

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C., 20429

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ to _____.

Commission File Number: FDIC Certificate No. 90211

HINGHAM INSTITUTION FOR SAVINGS

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

04-1442480

(I.R.S. Employer Identification No.)

55 Main Street, Hingham, Massachusetts

(Address of principal offices)

02043

(Zip Code)

(781) 749-2200

(Registrant's telephone number, including area code) Securities Registered pursuant to Section 12(b) of the Act:

Table with 3 columns: Title of each class, Trading Symbol(s), Name of each exchange on which registered. Row 1: Common Stock, \$1.00 par value per share, HIFS, NASDAQ Stock Market, LLC

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No []

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

- Large accelerated filer [] Accelerated filer [X]
Non-accelerated filer [] Smaller reporting company []
Emerging Growth Company []

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

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

The number of shares outstanding of each of the registrant's common stock, \$1.00 par value per share, outstanding as of November 4, 2022 was 2,145,400.

Table of Contents

PART I – FINANCIAL INFORMATION	3
Item 1 – Financial Statements	3
Consolidated Balance Sheets	3
Consolidated Statements of Net Income and Comprehensive Income	4
Consolidated Statements of Changes in Stockholders' Equity	5
Consolidated Statements of Cash Flows	7
Notes to Unaudited Consolidated Financial Statements	9
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	36
Item 4 – Controls and Procedures	36
PART II – OTHER INFORMATION	37
Item 1 – Legal Proceedings	37
Item 1A – Risk Factors	37
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3 – Defaults Upon Senior Securities	37
Item 4 – Mine Safety Disclosures	37
Item 5 – Other Information	37
Item 6 – Exhibits	37
Signatures	38
Certifications	39
Certifications pursuant to 18U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	41

PART I – FINANCIAL INFORMATION**Item 1 – Financial Statements****HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES****Consolidated Balance Sheets**

	<u>December 31, 2021</u>	<u>September 30, 2022</u>
<i>(Unaudited)</i>	(In Thousands, except share amounts)	
ASSETS		
Cash and due from banks	\$ 5,428	\$ 6,682
Federal Reserve and other short-term investments	<u>265,733</u>	<u>320,346</u>
Cash and cash equivalents	271,161	327,028
Equity securities, at fair value	88,473	72,274
Securities held to maturity, at amortized cost	3,500	3,500
Federal Home Loan Bank stock, at cost	29,908	44,716
Loans, net of allowance for loan losses of		
\$20,431 at December 31, 2021 and		
\$24,389 at September 30, 2022	2,999,096	3,562,745
Bank-owned life insurance	12,980	13,232
Premises and equipment, net	15,825	17,213
Accrued interest receivable	5,467	6,380
Deferred income tax asset, net	—	4,918
Other assets	<u>4,755</u>	<u>10,108</u>
Total assets	<u>\$ 3,431,165</u>	<u>\$ 4,062,114</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Interest-bearing	\$ 2,003,717	\$ 2,169,763
Non-interest-bearing	<u>389,148</u>	<u>418,753</u>
Total deposits	2,392,865	2,588,516
Federal Home Loan Bank advances	665,000	1,075,000
Mortgagors' escrow accounts	9,183	11,764
Accrued interest payable	198	2,536
Deferred income tax liability, net	536	—
Other liabilities	<u>8,771</u>	<u>7,740</u>
Total liabilities	<u>3,076,553</u>	<u>3,685,556</u>
Stockholders' equity:		
Preferred stock, \$1.00 par value, 2,500,000 shares authorized; none issued	—	—
Common stock, \$1.00 par value, 5,000,000 shares authorized; 2,142,400 shares issued and outstanding at December 31, 2021 and 2,145,400 shares issued and outstanding at September 30, 2022	2,142	2,145
Additional paid-in capital	12,728	12,914
Undivided profits	<u>339,742</u>	<u>361,499</u>
Total stockholders' equity	<u>354,612</u>	<u>376,558</u>
Total liabilities and stockholders' equity	<u>\$ 3,431,165</u>	<u>\$ 4,062,114</u>

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

Item 1 – Financial Statements (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Net Income and Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2022	2021	2022
<i>(Unaudited)</i>				
(In Thousands, except per share amounts)				
Interest and dividend income:				
Loans	\$ 27,303	\$ 34,209	\$ 80,267	\$ 96,375
Debt securities	33	33	51	99
Equity securities	171	492	562	1,036
Federal Reserve and other short-term investments	78	1,660	184	2,289
Total interest and dividend income	27,585	36,394	81,064	99,799
Interest expense:				
Deposits	1,551	4,483	5,350	8,089
Federal Home Loan Bank and Federal Reserve Bank advances	202	4,608	858	6,531
Total interest expense	1,753	9,091	6,208	14,620
Net interest income	25,832	27,303	74,856	85,179
Provision for loan losses	1,000	301	1,828	3,908
Net interest income, after provision for loan losses	24,832	27,002	73,028	81,271
Other income (loss):				
Customer service fees on deposits	181	141	554	456
Increase in cash surrender value of bank-owned life insurance	79	82	244	252
Gain (loss) on equity securities, net	2	(5,117)	9,715	(24,756)
Gain on disposal of fixed assets	—	—	2,337	—
Miscellaneous	24	21	60	67
Total other income (loss)	286	(4,873)	12,910	(23,981)
Operating expenses:				
Salaries and employee benefits	3,437	4,172	10,422	11,678
Occupancy and equipment	351	339	1,082	1,028
Data processing	489	691	1,432	1,953
Deposit insurance	231	546	681	1,347
Marketing	195	246	423	752
Foreclosure and related	24	18	(51)	5
Other general and administrative	833	869	2,333	2,706
Total operating expenses	5,560	6,881	16,322	19,469
Income before income taxes	19,558	15,248	69,616	37,821
Income tax provision	5,546	4,749	18,832	12,267
Net income and comprehensive income	\$ 14,012	\$ 10,499	\$ 50,784	\$ 25,554
Weighted average common shares outstanding:				
Basic	2,142	2,145	2,141	2,144
Diluted	2,202	2,201	2,199	2,203
Earnings per share:				
Basic	\$ 6.54	\$ 4.89	\$ 23.72	\$ 11.92
Diluted	\$ 6.36	\$ 4.77	\$ 23.09	\$ 11.60

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

Item 1 – Financial Statements (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended
September 30, 2021 and 2022

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Undivided Profits</u>	<u>Total Stockholders' Equity</u>
<i>(Unaudited)</i>	(In Thousands)			
Balance at December 31, 2020	\$ 2,138	\$ 12,460	\$ 278,345	\$ 292,943
Comprehensive income	—	—	50,784	50,784
Share-based compensation expense	—	33	—	33
Stock options exercised	4	229	—	233
Cash dividends declared – common (\$1.53 per share)	—	—	(3,277)	(3,277)
Balance at September 30, 2021	<u>\$ 2,142</u>	<u>\$ 12,722</u>	<u>\$ 325,852</u>	<u>\$ 340,716</u>
Balance at December 31, 2021	\$ 2,142	\$ 12,728	\$ 339,742	\$ 354,612
Comprehensive income	—	—	25,554	25,554
Share-based compensation expense	—	15	—	15
Stock options exercised	3	171	—	174
Cash dividends declared – common (\$1.77 per share)	—	—	(3,797)	(3,797)
Balance at September 30, 2022	<u>\$ 2,145</u>	<u>\$ 12,914</u>	<u>\$ 361,499</u>	<u>\$ 376,558</u>

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

Item 1 – Financial Statements (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended
September 30, 2021 and 2022

	Common Stock	Additional Paid-In Capital	Undivided Profits	Total Stockholders' Equity
<i>(Unaudited)</i>	(In Thousands)			
Balance at June 30, 2021	\$ 2,142	\$ 12,715	\$ 312,977	\$ 327,834
Comprehensive income	—	—	14,012	14,012
Share-based compensation expense	—	7	—	7
Cash dividends declared – common (\$0.53 per share)	—	—	(1,137)	(1,137)
Balance at September 30, 2021	<u>\$ 2,142</u>	<u>\$ 12,722</u>	<u>\$ 325,852</u>	<u>\$ 340,716</u>
Balance at June 30, 2022	\$ 2,145	\$ 12,908	\$ 352,307	\$ 367,360
Comprehensive income	—	—	10,499	10,499
Share-based compensation expense	—	6	—	6
Cash dividends declared – common (\$0.61 per share)	—	—	(1,307)	(1,307)
Balance at September 30, 2022	<u>\$ 2,145</u>	<u>\$ 12,914</u>	<u>\$ 361,499</u>	<u>\$ 376,558</u>

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

Item 1 – Financial Statements (continued)

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30,	
	2021	2022
<i>(Unaudited)</i>	(In Thousands)	
Cash flows from operating activities:		
Net income	\$ 50,784	\$ 25,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,828	3,908
Amortization of deferred loan origination costs, net	526	207
Share-based compensation expense	33	15
Deferred income tax provision (benefit)	1,969	(5,454)
Depreciation and amortization of premises and equipment	416	367
Increase in cash surrender value of bank-owned life insurance	(244)	(252)
Gain (loss) on equity securities, net	(9,715)	24,756
Gain on disposal of fixed assets	(2,337)	—
Write-down on foreclosed assets	68	—
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(2,243)	(6,217)
Accrued interest payable and other liabilities	1,109	2,784
Net cash provided by operating activities	42,194	45,668
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Principal payments	1	—
Activity in equity securities:		
Proceeds from sales	2,998	398
Purchases	(9,518)	(9,004)
Activity in held to maturity securities:		
Purchases	(3,500)	—
Purchase of Federal Home Loan Bank stock	(8,187)	(33,251)
Proceeds from redemption of Federal Home Loan Bank stock	8,624	18,443
Loans originated, net of payments received	(307,500)	(567,764)
Proceeds from sale of fixed assets	2,817	—
Proceeds from sale of foreclosed assets	3,758	—
Additions to premises and equipment	(1,124)	(1,755)
Net cash used in investing activities	(311,631)	(592,933)

(continued)

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

Item 1 – Financial Statements (continued)

Consolidated Statements of Cash Flows (concluded)

	Nine Months Ended	
	September 30,	
	2021	2022
<i>(Unaudited)</i>	(In Thousands)	
Cash flows from financing activities:		
Net increase in deposits	277,131	195,651
Net increase (decrease) in mortgagors' escrow accounts	(87)	2,581
Cash dividends paid on common stock	(4,642)	(5,274)
Proceeds from stock options exercised	233	174
Net (decrease) increase in Federal Home Loan Bank and Federal Reserve Bank advances with maturities of three months or less	(65,000)	725,000
Proceeds from Federal Home Loan Bank advances with maturities of more than three months	315,000	—
Repayment of Federal Home Loan Bank advances with maturities of more than three months	(268,031)	(315,000)
Repayment of mortgage payable	—	—
Net cash provided by financing activities	<u>254,604</u>	<u>603,132</u>
Net change in cash and cash equivalents	(14,833)	55,867
Cash and cash equivalents at beginning of period	<u>233,986</u>	<u>271,161</u>
Cash and cash equivalents at end of period	<u>\$ 219,153</u>	<u>\$ 327,028</u>
Supplementary information:		
Interest paid on deposit accounts	\$ 5,322	\$ 6,978
Interest paid on Federal Home Loan Bank and Federal Reserve Bank advances and mortgage payable	959	5,304
Income taxes paid	19,461	20,685
Non-cash activities:		
Real estate acquired through foreclosure	\$ —	\$ —

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

HINGHAM INSTITUTION FOR SAVINGS AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
September 30, 2021 and 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated interim financial statements of Hingham Institution for Savings (the “Bank”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial statements and with the instructions to Securities and Exchange Commission Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Financial information as of September 30, 2022, and for the three and nine months ended September 30, 2021 and 2022, is unaudited and, in the opinion of management, reflects all adjustments necessary for a fair presentation of such information. Such adjustments were of a normal recurring nature. Interim results are not necessarily indicative of results to be expected for the entire year. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Bank for the year ended December 31, 2021 filed on Form 10-K.

Earnings per common share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect additional shares that would have been outstanding if dilutive potential shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential shares that may be issued by the Bank relate solely to outstanding stock options and are determined using the treasury stock method. The amount of excess tax benefit that would be credited to additional paid-in capital assuming exercise of the options is not considered in the proceeds when applying the treasury stock method.

Earnings per common share have been computed based on the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
	(In Thousands)			
Average number of shares outstanding used to calculate basic earnings per share	2,142	2,145	2,141	2,144
Effect of dilutive options	60	56	58	59
Average number of shares outstanding used to calculate diluted earnings per share	2,202	2,201	2,199	2,203

For the three and nine months ended September 30, 2021, there were no antidilutive options. For the three and nine months ended September 30, 2022, there were 243 antidilutive options.

Fair value hierarchy

The Bank groups its assets measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value, as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets. Level 1 assets generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets.

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

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include those whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as assets for which the determination of fair value requires significant management judgment or estimation.

Loans

The Bank’s loan portfolio includes residential real estate, commercial real estate, construction, home equity, commercial and consumer segments. A substantial portion of the loan portfolio is secured by real estate in the eastern Massachusetts area. The Bank also lends to commercial real estate borrowers in the greater Washington, D.C. metropolitan area (“WMA”) and in the San Francisco Bay Area (“SFBA”). The ability of the Bank’s debtors to honor their contracts is dependent upon real estate, construction, and general economic conditions in these markets.

Notes to Unaudited Consolidated Financial Statements (continued)

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

The accrual of interest on mortgage and commercial loans is discontinued at the time a loan is 90 days past due (the loan is in default) unless the credit is well-secured and in the process of collection. Personal loans are typically charged off no later than becoming 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses

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

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated loss components, as further discussed below.

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This time frame is currently two years for all loan categories, except for residential real estate which is currently four years, to capture the longer term loss track record of the Bank in this segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; national and local economic trends and conditions; industry conditions and effects of changes in credit concentrations. There were no changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the nine months ended September 30, 2022.

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

Residential real estate – The Bank generally does not originate loans with a loan-to-value ratio greater than 80% (without private mortgage insurance). All loans in this segment are collateralized by residential real estate that is owner-occupied at the time of origination and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment. The Bank only originates these loans in Massachusetts.

Commercial real estate – Loans in this segment are primarily secured by income-producing properties throughout Massachusetts, the greater WMA and the SFBA. Underwriting and portfolio management policies are the same across all markets. Generally, loan amounts do not exceed 75% of the lesser of the internal Bank estimate of value or the appraised value of the collateral. The underlying cash flows generated by the properties could be adversely impacted by a downturn in the economy leading to increased vacancy rates which, in turn, would have an effect on the credit quality in this segment. Management obtains rent rolls annually and regularly monitors the cash flows of these properties.

Construction – Loans in this segment include both owner-occupied and speculative real estate development loans for which payment is derived from sale of the property. Credit risk could be affected by cost overruns, time to sell at an adequate price, the overall health of the economy and market conditions. The Bank only originates these loans in Massachusetts and in the WMA.

Notes to Unaudited Consolidated Financial Statements (continued)

Home equity – Loans in this segment include equity lines of credit and second mortgage loans, and are generally collateralized by second liens on residential real estate. Repayment is dependent on the credit quality of the individual borrower. The Bank generally does not originate loans with combined loan-to-value ratios greater than 70% when taking into account both the balance of the home equity loans and the first mortgage loan. Similar to residential real estate, the overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment. The Bank only originates these loans in Massachusetts.

Commercial – Loans in this segment are made to businesses and are generally secured by assets of the business. 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. These loans are not a focus of the Bank's origination program and are only originated in Massachusetts. At December 31, 2021, this segment also included loans originated under the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). SBA PPP loans were excluded from the allowance for loan loss calculation as they are 100% guaranteed by the SBA. At September 30, 2022, there were no SBA PPP loans outstanding.

Consumer – Loans in this segment are generally unsecured and repayment is dependent on the credit quality of the individual borrower. These loans are not a focus of the Bank's origination program, and are originated only in Massachusetts.

Allocated component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for residential real estate, commercial real estate, construction, home equity and commercial loans. A loan is considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are generally maintained on a non-accrual basis. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying amount of that loan. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment.

The Bank periodically may agree to modify the contractual terms of certain loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired. The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), Section 4013, stipulated that a financial institution may elect to not apply U.S. GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and suspended the determination of loan modifications related to the COVID-19 pandemic from being treated as TDRs. The CARES Act expired on December 31, 2020, however, the Consolidated Appropriations Act, 2021 extended the above provisions of the CARES Act through January 1, 2022. Modifications within the scope of the suspension include forbearance agreements, interest-rate modifications, repayment plans, and any other similar arrangements that defer or delay payments of principal or interest. In accordance with this statute, the Bank elected not to apply U.S. GAAP requirements to such loan modifications with respect to categorization of loans as TDRs.

Unallocated component

At times, the Bank may maintain an unallocated component of the allowance for loan loss based on market conditions and in accordance with U.S. GAAP. The Bank's Allowance for Loan Loss Policy limits the amount of the unallocated component to 5% of the recorded allowance for loan losses. As of December 31, 2021 and September 30, 2022, the Bank's allowance for loan losses included an unallocated amount of \$94,000 and \$32,000, respectively, or less than 1% of the recorded allowance for loan losses for each period end, which was within the Bank's policy. The unallocated balance is distributed across the non-impaired loan categories presented in Note 6.

Leases

In accordance with Accounting Standards Codification ("ASC") *Topic 842, Leases*, the Bank records operating lease right-of-use ("ROU") assets and operating lease liabilities relating to operating leases for some of its banking offices. These lease agreements have lease and non-lease components, which are generally accounted for separately. The ROU asset is included in other assets and the operating lease liability is included in other liabilities on the Bank's Consolidated Balance Sheets. At September 30, 2022, the ROU asset was \$666,000 and the corresponding operating lease liability was \$704,000. Operating lease costs for both the quarters ended September 30, 2021 and 2022 were \$61,000. Operating lease costs for the nine months ended September 30, 2021 and 2022 were \$201,000 and \$183,000, respectively.

Notes to Unaudited Consolidated Financial Statements (continued)

ROU assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Bank's leases do not provide an implicit rate, the Bank uses the Bank's incremental borrowing rate, which is generally the Federal Home Loan Bank of Boston ("FHLB") classic advance rate, based on the information available at commencement date in determining the present value of lease payments. The Bank will use the implicit rate when readily determinable. The weighted average discount rate for operating leases as of September 30, 2022 was 3.0%.

The Bank's lease terms may include options to extend when it is reasonably certain that the Bank will exercise that option. The initial term of these lease agreements is five years, and the agreements contain up to three extension options for subsequent five year terms. Management considered options that have been exercised or are reasonably certain to be exercised in the recognition of the operating lease ROU asset. The weighted average remaining lease term for operating leases as of September 30, 2022 is 3.0 years. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

The maturities of lease liabilities are as follows at September 30, 2022:

<u>Years</u>	<u>Amount</u> <u>(In Thousands)</u>
2022 (remaining three months)	\$ 62
2023	253
2024	240
2025	146
2026	37
Total lease payments	<u>738</u>
Imputed interest	<u>(34)</u>
Total lease liability	<u>\$ 704</u>

NOTE 2: COMMITMENTS

At December 31, 2021 and September 30, 2022, outstanding loan commitments were as follows:

	<u>December 31,</u> <u>2021</u>	<u>September 30,</u> <u>2022</u>
	<u>(In Thousands)</u>	
Unused lines of credit	\$ 141,699	\$ 159,220
Commitments to originate loans	231,085	100,491
Unadvanced funds on construction loans	108,716	274,711
Standby letters of credit	—	100
Total	<u>\$ 481,500</u>	<u>\$ 534,522</u>

NOTE 3: DIVIDEND DECLARATION

On September 28, 2022, the Board of Directors declared a cash dividend of \$0.61 per share to all stockholders of record as of November 1, 2022, payable November 9, 2022.

NOTE 4: FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's assets and liabilities. 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 asset or liability.

Notes to Unaudited Consolidated Financial Statements (continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below. There are no liabilities measured at fair value on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
	(In Thousands)			
<u>December 31, 2021</u>				
Equity securities	\$ 82,326	\$ 6,147	\$ —	\$ 88,473
<u>September 30, 2022</u>				
Equity securities	\$ 66,086	\$ 6,188	\$ —	\$ 72,274

Assets Measured at Fair Value on a Non-recurring Basis

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with U.S. GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets.

There are no assets or liabilities measured at fair value on a non-recurring basis at December 31, 2021 and September 30, 2022.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying amounts, of the Bank's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Bank.

	<u>Carrying Amount</u>	<u>Fair Value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(In Thousands)			
<u>December 31, 2021</u>				
Financial assets:				
Cash and cash equivalents	\$ 271,161	\$ 271,161	\$ —	\$ —
Equity securities	88,473	82,326	6,147	—
Securities held to maturity	3,500	—	—	3,453
Federal Home Loan Bank stock	29,908	—	—	29,908
Loans, net	2,999,096	—	—	3,030,915
Accrued interest receivable	5,467	—	—	5,467
Financial liabilities:				
Deposits	\$ 2,392,865	\$ —	\$ —	\$ 2,393,112
Federal Home Loan Bank advances	665,000	—	664,216	—
Mortgagors' escrow accounts	9,183	—	—	9,183
Accrued interest payable	198	—	—	198
<u>September 30, 2022</u>				
Financial assets:				
Cash and cash equivalents	\$ 327,028	\$ 327,028	\$ —	\$ —
Equity securities	72,274	66,086	6,188	—
Securities held to maturity	3,500	—	—	3,128
Federal Home Loan Bank stock	44,716	—	—	44,716
Loans, net	3,562,745	—	—	3,450,609
Accrued interest receivable	6,380	—	—	6,380
Financial liabilities:				
Deposits	\$ 2,588,516	\$ —	\$ —	\$ 2,584,894
Federal Home Loan Bank advances	1,075,000	—	1,074,080	—
Mortgagors' escrow accounts	11,764	—	—	11,764
Accrued interest payable	2,536	—	—	2,536

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 5: SECURITIES

Securities held to maturity

At December 31, 2021 and September 30, 2022, securities held to maturity consisted of \$3.5 million in corporate bonds, made up of an investment in the subordinated debt issued by a bank holding company in 2021 in which the Bank also maintains a common equity investment. The notes have a 3.75% five year fixed to floating rate, mature in 2031, and are callable quarterly at the option of the issuer after the fifth year anniversary. The Bank intends to hold the bonds until maturity, and therefore they are recorded at amortized cost on the Consolidated Balance Sheets. There was no other-than-temporary impairment recorded during the quarter ended September 30, 2022.

Equity securities

At December 31, 2021 and September 30, 2022, equity securities include a \$9.3 million and \$8.2 million investment in the Community Reinvestment Act Qualified Investment Fund, respectively, and a \$79.2 million and \$64.1 million investment in marketable common equity securities, respectively.

For the three months ended September 30, 2021, proceeds from sales of equity securities amounted to \$174,000. There were no sales of equity securities during the three months ended September 30, 2022. Unrealized gains recognized during the third quarter of 2021 on securities still held at September 30, 2021 were \$16,000, as compared to unrealized losses of \$5.1 million recognized during the third quarter of 2022 on securities still held at September 30, 2022.

For the nine months ended September 30, 2021 and 2022, proceeds from sales of equity securities amounted to \$3.0 million and \$398,000, respectively. Unrealized gains recognized during the first nine months of 2021 on securities still held at September 30, 2021 were \$9.6 million, as compared to unrealized losses of \$24.7 million recognized during the first nine months of 2022 on securities still held at September 30, 2022.

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE 6: LOANS

A summary of the balances of loans are as follows:

	December 31, 2021	September 30, 2022
	(In Thousands)	
Real estate loans:		
Residential	\$ 538,625	\$ 513,280
Commercial	2,296,566	2,897,075
Construction	155,668	150,480
Home equity	24,158	23,581
Total real estate loans	<u>3,015,017</u>	<u>3,584,416</u>
Other loans:		
Commercial (1)	2,086	108
Consumer	409	352
Total other loans	<u>2,495</u>	<u>460</u>
 Total loans	 3,017,512	 3,584,876
Allowance for loan losses	(20,431)	(24,389)
Net deferred loan origination costs	2,015	2,258
Loans, net	<u>\$ 2,999,096</u>	<u>\$ 3,562,745</u>

(1) At December 31, 2021, commercial loans included \$2,000,000 in loans outstanding originated under the SBA PPP. There were no SBA PPP loans outstanding at September 30, 2022.

A blanket lien on “qualified collateral,” defined principally as 72-82% of the carrying value of first mortgage loans on certain owner-occupied residential property, 77% of the carrying value of first mortgage loans on certain non-owner-occupied residential property, 76% of the carrying value of first mortgage loans on certain multi-family residential property and 65% of the carrying value of loans on certain commercial property, is used to secure borrowings from the FHLB. Additionally, a blanket lien on home equity and second mortgage loans is used to secure borrowings from the Federal Reserve Bank of Boston through its discount window.

The following is a summary of past due and non-accrual loans at December 31, 2021 and September 30, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans on Non-accrual
	(In Thousands)				
<u>December 31, 2021</u>					
Residential real estate	\$ 4,583	\$ —	\$ 131	\$ 4,714	\$ 131
Commercial real estate	—	—	296	296	296
Home equity	243	—	—	243	—
Total loans	<u>\$ 4,826</u>	<u>\$ —</u>	<u>\$ 427</u>	<u>\$ 5,253</u>	<u>\$ 427</u>
<u>September 30, 2022</u>					
Residential real estate	\$ —	\$ 548	\$ —	\$ 548	\$ 731
Commercial real estate	1,307	226	—	1,533	—
Home equity	90	—	—	90	—
Total loans	<u>\$ 1,397</u>	<u>\$ 774</u>	<u>\$ —</u>	<u>\$ 2,171</u>	<u>\$ 731</u>

At December 31, 2021 and September 30, 2022, there were no loans past due 90 days or more and still accruing interest.

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the activity in the allowance for loan losses, by segment, for the periods ended September 30, 2021 and 2022 follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
	(In Thousands)						
<u>Nine months ended September 30, 2021</u>							
Balance December 31, 2020	\$ 2,406	\$ 13,374	\$ 1,548	\$ 70	\$ 1	\$ 5	\$ 17,404
Provision (credit) for loan losses	(711)	2,496	60	(17)	1	(1)	1,828
Loans charged off	—	—	—	—	(1)	—	(1)
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance September 30, 2021	<u>\$ 1,695</u>	<u>\$ 15,870</u>	<u>\$ 1,608</u>	<u>\$ 53</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 19,231</u>
<u>Three months ended September 30, 2021</u>							
Balance June 30, 2021	\$ 1,932	\$ 14,782	\$ 1,455	\$ 57	\$ 1	\$ 4	\$ 18,231
Provision (credit) for loan losses	(237)	1,088	153	(4)	—	—	1,000
Loans charged off	—	—	—	—	—	—	—
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance September 30, 2021	<u>\$ 1,695</u>	<u>\$ 15,870</u>	<u>\$ 1,608</u>	<u>\$ 53</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 19,231</u>
<u>Nine months ended September 30, 2022</u>							
Balance December 31, 2021	\$ 1,561	\$ 17,310	\$ 1,501	\$ 53	\$ 2	\$ 4	\$ 20,431
Provision (credit) for loan losses	(188)	4,185	(100)	11	—	—	3,908
Loans charged off	—	—	—	—	—	—	—
Recoveries of loans previously charged off	50	—	—	—	—	—	50
Balance September 30, 2022	<u>\$ 1,423</u>	<u>\$ 21,495</u>	<u>\$ 1,401</u>	<u>\$ 64</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 24,389</u>
<u>Three months ended September 30, 2022</u>							
Balance June 30, 2022	\$ 1,436	\$ 20,553	\$ 2,028	\$ 66	\$ 1	\$ 4	\$ 24,088
Provision (credit) for loan losses	(13)	942	(627)	(2)	1	—	301
Loans charged off	—	—	—	—	—	—	—
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance September 30, 2022	<u>\$ 1,423</u>	<u>\$ 21,495</u>	<u>\$ 1,401</u>	<u>\$ 64</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 24,389</u>

Notes to Unaudited Consolidated Financial Statements (continued)

An analysis of the allowance for loan losses, by segment, as of December 31, 2021 and September 30, 2022 follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Construction</u>	<u>Home Equity</u> (In Thousands)	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
December 31, 2021							
Allowance for impaired loans	\$ 48	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 48
Allowance for non-impaired loans	1,513	17,310	1,501	53	2	4	20,383
	<u>\$ 1,561</u>	<u>\$ 17,310</u>	<u>\$ 1,501</u>	<u>\$ 53</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 20,431</u>
Impaired loans	\$ 983	\$ 296	\$ —	\$ —	\$ —	\$ —	\$ 1,279
Non-impaired loans	537,642	2,296,270	155,668	24,158	2,086	409	3,016,233
	<u>\$ 538,625</u>	<u>\$ 2,296,566</u>	<u>\$ 155,668</u>	<u>\$ 24,158</u>	<u>\$ 2,086</u>	<u>\$ 409</u>	<u>\$ 3,017,512</u>
September 30, 2022							
Allowance for impaired loans	\$ 40	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 40
Allowance for non-impaired loans	1,383	21,495	1,401	64	2	4	24,349
	<u>\$ 1,423</u>	<u>\$ 21,495</u>	<u>\$ 1,401</u>	<u>\$ 64</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 24,389</u>
Impaired loans	\$ 1,570	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,570
Non-impaired loans	511,710	2,897,075	150,480	23,581	108	352	3,583,306
	<u>\$ 513,280</u>	<u>\$ 2,897,075</u>	<u>\$ 150,480</u>	<u>\$ 23,581</u>	<u>\$ 108</u>	<u>\$ 352</u>	<u>\$ 3,584,876</u>

The following is a summary of impaired loans at December 31, 2021 and September 30, 2022:

	<u>December 31, 2021</u>			<u>September 30, 2022</u>		
	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>
(In Thousands)						
Impaired loans without a valuation allowance:						
Residential real estate	\$ 478	\$ 530		\$ 1,074	\$ 1,126	
Commercial real estate	296	296		—	—	
Total	<u>774</u>	<u>826</u>		<u>1,074</u>	<u>1,126</u>	
Impaired loans with a valuation allowance:						
Residential real estate	505	505	\$ 48	496	496	\$ 40
Total impaired loans	<u>\$ 1,279</u>	<u>\$ 1,331</u>	<u>\$ 48</u>	<u>\$ 1,570</u>	<u>\$ 1,622</u>	<u>\$ 40</u>

The following is information pertaining to impaired loans for the periods ended September 30, 2021 and 2022:

	<u>Three Months Ended September 30, 2021</u>			<u>Nine Months Ended September 30, 2021</u>		
	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on Cash Basis</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on Cash Basis</u>
(In Thousands)						
Impaired loans:						
Residential real estate	\$ 881	\$ 10	\$ —	\$ 1,149	\$ 33	\$ 59
Commercial real estate	296	—	—	795	—	132
Construction	—	—	—	154	—	163
Total impaired loans	<u>\$ 1,177</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 2,098</u>	<u>\$ 33</u>	<u>\$ 354</u>
	<u>Three Months Ended September 30, 2022</u>			<u>Nine Months Ended September 30, 2022</u>		
	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on Cash Basis</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Recognized on Cash Basis</u>
(In Thousands)						
Impaired loans:						
Residential real estate	\$ 1,755	\$ 7	\$ 16	\$ 1,381	\$ 27	\$ 32
Commercial real estate	—	—	—	33	—	52
Total impaired loans	<u>\$ 1,755</u>	<u>\$ 7</u>	<u>\$ 16</u>	<u>\$ 1,414</u>	<u>\$ 27</u>	<u>\$ 84</u>

Notes to Unaudited Consolidated Financial Statements (continued)

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

In the course of resolving non-performing loans, the Bank may choose to restructure the contractual terms of certain loans, with terms modified to fit the ability of the borrower to repay in line with its current financial status. A loan is considered a TDR if, for reasons related to the debtor's financial difficulties, a concession is granted to the debtor that would not otherwise be considered. For the nine months ended September 30, 2021 and 2022, the Bank did not execute any TDRs.

Credit Quality Information

The Bank uses a seven-grade internal rating system for residential real estate, commercial real estate, construction, and commercial loans as follows:

Loans rated 1-3B: Loans in this category are considered “pass” rated with low to average risk.

Loans rated 4: Loans in this category are considered “special mention.” These loans are currently protected, but exhibit conditions that have the potential for weakness. The borrower may be affected by unfavorable economic, market or other external conditions that may affect their ability to repay the debt. These may also include credits where there is deterioration of the collateral or have deficiencies which may affect our ability to collect on the collateral. This rating is consistent with the “Other Assets Especially Mentioned” category used by the Federal Deposit Insurance Corporation (“FDIC”).

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

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

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

Commercial real estate and construction loans are assigned an initial risk rating by the Bank at the origination of the loan. Subsequently, the Bank has a quality control program performed by an independent third party. Quarterly, all new commercial, construction and residential real estate loan relationships with outstanding balances or commitments of \$500,000 or more are reviewed and assigned a risk rating. On a rolling quarterly basis, an in-depth review is performed on all commercial real estate relationships (and related residential loans) with exposure in excess of \$850,000 and all loans on the Bank's Watch List. Commercial real estate relationships (and related residential loans) with exposure between \$500,000 and \$850,000 are reviewed at least annually. Watch List loans are those loans that are more than two payments past due at the end of the quarter, loans for which the borrowing entity or sponsor has filed bankruptcy, loans rated four or higher in a previous review, impaired loans, TDRs, and loans past contractual maturity. Results of the independent loan review are reported to the Bank's Audit Committee on a quarterly basis and become the mechanism for monitoring the overall credit quality of the portfolio.

The following table presents the Bank's loans by risk rating as of December 31, 2021 and September 30, 2022:

Rating	Residential Real Estate	Commercial Real Estate	Construction	Commercial
	(In Thousands)			
<u>December 31, 2021</u>				
1- 3B	\$ 538,146	\$ 2,296,270	\$ 155,668	\$ 2,086
4	131	296	—	—
5	348	—	—	—
	<u>\$ 538,625</u>	<u>\$ 2,296,566</u>	<u>\$ 155,668</u>	<u>\$ 2,086</u>
<u>September 30, 2022</u>				
1- 3B	\$ 512,140	\$ 2,897,075	\$ 150,480	\$ 108
4	797	—	—	—
5	343	—	—	—
	<u>\$ 513,280</u>	<u>\$ 2,897,075</u>	<u>\$ 150,480</u>	<u>\$ 108</u>

Residential loans are rated 1-3B at origination with subsequent adjustments based on delinquency or upon review if included in the scope of the Bank's loan review process described above. For home equity and consumer loans, management uses delinquency reports as the key credit quality indicator.

Notes to Unaudited Consolidated Financial Statements (concluded)

NOTE 7: RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued But Yet Not Adopted

The following identifies Accounting Standards Updates (“ASU”) applicable to the Bank that have been issued but are not yet effective:

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* (“ASU 2016-13”). This Update requires entities to measure expected credit losses based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Credit losses on available for sale debt securities should be measured in a manner similar to current U.S. GAAP. However, the amendments in this Update require that credit losses be presented as an allowance rather than as a write down. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*. This Update delayed the effective date of ASU 2016-13 for entities eligible to be smaller reporting companies (“SRC”), public business entities that are not SEC filers, and entities that are not public business entities, until fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. As of the date of issuance of ASU 2019-10, the Bank was an eligible SRC and therefore, the adoption of ASU 2016-13 is being delayed. The Bank has completed the portfolio segmentation, model setup, sensitivity analysis and qualitative factors framework and began parallel runs. Management will continue to monitor developments and additional guidance to determine the potential impact on the Bank’s consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*. The amendments in this Update affect a variety of Topics in the Codification and represent changes to clarify, correct errors in, or address implementation issues. The amendments to *Topic 326, Financial Instruments – Credit Losses* and *Topic 815, Derivatives and Hedging*, have the same effective dates and transition requirements as those standards, unless the entity has already adopted the standard. The amendments to *Topic 825, Financial Instruments* were effective for the Bank beginning on January 1, 2020. Management has evaluated the Update and determined that changes are not applicable or material to its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief*. This Update provides transition relief by providing entities with an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of ASU 2016-13. The election is not available for either available-for-sale or held-to-maturity debt securities. For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in ASU 2016-13. The Bank does not intend to make this election at this time.

In February 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosure*. This Update eliminates the TDR recognition and measurement guidance contained in ASC 310-40, *Receivables - Troubled Debt Restructuring by Creditors*. In addition, the Update enhances existing disclosure requirements and introduces new requirements related to certain modifications made to debtors experiencing financial difficulty. For public business entities only, the Update also requires disclosure of gross current period charge-offs by year of origination. For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in ASU 2016-13. Management believes this Update will not have a significant impact on the Bank’s financial statements or disclosures.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

The following discussion of the financial condition and results of operations of the Bank should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021. Matters discussed in this Quarterly Report on Form 10-Q and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, expressed or implied, of our anticipated growth, operating results, future earnings per share, plans and objectives, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are often identified by the words “believe,” “plan,” “estimate,” “project,” “target,” “continue,” “intend,” “expect,” “future,” “anticipate,” and similar expressions that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict, including changes in political and economic climate, interest rate fluctuations and competitive product and pricing pressures within the Bank’s market, bond market fluctuations, personal and corporate customers’ bankruptcies and inflation. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those set forth under “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings with the Federal Deposit Insurance Corporation (“FDIC”). It is routine for internal projections and expectations to change as the year or each quarter in the year progresses and, therefore, it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this Quarterly Report on Form 10-Q are made only as of the date of this Quarterly Report on Form 10-Q and may change. While we may elect to update forward-looking statements at some point in the future, we do not undertake any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING ESTIMATES

The Bank’s consolidated financial statements are prepared in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”). The preparation of consolidated financial statements requires management to make judgments involving significant estimates and assumptions in the application of certain of its accounting policies about the effects of matters that are inherently uncertain. These estimates and assumptions, which may materially affect the reported amounts of certain assets, liabilities, revenues and expenses, are based on information available as of the date of the consolidated financial statements, and changes in this information over time could materially impact amounts reported in the consolidated financial statements as a result of the use of different estimates and assumptions. Certain accounting policies, by their nature, have a greater reliance on the use of estimates and assumptions and could produce results materially different from those originally reported.

Based on the sensitivity of financial statement amounts to the methods, estimates and assumptions underlying reported amounts, the most significant accounting estimate followed by the Bank has been identified by management as the determination of the allowance for loan losses. This policy requires the most subjective and complex judgments and, as such, could be most subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying this accounting estimate is essential in order to understand the Bank’s reported financial condition and results of operations. In developing this estimate, management considers historical charge-offs, loan-to-value ratios, underlying collateral values, payment history, the size of the loan portfolio and the risks associated with certain loan types as well as other factors such as local economic trends, market conditions and credit concentrations. Given the Bank’s history of immaterial net charge-offs, the allowance for loan losses estimate is driven entirely by management’s qualitative adjustments, which are determined based on the factors described above. Therefore, the estimate is sensitive to management’s subjectivity in the assessment of these factors. This accounting policy and its application in recent periods is described in more detail in the “Provision for Loan Losses” section of this discussion and analysis and in Notes 1 and 6 to the Consolidated Financial Statements contained in this Form 10-Q. If management’s assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb inherent losses, or if bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Bank’s earnings and capital could be significantly and adversely affected.

Note on Core Return on Average Equity and Core Return on Average Assets

In accordance with Accounting Standards Codification *Topic 321, Investments - Equity Securities*, equity securities (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in the Consolidated Statements of Net Income, regardless of whether such gains and losses are realized, and included in the other income (loss) category. This change affects the Bank’s portfolio of marketable equity securities, which includes common equity securities and a mutual fund which invests in securities which qualify for the Community Reinvestment Act securities test. This portfolio primarily includes common equity investments, which the Bank views as long-term partnership interests in operating companies. Consequently the Bank does not view the quarterly fluctuation in market value as indicative of the change in the intrinsic value of these portfolio holdings. The performance of these holdings should be evaluated on the basis of their contribution to growth in book value per share over time, not via quarterly adjustments to net income.

In calculating core net income, the Bank has not traditionally made any adjustments other than those relating to after-tax gains and losses on equity securities, both realized and unrealized. However, net income in the second quarter and the first nine months of 2021

included a \$2.3 million pre-tax gain on the sale of the Bank's former branch properties located in Weymouth and South Hingham. Given the significant gains on disposal of fixed assets, the Bank has excluded these gains from the calculation of core net income. Therefore, "Management's Discussion and Analysis of Financial Condition and Results of Operations" incorporates core net income, core return on average equity and core return on average assets, which are non-U.S. GAAP measurements that exclude the after-tax effect of gain (loss) on equity securities, net, both realized and unrealized, and the after-tax gains on the disposal of fixed assets. The prior year core net income, core net income per share basic and diluted, core return on average assets and core return on average equity figures have been adjusted accordingly to exclude such gains.

The table below presents the reconciliation between net income and core net income for the three and nine months ended September 30, 2021 and 2022:

<i>(In thousands, unaudited)</i>	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2022	2021	2022
Non-U.S. GAAP reconciliation:				
Net Income	\$ 14,012	\$ 10,499	\$ 50,784	\$ 25,554
(Gain) loss on equity securities, net	(2)	5,117	(9,715)	24,756
Income tax expense (benefit) (1)	—	(1,125)	2,141	(5,454)
Gain on disposal of fixed assets	—	—	(2,337)	—
Income tax expense	—	—	657	—
Core Net Income	\$ 14,010	\$ 14,491	\$ 41,530	\$ 44,856

(1) The equity securities are primarily held in a tax-advantaged subsidiary corporation. The income tax effect of the gain on equity securities, net, was calculated using the effective tax rate applicable to the subsidiary.

INTRODUCTION

Net income for the quarter ended September 30, 2022 was \$10,499,000 or \$4.89 per share basic and \$4.77 per share diluted as compared to \$14,012,000 or \$6.54 per share basic and \$6.36 per share diluted in earnings for the third quarter of 2021. The Bank's annualized return on average equity for the third quarter of 2022 was 11.07%, and the annualized return on average assets was 1.05% as compared to 16.57% and 1.85% for the same period in 2021. Core net income for the third quarter of 2022, which represents net income excluding the after-tax gains and losses on equity securities, both realized and unrealized, was \$14,491,000 or \$6.75 per share basic and \$6.58 per share diluted, representing an annualized core return on average equity of 15.28% and an annualized core return on average assets of 1.45%. This compares to core net income of \$14,010,000 or \$6.54 per share basic and \$6.36 per share diluted, representing an annualized core return on average equity of 16.56% and an annualized core return on average assets of 1.85% for the same period in 2021.

Net income for the nine months ended September 30, 2022 was \$25,554,000 or \$11.92 per share basic and \$11.60 per share diluted as compared to \$50,784,000 or \$23.72 per share basic and \$23.09 per share diluted for the same period last year. The Bank's annualized return on average equity for the first nine months of 2022 was 9.18%, and the annualized return on average assets was 0.91% as compared to 21.16% and 2.33% for the same period in 2021. Core net income for the nine months ended September 30, 2022, which represents net income excluding the after-tax gains and losses on equity securities, both realized and unrealized, and the after-tax gains on the disposal of fixed assets (on the prior year), was \$44,856,000 or \$20.92 per share basic and \$20.36 per share diluted, representing an annualized core return on average equity of 16.11% and an annualized core return on average assets of 1.60%. This compares to core net income of \$41,530,000 or \$19.40 per share basic and \$18.88 per share diluted, representing an annualized core return on average equity of 17.31% and an annualized core return on average assets of 1.90% for the same period in 2021.

The net interest margin for the third quarter of 2022 decreased 72 basis points to 2.76%, as compared to 3.48% for the same period last year, and the net interest margin for the nine months ended September 30, 2022 decreased 41 basis points to 3.08%, as compared to 3.49% for the same period last year. The decline in both periods was driven by a declining yield on interest-earning assets - resulting from a lower yield on loans - combined with a higher cost of interest-bearing liabilities, including both retail and commercial interest-bearing deposits and wholesale funding from the Federal Home Loan Bank ("FHLB") of Boston, brokered time deposits and listing services time deposits. These negative effects were partially offset by an increase in the interest on reserves held at the Federal Reserve Bank of Boston ("FRBB").

Balance sheet growth was very strong in the first nine months of 2022. Total assets increased by \$630.9 million from December 31, 2021 and \$897.3 million from September 30, 2021, representing 25% annualized growth year-to-date and 28% growth from September 30, 2021. Net loans increased by \$563.6 million from December 31, 2021 and \$762.3 million from September 30, 2021, representing 25% annualized growth year-to-date and 27% growth from September 30, 2021. Total deposits, including wholesale deposits, increased by \$195.7 million from December 31, 2021 and \$172.2 million from September 30, 2021, representing 11% annualized growth year-to-date and 7% growth from September 30, 2021. Total retail and business deposits increased to \$1.893 billion at September 30, 2022, representing 14% annualized growth year-to-date and 12% growth from September 30, 2021. Non-interest bearing deposits, included in retail and business deposits, increased to \$418.8 million at September 30, 2022, representing 10% annualized growth year-to-date and 14% growth from September 30, 2021. During the first nine months of 2022, the Bank used

wholesale funds to help fund the strong loan growth experienced during the period. Stockholders' equity increased to \$376.6 million as of September 30, 2022, representing 8% annualized growth year-date and 11% growth from September 30, 2021. Book value per share increased to \$175.52 per share at September 30, 2022 from \$165.52 per share at December 31, 2021 and \$159.03 per share at September 30, 2021.

Since September 30, 2021, the Bank declared dividends of \$3.07 per share, which included a \$0.75 special dividend declared in the fourth quarter of 2021.

Key credit metrics remained strong in the third quarter of 2022. At September 30, 2022, non-performing assets totaled 0.02% of total assets, compared with 0.01% at both December 31, 2021 and September 30, 2021. Non-performing loans as a percentage of the total loan portfolio totaled 0.02% at September 30, 2022, as compared to 0.01% at both December 31, 2021 and September 30, 2021.

Key operational metrics were mixed in the third quarter of 2022. The efficiency ratio increased to 24.98% for the third quarter of 2022, as compared to 21.29% in the same period last year, and increased to 22.65% for the first nine months of 2022, as compared to 21.56% for the same period last year. This increase was mainly the result of the net interest margin decline, as operating expenses (annualized) as a percentage of average assets fell to 0.69% in the third quarter of 2022, as compared to 0.74% in the same period last year, and fell to 0.69% for the first nine months of 2022, as compared to 0.75% for the same period last year. These metrics reflect the Bank's continued focus on credit quality and disciplined expense controls.

The Bank continues to exceed all of the minimum regulatory capital requirements.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

General

The Bank reported net income of \$10.5 million for the quarter ended September 30, 2022 as compared to \$14.0 million for the quarter ended September 30, 2021. Net income was \$4.89 per share basic and \$4.77 per share diluted for the quarter ended September 30, 2022 as compared with \$6.54 per share basic and \$6.36 per share diluted for the same period in 2021. Earnings for the quarter ended September 30, 2022 were negatively impacted by a decline of \$5.2 million in other income (loss) and a \$1.3 million increase in operating expenses, partially offset by an increase of \$1.5 million in net interest income, a decline of \$699,000 in the provision for loan losses and a decline of \$797,000 in the income tax provision.

The Bank's annualized return on average equity for the quarter ended September 30, 2022 was 11.07%, and the annualized return on average assets was 1.05%. The Bank's annualized return on average equity for the quarter ended September 30, 2021 was 16.57%, and the annualized return on average assets was 1.85%.

Core net income for the third quarter of 2022, which represents net income excluding the after-tax gains and losses on equity securities, both realized and unrealized, was \$14.5 million or \$6.75 per share basic and \$6.58 per share diluted, representing an annualized core return on average equity of 15.28% and an annualized core return on average assets of 1.45%. This compares to core net income of \$14.0 million or \$6.54 per share basic and \$6.36 per share diluted, representing an annualized core return on average equity of 16.56% and an annualized core return on average assets of 1.85% for the same period in 2021.

Net Interest Income

Net interest income was \$27.3 million for the third quarter of 2022 and \$25.8 million for the third quarter of 2021. The \$1.5 million increase was due to a \$993.0 million, or 33%, increase in average interest-earning assets in the three months ended September 30, 2022, compared to the same period in 2021, partially offset by a 87 basis point decrease in the weighted average spread. For the quarter ended September 30, 2022, the weighted average rate spread and net interest margin were 2.55% and 2.76%, respectively, compared to 3.42% and 3.48%, respectively, for the quarter ended September 30, 2021. The rate paid on interest-bearing liabilities increased by 83 basis points, which combined with a \$893.1 million, or 39%, increase in average interest-bearing liabilities.

During 2021 and through the end of the first quarter of 2022, the Bank continued to benefit from a decline in the average rate on interest-bearing liabilities. In the second quarter of 2022, however, the average rate on interest-bearing liabilities began to move up following a sharp increase in short term market interest rates. This trend accelerated in the third quarter of 2022. Meanwhile, the average yield on interest-earning assets continued to decline when compared to the prior year, driven by a lower yield on loans and partially offset by an increase in the interest on reserves held at the FRBB. This resulted in a lower net interest margin in the three months ended September 30, 2022, as compared to the same period in 2022.

Interest and dividend income increased by \$8.8 million to \$36.4 million for the third quarter of 2022 as compared to \$27.6 million for the third quarter of 2021. The yield on total interest-earning assets was 3.68% for the quarter ended September 30, 2022 as compared to 3.72% for the quarter ended September 30, 2021.

Interest income on loans increased by \$6.9 million when comparing the two periods, primarily resulting from a 32% increase in average loan balances, partially offset by a 20 basis point decline in yield.

Securities and short-term investments accounted for 10% of the total average interest-earning assets for the quarter ended September 30, 2022, as compared to 9% for the same period in 2021. This includes the Bank's cash holdings at the FRBB. Income for these categories combined increased by \$1.9 million when comparing the two periods, primarily due to higher average yields and a \$128.1 million increase in combined average balances. The increase in interest rate paid on excess reserves by the Federal Reserve

resulted in increased income over this period. Also, the dividend on the Bank's stock investment at the FHLB increased during the period, driven by a larger average balance of FHLB stock and a higher dividend yield.

The average rate on interest-bearing liabilities increased to 1.13% for the third quarter of 2022 from 0.30% for the comparable quarter of 2021. Total interest expense increased by \$7.3 million when comparing the quarters ended September 30, 2022 and 2021 due to higher interest rates on deposits and borrowings, combined with higher combined average balances.

Interest expense on deposits for the third quarter of 2022 increased by \$2.9 million as compared to the same quarter in 2021, due to a 51 basis point increase in the weighted average rate, combined with an increase of \$141.9 million in average interest-bearing deposits. After a sustained period of declining short term rates, beginning in the second quarter of 2022, the Bank observed rising market pricing for term deposits, money market accounts, and wholesale funds. This trend accelerated in the third quarter of 2022. The Bank continued to manage core product rates, implemented special offerings, and continued to use wholesale time deposits to remain competitive while providing a cost efficient means for balanced growth.

Interest expense on borrowed funds for the third quarter of 2022 increased by \$4.4 million as compared to the same quarter in 2021, primarily due to a 150 basis point increase in the weighted average rate, combined with a \$751.2 million increase in average balances. The increase in the FHLB borrowings rate was primarily driven by the higher short-term market rates.

The following tables detail the components of net interest income and yields/rates on average earning assets/liabilities.

	Three Months Ended September 30,					
	2021			2022		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE (8)	AVERAGE BALANCE	INTEREST	YIELD/ RATE (8)
<i>(Dollars in thousands)</i>						
Loans (1) (2)	\$ 2,693,457	\$ 27,303	4.05 %	\$ 3,558,317	\$ 34,209	3.85 %
Securities (3) (4)	69,978	204	1.17	114,946	525	1.83
Federal Reserve and other short-term investments	202,685	78	0.15	285,832	1,660	2.32
Total interest-earning assets	<u>2,966,120</u>	<u>27,585</u>	<u>3.72</u>	<u>3,959,095</u>	<u>36,394</u>	<u>3.68</u>
Other assets	55,606			42,768		
Total assets	<u>\$ 3,021,726</u>			<u>\$ 4,001,863</u>		
Interest-bearing deposits (5)	\$ 2,032,203	1,551	0.31	\$ 2,174,098	4,483	0.82
Borrowed funds	279,796	202	0.29	1,030,979	4,608	1.79
Total interest-bearing liabilities	<u>2,311,999</u>	<u>1,753</u>	<u>0.30</u>	<u>3,205,077</u>	<u>9,091</u>	<u>1.13</u>
Non-interest-bearing deposits	364,599			410,403		
Other liabilities	6,812			7,092		
Total liabilities	<u>2,683,410</u>			<u>3,622,572</u>		
Stockholders' equity	338,316			379,291		
Total liabilities and stockholders' equity	<u>\$ 3,021,726</u>			<u>\$ 4,001,863</u>		
Net interest income		<u>\$ 25,832</u>			<u>\$ 27,303</u>	
Weighted average spread			<u>3.42 %</u>			<u>2.55 %</u>
Net interest margin (6)			<u>3.48 %</u>			<u>2.76 %</u>
Average interest-earning assets to average interest-bearing liabilities (7)	<u>128.29 %</u>			<u>123.53 %</u>		

- (1) Before allowance for loan losses.
- (2) Includes average non-accrual loans.
- (3) Excludes the impact of the average net unrealized gain or loss on securities.
- (4) Includes Federal Home Loan Bank stock.
- (5) Includes mortgagors' escrow accounts.
- (6) Net interest income divided by average total interest-earning assets.
- (7) Total interest-earning assets divided by total interest-bearing liabilities.
- (8) Annualized.

The following table presents information regarding changes in interest and dividend income and interest expense of the Bank for the periods indicated. For each category, information is provided with respect to the change attributable to volume (change in volume multiplied by old rate) and the change in rate (change in rate multiplied by old volume). The change attributable to both volume and rate is allocated proportionally to the change due to volume and rate.

Three Months Ended September 30, 2022			
Compared to the Three Months Ended September 30, 2021			
Increase (Decrease)			
	Due to		Total
	Volume	Rate	
	(In Thousands)		
Interest and dividend income:			
Loans	\$ 8,377	\$ (1,471)	\$ 6,906
Securities and FHLB stock	171	150	321
Federal Reserve and other short-term investments	45	1,537	1,582
Total interest and dividend income	<u>8,593</u>	<u>216</u>	<u>8,809</u>
Interest expense:			
Deposits	116	2,816	2,932
Borrowed funds	1,502	2,904	4,406
Total interest expense	<u>1,618</u>	<u>5,720</u>	<u>7,338</u>
Net interest income	<u>\$ 6,975</u>	<u>\$ (5,504)</u>	<u>\$ 1,471</u>

Provision for Loan Losses

At September 30, 2022, the Bank's review of the allowance for loan losses concluded that a balance of \$24.4 million was adequate to provide for losses based upon evaluation of size and risk in the loan portfolio. During the third quarter of 2022, the Bank provided \$301,000 to the allowance for loan losses. Comparably, for the three months ended September 30, 2021, the Bank's evaluation of the balance of the allowance for loan losses indicated the need for a provision of \$1.0 million. The Bank did not record any net charge-offs during the third quarter of 2022 and 2021.

See Notes 1 and 6 to the accompanying interim consolidated financial statements and "Loans and Foreclosed Real Estate" included in this Management's Discussion and Analysis for additional information pertaining to the allowance for loan losses.

Other Income (Loss)

Other income (loss) consists of gain (loss) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies, and miscellaneous income. Total other loss was \$4.9 million for the quarter ended September 30, 2022, as compared to other income of \$286,000 for the same period in 2021. In the third quarter of 2022, the Bank recorded losses totaling \$5.1 million on equity securities, comprised solely of unrealized losses on equity securities held at the end of the period. There were no sales of equity securities during the three months ended September 30, 2022. In the third quarter of 2021, the Bank recorded gains totaling \$2,000 on equity securities, including \$16,000 of unrealized gains on equity securities held at the end of the period and \$14,000 of losses recognized on equity securities sold during the period.

Customer service fees on deposits decreased by \$40,000 in the third quarter of 2022 compared to the same period in 2021. In recent years, there has been a continuous decline in deposit account transaction fees, as the Bank has eliminated many fees on deposit products to simplify offerings and enhance the value proposition of our consumer and business checking accounts to customers. In the second quarter of 2022, the Bank eliminated non-sufficient funds (NSF) fees for ACH transactions. Additionally, the Bank eliminated its Return Deposit Item (RDI) fee in late 2021. There has been an offsetting trend in debit card interchange fees, as the size of the Bank's checking account base has increased and the Bank has benefited from a secular trend towards increasing use of debit cards in payments, with an increase in dollar volume and number of debit card transactions. The Bank enabled its debit cards to be loaded in the Google Pay wallet during the second quarter of 2022. Generally, the Bank's strategy does not rely on generating substantial non-interest fee-based revenue from our deposit accounts.

An increase in the cash surrender value of bank-owned life insurance ("BOLI") also contributed to other income (loss) during the third quarter of 2022 and 2021. The Bank held \$13.2 million in life insurance policies at September 30, 2022, as compared to \$12.9 million at September 30, 2021. The policies accrete at a variable rate of interest with minimum stated guaranteed rates. Income from these assets is fully excludable from federal income taxes and contributed \$82,000 to other income (loss) in the third quarter of 2022, as compared to \$79,000 for the same period in 2021.

Operating Expenses

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure and related, and other general and administrative expenses. Total operating expenses were \$6.9 million, or an annualized 0.69% of average total assets for the quarter ended September 30, 2022, as compared to \$5.6 million, or an annualized 0.74% of average total assets, for the same quarter of 2021.

Salaries and employee benefits expenses for the third quarter of 2022 increased \$735,000, or 21%, when compared to the same period in 2021, primarily due to annual merit-based salary increases and enhancements to our operational teams. The number of

employees increased, reflecting additional staff in our Commercial Real Estate and Specialized Deposit Groups and operational teams, partially offset by a smaller branch staff.

Occupancy and equipment expenses for the third quarter of 2022 decreased by \$12,000, or 3%, when compared to the same period in 2021, primarily due to the closure of certain branches, driven by the Bank's efforts to optimize its branch footprint. This resulted in lower depreciation and utility expenses in the third quarter of 2022, as compared to the same period in 2021. The Bank owns rental apartments located above its Nantucket branch which are rented during the summer season. Rental income from these apartments is reflected in occupancy and equipment expenses and was higher in the third quarter of 2022 when compared to the same period in 2021.

Data processing expenses for the third quarter of 2022 increased by \$202,000, or 41%, when compared to the same period in 2021, driven primarily by higher data processing charges associated with improvements made to the Bank's systems and volume increases in 2022, partially offset by improvements in the Bank's management of the core processor contract. The increase was also driven by additional expenses incurred during the transition from existing to new systems. Technology spending at the Bank remains focused on three primary objectives: delivering new or improved customer experience, reducing costs through simplification and automation of internal processes, and securing customer and Bank confidential information.

Deposit insurance expense for the third quarter of 2022 increased by \$315,000, or 136%, when compared to the same period in 2021. The increase was the result of a larger assessment base, driven by the Bank's balance sheet growth, combined with a higher assessed rate. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts Depositors Insurance Fund ("DIF"). The FDIC assessment rate is determined based on several factors, including capitalization, asset growth, earnings, use of brokered deposits and level of non-performing assets, among others, and is calculated on an assessment base that takes into consideration the Bank's average total assets and average tangible equity, among other factors. The DIF assessment rate is based on an institution's risk category, which is defined based on similar factors. The Bank carefully manages its balance sheet to control the deposit insurance expense associated with excess liquidity while optimizing its funding mix.

Marketing expenses increased by \$51,000, or 26%, for the third quarter of 2022 as compared to the same period in 2021, as the Bank expands its advertising activities into the greater Washington, D.C. metropolitan area ("WMA") and the San Francisco Bay Area ("SFBA"). The Bank continues to carefully manage these expenses focusing on business development for the Bank's Commercial Real Estate Group and SDG. The Bank continued to shift its marketing spending during the quarter ended September 30, 2022 towards supporting its commercial deposit acquisition activities.

Foreclosure and related expenses include expenses associated with the collection and foreclosure process, such as legal, tax, appraisal, insurance and other related foreclosure expenses. These expenses may be recovered when the loan returns to performing status or when the Bank exercises its remedies, as they are generally secured by the Bank's mortgages. Such recoveries, if any, are reflected in future periods as contra-expense. Foreclosure and related expenses decreased by \$6,000 when comparing the quarter ended September 30, 2022 to the same period in 2021, driven by lower foreclosure and collections activity. At September 30, 2022, December 31, 2021 and September 30, 2021, the Bank did not own any foreclosed property. The Bank continues to manage credit quality energetically.

Other general and administrative expenses, which include director fees, supplies, deposit related losses and audit-related expenses, among others, increased by \$36,000, or 4%, when compared to the same period in 2021. The increase in expense reflects higher audit, loan related and other miscellaneous expenses, partially offset by lower legal fees.

Income Taxes

The Bank recognizes income taxes under the asset and liability method in which deferred tax assets and liabilities are established for the temporary difference between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. In the first quarter of 2022, the Bank's deferred tax position shifted from a deferred tax liability to a deferred tax asset, driven by taxes on unrealized losses on equity securities. The Bank's deferred tax asset is reviewed quarterly by management as to the realizability of such asset.

During the third quarter of 2022, the Bank recorded \$4.7 million, or 31.1% of pre-tax income, in tax expense as compared to \$5.5 million, or 28.4%, for the same quarter in 2021. The higher effective tax rate was driven by unrealized losses on equity securities recognized during the third quarter of 2022 as compared to unrealized gains recognized in the same quarter in the prior year, as these securities are held primarily at a tax-advantaged subsidiary.

RESULTS OF OPERATIONS

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

General

The Bank reported net income of \$25.6 million for the nine months ended September 30, 2022 as compared to \$50.8 million for the nine months ended September 30, 2021. Net income was \$11.92 per share basic and \$11.60 per share diluted for the first nine months of 2022 as compared to \$23.72 per share basic and \$23.09 per share diluted for the same period in 2021. Earnings for the nine months ended September 30, 2022 were negatively impacted by a decline of \$36.9 million in other income (loss), an increase of \$2.1 million in the provision for loan losses and a \$3.1 million increase in operating expenses, partially offset by an increase of \$10.3 million in net interest income and a decline of \$6.6 million in the income tax provision.

The Bank's annualized return on average equity for the first nine months of 2022 was 9.18%, and the annualized return on average assets was 0.91%. The Bank's annualized return on average equity for the first nine months of 2021 was 21.16%, and the annualized return on average assets was 2.33%.

Core net income for the nine months ended September 30, 2022, which represents net income excluding the after-tax gains and losses on equity securities, both realized and unrealized, and the after-tax gains on the disposal of fixed assets (on the prior year), was \$44.9 million or \$20.92 per share basic and \$20.36 per share diluted, representing an annualized core return on average equity of 16.11% and an annualized core return on average assets of 1.60%. This compares to core net income of \$41.5 million or \$19.40 per share basic and \$18.88 per share diluted, representing an annualized core return on average equity of 17.31% and an annualized core return on average assets of 1.90% for the same period in 2021.

Net Interest Income

Net interest income was \$85.2 million for the first nine months of 2022 as compared to \$74.9 million for the first nine months of 2021. The \$10.3 million increase was due to a \$835.0 million, or 29%, increase in average interest-earning assets in the first nine months of 2022 compared to the same period in 2021, partially offset by a 47 basis point decrease in the weighted average rate spread. For the first nine months of 2022, the Bank's weighted average rate spread and net interest margin were 2.94% and 3.08%, respectively, as compared to 3.41% and 3.49%, respectively, for the same period in 2021. Average interest-bearing liabilities increased by \$716.2 million, or 32%, and the rate paid on interest-bearing liabilities increased by 29 basis points.

During 2021 and through the end of the first quarter of 2022, the Bank continued to benefit from a decline in the average rate on interest-bearing liabilities. In the second quarter of 2022, however, the average rate on interest-bearing liabilities began to move up following a sharp increase in short term market interest rates. This trend accelerated in the third quarter of 2022. Meanwhile, the average yield on interest-earning assets continued to decline when compared to the prior year, driven by a lower yield on loans and partially offset by an increase in the interest on reserves held at the FRBB. This resulted in a lower net interest margin in the nine months ended September 30, 2022, as compared to the same period in 2021.

Interest and dividend income increased by \$18.7 million to \$99.8 million for the first nine months of 2022 as compared to \$81.1 million for the first nine months of 2021. The yield on total interest-earning assets was 3.60% for the nine months ended September 30, 2022 as compared to 3.78% for the nine months ended September 30, 2021.

Interest income on loans increased \$16.1 million when comparing the two periods, primarily resulting from a 29% increase in average loans, partially offset by a 28 basis point decline in overall yield.

Securities and short-term investments accounted for 10% of the total average interest-earning assets for the nine months ended September 30, 2022, as compared to 9% for the same period in 2021. This includes the Bank's cash holdings at the FRBB. Income for these categories combined increased by \$2.6 million when comparing the two periods, primarily due to higher yields and a \$91.2 million increase in combined average balances. The increase in interest rate paid on excess reserves by the Federal Reserve resulted in increased income over this period, partially offset by the Bank decreasing its cash held at the FRBB as a percentage of interest-earning assets. Also, the dividend on the Bank's stock investment at the FHLB increased during the period, driven by a larger average balance of FHLB stock and a higher dividend yield.

The average rate on interest-bearing liabilities increased to 0.66% for the first nine months of 2022 from 0.37% for the comparable period in 2021. Total interest expense increased by \$8.4 million when comparing the nine months ended September 30, 2022 and 2021 due to higher interest rates on deposits and borrowings, combined with higher combined average balances.

Interest expense on deposits for the nine months ended September 30, 2022 increased by \$2.7 million when comparing the same period in 2021, due to a 16 basis point increase in the weighted average rate, combined with an increase of \$121.7 million in average interest-bearing deposits. After a sustained period of declining short term rates, beginning in the second quarter of 2022, the Bank observed rising market pricing for term deposits, money market accounts, and wholesale funds. This trend accelerated in the third quarter of 2022. The Bank continued to manage core product rates, implemented special offerings, and continued to use wholesale time deposits to remain competitive while providing a cost efficient means for balanced growth.

Interest expense on borrowed funds for the first nine months of 2022 increased \$5.7 million as compared to the same period in 2021, due primarily to a \$594.5 million increase in average outstanding balance, combined with an increase of 58 basis points in the weighted average rate. The increase in the FHLB borrowings rate was primarily driven by the higher short-term market rates.

The following table details the components of net interest income and yields/rates on average earning assets/liabilities.

	Nine Months Ended September 30,					
	2021			2022		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE (8)	AVERAGE BALANCE	INTEREST	YIELD/ RATE (8)
<i>(Dollars in thousands)</i>						
Loans (1) (2)	\$ 2,586,723	\$ 80,267	4.14 %	\$ 3,330,511	\$ 96,375	3.86 %
Securities (3) (4)	66,478	613	1.23	106,481	1,135	1.42
Federal Reserve and other short-term investments	204,395	184	0.12	255,627	2,289	1.19
Total interest-earning assets	2,857,596	81,064	3.78	3,692,619	99,799	3.60
Other assets	51,469			47,707		
Total assets	\$ 2,909,065			\$ 3,740,326		
Interest-bearing deposits (5)	\$ 1,962,300	5,350	0.36	\$ 2,084,032	8,089	0.52
Borrowed funds	282,419	858	0.41	876,915	6,531	0.99
Total interest-bearing liabilities	2,244,719	6,208	0.37	2,960,947	14,620	0.66
Non-interest-bearing deposits	337,507			400,848		
Other liabilities	6,852			7,377		
Total liabilities	2,589,078			3,369,172		
Stockholders' equity	319,987			371,154		
Total liabilities and stockholders' equity	\$ 2,909,065			\$ 3,740,326		
Net interest income		\$ 74,856			\$ 85,179	
Weighted average spread			3.41 %			2.94 %
Net interest margin (6)			3.49 %			3.08 %
Average interest-earning assets to average interest-bearing liabilities (7)	127.30 %			124.71 %		

- (1) Before allowance for loan losses.
- (2) Includes average non-accrual loans.
- (3) Excludes the impact of the average net unrealized gain or loss on securities.
- (4) Includes Federal Home Loan Bank stock.
- (5) Includes mortgagors' escrow accounts.
- (6) Net interest income divided by average total interest-earning assets.
- (7) Total interest-earning assets divided by total interest-bearing liabilities.
- (8) Annualized.

The following table presents information regarding changes in interest and dividend income and interest expense of the Bank for the periods indicated. For each category, information is provided with respect to the change attributable to volume (change in volume multiplied by old rate) and the change in rate (change in rate multiplied by old volume). The change attributable to both volume and rate is allocated proportionally to the change due to volume and rate.

	Nine Months Ended September 30, 2022 Compared to the Nine Months Ended September 30, 2021 Increase (Decrease)		
	Due to		Total
	Volume	Rate	
(In thousands)			
Interest and dividend income:			
Loans	\$ 21,819	\$ (5,711)	\$ 16,108
Securities and FHLB stock	415	107	522
Federal Reserve and other short-term investments	57	2,048	2,105
Total interest and dividend income	22,291	(3,556)	18,735
Interest expense:			
Deposits	350	2,389	2,739
Borrowed funds	3,358	2,315	5,673
Total interest expense	3,708	4,704	8,412
Net interest income	\$ 18,583	\$ (8,260)	\$ 10,323

Provision for Loan Losses

At September 30, 2022, the Bank's review of the allowance for loan losses concluded that a balance of \$24.4 million was adequate to provide for losses based upon evaluation of size and risk in the loan portfolio. During the first nine months of 2022, the Bank provided \$3.9 million to achieve such a loan loss allowance balance at September 30, 2022. Comparably, for the nine months ended September 30, 2021, the Bank's evaluation of the balance of the allowance for loan losses indicated the need for a provision of \$1.8 million. The increase in provision is due to larger loan growth experienced in the nine months ended September 30, 2022 compared to the same period last year. The Bank recorded \$50,000 in net recoveries during the first nine months of 2022, as compared to \$1,000 in net charge-offs during the first nine months of 2021.

See Notes 1 and 6 to the accompanying interim consolidated financial statements and "Loans and Foreclosed Real Estate" included in this Management's Discussion and Analysis for additional information pertaining to the allowance for loan losses

Other Income (loss)

Other income (loss) consists of gain (loss) on equity securities, net, customer service fees on deposits, increases in the cash surrender value of bank-owned life insurance policies, gain on disposal of fixed assets, and miscellaneous income. Total other loss was \$24.0 million for the first nine months of 2022 compared to \$12.9 million in other income for the same period in 2021. In the first nine months of 2022, the Bank recorded losses totaling \$24.8 million on equity securities, including \$24.7 million of unrealized losses on equity securities held at the end of the period and \$68,000 of losses recognized on equity securities sold during the period. In the first nine months of 2021, the Bank recorded gains totaling \$9.7 million on equity securities, including \$9.6 million of unrealized gains on equity securities held at the end of the period and \$149,000 of gains recognized on equity securities sold during the period.

The Bank recognized a gain of \$2.3 million on the sale of its former branch properties located in Weymouth and South Hingham completed in the first nine months of 2021, included in gain on disposal of fixed assets. There were no gains on disposal of fixed assets recognized during the first nine months of 2022.

Customer service fees on deposits decreased by \$98,000 in the first nine months of 2022 compared to the same period in 2021. In recent years, there has been a continuous decline in deposit account transaction fees, as the Bank has eliminated many fees on deposit products to simplify offerings and enhance the value proposition of our consumer and business checking accounts to customers. In the second quarter of 2022, the Bank eliminated non-sufficient funds (NSF) fees for ACH transactions. Additionally, the Bank eliminated its Return Deposit Item (RDI) fee in late 2021. There has been an offsetting trend in debit card interchange fees, as the size of the Bank's checking account base has increased and the Bank has benefited from a secular trend towards increasing use of debit cards in payments, with an increase in dollar volume and number of debit card transactions. The Bank enabled its debit cards to be loaded in the Google Pay wallet during the second quarter of 2022. Generally, the Bank's strategy does not rely on generating substantial non-interest fee-based revenue from our deposit accounts.

An increase in the cash surrender value of BOLI also contributed to other income during the first nine months of 2022 and 2021. The Bank held \$13.2 million in life insurance policies at September 30, 2022, as compared to \$12.9 million at September 30, 2021. The policies accrete at a variable rate of interest with minimum stated guaranteed rates. Income from these assets is fully excludable from federal income taxes and contributed \$252,000 to other income (loss) in the first nine months of 2022, as compared to \$244,000 for the same period in 2021.

Operating Expenses

Operating expenses include salaries and employee benefits, occupancy and equipment, data processing, deposit insurance, marketing, foreclosure and related, and other general and administrative expenses. Total operating expenses were \$19.5 million, or an annualized 0.69% of average total assets, for the nine months ended September 30, 2022 as compared to \$16.3 million, or an annualized 0.75% of average total assets, for the same period of 2021.

Salaries and employee benefits expenses for the nine months ended September 30, 2022 increased by \$1.3 million, or 12%, when compared to the same period in 2021, primarily due to annual merit-based salary increases and enhancements to our operational teams. The number of employees increased, reflecting additional staff in our Commercial Real Estate and Specialized Deposit Groups and operational teams, partially offset by a smaller branch staff.

Occupancy and equipment expenditures decreased by \$54,000, or 5%, in the first nine months of 2022 compared to the same period last year. The decrease was primarily driven by the closure of certain branches, driven by the Bank's efforts to optimize its branch footprint, which resulted in lower depreciation, utility and rent expenses. The Bank owns rental apartments located above its Nantucket branch which are rented during the summer season. Rental income from these apartments is reflected in occupancy and equipment expenses and was higher in the first nine months of 2022 when compared to the same period in 2021.

Data processing expenses for the first nine months of 2022 increased by \$521,000, or 36%, when compared to the same period in 2021, driven primarily by higher data processing charges associated with improvements made to the Bank's systems and volume increases in 2022, partially offset by improvements in the Bank's management of the core processor contract. The increase was also driven by additional expenses incurred during the transition from existing to new systems. Technology spending at the Bank remains focused on three primary objectives: delivering new or improved customer experience, reducing costs through simplification and automation of internal processes, and securing customer and Bank confidential information.

Deposit insurance expense for the first nine months of 2022 increased by \$666,000, or 98%, when compared to the same period in 2021. The increase was the result of a larger assessment base, driven by the Bank's balance sheet growth, combined with a higher assessed rate. Deposit insurance expense consists of premiums paid to the FDIC and the Massachusetts DIF. The FDIC assessment rate is determined based on several factors, including capitalization, asset growth, earnings, use of brokered deposits and level of non-performing assets, among others, and is calculated on an assessment base that takes into consideration the Bank's average total assets and average tangible equity, among other factors. The DIF assessment rate is based on an institution's risk category, which is defined based on similar factors. The Bank carefully manages its balance sheet to control the deposit insurance expense associated with excess liquidity while optimizing its funding mix.

Marketing expenses increased by \$329,000, or 78%, for the first nine months of 2022 as compared to the same period in 2021, as the Bank expands its advertising activities into the WMA and the SFBA. The Bank continues to carefully manage these expenses focusing on business development for the Bank's Commercial Real Estate Group and SDG. The Bank reoriented its marketing spending during the first nine months of 2022 towards supporting its commercial deposit acquisition activities.

Foreclosure and related expenses include expenses associated with the collection and foreclosure process, such as legal, tax, appraisal, insurance and other related foreclosure expenses. These expenses may be recovered when the loan returns to performing status or when the Bank exercises its remedies, as they are generally secured by the Bank's mortgages. Such recoveries, if any, are reflected in future periods as contra-expense. The Bank recorded \$5,000 in foreclosure and related expenses in the nine months ended September 30, 2022 as compared to a \$51,000 credit in the same period in 2021. The credit in the prior year was attributed to the recovery of expenses in connection with the resolution of certain non-performing loans recorded in the first nine months of 2021, net of a \$68,000 loss on disposal recorded on the sale of a foreclosed property. At September 30, 2022, December 31, 2021 and September 30, 2021, the Bank did not own any foreclosed property. The Bank continues to manage credit quality energetically.

Other general and administrative expenses, which include director fees, supplies, deposit related losses and audit-related expenses, among others, increased by \$373,000, or 16%, when comparing the two periods, reflecting higher miscellaneous expenses, including loan audit related expenses, employee education, travel expenses associated with the Bank's operations in the WMA and SFBA, expenses associated with remote work and completing the digitization of Bank's records, partially offset by lower legal fees loan related expenses.

Income Taxes

The Bank recognizes income taxes under the asset and liability method in which deferred tax assets and liabilities are established for the temporary difference between the accounting basis and the tax basis of the Bank's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. In the first quarter of 2022, the Bank's deferred tax position shifted from a deferred tax liability to a deferred tax asset, driven by taxes on unrealized losses on equity securities. The Bank's deferred tax asset is reviewed quarterly by management as to the realizability of such asset.

During the first nine months of 2022, the Bank recorded \$12.3 million, or 32.4% of pre-tax income, in tax expense as compared to \$18.8 million, or 27.1%, for the same period in 2021. The higher effective tax rate was driven by unrealized losses on equity securities recognized during the first nine months of 2022 as compared to unrealized gains recognized in the same period in the prior year, as these securities are held primarily on a tax-advantaged subsidiary. The Bank also recognized excess tax benefits of \$296,000 on the exercise of stock options during the first nine months of 2021.

BALANCE SHEET ANALYSIS
COMPARISON AT SEPTEMBER 30, 2022 TO DECEMBER 31, 2021

Assets totaled \$4.062 billion at September 30, 2022, as compared to \$3.431 billion at December 31, 2021, an increase of \$630.9 million, or 25% annualized. Balance sheet growth was driven by a significant increase in the loan portfolio, particularly in the commercial real estate category. During 2022, the Bank continued to manage the balance of excess reserves held at the FRBB, in order to minimize the carrying cost of its on-balance sheet liquidity.

Securities, Short-term Investments and FHLB Stock

Securities were \$75.8 million at September 30, 2022, a decrease of \$16.2 million when compared to \$92.0 million at December 31, 2021. This reflects a decrease in the fair value of the equity securities portfolio, partially offset by the purchases of equity securities in the first nine months of 2022. The fair value of equity securities fluctuates, in part, with the performance of equity markets.

At September 30, 2022, the Bank held a \$3.5 million investment in the subordinated debt issued by a bank holding company in which the Bank also maintains an equity investment. The notes have a 3.75% five year fixed to floating rate, mature in 2031, and are callable quarterly at the option of the issuer after the fifth year anniversary. This investment is included in securities held to maturity on the Consolidated Balance Sheets

At September 30, 2022, equity securities accounted for approximately 95% of the investment portfolio. At September 30, 2022, the Bank held a \$8.2 million investment in the CRA Fund, a mutual fund which invests in securities which qualify under the CRA securities test. Additionally, the portfolio included \$64.1 million in marketable common equity securities. The Bank's marketable common equity securities are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon. The Bank's process is focused on identifying businesses with strong returns on capital, owner-oriented management teams, good reinvestment opportunities or capital discipline, and reasonable valuations. The portfolio is concentrated in a relatively small number of investments in the financial services and technology areas. The Bank receives two sources of advantageous tax treatment through these investments. First, dividend distributions from these companies to the Bank are partially excluded from the Bank's taxable income due to the Dividends Received Deduction. Second, to the extent that these companies are capable of internal reinvestment at high rates of return or deploy capital via tax-advantaged repurchases, the deferred tax liability associated with any long-term unrealized gains on our investments constitutes an interest-free source of financing.

As a member of the FHLB of Boston, the Bank is required to hold a Membership Stock Investment plus an Activity-based Stock Investment in the FHLB, which is based primarily on the amount of FHLB borrowings. The Bank recorded dividends totaling \$359,000 and \$624,000 for the three and nine months ended September 30, 2022, respectively, as compared to \$54,000 and \$185,000 for the same periods in 2021. The increase reflected the dividend rate increase implemented by the FHLB, as well as a higher balance of FHLB stock. At September 30, 2022, the Bank held \$44.7 million in FHLB stock compared to \$29.9 million at December 31, 2021. The increase was driven by the growth in FHLB borrowings during the first nine months of 2022, as the Bank used FHLB advances to fund loan growth.

Loans and Foreclosed Real Estate

During the first nine months of 2022, net loans outstanding increased by \$563.6 million to \$3.563 billion, from \$2.999 billion at December 31, 2021, attributable primarily to originated loans of \$1.146 billion, partially offset by payoffs and amortization. Comparably, loan originations for the same period in 2021 were \$715.6 million. At September 30, 2022, net loans outstanding represented 88% of assets, as compared to 87% at December 31, 2021. Mortgage loans continue to account for more than 99% of the loan portfolio.

A breakdown of the originated loan by market follows:

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2022	
	Amount	Percent	Amount	Percent
(Dollars in Thousands)				
Massachusetts	\$ 534,725	75 %	\$ 618,114	54 %
Washington Metropolitan Area	180,896	25	446,516	39
San Francisco Bay Area	—	—	81,711	7
Total	<u>\$ 715,621</u>	<u>100 %</u>	<u>\$ 1,146,341</u>	<u>100 %</u>

At September 30, 2022, the Bank had \$968.3 million and \$110.5 million, respectively, of commercial real estate loans originated in the WMA and the SFBA outstanding. At December 31, 2021, the Bank had \$647.8 million and \$31.6 million, respectively, of commercial real estate loans originated in the WMA and the SFBA outstanding.

WMA: The Bank began lending to commercial real estate borrowers in the WMA in November 2016, after two years of research and preparation. In 2019, the Bank opened a commercial lending office at a temporary location and hired a commercial real estate lender. In February 2020, the Bank acquired a property in the Georgetown neighborhood of Washington, D.C., is renovating the property, and expects to open a commercial banking office in late 2022. The Bank hired an additional senior commercial real estate

lender in this market in 2021 and continues to add WMA-based relationships managers to the Specialized Deposit Group over time. When needed, the Bank also utilizes existing staff in its Commercial Real Estate Group and SDG with experience in the WMA, on a fly-away basis from its Main Office.

The Bank identified the WMA as an attractive opportunity for three reasons. First, the region has favorable economic characteristics that will support long-term investments in commercial real estate. It is the capital of the world's largest economy, it is an international economic gateway, it is among the highest household median income of any of the nation's major metropolitan areas, and it has a relatively high concentration of young people. Second, the commercial real estate product in the market bears significant similarity to Boston, characterized by high density, urban infill development, transit-oriented multifamily, and scarcity imposed by land supply and restrictions on vertical development. Third, we believe that the banking market in Washington, D.C. has experienced a level of consolidation and disruption that has left smaller and mid-sized real estate investors underserved as compared to the Boston market. We believe that our history as one of America's oldest banks and our family management team provide stability and surety of execution that is valued by our customers. With five years of operation in the market, we have gained increasing confidence in this thesis. We view this as an attractive opportunity for internal capital allocation and superior to geographically proximate, product-adjacent businesses like wealth management, insurance, or commercial-industrial lending in our home marketplace. The Bank has not originated any residential owner-occupant loans in the WMA, but has begun operational preparations to do so. In 2022, the Bank began originating a limited number of commercial construction mortgages in the WMA focused on multifamily assets.

SFBA: The Bank completed the operational framework for originating commercial real estate loans in the San Francisco Bay Area in mid-2021 and began actively originating commercial mortgages and developing deposit relationships at that time. The Bank closed its first loan in the SFBA in the fourth quarter of 2021. This initiative builds on several years of research and direct equity investments that provided the Bank with exposure and insight into the SFBA real estate and banking markets, but the Bank's long-term plans were accelerated to capitalize on novel coronavirus ("COVID-19") pandemic-related disruption in those markets in 2020 and 2021. The Bank continues to believe that the most attractive markets for its business are coastal, urban, gateway cities with substantial wealth, favorable demographics, substantial multifamily real estate, and consolidation among small and mid-sized banks. This initiative is focused on both investor and owner-occupant commercial real estate and multifamily properties. The Bank does not have plans at this time to originate commercial construction or owner-occupant residential loans in the SFBA. The Bank utilizes existing staff in the Commercial Real Estate Group and SDG that travel to the SFBA on a fly-away basis. The Bank does not currently have full-time staff in the SFBA but is currently searching for a senior commercial real estate lender and an SDG relationship manager.

All WMA and SFBA underwriting and approval processes are identical to those utilized in the Boston marketplace and all loans are reviewed and approved by the Bank's Executive Committee and when larger than \$2.0 million, by the Bank's full Board of Directors. A member of the Executive Committee performs a site visit for every collateral property in the WMA and SFBA markets in addition to a site visit by a commercial real estate lender. The Bank has retained local counsel in both markets to advise on all of its transactional needs, with oversight on each individual transaction by the Bank's primary real estate counsel in Boston. The Bank uses the same environmental assessment firm in Boston, Washington, D.C., and San Francisco to ensure quality of execution and manage risk. This firm also performs seismic risk assessments in San Francisco for the Bank. This firm also prepares property condition reports for the Bank. In the WMA market, this firm also performs engineering reviews and construction inspections for all construction loans. Once closed, these loans are subject to all of the Bank's regular quality control and portfolio management processes.

The Bank approaches prospective borrowers directly via advertising programs, and indirectly via intermediaries such as attorneys, accountants and mortgage brokers. The Bank also has a growing portfolio of customers with real estate investment holdings in more than one market.

The Bank has made substantial progress in developing deposit relationships with WMA and SFBA borrowers and services these customers remotely through the SDG. The SDG is now servicing both WMA and SFBA deposit customers that do not have a lending relationship with the Bank and has two full-time relationship managers in the WMA.

Loans are carried net of the allowance for loan losses. The allowance is maintained at a level to absorb losses within the loan portfolio. At September 30, 2022, the allowance had a balance of \$24.4 million, as compared to \$20.4 million at December 31, 2021. The allowance for loan losses represented 0.68% of gross loans as of both September 30, 2022 and December 31, 2021.

At September 30, 2022 and December 31, 2021, the Bank allocated \$40,000 and \$48,000, respectively, to loans classified as impaired. These reserves are related solely to loans classified as troubled debt restructurings ("TDR"). The Bank works closely with delinquent mortgagors to bring their loans current and commences foreclosure proceedings if the mortgagor is unable to satisfy their outstanding obligation. Although regulatory changes have slowed the foreclosure process in recent years, the Bank continues to pursue delinquencies vigorously.

At September 30, 2022, there were three loans classified as non-accrual totaling \$731,000, as compared to two non-accrual loans totaling \$427,000 at December 31, 2021. As noted below, these three loans are all residential mortgages secured by owner-occupant residential properties. At September 30, 2022, non-performing assets were 0.02% of total assets, as compared to 0.01% at December 31, 2021. At September 30, 2022 and December 31, 2021, the Bank had no foreclosed assets.

Management believes that its loans classified as non-accrual are significantly collateralized, pose minimal risk of loss to the Bank, and the allowance for loan loss reserves allocated to these loans is sufficient to absorb such losses, if any. However, management continues to monitor the loan portfolio and additional reserves will be recorded if necessary.

Below is a summary of non-accrual loans and foreclosed real estate:

	<u>December 31,</u> <u>2021</u>	<u>September 30,</u> <u>2022</u>
	(Dollars in Thousands)	
Non-accrual loans:		
Residential mortgages	\$ 131	\$ 731
Commercial mortgages	296	—
Total non-accrual loans	<u>427</u>	<u>731</u>
Foreclosed real estate	—	—
Total non-performing assets	<u>\$ 427</u>	<u>\$ 731</u>
Percent of non-accrual loans to:		
Total loans	0.01 %	0.02 %
Total assets	0.01 %	0.02 %
Percent of non-performing assets to:		
Total loans and foreclosed real estate	0.01 %	0.02 %
Total assets	0.01 %	0.02 %
Allowance for loan losses to total loans	0.68 %	0.68 %

Impact of COVID-19

Section 4013 of the CARES Act stipulated that a financial institution may elect to not apply U.S. GAAP requirements to loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR, and suspended the determination of loan modifications related to the COVID-19 pandemic from being treated as TDRs. Modifications within the scope of the suspension include forbearance agreements, interest-rate modifications, repayment plans, and any other similar arrangements that defer or delay payments of principal or interest. The Consolidated Appropriations Act, 2021 extended the suspension of TDR accounting to January 1, 2022. The Bank elected not to apply U.S. GAAP requirements to such loan modifications with respect to categorization of loans as TDRs. The Bank is also aware that some financial institutions may have opted to recognize income on an accrual basis on loans for which they are not collecting interest pursuant to extended forbearance agreements. Unless such contracts are modified by legislative action that mandates the deferral of interest without regard to need, the Bank does not believe such an approach is appropriate.

Beginning in March of 2020, the Bank received a limited number of inquiries from both residential and commercial borrowers seeking information about potential options for loan modifications or deferrals. As of September 30, 2022, the Bank was no longer receiving requests for loan modifications and all the commercial and residential real estate loans modified in response to the COVID-19 pandemic had either returned to their contractual terms or paid off.

Other Assets

The Bank held \$13.2 million in bank-owned life insurance at September 30, 2022, as compared to \$13.0 million at December 31, 2021. The \$252,000 increase during the first nine months of 2022 is due to increases in the cash surrender value of policies insuring the life of a current Bank executive. The policies accrete at a variable rate of interest with minimum stated guaranteed rates. The Bank monitors the financial strength and counterparty credit ratings of the policy issuers and has determined that at September 30, 2022, one of three issuers was rated at or above Bank guidelines. Of the other two issuers, one retained a rating from A.M. Best one notch below Bank guidelines at A-, while the other retained a rating from Fitch and S&P one notch below Bank guidelines at A- (with a stable outlook).

As of September 30, 2022, the right-of-use asset and corresponding lease liability related to operating leases for some of the Bank's banking offices was \$666,000 and \$704,000, respectively. The right-of-use asset is included in other assets and the lease liability is included in other liabilities in the Consolidated Balance Sheets.

In May 2021, the Bank closed its South Hingham branch office located at 37 Whiting Street, Hingham. The Bank closed its South Weymouth location at 32 Pleasant Street, Weymouth in 2020. In the second quarter of 2021, the Bank sold both properties and recorded a pre-tax gain on disposal of fixed assets of \$2.3 million.

In 2021, the Bank closed its Norwell/Hanover branch office and retains ownership of the property and continues to market this property for sale or long-term lease. The carrying value of this property at September 30, 2022 was \$1.5 million and is included in premises and equipment, net on the Consolidated Balance Sheets.

In 2020, the Bank concluded the purchase of a property in the Georgetown neighborhood of Washington, D.C., and began renovations in anticipation of opening a new commercial banking office in late 2022. At September 30, 2022, construction in progress

for this project, including the property, totaled \$3.7 million.

The Bank holds a \$2.6 million investment in the common stock of Founders Bank, a de novo bank in Washington, D.C. This balance includes an additional \$1.5 million investment in common stock completed the third quarter of 2022 and a \$50,000 unrealized gain recognized on the initial \$1.0 million investment, based upon the subscription price of the most recent investment. Subsequent to the end of the third quarter of 2022, the Bank received back \$174,000 due to oversubscription of the offering, which reduced the number of purchased shares on a pro rata basis.

Deposits

Deposits increased by \$195.7 million to \$2.589 billion at September 30, 2022, from \$2.393 billion at December 31, 2021. Non-certificate accounts, which include regular, money market, NOW and demand deposits, increased by \$65.4 million from December 31, 2021 to September 30, 2022, while certificate balances increased by \$130.3 million. The increase in certificate account balances primarily reflects the continued use of brokered time deposits, combined with retail and commercial time deposits growth - as the Bank began implementing special offerings in the second quarter of 2022, partially offset by a continued decline in Internet listing services time deposits. Non-certificate accounts represent 52.2% of total deposits at September 30, 2022, as compared to 53.7% at December 31, 2021.

Other banks and credit unions in the Bank's market areas, banking services through the Internet, and mutual funds make up the Bank's primary competition for deposits. The Bank also faces increasing competition, both directly and via intermediation, from U.S. Treasury fixed income securities. The Bank's ability to attract and retain deposits depends upon satisfaction of depositors' requirements with respect to insurance, product, rate and service. The Bank offers traditional deposit products, competitive rates, convenient branch locations, ATMs, debit cards and Internet-based banking for consumers and commercial account holders. The Bank also opens deposit accounts, including checking accounts, money market accounts, and certificates of deposit, directly online to personal customers. Occasionally, the Bank implements special offerings based on market conditions and the competitive environment. The Bank also offers a limited range of certificate of deposit products using national Internet listing services and brokered deposits. These alternatives, at times, provide the Bank with a source of funding across different maturities at lower cost and/or longer duration than may be available via retail or other wholesale channels. At September 30, 2022, the Bank had \$695.3 million in deposits from these sources, as compared to \$684.2 million at December 31, 2021. The Bank carefully manages its wholesale funding mix allocation within the Bank's established guidelines and based on market conditions to reduce the Bank's cost on interest-bearing liabilities and improve the Bank's net interest margin. In doing this, the Bank takes into consideration each funding source's interest rate, broker commission and FDIC insurance assessment implications (as applicable), speed of execution as well as the operational characteristics. This approach has allowed the Bank to maintain deposit balances to fund lending activity and operate with an elevated level of liquidity.

Deposits are insured in full through the combination of the FDIC and the DIF. Generally, separately insured deposit accounts are insured up to \$250,000 by the FDIC and deposit balances in excess of this amount are insured by the DIF. DIF insurance provides an advantage for the Bank as some competitors cannot offer this coverage.

Below is a summary of deposits:

	Deposit Balances by Type			
	December 31, 2021	% of Total	September 30, 2022	% of Total
	(Dollars in Thousands)			
Non-certificate accounts				
Regular	\$ 104,395	4.4 %	\$ 105,589	4.1 %
Money market deposits	784,501	32.7	812,239	31.4
NOW	7,106	0.3	13,924	0.5
Demand	389,148	16.3	418,753	16.2
Total non-certificate accounts	<u>1,285,150</u>	<u>53.7</u>	<u>1,350,505</u>	<u>52.2</u>
Term certificates of less than \$250,000	851,619	35.6	925,380	35.7
Term certificates of \$250,000 or more	256,096	10.7	312,631	12.1
Total certificate accounts	<u>1,107,715</u>	<u>46.3</u>	<u>1,238,011</u>	<u>47.8</u>
Total deposits	<u>\$ 2,392,865</u>	<u>100.0 %</u>	<u>\$ 2,588,516</u>	<u>100.0 %</u>

Borrowings

FHLB advances were \$1.075 billion, or 26% of total assets, at September 30, 2022, as compared to \$665.0 million, or 19% of total assets, at December 31, 2021. The Bank continued to manage its wholesale funding mix opportunistically during the first nine months of 2022. During this period, borrowings increased by \$410.0 million, or 62%, as the Bank used FHLB advances to help fund strong loan growth. All the total advances are fixed rate in nature and are scheduled to mature in the next twelve months.

Liquidity and Capital Resources

In order to ensure the Bank has sufficient liquidity to fund its lending operations, off-balance sheet commitments and contractual

obligations, the Bank maintains an adequate level of readily available liquidity, both on and off-balance sheet.

The Bank also assesses its liquidity position regularly by forecasting incoming and outgoing cash flows. In some cases, contractual maturity dates are used to anticipate cash flows. However, when an asset or liability has no contractual maturity, or is subject to early repayment or redemption at the discretion of the issuer or customer, cash flows can be difficult to predict. Generally, these rights are exercised when it is most financially favorable to the issuer or customer.

Marketable common equity holdings, although liquid, are not viewed as a source of liquidity and are managed to produce superior returns on capital over a longer time horizon.

Investment in FHLB stock is illiquid.

Residential loans are susceptible to principal repayment at the discretion of the borrower. Commercial mortgage loans, while subject to significant penalties for early repayment in most cases, can also prepay at the borrower's discretion. In the first nine months of 2022, prepayment rates were lower when compared to the previous year.

The Bank invests in key executive life insurance policies that are illiquid during the life of the executive. Such policies totaled \$13.2 million, or less than 1% of total assets, at September 30, 2022.

Non-certificate deposit balances can generally be withdrawn from the Bank at any time. The Bank estimates the volatility of its deposits in light of the general economic climate and recent actual experience. Over the past 10 years, deposits have exceeded withdrawals resulting in net cash inflows from depositors.

Time certificates of deposit, which have predefined maturity dates, have different redemption characteristics based on their nature. Retail certificates of deposit, subject to early redemption penalties, can be withdrawn subject to the discretion of the Bank. Internet listing service certificates are offered on the same terms as retail certificates, although the Bank generally does not permit early withdrawal. Brokered certificates generally may not be withdrawn before the stated maturity. The Bank had \$1.238 billion in time deposits outstanding at September 30, 2022, of which \$1.077 billion have a contractual maturity within one year.

All of the Bank's borrowings are fixed in terms of maturity. The Bank had no amortizing advances as of September 30, 2022, and none of the advances can be called for earlier repayment at the discretion of the issuer. The Bank had \$1.075 billion in FHLB advances outstanding at September 30, 2022, all of which will mature within one year.

The Bank also monitors its off-balance sheet items. At September 30, 2022, the Bank had approximately \$534.5 million in commitments to extend credit, as compared to \$481.5 million at December 31, 2021. The Bank also has commitments for data processing agreements totaling \$10.2 million at September 30, 2022. In the second quarter of 2022, the Bank renegotiated and extended the core processor contract until July of 2028.

The Bank takes each of these preceding issues into consideration when measuring its liquidity position. Specific measurements include the Bank's cash flow position from the 30-day to 365-day horizon, the level of volatile liabilities to earning assets and loan to deposit ratios. Additionally, the Bank "shocks" its cash flows by assuming significant cash outflows in both non-certificate and certificate deposit balances. At September 30, 2022, each measurement was within predefined Bank guidelines, with the exception of the loan to deposit ratio, which was above the guideline. The increase in the loan to deposit ratio was driven by the significant growth in the loan portfolio in the first nine months of 2022 and the modest deposit growth by comparison. This ratio is also impacted by the Bank's allocation of the wholesale funding mix between wholesale deposits and FHLB advances. The Bank continues to carefully manage loan growth while focusing on gathering retail and commercial deposits.

The Bank's initial source of liquidity is cash and cash equivalents which comprised 8% of total assets at September 30, 2022. A significant portion of this consists of overnight cash balances at the FRBB, which are immediately accessible for liquidity. The Bank carefully monitors these overnight cash balances to minimize the carrying cost of on-balance sheet liquidity.

To supplement its liquidity position, should the need arise, the Bank maintains its membership in the FHLB where it is eligible to obtain both short and long-term credit advances. As of September 30, 2022, the Bank can borrow up to approximately \$2.061 billion to meet its borrowing needs, based on the Bank's available qualified collateral which consists primarily of one-to-four-family residential mortgage loans, certain multifamily residential property and commercial mortgage loans. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings. Additionally, through the FRBB, the Bank can borrow up to \$14.6 million through the discount window based on the Bank pledging its home equity loan portfolio. The Bank can pledge other mortgage loans and assets as collateral to secure additional borrowings with the FRBB. At September 30, 2022, the Bank had \$1.075 billion in advances outstanding from the FHLB and had \$984.3 million in available unused capacity (net of accrued interest on outstanding advances). This compares to an unused capacity of \$911.3 million at December 31, 2021. The FHLB unused capacity increased in the first nine months of 2022 as a result of an increase of \$484.4 million in gross FHLB capacity, partially offset by a \$410.0 million increase in outstanding advances during the period. The Bank continues to actively pledge new collateral as loans are originated and in the third quarter of 2022 benefited from pledging loans originated in prior quarters of 2022. At September 30, 2022, the Bank did not have any advances outstanding at the FRBB.

The Bank obtains the necessary capital to support its current and future requirements from the retained earnings generated through its operations.

At September 30, 2022, the Bank had capital of \$376.6 million, or 9.3% of total assets, as compared to \$354.6 million, or 10.3%

of total assets, at December 31, 2021. During the nine months ended September 30, 2022, stockholders' equity increased by \$21.9 million due primarily to net income for the period of \$25.6 million, partially offset by the declaration of dividends of \$1.77 per share, which reduced capital by \$3.8 million.

Massachusetts-chartered savings banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets. The Bank's ratios exceeded these regulatory capital requirements at September 30, 2022 and December 31, 2021.

The following table details the Bank's actual capital ratios and minimum regulatory ratios as of December 31, 2021 and September 30, 2022.

	Actual		Minimum Capital Requirement*		Minimum To Be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amounts	Ratio	Amounts	Ratio	Amounts	Ratio
(Dollars in Thousands)						
<u>December 31, 2021</u>						
Total Capital to Risk-Weighted Assets	\$ 375,043	12.97 %	\$ 303,722	10.50 %	\$ 289,259	10.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	354,612	12.26	202,481	7.00	188,018	6.50
Tier 1 Capital to Risk-Weighted Assets	354,612	12.26	245,870	8.50	231,407	8.00
Tier 1 Capital to Average Assets	354,612	10.92	129,900	4.00	162,374	5.00
<u>September 30, 2022</u>						
Total Capital to Risk-Weighted Assets	\$ 400,947	11.66 %	\$ 361,158	10.50 %	\$ 343,960	10.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	376,558	10.95	240,772	7.00	223,574	6.50
Tier 1 Capital to Risk-Weighted Assets	376,558	10.95	292,366	8.50	275,168	8.00
Tier 1 Capital to Average Assets	376,558	9.41	160,075	4.00	200,093	5.00

* Minimum risk-based regulatory capital ratios and amounts at December 31, 2021 and September 30, 2022 include the applicable minimum risk-based capital ratios and capital conservation buffer of 2.5%

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

The earnings of most banking institutions are exposed to interest rate risk because their balance sheets, both assets and liabilities, are predominantly interest-bearing. It is the Bank's objective to minimize, to the degree prudently possible, its exposure to interest rate risk, bearing in mind that the Bank, by its very nature, will always be in the business of taking on interest rate risk. Interest rate risk is monitored on a quarterly basis by the Asset Liability Committee (the "ALCO") and Board of Directors of the Bank. The ALCO is composed of members of Bank Management and the Executive Committee of the Board. The ALCO establishes and monitors the various components of the balance sheet including volume, maturities, pricing and mix of assets along with funding sources. The goal is to balance liquidity, interest rate risk and profitability. The primary tool used in managing interest rate risk is income simulation modeling. Income simulation modeling measures changes in net interest income by projecting the future composition of the Bank's balance sheet and applying different interest rate scenarios. Management incorporates numerous assumptions into the simulation model, such as asset prepayment speeds, balance sheet growth and non-maturity deposits elasticity. The most recent model estimates that, over a twenty-four month period, net interest income would decrease 10% if rates rise 100 basis points and would decrease 21% if rates rise 200 basis points. The Bank's interest rate risk exposure is believed by management to be well managed and the results of these shocks are within the Bank's predefined limits. The information is contained in the Form 10-K within the section "Quantitative and Qualitative Disclosures About Market Risk."

Item 4 – Controls and Procedures

(a) Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Bank's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness, as of September 30, 2022, of the Bank's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Bank's disclosure controls and procedures as of September 30, 2022, the CEO and CFO concluded that, as of such date, the Bank's disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control

There were no significant changes in the Bank's internal control over financial reporting, as defined in Rules 13a-15(e) and 15d-15(e), during the quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

There have generally been no material changes to the nature of the risk factors previously disclosed in the Bank's most recent Form 10-K for the year ended December 31, 2021. filed with the FDIC.

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

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosures

Not applicable.

Item 5 – Other Information

None.

Item 6 – Exhibits

Exhibit No.

31.1	Certifications – Chief Executive Officer
31.2	Certifications – Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. §1350 – Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. §1350 – Chief Financial Officer

CERTIFICATIONS

EXHIBIT 31.2

I, Cristian A. Melej, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the Hingham Institution for Savings;
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:
 - 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: November 4, 2022

_____/s/
Cristian A. Melej
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Hingham Institution for Savings (the “Bank”) for the fiscal quarter ended September 30, 2022, as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned Robert H. Gaughen, Jr., Chief Executive Officer of the Bank, hereby certifies pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

 /s/
Robert H. Gaughen, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: November 4, 2022

