities to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. On an annual basis, entities must disclose: (1) the amount of income taxes paid, net of refunds, disaggregated by federal, state, and foreign; and (2) the amount of income taxes paid, net of refunds, disaggregated by individual jurisdictions in which income taxes paid, net of refunds received, for amounts equal to or greater than 5% of total income taxes paid. Further, the amendments also require entities to disclose: (1) income or loss from continued operations before income tax expense (or benefit) disaggregated between domestic and foreign sources; and (2) income or loss from continued operations disaggregated by federal, state, and foreign sources. This ASU, as amended, is effective for the Company in fiscal years beginning after December 15, 2024 and is not expected to have a material impact on the Company's consolidated financial statements.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview.

We strive to remain a leader in meeting the financial service needs of the local community and to provide quality service to the individuals and businesses in the market areas that we have served since 1853. Historically, we have been a community-oriented provider of traditional banking products and services to business organizations and individuals, including products such as residential and commercial real estate loans, commercial and industrial loans, consumer loans and a variety of deposit products. We meet the needs of our local community through a community-based and service-oriented approach to banking.

We have adopted a growth-oriented strategy that continues to focus on increasing commercial lending and residential lending. Our strategy also calls for increasing deposit relationships, specifically core deposits (defined below), and broadening our product lines and services. We believe that this business strategy is best for our long-term success and viability, and complements our existing commitment to high-quality customer service.

In connection with our overall growth strategy, we seek to:

- Increase market share and achieve scale to improve the Company's profitability and efficiency and return value to shareholders;
- Grow the Company's commercial loan portfolio and related commercial deposits by targeting businesses in our primary market area of Hampden County and Hampshire County in western Massachusetts and Hartford and Tolland Counties in northern Connecticut to increase the net interest margin and loan income;
- Supplement the commercial portfolio by growing the residential real estate portfolio to diversify the loan portfolio and deepen customer relationships;
- Focus on expanding our retail banking deposit franchise and increase the number of households served within our designated market area;
- Invest in people, systems and technology to grow revenue, improve efficiency and enhance the overall customer experience;
- Grow revenues, increase book value per share and tangible book value (a non-GAAP financial measure), pay competitive dividends to shareholders and utilize the Company's stock repurchase plan to leverage our capital and enhance franchise value; and
- Consider growth through acquisitions. We may pursue expansion opportunities in existing or adjacent strategic locations with companies that add complementary products to our existing business and at terms that add value to our existing shareholders.

You should read the following financial results for the three months ended March 31, 2024 in the context of this strategy.

- Net income was \$3.0 million, or \$0.14 per diluted share, for the three months ended March 31, 2024, compared to net income of \$5.3 million, or \$0.24 per diluted share, for the three months ended March 31, 2023.
- During the three months ended March 31, 2024, the Company recorded a reversal of credit losses of \$550,000, compared to a reversal of credit losses of \$388,000 during the three months ended March 31, 2023. The Company recorded net recoveries of \$67,000 for the three months ended March 31, 2024 and net charge-offs of \$1.9 million for the three months ended March 31, 2023. The charge-offs for the three months ended March 31, 2023 were related to one commercial loan relationship acquired on October 21, 2016 from Chicopee Bancorp, Inc. The charge-off represented the nonaccrable credit mark that was required to be grossed-up to the loan's amortized cost basis with a corresponding increase to the allowance for credit losses under the CECL implementation. There was no impact to earnings as a result of the charge-off.

- Net interest income, our primary driver of revenues, decreased \$3.2 million, or 17.1%, to \$15.3 million for the three months ended March 31, 2024, from \$18.5 million for the three months ended March 31, 2023. The decrease in net interest income was the result of the interest rate paid on interest-bearing liabilities outpacing the increase in the yield on interest-earning assets. Interest expense increased \$6.1 million, or 119.3%, while interest and dividend income increased \$3.0 million, or 12.5%. The increase in interest expense was a result of the higher cost of interest-bearing liabilities as well as the continued unfavorable shift in the deposit mix from low cost core deposits to high cost time deposits.

CRITICAL ACCOUNTING POLICIES.

Our consolidated financial statements are prepared in accordance with U.S. GAAP and practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Actual results could differ from those estimates.

Critical accounting estimates are necessary in the application of certain accounting policies and procedures, and are particularly susceptible to significant change. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions.

There have been no material changes to our critical accounting policies during the three months ended March 31, 2024. For additional information on our critical accounting policies, please refer to the information contained in Note 1 of the accompanying unaudited consolidated financial statements and Note 1 of the consolidated financial statements included in our 2023 Annual Report.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2024 AND DECEMBER 31, 2023

At March 31, 2024, total assets were \$2.6 billion, a decrease of \$7.3 million, or 0.3%, from December 31, 2023. The decrease in total assets was mainly related to a decrease in total loans of \$1.8 million, or 0.1%, a decrease in investment securities of \$855,000, or 0.2%, to \$359.8 million, and a decrease in cash and cash equivalents of \$6.2 million, or 21.6%, to \$22.6 million.

At March 31, 2024 and December 31, 2023, the available-for-sale ("AFS") and held-to-maturity ("HTM") securities portfolio represented 14.1% of total assets. At March 31, 2024, the Company's AFS securities portfolio, recorded at fair market value, increased \$1.3 million, or 0.9%, from \$137.1 million at December 31, 2023 to \$138.4 million. The HTM securities portfolio, recorded at amortized cost, decreased \$2.2 million, or 1.0%, from \$223.4 million at December 31, 2023 to \$221.2 million at March 31, 2024.

At March 31, 2024, the Company reported unrealized losses on the AFS securities portfolio of \$31.7 million, or 18.6% of the amortized cost basis of the AFS securities portfolio, compared to unrealized losses of \$29.2 million, or 17.5% of the amortized cost basis of the AFS securities at December 31, 2023. At March 31, 2024, the Company reported unrealized losses on the HTM securities portfolio of \$39.6 million, or 17.9%, of the amortized cost basis of the HTM securities portfolio, compared to \$35.7 million, or 16.0% of the amortized cost basis of the HTM securities portfolio at December 31, 2023.

The securities in which the Company may invest are limited by regulation. Federally chartered savings banks have authority to invest in various types of assets, including U.S. Treasury obligations, securities of various government-sponsored enterprises, mortgage-backed securities, certain certificates of deposit of insured financial institutions, repurchase agreements, overnight and short-term loans to other banks, corporate debt instruments and marketable equity securities. The securities, with the exception of \$4.1 million in corporate bonds, are issued by the United States government or government-sponsored enterprises and are therefore either explicitly or implicitly guaranteed as to the timely payment of contractual principal and interest. These positions are deemed to have no credit impairment, therefore, the disclosed unrealized losses with the securities portfolio relate primarily to changes in prevailing interest rates. In all cases, price improvement in future periods will be realized as the issuances approach maturity.

Management regularly reviews the portfolio for securities in an unrealized loss position. At March 31, 2024 and December 31, 2023, the Company did not record any credit impairment charges on its securities portfolio and attributed the unrealized losses primarily due to fluctuations in general interest rates or changes in expected prepayments and not due to credit quality. The primary objective of the Company's investment portfolio is to provide liquidity and to secure municipal deposit accounts while preserving the safety of principal. The Company expects to strategically redeploy available cash flows from the securities portfolio to fund loan growth and deposit outflows.

At March 31, 2024, total loans decreased \$1.8 million, or 0.1%, to \$2.0 billion from December 31, 2023. Commercial and industrial loans decreased \$10.1 million, or 4.7%. The decrease in commercial and industrial loans was partially offset by an increase in residential real estate loans, including home equity loans, of \$4.6 million, or 0.6%, and an increase in commercial real estate loans of \$4.2 million, or 0.4%. The decrease in commercial and industrial loans at March 31, 2024 was due to the payoff of one Substandard commercial loan relationship totaling \$13.0 million during the three months ended March 31, 2024. All loans where the payments are 90 days or more in arrears as of the closing date of each month are placed on nonaccrual status. If all nonaccrual loans had been performing in accordance with their terms, we would have earned additional interest income of \$121,000 and \$129,000 for the three months ended March 31, 2024 and 2023, respectively.

Total delinquency was 0.23% of total loans at March 31, 2024, compared to 0.30% of total loans at December 31, 2023. At March 31, 2024, nonperforming loans totaled \$5.8 million, or 0.29% of total loans, compared to \$6.4 million, or 0.32% of total loans, at December 31, 2023. At March 31, 2024 and December 31, 2023, there were no loans 90 or more days past due and still accruing interest. At March 31, 2024 and December 31, 2023, nonperforming assets to total assets was 0.23% and 0.25%, respectively. At March 31, 2024 and December 31, 2023, the Company did not have any other real estate owned.

At March 31, 2024, the allowance for credit losses as a percentage of total loans was 0.98%, compared to 1.00% at December 31, 2023. At March 31, 2024, the allowance for credit losses as a percentage of nonperforming loans was 340.7%, compared to 315.6% at December 31, 2023.

Total criticized loans, defined as Special Mention and Substandard loans, decreased \$2.7 million, or 6.9%, from \$39.5 million, or 1.9% of total loans, at December 31, 2023 to \$36.8 million, or 1.8%, of total loans at March 31, 2024. We continue to maintain diversity among property types and within our geographic footprint. A summary of our past due and nonaccrual loans by class is listed in Note 5 of the accompanying unaudited consolidated financial statements.

Total deposits were \$2.1 billion at March 31, 2024 and December 31, 2023. Core deposits, which the Company defines as all deposits except time deposits, decreased \$31.9 million, or 2.1%, from \$1.5 billion, or 71.5% of total deposits, at December 31, 2023, to \$1.5 billion, or 70.0% of total deposits, at March 31, 2024. Money market accounts decreased \$9.9 million, or 1.6%, to \$624.5 million, non-interest-bearing deposits decreased \$19.7 million, or 3.4%, to \$559.9 million, interest-bearing checking accounts decreased \$5.6 million, or 4.3%, to \$125.4 million and savings accounts increased \$3.3 million, or 1.8%, to \$190.7 million. Time deposits increased \$31.8 million, or 5.2%, from \$611.4 million at December 31, 2023 to \$643.2 million at March 31, 2024. Brokered time deposits, which are included in time deposits, totaled \$1.7 million at March 31, 2024 and December 31, 2023.

The table below is a summary of our deposit balances for the periods noted:

| | March 31, 2024 | December 31, 2023 | September 30, 2023 | June 30, 2023 | March 31, 2023 |
|----------------------------|---------------------|----------------------|-----------------------|---------------------|---------------------|
| (Dollars in thousands) | | | | | |
| Core Deposits: | | | | | |
| Demand accounts | \$ 559,928 | \$ 579,595 | \$ 593,601 | \$ 584,511 | \$ 625,656 |
| Interest bearing accounts | 125,377 | 131,031 | 152,886 | 162,823 | 133,727 |
| Savings accounts | 190,732 | 187,405 | 192,321 | 203,376 | 218,800 |
| Money market accounts | 624,474 | 634,361 | 654,909 | 672,483 | 721,219 |
| Total Core Deposits | \$ 1,500,511 | \$ 1,532,392 | \$ 1,593,717 | \$ 1,623,193 | \$ 1,699,402 |
| Time Deposits | 643,236 | 611,352 | 582,586 | 534,781 | 457,726 |
| Total Deposits: | \$ 2,143,747 | \$ 2,143,744 | \$ 2,176,303 | \$ 2,157,974 | \$ 2,157,128 |

During the three months ended March 31, 2024, the Company continued to experience an unfavorable shift in deposit mix from low cost core deposits to high cost time deposits as customers continue to migrate to higher deposit rates. The Company continues to focus on the maintenance, development, and expansion of its core deposit base to meet funding requirements and liquidity needs, with an emphasis on retaining a long-term customer relationship base by competing for and retaining deposits in our local market. At March 31, 2024, the Bank's uninsured deposits represented 26.0% of total deposits, compared to 26.8% at December 31, 2023.

At March 31, 2024, total borrowings decreased \$4.7 million, or 3.0%, from \$156.5 million at December 31, 2023 to \$151.8 million. Short-term borrowings decreased \$4.6 million, or 28.8%, to \$11.5 million, compared to \$16.1 million at December 31, 2023. Long-term borrowings were \$120.6 million at March 31, 2024 and at December 31, 2023. Long-term borrowings consisted of \$30.6 million outstanding with the FHLB and \$90.0 million outstanding under the Federal Reserve BTFP at March 31, 2024 and at December 31, 2023. At March 31, 2024 and December 31, 2023, borrowings also consisted of \$19.7 million in fixed-to-floating rate subordinated notes.

At March 31, 2024, shareholders' equity was \$235.8 million, or 9.2% of total assets, compared to \$237.4 million, or 9.3% of total assets, at December 31, 2023. The decrease was primarily attributable to an increase in accumulated other comprehensive loss of \$1.9 million, \$1.8 million for the repurchase of common stock and cash dividends paid of \$1.5 million, partially offset by net income of \$3.0 million. At March 31, 2024, total shares outstanding were 21,627,690.

The Company's regulatory capital ratios continue to be strong and in excess of regulatory minimum requirements to be considered well-capitalized as defined by regulators and internal Company targets. The Company's Total Risk-Based Capital Ratio was 14.7% at March 31, 2024 and December 31, 2023. The Bank's Tier 1 Leverage Ratio to adjusted average assets was 9.77% at March 31, 2024 and 9.62% at December 31, 2023. The Bank's tangible common equity ("TCE") to tangible assets ratio, a non-GAAP financial measure, was 8.85% at March 31, 2024, compared to 8.78% at December 31, 2023. Fluctuations in the TCE ratio were driven by the changes in the unrealized loss on available-for-sale securities. TCE is a non-GAAP measure. See "Explanation of Use of Non-GAAP Financial Measurements" for more information regarding our uses of non-GAAP financial measurements.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023

General.

Net income was \$3.0 million, or \$0.14 per diluted share, for the three months ended March 31, 2024, compared to net income of \$5.3 million, or \$0.24 per diluted share, for the three months ended March 31, 2023. Net interest income, our primary driver of revenues, decreased \$3.2 million, or 17.1%, to \$15.3 million for the three months ended March 31, 2024, from \$18.5 million for the three months ended March 31, 2023.

Net Interest and Dividend Income.

The following tables set forth the information relating to our average balance and net interest income for the three months ended March 31, 2024 and 2023, and reflect the average yield on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. Yields and costs are derived by dividing annualized interest income by the average balance of interest-earning assets and annualized interest expense by the average balance of interest-bearing liabilities for the periods shown. The interest rate spread is the difference between the total average yield on interest-earning assets and the cost of interest-bearing liabilities. Net interest margin represents tax-equivalent net interest and dividend income as a percentage of average interest-earning assets. Average balances are derived from actual daily balances over the periods indicated. Interest income includes fees earned when the real estate loans are prepaid or refinanced. For analytical purposes, the interest earned on tax-exempt assets is adjusted to a tax-equivalent basis to recognize the income tax savings which facilitates comparison between taxable and tax-exempt assets.

| | Three Months Ended March 31, | | | | | |
|--|------------------------------|----------------------|--------------------|----------------------------|---------------------|--------------------|
| | 2024 | | 2023 | | | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost |
| (Dollars in thousands) | | | | | | |
| ASSETS: | | | | | | |
| Interest-earning assets | | | | | | |
| Loans ⁽¹⁾⁽²⁾ | \$ 2,021,713 | \$ 24,351 | 4.84% | \$ 1,993,124 | \$ 21,449 | 4.36% |
| Securities ⁽²⁾ | 359,493 | 2,114 | 2.37 | 382,373 | 2,149 | 2.28 |
| Other investments - at cost | 12,494 | 136 | 4.38 | 12,098 | 106 | 3.55 |
| Short-term investments ⁽³⁾ | 9,386 | 113 | 4.84 | 5,909 | 54 | 3.71 |
| Total interest-earning assets | <u>2,403,086</u> | <u>26,714</u> | 4.47 | <u>2,393,504</u> | <u>23,758</u> | 4.03 |
| Total non-interest-earning assets | <u>154,410</u> | | | <u>152,539</u> | | |
| Total assets | <u><u>\$ 2,557,496</u></u> | | | <u><u>\$ 2,546,043</u></u> | | |
| LIABILITIES AND EQUITY: | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing checking accounts | \$ 135,559 | \$ 234 | 0.69% | \$ 139,755 | \$ 263 | 0.76% |
| Savings accounts | 186,125 | 39 | 0.08 | 218,797 | 45 | 0.08 |
| Money market accounts | 626,267 | 2,587 | 1.66 | 777,673 | 1,995 | 1.04 |
| Time deposits | 627,699 | 6,433 | 4.12 | 427,895 | 1,800 | 1.71 |
| Total interest-bearing deposits | <u>1,575,650</u> | <u>9,293</u> | 2.37 | <u>1,564,120</u> | <u>4,103</u> | 1.06 |
| Short-term borrowings and long-term debt | <u>160,802</u> | <u>1,965</u> | 4.91 | <u>86,360</u> | <u>1,031</u> | 4.84 |
| Interest-bearing liabilities | <u><u>1,736,452</u></u> | <u><u>11,258</u></u> | 2.61 | <u><u>1,650,480</u></u> | <u><u>5,134</u></u> | 1.26 |
| Non-interest-bearing deposits | 557,711 | | | 639,162 | | |
| Other non-interest-bearing liabilities | 27,078 | | | 25,331 | | |
| Total non-interest-bearing liabilities | <u>584,789</u> | | | <u>664,493</u> | | |
| Total liabilities | <u>2,321,241</u> | | | <u>2,314,973</u> | | |
| Total equity | <u>236,255</u> | | | <u>231,070</u> | | |
| Total liabilities and equity | <u><u>\$ 2,557,496</u></u> | | | <u><u>\$ 2,546,043</u></u> | | |
| Less: Tax-equivalent adjustment ⁽²⁾ | | <u>(110)</u> | | | <u>(120)</u> | |
| Net interest and dividend income | | <u>\$ 15,346</u> | | | <u>\$ 18,504</u> | |
| Net interest rate spread ⁽⁴⁾ | | | 1.85% | | | 2.74% |
| Net interest rate spread, on a tax equivalent basis ⁽⁵⁾ | | | 1.86% | | | 2.76% |
| Net interest margin ⁽⁶⁾ | | | 2.57% | | | 3.14% |
| Net interest margin, on a tax equivalent basis ⁽⁷⁾ | | | 2.59% | | | 3.16% |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 138.39% | | | 145.02% |

(1) Loans, including nonaccrual loans, are net of deferred loan origination costs and unadvanced funds.

(2) Loan and securities income are presented on a tax-equivalent basis using a tax rate of 21%. The tax-equivalent adjustment is deducted from tax-equivalent net interest and dividend income to agree to the amount reported on the consolidated statements of net income.

(3) Short-term investments include federal funds sold.

(4) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(5) Net interest rate spread, on a tax-equivalent basis, represents the difference between the tax-equivalent weighted average yield on interest-earning assets and the tax-equivalent weighted average cost of interest-bearing liabilities. See "Explanation of Use of Non-GAAP Financial Measurements".

(6) Net interest margin represents net interest and dividend income as a percentage of average interest-earning assets.

(7) Net interest margin, on a tax-equivalent basis, represents tax-equivalent net interest and dividend income as a percentage of average interest-earning assets. See "Explanation of Use of Non-GAAP Financial Measurements".

Rate/Volume Analysis.

The following table shows how changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest and dividend income and interest expense during the periods indicated. Information is provided in each category with respect to: (1) interest income changes attributable to changes in volume (changes in volume multiplied by prior rate); (2) interest income changes attributable to changes in rate (changes in rate multiplied by prior volume); and (3) the net change.

The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

| | Three Months Ended March 31, 2024 compared to Three Months Ended March 31, 2023 | | |
|---|--|-------------------|-------------------|
| | Increase (Decrease) Due to | | |
| | Volume | Rate | Net |
| (In thousands) | | | |
| Interest-earning assets | | | |
| Loans ⁽¹⁾ | \$ 388 | \$ 2,514 | \$ 2,902 |
| Investment securities ⁽¹⁾ | (120) | 85 | (35) |
| Other investments - at cost | 3 | 27 | 30 |
| Short-term investments | 32 | 27 | 59 |
| Total interest-earning assets | 303 | 2,653 | 2,956 |
| Interest-bearing liabilities | | | |
| Interest-bearing checking accounts | (7) | (22) | (29) |
| Savings accounts | (7) | 1 | (6) |
| Money market accounts | (384) | 976 | 592 |
| Time deposits | 859 | 3,774 | 4,633 |
| Short-term borrowing and long-term debt | 900 | 34 | 934 |
| Total interest-bearing liabilities | 1,361 | 4,763 | 6,124 |
| Change in net interest and dividend income ⁽¹⁾ | \$ (1,058) | \$ (2,110) | \$ (3,168) |

(1) Securities, loan income and change in net interest and dividend income are presented on a tax-equivalent basis using a tax rate of 21%. The tax-equivalent adjustment is deducted from tax-equivalent net interest income to agree to the amount reported in the consolidated statements of net income. See "Explanation of Use of Non-GAAP Financial Measurements".

Net interest income, our primary driver of revenues, decreased \$3.2 million, or 17.1%, to \$15.3 million for the three months ended March 31, 2024, from \$18.5 million for the three months ended March 31, 2023. The decrease in net interest income was the result of the interest rate paid on interest-bearing liabilities outpacing the increase in the yield on interest-earning assets. Interest expense increased \$6.1 million, or 119.3%, while interest and dividend income increased \$3.0 million, or 12.5%. The increase in interest expense was a result of the higher cost of interest-bearing liabilities as well as the unfavorable shift in the deposit mix from low cost core deposits to high cost time deposits.

The net interest margin was 2.57% for the three months ended March 31, 2024, compared to 3.14%, for the three months ended March 31, 2023. The net interest margin, on a tax-equivalent basis, was 2.59% for the three months ended March 31, 2024, compared to 3.16% for the three months ended March 31, 2023. The Company's net interest margin, during the three months ended March 31, 2024, continued to be negatively impacted by higher deposit costs as well as a shift in the deposit mix from low-cost core deposits to high-cost deposits.

The average yield on interest-earning assets increased 44 basis points from 4.01% for the three months ended March 31, 2023 to 4.45% for the three months ended March 31, 2024. The average loan yield, without the impact of tax-equivalent adjustments, was 4.82% for the three months ended March 31, 2024, compared to 4.34% for the three months ended March 31, 2023. During the three months ended March 31, 2024, average interest-earning assets increased \$9.6 million, or 0.4% to \$2.4 billion, primarily due to an increase in average loans of \$28.6 million, or 1.4%, an increase in average short-term investments, consisting of cash and cash equivalents, of \$3.5 million, or 58.8%, partially offset by a decrease in average securities of \$22.9 million, or 6.0%.

During the three months ended March 31, 2024, the average cost of funds, including non-interest-bearing demand accounts and borrowings, increased 106 basis points, from 0.91% for the three months ended March 31, 2023 to 1.97% for the three months ended March 31, 2024. The average cost of core deposits, which include non-interest-bearing demand accounts, increased 23 basis points, from 0.53% for the three months ended March 31, 2023 to 0.76% for the three months ended March 31, 2024. The average cost of time deposits increased 241 basis points from 1.71% for the three months ended March 31, 2023 to 4.12% for the three months ended March 31, 2024. The average cost of borrowings, including subordinated debt, increased 7 basis points from 4.84% for the three months ended March 31, 2023 to 4.91% for the three months ended March 31, 2024. For the three months ended March 31, 2024, average demand deposits, an interest-free source of funds, decreased \$81.5 million, or 12.7%, to \$557.7 million, or 26.1% of total average deposits, from \$639.2 million, or 29.0% of total average deposits for the three months ended March 31, 2023.

Provision for (Reversal of) Credit Losses.

The provision for credit losses is reviewed by management based upon our evaluation of economic and business conditions affecting our key lending areas and other conditions, such as new loan products, credit quality trends (including trends in nonperforming loans expected to result from existing conditions), collateral values, loan volumes and concentrations, specific industry conditions using reasonable and supportable forecasts and the impact that such conditions were believed to have had on the collectability of the loan portfolio.

During the three months ended March 31, 2024, the Company recorded a reversal of credit losses of \$550,000, compared to a reversal of credit losses of \$388,000 during the three months ended March 31, 2023. The provision for credit losses was determined by a number of factors: the continued strong credit performance of the Company's loan portfolio, changes in the loan portfolio mix and Management's consideration of existing economic conditions and the economic outlook from the Federal Reserve's actions to control inflation. Management continues to monitor macroeconomic variables related to increasing interest rates, inflation and the concerns of an economic downturn, and believes it is appropriately reserved for the current economic environment and supportable forecast period.

The Company recorded net recoveries of \$67,000 for the three months ended March 31, 2024, compared to net charge-offs of \$1.9 million for the three months ended March 31, 2023. The charge-offs during the three months ended March 31, 2023 were related to one commercial relationship.

Although we believe that we have established and maintained the allowance for credit losses at adequate levels, future adjustments may be necessary if economic, real estate and other conditions differ substantially from the current operating environment.

Non-Interest Income.

Non-interest income decreased \$305,000, or 10.2%, to \$2.7 million for the three months ended March 31, 2024, from \$3.0 million for the three months ended March 31, 2023. During the three months ended March 31, 2024, service charges and fees on deposits increased \$32,000, or 1.5%, income from BOLI increased \$13,000, or 3.0%, from \$440,000 for the three months ended March 31, 2023 to \$453,000 for the three months ended March 31, 2024. During the three months ended March 31, 2024, the Company reported a loss on the disposal of premises and equipment of \$6,000. The Company did not have a comparable loss during the three months ended March 31, 2023. During the three months ended March 31, 2024, the Company reported unrealized gains on marketable equity securities of \$8,000. The Company did not have comparable unrealized gains or losses during the three months ended March 31, 2023. During the three months ended March 31, 2023, the Company reported a gain on non-marketable equity investments of \$352,000. The Company did not have comparable unrealized gains or losses during the three months ended March 31, 2024. Gains and losses from the investment portfolio vary from quarter to quarter based on market conditions, as well as the related yield curve and valuation changes.

Non-Interest Expense.

For the three months ended March 31, 2024, non-interest expense decreased \$114,000, or 0.8%, to \$14.8 million, from \$14.9 million for the three months ended March 31, 2023. Salaries and employee benefits decreased \$187,000, or 2.2%, professional fees decreased \$188,000, or 24.8%, other non-interest expense decreased \$98,000, or 7.3%, advertising expense decreased \$68,000, or 16.3%, and furniture and equipment expense decreased \$2,000, or 0.4%. Software expense increased \$185,000, or 36.1%, data processing expense increased \$109,000, or 14.5%, ATM network expense increased \$62,000, or 12.6%, FDIC insurance expense increased \$58,000, or 16.5%, and occupancy expense increased \$15,000, or 1.1%.

For the three months ended March 31, 2024, the efficiency ratio was 82.0%, compared to 69.3% for March 31, 2023. The increase in the efficiency ratio was primarily the result of a \$3.5 million, or 16.1%, decrease in total revenues as a result of the interest paid on interest-bearing liabilities outpacing the increase in the yield on interest-earning assets. See "Explanation of Use of Non-GAAP Financial Measurements" for the related efficiency ratio calculation and a reconciliation of GAAP to non-GAAP financial measures.

Income Taxes.

Income tax expense for the three months ended March 31, 2024 was \$827,000, or an effective tax rate of 21.8%, compared to \$1.7 million, or an effective tax rate of 24.0%, for three months ended March 31, 2023.

Explanation of Use of Non-GAAP Financial Measurements.

We believe that it is common practice in the banking industry to present interest income and related yield information on tax-exempt loans and securities on a tax-equivalent basis, as well as presenting tangible book value per share and adjusted efficiency ratio, and that such information is useful to investors because it facilitates comparisons among financial institutions. However, the adjustment of interest income and yields on tax-exempt loans and securities to a tax-equivalent amount, as well as the presentation of tangible book value per share and adjusted efficiency ratio, may be considered to include financial information that is not in compliance with GAAP. A reconciliation from GAAP to non-GAAP is provided below.

| | For the three months ended | |
|--|-----------------------------------|------------------|
| | 3/31/2024 | 3/31/2023 |
| | (In thousands) | |
| Loans (no tax adjustment) | \$ 24,241 | \$ 21,329 |
| Tax-equivalent adjustment (1) | 110 | 120 |
| Loans (tax-equivalent basis) | <u>\$ 24,351</u> | <u>\$ 21,449</u> |
| Net interest income (no tax adjustment) | \$ 15,346 | \$ 18,504 |
| Tax equivalent adjustment (1) | 110 | 120 |
| Net interest income (tax-equivalent basis) | <u>\$ 15,456</u> | <u>\$ 18,624</u> |
| Average interest-earning assets | \$ 2,403,086 | \$ 2,393,504 |
| Net interest margin (no tax adjustment) | 2.57% | 3.14% |
| Net interest margin, tax-equivalent | 2.59% | 3.16% |

| | <u>At or for the three months ended</u> | |
|--|---|------------------|
| | <u>3/31/2024</u> | <u>3/31/2023</u> |
| | (In thousands) | |
| <u>Book Value per Share (GAAP)</u> | \$ 10.90 | \$ 10.50 |
| Non-GAAP adjustments: | | |
| Goodwill | (0.58) | (0.56) |
| Core deposit intangible | (0.07) | (0.10) |
| <u>Tangible Book Value per Share (non-GAAP)</u> | <u>\$ 10.25</u> | <u>\$ 9.84</u> |
| <u>Adjusted Efficiency Ratio:</u> | | |
| Non-interest Expense (GAAP) | <u>\$ 14,782</u> | <u>\$ 14,896</u> |
| Net Interest Income (GAAP) | \$ 15,346 | \$ 18,504 |
| Non-interest Income (GAAP) | \$ 2,674 | \$ 2,979 |
| Non-GAAP adjustments: | | |
| Loss on disposal of premises and equipment | 6 | — |
| Unrealized losses on marketable equity securities | (8) | — |
| Gain on non-marketable equity investments | — | (352) |
| Non-interest Income for Adjusted Efficiency Ratio (non-GAAP) | <u>\$ 2,672</u> | <u>\$ 2,627</u> |
| Total Revenue for Adjusted Efficiency Ratio (non-GAAP) | <u>\$ 18,018</u> | <u>\$ 21,131</u> |
| Efficiency Ratio (GAAP) | 82.03% | 69.34% |
| Adjusted Efficiency Ratio (Non-interest Expense for Adjusted Efficiency Ratio (non-GAAP)/Total Revenue for Adjusted Efficiency Ratio (non-GAAP)) | 82.04% | 70.49% |

(1) The tax equivalent adjustment is based upon a 21% tax rate for all periods presented.

Liquidity and Capital Resources.

The term "liquidity" refers to our ability to generate adequate amounts of cash to fund loan originations, loan purchases, deposit withdrawals and operating expenses. Our primary sources of liquidity are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of investment securities and funds provided by our operations. We also can borrow funds from the FHLB based on eligible collateral of loans and securities. Our material cash commitments include funding loan originations, fulfilling contractual obligations with third-party service providers, maintaining operating leases for certain of our Bank properties and satisfying repayment of our long-term debt obligations.

Primary Sources of Liquidity

The Company, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies, and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. As part of that monitoring process, the Company stresses the potential liabilities calculation to ensure a strong liquidity position. Included in the calculation are assumptions of some significant deposit run-off as well as funds needed for loan closing and investment purchases. The Company does not anticipate engaging in any activities, either currently or over the long-term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity. However, an economic recession could negatively impact the Company's liquidity. The Bank relies heavily on FHLB as a source of funds, particularly with its overnight line of credit. In past economic recessions, some FHLB branches have suspended dividends, cut dividend payments, and not bought back excess FHLB stock that members hold in an effort to conserve capital. FHLB has stated that it expects to be able to continue to pay dividends, redeem excess capital stock, and provide competitively priced advances in the future.

At March 31, 2024 and December 31, 2023, outstanding borrowings from the FHLB were \$35.4 million and \$40.6 million, respectively. At March 31, 2024, we had \$517.7 million in available borrowing capacity with the FHLB, which includes our Ideal Way Line of Credit. We have the ability to increase our borrowing capacity with the FHLB by pledging investment securities or additional loans.

The Company has an available line of credit of \$72.2 million with the FRB Discount Window at an interest rate determined and reset on a daily basis. Borrowings from the FRB Discount Window are secured by certain securities from the Company's investment portfolio not otherwise pledged. As of March 31, 2024 and December 31, 2023, there were no advances outstanding under either of these lines.

On March 12, 2023, the FRB made available the BTFP, which enhances the ability of banks to borrow greater amounts against certain high-quality, unencumbered investments at par value. During the year ended December 31, 2023, the Company participated in the BTFP, which enabled the Company to pay off higher rate FHLB advances. With the BTFP, the Company has the ability to pay off the BTFP advance prior to maturity without incurring a penalty or termination fee.

At March 31, 2024 and December 31, 2023, long-term debt included \$90.0 million in outstanding advances under the BTFP with a weighted average fixed rate of 4.71%. At March 31, 2024, the Company had no remaining borrowing capacity under the BTFP.

In addition, we have available lines of credit of \$15.0 million and \$10.0 million with other correspondent banks. Interest rates on these lines are determined and reset on a daily basis by each respective bank. At March 31, 2024 and December 31, 2023, we did not have an outstanding balance under either of these lines of credit. In addition, we may enter into reverse repurchase agreements with approved broker-dealers. Reverse repurchase agreements are agreements that allow us to borrow money using our securities as collateral.

We also have outstanding at any time, a significant number of commitments to extend credit and provide financial guarantees to third parties. These arrangements are subject to strict credit control assessments. Guarantees specify limits to our obligations. Because many commitments and almost all guarantees expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows. We are also obligated under agreements with the FHLB to repay borrowed funds and are obligated under leases for certain of our branches and equipment.

Maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of the timing of these sources of funds.

The Company's primary activities are the origination of commercial real estate loans, commercial and industrial loans and residential real estate loans, as well as and the purchase of mortgage-backed and other investment securities. At March 31, 2024, the Company had approximately \$95.9 million in loan commitments and letters of credit to borrowers and approximately \$350.7 million in available home equity and other unadvanced lines of credit.

Deposit inflows and outflows are affected by the level of interest rates, the products and interest rates offered by competitors and by other factors. At March 31, 2024, time deposit accounts scheduled to mature within one year totaled \$615.7 million. Based on the Company's deposit retention experience and current pricing strategy, we anticipate that a significant portion of these time deposits will remain on deposit. We monitor our liquidity position frequently and anticipate that it will have sufficient funds to meet our current funding commitments for the next 12 months and beyond.

Material Cash Commitments

The Company entered into a long-term contractual obligation with a vendor for use of its core provider and ancillary services beginning in 2016. Total remaining contractual obligations outstanding with this vendor as of March 31, 2024 were estimated to be \$9.5 million, with \$5.0 million expected to be paid within one year and the remaining \$4.5 million to be paid within the next three years. Further, the Company has operating leases for certain of its banking offices and ATMs. Our leases have remaining lease terms of less than one year to fourteen years, some of which include options to extend the leases for additional five-year terms up to ten years. Undiscounted lease liabilities totaled \$9.9 million as of March 31, 2024. Principal payments expected to be made on our lease liabilities during the twelve months ended March 31, 2025 were \$1.5 million. The remaining lease liability payments totaled \$8.4 million and are expected to be made after March 31, 2025.

In addition, the Company completed an offering of \$20 million in aggregate principal amount of its 4.875% Notes to certain qualified institutional buyers in a private placement transaction on April 20, 2021. Unless earlier redeemed, the Notes mature on May 1, 2031. At March 31, 2024, \$19.7 million aggregate principle amount of the Notes was outstanding. The Notes will bear interest from the initial issue date to, but excluding, May 1, 2026, or the earlier redemption date, at a fixed rate of 4.875% per annum, payable quarterly in arrears on May 1, August 1, November 1 and February 1 of each year, beginning August 1, 2021, and from and including May 1, 2026, but excluding the maturity date or earlier redemption date, equal to the benchmark rate, which is the 90-day average secured overnight financing rate, plus 412 basis points, determined on the determination date of the applicable interest period, payable quarterly in arrears on May 1, August 1, November 1 and February 1 of each year. The Company may also redeem the Notes, in whole or in part, on or after May 1, 2026, and at any time upon the occurrence of certain events, subject in each case to the approval of the Board of Governors of the Federal Reserve.

We do not anticipate any material capital expenditures during the calendar year 2024, except in pursuance of the Company's strategic initiatives. The Company does not have any balloon or other payments due on any long-term obligations or any off-balance sheet items other than the commitments and unused lines of credit noted above.

At March 31, 2024, we exceeded each of the applicable regulatory capital requirements. As of March 31, 2024, the most recent notification from the Office of Comptroller of the Currency categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well-capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes would change our category.

Our actual capital ratios of March 31, 2024 and December 31, 2023 are also presented in the following table.

| | Actual | | Minimum For Capital Adequacy Purpose | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|------------------------|--------|--------------------------------------|-------|--|--------|
| | | | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | | | |
| March 31, 2024 | | | | | | |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | \$ 285,634 | 14.67% | \$ 155,798 | 8.00% | N/A | N/A |
| Bank | 271,596 | 13.96 | 155,663 | 8.00 | \$ 194,579 | 10.00% |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | 245,710 | 12.62 | 116,848 | 6.00 | N/A | N/A |
| Bank | 251,394 | 12.92 | 116,747 | 6.00 | 155,663 | 8.00 |
| Common Equity Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | 245,710 | 12.62 | 87,636 | 4.50 | N/A | N/A |
| Bank | 251,394 | 12.92 | 87,560 | 4.50 | 126,476 | 6.50 |
| Tier 1 Leverage Ratio (to Adjusted Average Assets): | | | | | | |
| Consolidated | 245,710 | 9.54 | 102,980 | 4.00 | N/A | N/A |
| Bank | 251,394 | 9.77 | 102,901 | 4.00 | 128,626 | 5.00 |
| December 31, 2023 | | | | | | |
| Total Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | \$ 285,760 | 14.67% | \$ 155,873 | 8.00% | N/A | N/A |
| Bank | 271,420 | 13.94 | 155,711 | 8.00 | \$ 194,639 | 10.00% |
| Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | 245,363 | 12.59 | 116,905 | 6.00 | N/A | N/A |
| Bank | 250,734 | 12.88 | 116,783 | 6.00 | 155,711 | 8.00 |
| Common Equity Tier 1 Capital (to Risk Weighted Assets): | | | | | | |
| Consolidated | 245,363 | 12.59 | 87,679 | 4.50 | N/A | N/A |
| Bank | 250,734 | 12.88 | 87,587 | 4.50 | 126,515 | 6.50 |
| Tier 1 Leverage Ratio (to Adjusted Average Assets): | | | | | | |
| Consolidated | 245,363 | 9.40 | 104,400 | 4.00 | N/A | N/A |
| Bank | 250,734 | 9.62 | 104,290 | 4.00 | 130,363 | 5.00 |

We also have outstanding, at any time, a significant number of commitments to extend credit and provide financial guarantees to third parties. These arrangements are subject to strict credit control assessments. Guarantees specify limits to our obligations. Because many commitments and almost all guarantees expire without being funded in whole or in part, the contract amounts are not estimates of future cash flows.

OFF-BALANCE SHEET ARRANGEMENTS.

The Company does not have any off-balance sheet arrangements, other than noted above under Material Cash Commitments, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our assessment of our sensitivity to market risk since our presentation in our 2023 Annual Report. Please refer to Item 7A of the 2023 Annual Report for additional information.

ITEM 4: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

Management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely discussion regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Except as set forth in Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2023, the Company was not involved in any material pending legal proceedings as a plaintiff or as a defendant, other than routine legal proceedings occurring in the ordinary course of business. We believe that all such claims and actions currently pending against us, if any, are either adequately covered by insurance or would not have a material adverse effect on us if decided in a manner unfavorable to us.

ITEM 1A. RISK FACTORS.

For a summary of risk factors relevant to our operations, see Part 1, Item 1A, "Risk Factors" in our 2023 Annual Report. There are no additional material changes in the risk factors relevant to our operations since December 31, 2023.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table sets forth information with respect to purchases made by us of our common stock during the three months ended March 31, 2024.

| Period | Total Number of Shares Purchased | Average Price Paid per Share (\$) | Total Number of Shares Purchased as Part of Publicly Announced Programs | Maximum Number of Shares that May Yet Be Purchased Under the Program (1)(2) |
|-----------------------|----------------------------------|-----------------------------------|---|---|
| January 1 - 31, 2024 | — | — | — | 406,600 |
| February 1 - 29, 2024 | 100,000 | 8.18 | 100,000 | 306,600 |
| March 1 - 31, 2024 | 121,947 | 8.32 | 100,000 | 206,600 |
| Total | 221,947 | 8.26 | 200,000 | 206,600 |

(1) On July 26, 2022, the Board of Directors authorized an additional stock repurchase plan (the "2022 Plan") under which the Company may purchase up to 1,100,000 shares of common stock, or 5%, of its outstanding common stock, as of the date the 2022 Plan was adopted.
(2) Repurchase of 21,947 shares related to tax obligations for shares of restricted stock that vested on March 5, 2024 under our 2021 LTI Recognition & Retention Plan. These repurchases were reported by each reporting person on March 7, 2024.

There were no sales by us of unregistered securities during the three months ended March 31, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

During the quarter ended March 31, 2024, no director or officer of the Company adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements.

ITEM 6. EXHIBITS.

| Exhibit Number | Exhibit Description |
|-----------------------|--|
| <u>3.2</u> | Restated Articles of Organization of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on October 26, 2016). |
| <u>3.3</u> | Amended and Restated Bylaws of Western New England Bancorp, Inc. (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on February 2, 2017). |
| <u>4.1</u> | Form of Stock Certificate of Western New England Bancorp, Inc. (f/k/a Westfield Financial, Inc.) (incorporated by reference to Exhibit 4.1 of the Registration Statement No. 333-137024 on Form S-1 filed with the Securities and Exchange Commission on August 31, 2006). |
| <u>31.1*</u> | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>31.2*</u> | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>32.1*</u> | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>32.2*</u> | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>101**</u> | Financial statements from the quarterly report on Form 10-Q of Western New England Bancorp, Inc. for the quarter ended March 31, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Net Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on May 7, 2024.

Western New England Bancorp, Inc.

By: /s/ James C. Hagan

James C. Hagan

President and Chief Executive Officer

By: /s/ Guida R. Sajdak

Guida R. Sajdak

Executive Vice President and Chief Financial Officer

CERTIFICATION

I, James C. Hagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Western New England Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ James C. Hagan

James C. Hagan
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Guida R. Sajdak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Western New England Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2024

/s/ Guida R. Sajdak
Guida R. Sajdak
Chief Financial Officer
(Principal Financial Officer)

**STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Western New England Bancorp, Inc. (the "Company") for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), James C. Hagan, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

May 7, 2024
Dated

/s/ James C. Hagan
James C. Hagan
President and Chief Executive Officer

**STATEMENT FURNISHED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Western New England Bancorp, Inc. (the "Company") for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Guida R. Sajdak, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

May 7, 2024
Dated

/s/ Guida R. Sajdak
Guida R. Sajdak
Chief Financial Officer
