
**FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429**

FORM 8-K

**CURRENT REPORT PURSUANT TO
SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): July 29, 2020

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of
incorporation)

01-0029040

(IRS Employer Identification
No.)

**27 Pearl Street
Portland, Maine**

(Address of principal executive
offices)

04101

(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2). 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.

Item 2.02 Results of Operations and Financial Condition

On July 29, 2020, Northeast Bank (the "Bank"), issued a press release announcing its earnings for the fourth quarter of fiscal 2020 and declaring the payment of a dividend. The full text of this press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained herein, including the exhibit attached hereto, is furnished pursuant to Item 2.02 of this Form 8-K and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, the information in this report (including the exhibits hereto) are not to be incorporated by reference into any of the Bank's filings under the Securities Act of 1933, as amended, whether filed prior to or after the furnishing of these certificates, regardless of any general or specific incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits
(c) Exhibits

Exhibit No. Description

99.1 Press Release dated July 29, 2020

SIGNATURE

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

NORTHEAST BANK

By: /s/ Jean-Pierre Lapointe

Name: Jean-Pierre Lapointe

Title: Chief Financial Officer and Treasurer

Date: July 29, 2020

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated July 29, 2020

FOR IMMEDIATE RELEASE



For More Information:

Jean-Pierre Lapointe, Chief Financial Officer
Northeast Bank, 27 Pearl Street, Portland, ME 04101
207.786.3245 ext. 3220
www.northeastbank.com

Northeast Bank Reports Record Fourth Quarter Results and Declares Dividend

Portland, ME (July 29, 2020) – Northeast Bank (the “Bank”) (NASDAQ: NBN), a Maine-based full-service bank, today reported net income of \$11.2 million, or \$1.33 per diluted common share, for the quarter ended June 30, 2020, compared to a net loss of \$603 thousand, or (\$0.07) per diluted common share, for the quarter ended June 30, 2019. Net income for the year ended June 30, 2020 was \$22.7 million, or \$2.53 per diluted common share, compared to \$13.9 million, or \$1.52 per diluted common share, for the year ended June 30, 2019. Earnings were positively impacted in the quarter ended June 30, 2020 by the sale of \$457.6 million in Paycheck Protection Program (“PPP”) loans to The Loan Source, Inc. (“Loan Source”) which resulted in a pre-tax net gain of \$9.7 million, or approximately \$6.7 million net of tax.

The quarter and year ended June 30, 2019 included \$6.0 million and \$6.4 million of non-recurring expenses (after tax) related to the Bank’s corporate reorganization, respectively. Excluding these non-recurring expenses, the Bank recorded net operating earnings of \$5.4 million, or \$0.59 per diluted common share, for the quarter ended June 30, 2019 and \$20.3 million, or \$2.20 per diluted common share, for the year ended June 30, 2019. We refer to results excluding these non-recurring items as “net operating earnings.”

The Board of Directors declared a cash dividend of \$0.01 per share, payable on August 28, 2020, to shareholders of record as of August 14, 2020.

Discussing results, Rick Wayne, Chief Executive Officer, said “We achieved record quarterly results, including diluted earnings per share of \$1.33, a return on average equity of 28.4%, a return on average assets of 3.1%, and an efficiency ratio of 37.4%. Additionally, we achieved a quarterly net interest margin, excluding the effects of PPP, of 5.3%. We are proud of our participation in the Paycheck Protection Program, providing PPP loans to over 4,300 small businesses with tens of thousands of related jobs. We are excited for our correspondent banking relationship with Loan Source, in which we earn a correspondent fee when Loan Source purchases PPP loans and we subsequently share in net servicing income on such purchased PPP loans.”

Mr. Wayne continued, “During the quarter, Loan Source purchased \$1.3 billion of PPP loans, including \$457.6 million of PPP loans from the Bank and approximately \$815.3 million of PPP loans from lenders other than the Bank, which generated a correspondent fee for the Bank of \$2.9 million. Subsequent to the quarter, Loan Source purchased an additional \$1.6 billion of PPP loans, which generated an additional correspondent fee for the Bank of \$5.6 million which will be recognized over the expected life of the loans. We will also receive one half of the net servicing income on the \$2.9 billion PPP portfolio owned by Loan Source. To the extent Loan Source purchases additional PPP loans, the Bank will generate additional correspondent banking fees and receive its share of additional net servicing income.”

As of June 30, 2020, total assets were \$1.26 billion, an increase of \$103.8 million, or 9.0%, from total assets of \$1.15 billion as of June 30, 2019. The principal components of the changes in the balance sheet follow:

- The following table highlights the changes in the loan portfolio for the three months and year ended June 30, 2020:

	Loan Portfolio Changes			
	Three Months Ended June 30, 2020			
	June 30, 2020 Balance	March 31, 2020 Balance	Change (\$)	Change (%)
	(Dollars in thousands)			
LASG Purchased	\$ 386,624	\$ 395,944	\$ (9,320)	(2.35%)
LASG Originated	467,612	512,964	(45,352)	(8.84%)
SBA	47,095	48,306	(1,211)	(2.51%)
Community Banking	70,271	76,706	(6,435)	(8.39%)
Total	<u>\$ 971,602</u>	<u>\$ 1,033,920</u>	<u>\$ (62,318)</u>	<u>(6.03%)</u>
	Year Ended June 30, 2020			
	June 30, 2020 Balance	June 30, 2019 Balance	Change (\$)	Change (%)
	(Dollars in thousands)			
LASG Purchased	\$ 386,624	\$ 326,640	\$ 59,984	18.36%
LASG Originated	467,612	493,413	(25,801)	(5.23%)
SBA	47,095	63,053	(15,958)	(25.31%)
Community Banking	70,271	91,954	(21,683)	(23.58%)
Total	<u>\$ 971,602</u>	<u>\$ 975,060</u>	<u>\$ (3,458)</u>	<u>(0.35%)</u>

Loans generated by the Bank's Loan Acquisition and Servicing Group ("LASG") for the quarter ended June 30, 2020 totaled \$46.3 million, which consisted of \$12.7 million of purchased loans, at an average price of 87.2% of unpaid principal balance, and \$33.6 million of originated loans. Residential loan production sold in the secondary market totaled \$2.1 million for the quarter.

Additionally, the Bank originated \$487.5 million of loans in connection with the PPP. The Bank subsequently sold PPP loans with a total principal balance of \$457.6 million during the quarter ended June 30, 2020, recording a net gain of \$9.7 million on the sale primarily resulting from the recognition of net deferred fees, offset by purchase price discounts. The remaining \$29.9 million of PPP loans are classified as held for sale at June 30, 2020, offset by a valuation adjustment to reflect the fair value of the loans and unamortized net deferred fees.

An overview of the Bank's LASG portfolio follows:

	LASG Portfolio					
	Three Months Ended June 30,					
	2020			2019		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	\$ 14,611	\$ 33,612	\$ 48,223	\$ 49,948	\$ 51,830	\$ 101,778
Net investment basis	12,744	33,612	46,356	47,107	51,830	98,937
Loan returns during the period:						
Yield	9.89%	7.13%	8.34%	12.27%	7.75%	9.53%
Total Return on Purchased Loans (1)	9.89%	7.13%	8.34%	12.27%	7.75%	9.53%

	Year Ended June 30,					
	2020			2019		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	\$ 182,588	\$ 221,484	\$ 404,072	\$ 144,372	\$ 271,179	\$ 415,551
Net investment basis	171,262	221,484	392,746	135,848	271,179	407,027
Loan returns during the period:						
Yield	9.86%	7.43%	8.47%	10.38%	7.67%	8.80%
Total Return on Purchased Loans (1)	9.97%	7.43%	8.51%	10.57%	7.67%	8.88%
Total loans as of period end:						
Unpaid principal balance	\$ 421,659	\$ 467,612	\$ 889,271	\$ 360,472	\$ 493,413	\$ 853,885
Net investment basis	386,624	467,612	854,236	326,640	493,413	820,053

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

- Short-term investments increased by \$86.4 million, or 158.8%, from June 30, 2019, primarily due to a \$70.0 million increase in deposits.
- Deposits increased by \$70.0 million, or 7.4%, from June 30, 2019, attributable to increases in savings and interest-bearing checking accounts of \$36.8 million, or 36.4%, money market accounts of \$31.5 million, or 11.6%, and demand deposits of \$26.0 million, or 37.8%, partially offset by a decrease in time deposits of \$24.3 million, or 4.8%.
- Shareholders' equity increased by \$11.2 million, or 7.3%, from June 30, 2019, primarily due to net income of \$22.7 million, partially offset by the repurchase of 853,098 shares at a weighted average price per share of \$13.45, which resulted in an \$11.5 million reduction in shareholders' equity.

Net income increased by \$11.8 million to \$11.2 million for the quarter ended June 30, 2020, compared to a net loss of \$603 thousand for the quarter ended June 30, 2019. Net operating earnings increased by \$5.8 million to \$11.2 million for the quarter ended June 30, 2020, compared to net operating earnings of \$5.4 million for the quarter ended June 30, 2019.

- Net interest and dividend income before provision for loan losses increased by \$96 thousand to \$17.4 million for the quarter ended June 30, 2020, compared to \$17.3 million for the quarter ended June 30, 2019. The increase was primarily due to lower deposit rates, higher average loan balances, and decreased interest expense on subordinated debt from the redemption of trust preferred securities in May 2019, partially offset by increased interest expense in connection with the Bank's participation in the Paycheck Protection Program Liquidity Facility ("PPPLF") used to fund PPP originations during the quarter, and lower rates earned on loans and short-term investments.

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

Interest Income and Yield on Loans						
Three Months Ended June 30,						
2020			2019			
Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield	
(Dollars in thousands)						
Community Banking	\$ 74,059	\$ 975	5.30%	\$ 99,007	\$ 1,272	5.15%
SBA National	48,191	642	5.36%	66,126	1,194	7.24%
SBA PPP	223,804	1,561	2.81%	-	-	0.00%
LASG:						
Originated	492,612	8,738	7.13%	482,213	9,317	7.75%
Purchased	386,212	9,495	9.89%	313,515	9,588	12.27%
Total LASG	878,824	18,233	8.34%	795,728	18,905	9.53%
Total	\$ 1,224,878	\$ 21,411	7.03%	\$ 960,861	\$ 21,371	8.92%

Year Ended June 30,						
2020			2019			
Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield	
(Dollars in thousands)						
Community Banking	\$ 82,472	\$ 4,470	5.42%	\$ 107,685	\$ 5,590	5.19%
SBA National	55,511	4,066	7.32%	70,016	5,285	7.55%
SBA PPP	55,649	1,561	2.81%	-	-	0.00%
LASG:						
Originated	479,054	35,572	7.43%	434,570	33,348	7.67%
Purchased	356,958	35,201	9.86%	312,213	32,404	10.38%
Total LASG	836,012	70,773	8.47%	746,783	65,752	8.80%
Total	\$ 1,029,644	\$ 80,870	7.85%	\$ 924,484	\$ 76,627	8.29%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled “Total Return on Purchased Loans.” When compared to the quarter ended June 30, 2019, transactional income for the quarter ended June 30, 2020 decreased by \$986 thousand due to thinning discounts, while regularly scheduled interest and accretion increased by \$893 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended June 30, 2020 was 9.9%, a decrease from 12.3% for the quarter ended June 30, 2019. The following table details the total return on purchased loans:

Total Return on Purchased Loans				
Three Months Ended June 30,				
2020		2019		
Income	Return (1)	Income	Return (1)	
(Dollars in thousands)				
Regularly scheduled interest and accretion	\$ 6,892	7.18%	\$ 5,999	7.67%
Transactional income:				
Gain on loan sales	-	0.00%	-	0.00%
Gain on real estate owned	-	0.00%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	2,603	2.71%	3,589	4.60%
Total transactional income	2,603	2.71%	3,589	4.60%
Total	\$ 9,495	9.89%	\$ 9,588	12.27%

	Year Ended June 30,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	\$ 26,202	7.34%	\$ 23,849	7.64%
Transactional income:				
Gain on loan sales	-	0.00%	582	0.19%
Gain on real estate owned	395	0.11%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	8,999	2.52%	8,555	2.74%
Total transactional income	9,394	2.63%	9,137	2.93%
Total	\$ 35,596	9.97%	\$ 32,986	10.57%

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

2. Provision for loan losses increased by \$643 thousand for the quarter ended June 30, 2020, compared to the quarter ended June 30, 2019, primarily due to a \$477 thousand increase in specific reserves as compared to a \$231 thousand decrease in specific reserves in the quarter ended June 30, 2019.
3. Noninterest income increased by \$8.7 million for the quarter ended June 30, 2020, compared to the quarter ended June 30, 2019, primarily due to the following:
 - An increase in gain on sale of PPP loans of \$9.7 million, due to the sale of PPP loans with a total principal balance of \$457.6 million, which resulted in a net gain based on the recognition of net deferred fees, offset by purchase price discounts in the quarter ended June 30, 2020; partially offset by,
 - A \$337 thousand loss on assets held for sale, representing the fair value adjustment for PPP loans held for sale at June 30, 2020;
 - A \$227 thousand decrease in gain on Small Business Administration (“SBA”) loan sales, as no segment loans (SBA loans other than PPP loans) were sold during the current quarter;
 - A \$223 thousand increase in loss on real estate owned (“REO”), due to a write-down on an existing REO property during the quarter, as compared to two smaller write-downs on REO properties during the quarter ended June 30, 2019; and
 - A \$188 thousand decrease in gain on sale of residential loans held for sale, due to lower volume sold as compared to the quarter ended June 30, 2019.
4. Noninterest expense decreased by \$8.3 million for the quarter ended June 30, 2020 compared to the quarter ended June 30, 2019, primarily due to the following:
 - A decrease in reorganization expense of \$8.3 million, as the prior year quarter included expenses related to the May 2019 corporate reorganization; and
 - A decrease in other noninterest expense of \$495 thousand, primarily due to a \$190 thousand recovery on SBA servicing assets, as compared to an \$85 thousand impairment charge in the quarter ended June 30, 2019, and decreased travel expense; partially offset by,
 - An increase in salaries and employee benefits of \$371 thousand, primarily due to increases in incentive compensation and regular compensation, partially offset by an increase in deferred salaries and a decrease in stock-based compensation; and
 - An increase in professional fees of \$371 thousand, primarily due to increased legal fees associated with the correspondent relationship with Loan Source, as well as increased accounting and internal audit expense.

5. Income tax expense increased by \$4.6 million to \$4.8 million, or an effective tax rate of 30.4%, for the quarter ended June 30, 2020, compared to \$276 thousand, or an effective tax rate of (84.4%), for the quarter ended June 30, 2019. The increase was primarily due to higher pre-tax income, which increased by \$16.5 million during the quarter ended June 30, 2020 compared to the quarter ended June 30, 2019.

Income tax expense and the effective tax rate for the quarter ended June 30, 2019 were affected by an income tax benefit of \$2.3 million recorded in connection with the redemption of the trust preferred securities and the loss associated with the termination of related interest rate swaps and caps, in connection with the corporate reorganization in May 2019.

Excluding the effects of the corporate reorganization, the effective tax rate for the quarter ended June 30, 2019 was 32.5%, as compared to 30.4% for the quarter ended June 30, 2020. The decrease was primarily related to a smaller year-end true-up adjustment related to state tax apportionment in the quarter ended June 30, 2020.

As of June 30, 2020, nonperforming assets totaled \$24.4 million, or 1.94% of total assets, as compared to \$16.7 million, or 1.45% of total assets, as of June 30, 2019. The increase was primarily due to two LASG purchased loans totaling \$1.9 million, one LASG originated loan totaling \$2.7 million, and one SBA loan totaling \$1.5 million that were placed on nonaccrual, and a \$1.3 million increase in real estate owned, due to four properties transferred in, partially offset by two properties sold and write-downs during the year ended June 30, 2020.

As of June 30, 2020, past due loans totaled \$16.4 million, or 1.69% of total loans, as compared to past due loans totaling \$14.6 million, or 1.50% of total loans as of June 30, 2019. The increase was primarily due to one LASG originated loan totaling \$2.7 million and one SBA loan totaling \$1.5 million becoming past due during the year ended June 30, 2020, partially offset by one LASG originated loan totaling \$1.3 million and one Community Bank loan totaling \$1.1 million that paid off during the year ended June 30, 2020.

As of June 30, 2020, the Bank's Tier 1 leverage capital ratio was 13.4%, compared to 12.9% at June 30, 2019, and the Total capital ratio was 19.6% at June 30, 2020, compared to 18.0% at June 30, 2019. Capital ratios were primarily affected by increased earnings.

Investor Call Information

Rick Wayne, Chief Executive Officer, Jean-Pierre Lapointe, Chief Financial Officer, and Pat Dignan, Executive Vice President and Chief Credit Officer, will host a **conference call to discuss fourth quarter earnings and business outlook at 10:00 a.m. Eastern Time on Thursday, July 30th**. Investors can access the call by dialing 877.878.2762 and entering the following passcode: 2496196. The call will be available via live webcast, which can be viewed by accessing the Bank's website at www.northeastbank.com and clicking on the About Us - Investor Relations section. To listen to the webcast, attendees are encouraged to visit the website at least fifteen minutes early to register, download and install any necessary audio software. Please note there will also be a slide presentation that will accompany the webcast. For those who cannot listen to the live broadcast, a replay will be available online for one year at www.northeastbank.com.

About Northeast Bank

Northeast Bank (NASDAQ: NBN) is a full-service bank headquartered in Portland, Maine. We offer personal and business banking services to the Maine market via nine branches. Our Loan Acquisition and Servicing Group purchases and originates commercial loans on a nationwide basis. ableBanking, a division of Northeast

Bank, offers online savings products to consumers nationwide. Information regarding Northeast Bank can be found at www.northeastbank.com.

Non-GAAP Financial Measures

In addition to results presented in accordance with generally accepted accounting principles (“GAAP”), this press release contains certain non-GAAP financial measures, including net operating earnings, operating earnings per common share, operating return on average assets, operating return on average equity, operating efficiency ratio, operating noninterest expense to average total assets, tangible common shareholders’ equity, tangible book value per share, total return on purchased loans, efficiency ratio, and net interest margin excluding PPP. The Bank’s management believes that the supplemental non-GAAP information is utilized by regulators and market analysts to evaluate a company’s financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies’ non-GAAP financial measures having the same or similar names.

Forward-Looking Statements

Statements in this press release that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Bank’s control. The Bank’s actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction resulting from the COVID-19 pandemic; continued deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates, including changes which adversely affect borrowers’ ability to service and repay our loans; changes in customer behavior due to changing political, business and economic conditions or legislative or regulatory initiatives; turbulence in the capital and debt markets; changes in interest rates and real estate values; increases in loan defaults and charge-off rates; decreases in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; competitive pressures from other financial institutions; operational risks including, but not limited to, cybersecurity incidents, fraud, natural disasters and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank’s financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Bank’s Annual Report on Form 10-K and updated by our Quarterly Reports on Form 10-Q and other filings submitted to the Federal Deposit Insurance Corporation. These statements speak only as of the date of this release and the Bank does not undertake any obligation to update or revise any of

these forward-looking statements to reflect events or circumstances occurring after the date of this communication or to reflect the occurrence of unanticipated events.

NORTHEAST BANK
BALANCE SHEETS

(Unaudited)

(Dollars in thousands, except share and per share data)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Assets		
Cash and due from banks	\$ 2,795	\$ 2,482
Short-term investments	140,862	54,425
Total cash and cash equivalents	<u>143,657</u>	<u>56,907</u>
Available-for-sale debt securities, at fair value	64,918	75,774
Equity securities, at fair value	7,239	6,938
Total investment securities	<u>72,157</u>	<u>82,712</u>
Residential real estate loans held for sale	601	3,179
SBA loans held for sale	28,852	731
Total loans held for sale	<u>29,453</u>	<u>3,910</u>
Loans:		
Commercial real estate	679,537	668,496
Commercial and industrial	212,769	232,839
Residential real estate	77,722	71,218
Consumer	1,574	2,507
Total loans	<u>971,602</u>	<u>975,060</u>
Less: Allowance for loan losses	9,178	5,702
Loans, net	<u>962,424</u>	<u>969,358</u>
Premises and equipment, net	9,670	5,582
Real estate owned and other repossessed collateral, net	3,274	1,957
Federal Home Loan Bank stock, at cost	1,390	1,258
Intangible assets, net	-	434
Loan servicing rights, net	2,113	2,851
Bank-owned life insurance	17,074	17,057
Other assets	16,423	11,832
Total assets	<u>\$ 1,257,635</u>	<u>\$ 1,153,858</u>
Liabilities and Shareholders' Equity		
Deposits:		
Demand	\$ 94,749	\$ 68,782
Savings and interest checking	137,824	101,061
Money market	302,343	270,835
Time	477,436	501,693
Total deposits	<u>1,012,352</u>	<u>942,371</u>
Federal Home Loan Bank advances	15,000	15,000
Paycheck Protection Program Liquidity Facility	12,440	-
Subordinated debt	14,940	14,829
Lease liability	4,496	323
Other liabilities	33,668	27,755
Total liabilities	<u>1,092,896</u>	<u>1,000,278</u>
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2020 and 2019	-	-
Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 8,153,841 and 8,997,326 shares issued and outstanding at June 30, 2020 and 2019, respectively	8,154	8,997
Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; 44,783 shares issued and outstanding at June 30, 2020 and 2019	45	45
Additional paid-in capital	68,302	78,095
Retained earnings	89,960	67,581
Accumulated other comprehensive loss	(1,722)	(1,138)
Total shareholders' equity	<u>164,739</u>	<u>153,580</u>
Total liabilities and shareholders' equity	<u>\$ 1,257,635</u>	<u>\$ 1,153,858</u>

NORTHEAST BANK
STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except share and per share data)

	Three Months Ended June 30,		Year Ended June 30,	
	2020	2019	2020	2019
Interest and dividend income:				
Interest and fees on loans	\$ 21,411	\$ 21,371	\$ 80,870	\$ 76,627
Interest on available-for-sale securities	375	455	1,695	1,684
Other interest and dividend income	59	729	1,119	3,519
Total interest and dividend income	<u>21,845</u>	<u>22,555</u>	<u>83,684</u>	<u>81,830</u>
Interest expense:				
Deposits	3,858	4,656	16,583	16,768
Federal Home Loan Bank advances	120	120	689	479
Paycheck Protection Program Liquidity Facility	174	-	174	-
Subordinated debt	282	486	1,126	2,238
Obligation under capital lease agreements	27	5	125	24
Total interest expense	<u>4,461</u>	<u>5,267</u>	<u>18,697</u>	<u>19,509</u>
Net interest and dividend income before provision for loan losses	17,384	17,288	64,987	62,321
Provision for loan losses	905	262	4,500	1,309
Net interest and dividend income after provision for loan losses	<u>16,479</u>	<u>17,026</u>	<u>60,487</u>	<u>61,012</u>
Noninterest income:				
Fees for other services to customers	477	529	1,619	1,769
Gain on sales of PPP loans	9,702	-	9,702	-
Gain on sales of SBA loans	-	227	793	2,588
Gain on sales of residential loans held for sale	37	225	600	611
Gain on sales of other loans	-	-	-	582
Net unrealized gain on equity securities	46	76	148	151
Loss on real estate owned, other repossessed collateral and premises and equipment, net	(263)	(40)	(15)	(104)
Bank-owned life insurance income	108	110	566	437
Loss on assets held for sale	(337)	-	(337)	-
Correspondent fee income	20	-	20	-
Other noninterest income	22	24	88	82
Total noninterest income	<u>9,812</u>	<u>1,151</u>	<u>13,184</u>	<u>6,116</u>
Noninterest expense:				
Salaries and employee benefits	6,704	6,333	24,976	23,323
Occupancy and equipment expense	922	958	3,588	3,650
Professional fees	608	246	1,783	1,402
Data processing fees	974	1,004	3,954	3,769
Marketing expense	98	166	337	580
Loan acquisition and collection expense	251	281	2,059	1,913
FDIC insurance premiums (credits)	-	77	(15)	320
Intangible asset amortization	109	108	434	433
Reorganization expense	-	8,334	-	8,695
Other noninterest expense	502	997	3,277	3,428
Total noninterest expense	<u>10,168</u>	<u>18,504</u>	<u>40,393</u>	<u>47,513</u>
Income (loss) before income tax expense	16,123	(327)	33,278	19,615
Income tax expense	4,904	276	10,541	5,731
Net income (loss)	<u>\$ 11,219</u>	<u>\$ (603)</u>	<u>\$ 22,737</u>	<u>\$ 13,884</u>
Weighted-average shares outstanding:				
Basic	8,337,088	9,041,926	8,859,037	9,032,530
Diluted	8,405,665	9,041,926	8,991,428	9,156,233
Earnings (loss) per common share:				
Basic	\$ 1.35	\$ (0.07)	\$ 2.57	\$ 1.54
Diluted	1.33	(0.07)	2.53	1.52
Cash dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.04

NORTHEAST BANK
AVERAGE BALANCE SHEETS AND ANNUALIZED YIELDS
(Unaudited)
(Dollars in thousands)

	Three Months Ended June 30,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	\$ 73,100	\$ 375	2.06%	\$ 83,372	\$ 455	2.19%
Loans (1) (2) (3)	1,224,878	21,411	7.03%	960,861	21,371	8.92%
Federal Home Loan Bank stock	3,194	29	3.65%	1,258	20	6.38%
Short-term investments (4)	126,499	30	0.10%	119,788	709	2.37%
Total interest-earning assets	1,428,001	21,845	6.15%	1,165,279	22,555	7.76%
Cash and due from banks	3,426			2,351		
Other non-interest earning assets	37,222			32,864		
Total assets	\$ 1,468,649			\$ 1,200,494		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	\$ 89,194	\$ 124	0.56%	\$ 70,645	\$ 63	0.36%
Money market accounts	290,643	828	1.15%	279,307	1,124	1.61%
Savings accounts	35,367	14	0.16%	35,697	14	0.16%
Time deposits	518,094	2,892	2.25%	537,155	3,455	2.58%
Total interest-bearing deposits	933,298	3,858	1.66%	922,804	4,656	2.02%
Federal Home Loan Bank advances	49,615	120	0.97%	15,000	120	3.21%
PPPLF	202,285	174	0.35%	-	-	0.00%
Subordinated debt	14,925	282	7.60%	19,272	486	10.11%
Lease obligations	4,616	27	2.35%	348	5	5.76%
Total interest-bearing liabilities	1,204,739	4,461	1.49%	957,424	5,267	2.21%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	95,062			80,538		
Other liabilities	10,197			9,534		
Total liabilities	1,309,998			1,047,496		
Shareholders' equity	158,651			152,998		
Total liabilities and shareholders' equity	\$ 1,468,649			\$ 1,200,494		
Net interest income		\$ 17,384			\$ 17,288	
Interest rate spread			4.66%			5.55%
Net interest margin (5)			4.90%			5.95%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.

(2) Includes loans held for sale.

(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.

(4) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.

(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.

NORTHEAST BANK
AVERAGE BALANCE SHEETS AND ANNUALIZED YIELDS
(Unaudited)
(Dollars in thousands)

Year Ended June 30,

	2020			2019		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
Assets:						
Interest-earning assets:						
Investment securities	\$ 78,656	\$ 1,695	2.15%	\$ 85,232	\$ 1,684	1.98%
Loans (1) (2) (3)	1,029,644	80,870	7.85%	924,484	76,627	8.29%
Federal Home Loan Bank stock	2,204	94	4.26%	1,475	95	6.44%
Short-term investments (4)	94,586	1,025	1.08%	153,609	3,424	2.23%
Total interest-earning assets	1,205,090	83,684	6.94%	1,164,800	81,830	7.03%
Cash and due from banks	2,971			2,542		
Other non-interest earning assets	38,363			30,968		
Total assets	\$ 1,246,424			\$ 1,198,310		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	\$ 75,984	\$ 364	0.48%	\$ 70,822	\$ 246	0.35%
Money market accounts	276,264	4,096	1.48%	344,631	5,383	1.56%
Savings accounts	34,517	57	0.17%	35,619	56	0.16%
Time deposits	496,531	12,066	2.43%	471,777	11,083	2.35%
Total interest-bearing deposits	883,296	16,583	1.88%	922,849	16,768	1.82%
Federal Home Loan Bank advances	34,918	689	1.97%	15,000	479	3.19%
PPPLF	50,295	174	0.35%			
Subordinated debt	14,883	1,126	7.57%	22,885	2,238	9.78%
Lease obligations	5,169	125	2.42%	455	24	5.27%
Total interest-bearing liabilities	988,561	18,697	1.89%	961,189	19,509	2.03%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	88,805			80,848		
Other liabilities	9,097			8,814		
Total liabilities	1,086,463			1,050,851		
Shareholders' equity	159,961			147,459		
Total liabilities and shareholders' equity	\$ 1,246,424			\$ 1,198,310		
Net interest income		\$ 64,987			\$ 62,321	
Interest rate spread			5.05%			5.00%
Net interest margin (5)			5.39%			5.35%

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

NORTHEAST BANK
SELECTED FINANCIAL HIGHLIGHTS AND OTHER DATA
(Unaudited)
(Dollars in thousands, except share and per share data)

	Three Months Ended				
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Net interest income	\$ 17,384	\$ 16,321	\$ 15,545	\$ 15,737	\$ 17,288
Provision (credit) for loan losses	905	3,489	243	(136)	262
Noninterest income	9,812	860	1,337	1,176	1,151
Noninterest expense	10,168	10,081	9,789	10,354	18,504
Net income (loss)	11,219	1,875	4,867	4,776	(603)
Weighted-average common shares outstanding:					
Basic	8,337,088	9,004,819	9,048,171	9,043,761	9,041,926
Diluted	8,405,665	9,128,651	9,223,137	9,211,874	9,041,926
Earnings (loss) per common share:					
Basic	\$ 1.35	\$ 0.21	\$ 0.54	\$ 0.53	\$ (0.07)
Diluted	1.33	0.21	0.53	0.52	(0.07)
Operating earnings per common share (5):					
Basic	\$ 1.35	\$ 0.21	\$ 0.54	\$ 0.53	\$ 0.60
Diluted	1.33	0.21	0.53	0.52	0.59
Dividends declared per common share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Return (loss) on average assets	3.07%	0.61%	1.68%	1.68%	(0.20%)
Return (loss) on average equity	28.44%	4.57%	12.09%	12.18%	(1.58%)
Net interest rate spread (1)	4.66%	5.14%	5.19%	5.31%	5.55%
Net interest margin (2)	4.90%	5.50%	5.59%	5.72%	5.95%
Net interest margin, excluding PPP (3)	5.34%	5.50%	5.59%	5.72%	5.95%
Efficiency ratio (non-GAAP) (4)	37.39%	58.68%	57.98%	61.22%	100.35%
Noninterest expense to average total assets	2.78%	3.28%	3.38%	3.64%	6.18%
Average interest-earning assets to average interest-bearing liabilities	118.53%	122.88%	123.50%	123.81%	121.71%
Operating return on average assets (non-GAAP) (5)	3.07%	0.61%	1.68%	1.68%	1.81%
Operating return on average equity (non-GAAP) (5)	28.44%	4.57%	12.09%	12.18%	14.18%
Operating efficiency ratio (non-GAAP) (4) (5)	37.39%	58.68%	57.98%	61.22%	55.15%
Operating noninterest expense to average total assets (non-GAAP) (5)	2.78%	3.28%	3.38%	3.64%	3.40%
			As of:		
	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Nonperforming loans:					
Originated portfolio:					
Residential real estate	\$ 832	\$ 1,187	\$ 1,586	\$ 1,515	\$ 2,772
Commercial real estate	6,861	7,439	8,032	4,530	3,892
Commercial and industrial	2,058	2,226	622	87	1,284
Consumer	29	40	59	136	148
Total originated portfolio	9,780	10,892	10,299	6,268	8,096
Total purchased portfolio	11,325	13,485	8,489	7,834	6,671
Total nonperforming loans	21,105	24,377	18,788	14,102	14,767
Real estate owned and other repossessed collateral, net	3,274	3,110	2,505	1,936	1,957
Total nonperforming assets	\$ 24,379	\$ 27,487	\$ 21,293	\$ 16,038	\$ 16,724
Past due loans to total loans	1.69%	3.52%	2.84%	1.50%	1.50%
Nonperforming loans to total loans	2.17%	2.36%	1.88%	1.51%	1.51%
Nonperforming assets to total assets	1.94%	2.23%	1.76%	1.43%	1.45%
Allowance for loan losses to total loans	0.94%	0.85%	0.54%	0.57%	0.58%
Allowance for loan losses to nonperforming loans	43.49%	36.14%	28.77%	37.44%	38.61%
Commercial real estate loans to total capital (6)	281.32%	304.40%	292.58%	262.92%	282.05%
Net loans to core deposits (7) (10)	96.38%	102.04%	106.52%	102.59%	103.33%
Purchased loans to total loans, including held for sale (10)	39.77%	38.28%	36.65%	35.50%	33.37%
Equity to total assets	13.10%	12.95%	13.53%	14.08%	13.31%
Common equity tier 1 capital ratio	17.13%	15.71%	16.48%	16.92%	15.89%
Total capital ratio	19.61%	18.03%	18.52%	19.07%	18.01%
Tier 1 leverage capital ratio	13.36%	13.04%	14.26%	14.06%	12.86%
Total shareholders' equity	\$ 164,739	\$ 159,525	\$ 163,400	\$ 158,101	\$ 153,580
Less: Preferred stock	-	-	-	-	-
Common shareholders' equity	164,739	159,525	163,400	158,101	153,580
Less: Intangible assets (8)	(2,113)	(2,116)	(2,641)	(2,940)	(3,285)
Tangible common shareholders' equity (non-GAAP)	\$ 162,626	\$ 157,409	\$ 160,759	\$ 155,161	\$ 150,295
Common shares outstanding	8,198,624	8,633,772	9,052,013	9,038,912	9,042,109
Book value per common share	\$ 20.09	\$ 18.48	\$ 18.05	\$ 17.49	\$ 16.98
Tangible book value per share (non-GAAP) (9)	19.84	18.23	17.76	17.17	16.62

(1) The net interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

(3) Net interest margin excluding PPP removes the effects of the following: PPP loan interest income of \$1.6 million and PPPLF interest expense of \$174 thousand for both the three months and year ended June 30, 2020, as well as PPP loan average balances of \$223.8 million and \$55.6 million for the three months ended June 30, 2020 and the year ended June 30, 2020, respectively.

(4) The efficiency ratio represents noninterest expense divided by the sum of net interest income (before the loan loss provision) plus noninterest income.

(5) Operating earnings per common share, operating return on average assets, operating return on average equity, operating efficiency ratio, and operating noninterest expense to average total assets utilize net operating earnings (non-GAAP). Net operating earnings is calculated as net loss of \$603 thousand, less non-recurring reorganization expense, net of tax, of \$6.0 million, for net operating earnings of \$5.4 million for the quarter ended June 30, 2019.

(6) For purposes of calculating this ratio, commercial real estate includes all non-owner occupied commercial real estate loans defined as such by regulatory guidance, including all land development and construction loans.

(7) Core deposits include all non-maturity deposits and maturity deposits less than \$250 thousand. Loans include loans held for sale.

(8) Includes the core deposit intangible asset and loan servicing rights asset.

(9) Tangible book value per share represents total shareholders' equity less the sum of preferred stock and intangible assets divided by common shares outstanding.

(10) Net loans and total loans, including loans held for sale, exclude PPP loans held for sale.