FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

(Mark one)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2021

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

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of April 30, 2021, the registrant had outstanding 8,344,797 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	March 31, 2021	June 30, 2020
Assets		
Cash and due from banks	$ 2,630	$ 2,795
Short-term investments	461,796	140,862
Total cash and cash equivalents	464,426	143,657
Available-for-sale debt securities, at fair value	60,859	64,918
Equity securities, at fair value	7,199	7,239
Total investment securities	68,058	72,157
Residential real estate loans held for sale	177	601
SBA loans held for sale	106,126	28,852
Total loans held for sale	106,303	29,453
Loans:		
Commercial real estate	708,477	679,537
Commercial and industrial	225,729	212,769
Residential real estate	67,389	77,722
Consumer	1,213	1,574
Total loans	1,002,808	971,602
Less: Allowance for loan losses	8,820	9,178
Loans, net	993,988	962,424
Premises and equipment, net	11,908	9,670
Real estate owned and other repossessed collateral, net	2,885	3,274
Federal Home Loan Bank stock, at cost	1,390	1,390
Loan servicing rights, net	2,149	2,113
Bank-owned life insurance	17,391	17,074
Other assets	46,221	16,423
Total assets	$ 1,714,719	$ 1,257,635
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 413,570	$ 94,749
Savings and interest checking	266,080	137,824
Money market	323,027	302,343
Time	296,027	477,436
Total deposits	1,298,704	1,012,352
Federal Home Loan Bank advances	15,000	15,000
Paycheck Protection Program Liquidity Facility advances	108,101	12,440
Subordinated debt	15,023	14,940
Lease liability	6,471	4,496
Other liabilities	54,558	33,668
Total liabilities	1,497,857	1,092,896
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2021 and June 30, 2020	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,344,797 and 8,153,841 shares issued and outstanding at March 31, 2021 and June 30, 2020, respectively	8,345	8,154
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; zero and 44,783 shares issued and outstanding at March 31, 2021 and June 30, 2020, respectively	-	45
Additional paid-in capital	69,734	68,302
Retained earnings	139,844	89,960
Accumulated other comprehensive loss	(1,061)	(1,722)
Total shareholders' equity	216,862	164,739
Total liabilities and shareholders' equity	$ 1,714,719	$ 1,257,635

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Interest and dividend income:				
Interest and fees on loans	$ 20,893	$ 20,266	$ 57,106	$ 59,459
Interest on available-for-sale securities	158	426	641	1,320
Other interest and dividend income	110	395	252	1,061
Total interest and dividend income	21,161	21,087	57,999	61,840
Interest expense:				
Deposits	1,803	4,228	7,390	12,725
Federal Home Loan Bank advances	145	226	395	569
Paycheck Protection Program Liquidity Facility	300	-	302	-
Subordinated debt	282	282	845	845
Obligation under capital lease agreements	28	30	84	98
Total interest expense	2,558	4,766	9,016	14,237
Net interest and dividend income before provision for loan losses	18,603	16,321	48,983	47,603
Provision for loan losses	(211)	3,489	531	3,595
Net interest and dividend income after provision for loan losses	18,814	12,832	48,452	44,008
Noninterest income:				
Fees for other services to customers	441	316	1,427	1,142
Gain on sales of PPP loans	33,010	-	34,124	-
Gain on sales of SBA loans	-	237	-	793
Gain on sales of residential loans held for sale	4	139	105	565
Net unrealized gain (loss) on equity securities	(99)	87	(115)	102
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	-	(64)	(344)	247
Correspondent fee income	5,970	-	16,798	-
Bank-owned life insurance income	105	108	318	457
Other noninterest income	38	37	69	66
Total noninterest income	39,469	860	52,382	3,372
Noninterest expense:				
Salaries and employee benefits	5,113	5,960	17,436	18,272
Occupancy and equipment expense	940	919	2,914	2,667
Professional fees	599	339	1,405	1,175
Data processing fees	1,302	994	3,392	2,980
Marketing expense	130	91	290	239
Loan acquisition and collection expense	855	716	2,368	1,807
FDIC insurance premiums (credits)	119	4	324	(15)
Intangible asset amortization	-	109	-	326
Other noninterest expense	578	949	1,868	2,774
Total noninterest expense	9,636	10,081	29,997	30,225
Income before income tax expense	48,647	3,611	70,837	17,155
Income tax expense	14,485	1,736	20,705	5,637
Net income	$ 34,162	$ 1,875	$ 50,132	$ 11,518
Weighted-average shares outstanding:				
Basic	8,344,797	9,004,819	8,261,248	9,032,254
Diluted	8,421,247	9,128,651	8,347,882	9,187,891
Earnings per common share:				
Basic	$ 4.09	$ 0.21	$ 6.07	$ 1.28
Diluted	4.06	0.21	6.01	1.25
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
Net income	$ 34,162	$ 1,875	$ 50,132	$ 11,518
Other comprehensive income, before tax:				
Available-for-sale debt securities:				
Change in net unrealized gain on available-for-sale debt securities	(127)	740	(521)	842
Derivatives and hedging activities:				
Change in accumulated loss on effective cash flow hedges	931	(1,509)	1,426	(1,522)
Total other comprehensive income (loss), before tax	804	(769)	905	(680)
Income tax (benefit) expense related to other comprehensive income (loss)	217	(207)	244	(185)
Other comprehensive loss, net of tax	587	(562)	661	(495)
Comprehensive income	$ 34,749	$ 1,313	$ 50,793	$ 11,023

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	-	$ -	9,007,230	$ 9,007	44,783	$ 45	$ 78,380	$ 77,039	$ (1,071)	$ 163,400
Net income	-	-	-	-	-	-	-	1,875	-	1,875
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(562)	(562)
Repurchases of common stock	-	-	(416,700)	(417)	-	-	(4,930)	-	-	(5,347)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(90)	-	(90)
Stock-based compensation	-	-	-	-	-	-	254	-	-	254
Cancellation and forfeiture of restricted common stock	-	-	(1,541)	(1)	-	-	(4)	-	-	(5)
Balance at March 31, 2020	-	$ -	8,588,989	$ 8,589	44,783	$ 45	$ 73,700	$ 78,824	$ (1,633)	$ 159,525
Balance at December 31, 2020	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,499	$ 105,766	$ (1,648)	$ 181,962
Net income	-	-	-	-	-	-	-	34,162	-	34,162
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	587	587
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(84)	-	(84)
Stock-based compensation	-	-	-	-	-	-	235	-	-	235
Balance at March 31, 2021	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,734	$ 139,844	$ (1,061)	$ 216,862

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2019	-	$ -	8,997,326	$ 8,997	44,783	$ 45	$ 78,095	$ 67,581	$ (1,138)	$ 153,580
Net income	-	-	-	-	-	-	-	11,518	-	11,518
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(495)	(495)
Repurchases of common stock	-	-	(416,700)	(417)	-	-	(4,930)	-	-	(5,347)
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(275)	-	(275)
Stock-based compensation	-	-	-	-	-	-	808	-	-	808
Issuance of restricted common stock	-	-	40,000	40	-	-	(40)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(36,341)	(36)	-	-	(198)	-	-	(234)
Stock options exercised, net	-	-	4,704	5	-	-	(35)	-	-	(30)
Balance at March 31, 2020	-	$ -	8,588,989	$ 8,589	44,783	$ 45	$ 73,700	$ 78,824	$ (1,633)	$ 159,525
Balance at June 30, 2020	-	$ -	8,153,841	$ 8,154	44,783	$ 45	$ 68,302	$ 89,960	$ (1,722)	$ 164,739
Net income	-	-	-	-	-	-	-	50,132	-	50,132
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	661	661
Conversions between voting common stock and non-voting common stock, net	-	-	44,783	45	(44,783)	(45)	-	-	-	-
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(248)	-	(248)
Stock-based compensation	-	-	-	-	-	-	743	-	-	743
Cancellation and forfeiture of restricted common stock	-	-	(6,838)	(7)	-	-	(123)	-	-	(130)
Stock options exercised, net	-	-	153,011	153	-	-	812	-	-	965
Balance at March 31, 2021	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,734	$ 139,844	$ (1,061)	$ 216,862

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

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

	Nine Months Ended March 31,			
	2021		2020	
Operating activities:				
Net income	$	50,132	$	11,518
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		531		3,595
Loss (gain) recognized on real estate owned, other repossessed collateral and premises and equipment, net		344		(247)
Net unrealized loss (gain) on equity securities		115		(102)
Accretion of loans, net		(7,669)		(5,745)
Amortization of subordinated debt issuance costs		83		83
Originations of loans held for sale		(2,307,655)		(32,694)
Net proceeds from sales of loans held for sale		2,162,879		39,535
Gain on sales of PPP loans		(34,124)		-
Gain on sales of residential loans held for sale		(105)		(565)
Gain on sales of SBA and other loans held for sale		-		(793)
Net (increase) decrease in servicing rights		(36)		844
Amortization of intangible assets		-		326
Bank-owned life insurance income, net		(318)		(457)
Depreciation and amortization of premises and equipment		1,919		1,893
Deferred income tax benefit		(1,488)		-
Stock-based compensation		743		808
Amortization of available-for-sale debt securities, net		279		175
Changes in other assets and liabilities:				
Other assets		(28,554)		1,602
Other liabilities		22,318		(4,616)
Net cash (used in) provided by operating activities		(140,606)		15,160
Investing activities:				
Purchases of available-for-sale debt securities		(31,649)		(9,056)
Proceeds from maturities and principal payments on investment securities, net		34,832		19,056
Loan purchases		(135,757)		(158,518)
Loan originations, principal collections, and purchased loan paydowns, net		212,481		101,759
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net		(1,220)		(670)
Net redemptions of Federal Home Loan Bank stock		-		(48)
Proceeds from bank-owned life insurance death benefits		-		549
Proceeds from sales of real estate owned and other repossessed collateral		1,043		410
Net cash provided by (used in) investing activities		79,730		(46,518)
Financing activities:				
Net increase in deposits		286,352		70,143
Advances under Paycheck Protection Program Liquidity Facility, net		95,661		-
Repayment of lease liability		(955)		(1,031)
Dividends paid on common stock		(248)		(275)
Repurchases of common stock		-		(5,347)
Repurchases for tax withholdings on restricted common stock		(130)		(234)
Stock options exercised, net		965		(30)
Net cash provided by financing activities		381,645		63,226
Net change in cash and cash equivalents		320,769		31,868
Cash and cash equivalents, beginning of period		143,657		56,907
Cash and cash equivalents, end of period	$	464,426	$	88,775
Supplemental schedule of noncash investing activities:				
Transfers from loans to real estate owned and other repossessed collateral, net	$	1,005	$	1,213
Transfer from fixed assets to real estate owned and other repossessed collateral, net		-		71
Capitalization of lease liability		2,930		5,554

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

1. Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Northeast Bank (the "Bank"). These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2020 ("Fiscal 2020") included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into in June 2020. As a result of this agreement, when the third party purchases Small Business Association's Paycheck Protection Program ("PPP") loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Federal Reserve. During the three and nine months ended March 31, 2021, the Bank received $0 and $5.8 million in correspondent fees, respectively. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the expected lives of the related loans (approximately two years). For the three and nine months ended March 31, 2021, the Bank recognized $1.1 million and $3.0 million in correspondent fee income, respectively.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. As of March 31, 2021, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (approximately two years). During the three and nine months ended March 31, 2021, the Bank recognized $4.9 million and $13.8 million in net servicing income, respectively. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

2. Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13"). This guidance is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. 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 ("ASU 2019-10"), which delays the effective date for ASU 2016-13 for smaller reporting companies, which allows the Bank to adopt the standard on July 1, 2023. Management has elected to delay the adoption of ASU 2016-13. Management has engaged an existing third-party service provider to assist in implementation and is in the process of identifying the methodologies necessary to implement the guidance.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements (Topic 820) ("ASU 2018-13"). This update modifies disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This includes removing requirements related to transfers between Level 1 and Level 2, the policy of timing of transfers between levels, and the valuation process for Level 3 fair value measurements, modifying disclosure requirements related to investments in certain entities that calculate net asset value, and adding disclosure requirements for changes in unrealized gains and losses for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes ("ASU 2018-16"). This guidance permits the use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate, in addition to the London Interbank Offered Rate ("LIBOR") swap rate due to concerns about the sustainability of LIBOR. The amendments in this update were required to be adopted concurrently with ASU 2017-12. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848) ("ASU 2020-04"). This guidance provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this Update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this Update are effective for all entities as of March 12, 2020 through December 12, 2022. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
March 31, 2021				
U.S. Government agency securities	$ 51,490	$ 107	$ (8)	$ 51,589
Agency mortgage-backed securities	9,062	208	-	9,270
Total available-for-sale debt securities	60,552	315	(8)	60,859
Equity investments measured at net asset value	7,262	-	(63)	7,199
Total securities	$ 67,814	$ 315	$ (71)	$ 68,058
June 30, 2020				
U.S. Government agency securities	$ 51,020	$ 483	$ -	$ 51,503
Agency mortgage-backed securities	13,070	345	-	13,415
Total available-for-sale debt securities	64,090	828	-	64,918
Equity investments measured at net asset value	7,187	52	-	7,239
Total securities	$ 71,277	$ 880	$ -	$ 72,157

At March 31, 2021, the Bank held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the three or nine months ended March 31, 2021 or 2020. At March 31, 2021, securities with a fair value of $60.9 million were pledged as collateral to secure potential or outstanding FHLBB advances.

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

	March 31, 2021					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
U.S. Government agency securities	$ 20,201	$ (8)	$ -	$ -	$ 20,021	$ (8)
Agency mortgage-backed securities	-	-	-	-	-	-
Total available-for-sale debt securities	20,201	(8)	-	-	20,201	(8)
Equity investments measured at net asset value	5,564	(63)	-	-	5,564	(63)
Total investment securities	$ 25,765	$ (71)	$ -	$ -	$ 25,765	$ (71)

	June 30, 2020					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Dollars in thousands)			
U.S. Government agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Agency mortgage-backed securities	-	-	-	-	-	-
Total available-for-sale debt securities	-	-	-	-	-	-
Equity investments measured at net asset value	-	-	-	-	-	-
Total investment securities	$ -	$ -	$ -	$ -	$ -	$ -

There were no other-than-temporary impairment losses on securities during the three or nine months ended March 31, 2021 and 2020.

At March 31, 2021, the Bank had no securities in a loss position for greater than twelve months. At March 31, 2021, all of the Bank's investment securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Bank's investment securities at March 31, 2021 is attributable to changes in interest rates.

The investments measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of March 31, 2021, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 3.93 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of March 31, 2021. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 20,015	$ 20,114
Due after one year through five years	31,475	31,475
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,490	51,589
Agency mortgage-backed securities	9,062	9,270
Total available-for-sale debt securities	$ 60,552	$ 60,859

4. Loans, Allowance for Loan Losses and Credit Quality

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

Loans purchased by the Bank are accounted for under ASC 310-30, *Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). At acquisition, the effective interest rate is determined based on the discount rate that equates the present value of the Bank's estimate of cash flows with the purchase price of the loan. Prepayments are not assumed in determining a purchased loan's effective interest rate and income accretion. The application of ASC 310-30 limits the yield that may be accreted on the purchased loan, or the "accretable yield," to the excess of the Bank's estimate, at acquisition, of the expected undiscounted principal, interest, and other cash flows over the Bank's initial investment in the loan. The excess of contractually required payments receivable over the cash flows expected to be collected on the loan represents the purchased loan's "nonaccretable difference." Subsequent improvements in expected cash flows of loans with nonaccretable differences result in a prospective increase to the loan's effective yield through a reclassification of some, or all, of the nonaccretable difference to accretable yield. The effect of subsequent credit-related declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectability of interest or principal of the loan has been impaired. Loans accounted for under ASC 310-30 are placed on nonaccrual when it is not possible to reach a reasonable expectation of the timing and amount of cash flows to be collected on the loan. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. Interest on nonaccrual loans is accounted for on a cash-basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal and interest is reasonably assured and the loan has performed for a reasonable period of time.

In cases where a borrower experiences financial difficulty and the Bank makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. The Bank began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as a TDR. Accordingly, the Company does not account for such loan modifications as TDRs. As of March 31, 2021, the Bank granted such short-term deferments on loan balances of $188.8 million. Of the $188.8 million of loan deferrals, $142.1 million were full payment deferrals, of which only $13.9 million are still on deferral. The remaining $46.7 million of deferrals were interest-only deferrals, of which only $14.6 million are still on deferral. For loans accounted for under ASC 310-30, the Bank evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Bank's expectations at acquisition, the modified loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

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

	March 31, 2021			June 30, 2020		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Commercial real estate	$ 245,088	$ 424,111	$ 669,199	$ 262,142	$ 374,545	$ 636,687
Commercial and industrial	221,950	350	222,300	208,169	355	208,524
SBA	42,707	-	42,707	47,095	-	47,095
Residential real estate	58,353	9,036	67,389	65,998	11,724	77,722
Consumer	1,213	-	1,213	1,574	-	1,574
Total loans	$ 569,311	$ 433,497	$ 1,002,808	$ 584,978	$ 386,624	$ 971,602

Total loans include deferred loan origination fees, net, of $362 thousand as of March 31, 2021 and $336 thousand as of June 30, 2020.

Past Due and Nonaccrual Loans

The following is a summary of past due and nonaccrual loans:

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
March 31, 2021				(Dollars in thousands)				
Originated portfolio:								
Commercial real estate	$ 396	$ 1,550	$ -	$ 998	$ 2,944	$ 242,144	$ 245,088	$ 556
Commercial and industrial	169	-	-	-	169	221,781	221,950	170
SBA	331	-	-	1,962	2,293	40,414	42,707	2,598
Residential real estate	340	95	-	238	673	57,680	58,353	3,517
Consumer	5	5	-	19	29	1,184	1,213	23
Total originated portfolio	1,241	1,650	-	3,217	6,108	563,203	569,311	6,864
Purchased portfolio:								
Commercial real estate	1,200	1,012	-	7,236	9,448	414,663	424,111	14,626
Commercial and industrial	-	-	-	64	64	286	350	165
Residential real estate	-	-	-	1,118	1,118	7,918	9,036	1,268
Total purchased portfolio	1,200	1,012	-	8,418	10,630	422,867	433,497	16,059
Total loans	$ 2,441	$ 2,662	$ -	$ 11,635	$ 16,738	$ 986,070	$ 1,002,808	$ 22,923
June 30, 2020								
Originated portfolio:								
Commercial real estate	$ -	$ 26	$ -	$ 3,864	$ 3,890	$ 258,252	$ 262,142	$ 4,585
Commercial and industrial	18	-	-	216	234	207,935	208,169	216
SBA	-	34	-	2,982	3,016	44,079	47,095	4,118
Residential real estate	-	-	-	180	180	65,818	65,998	832
Consumer	6	12	-	9	27	1,547	1,574	29
Total originated portfolio	24	72	-	7,251	7,347	577,631	584,978	9,780
Purchased portfolio:								
Commercial real estate	731	1,066	-	6,071	7,868	366,677	374,545	9,946
Commercial and industrial	-	-	-	57	57	298	355	210
Residential real estate	-	-	-	1,169	1,169	10,555	11,724	1,169
Total purchased portfolio	731	1,066	-	7,297	9,094	377,530	386,624	11,325
Total loans	$ 755	$ 1,138	$ -	$ 14,548	$ 16,441	$ 955,161	$ 971,602	$ 21,105

Allowance for Loan Losses and Impaired Loans

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than the point at which a loan is 180 days past due if the loan balance exceeds the fair value of the collateral, less estimated costs to sell. For commercial loans, a charge-off is recorded on a case-by-case basis when all or a portion of the loan is deemed to be uncollectible. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of general and specific reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the appropriateness of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: residential real estate, commercial real estate, commercial and industrial, consumer, purchased loans, and SBA loans. Risk characteristics relevant to each portfolio segment are as follows:

Commercial real estate: Loans in this segment are primarily income-producing properties. For owner-occupied properties, the cash flows are derived from an operating business, and the underlying cash flows may be adversely affected by deterioration in the financial condition of the operating business. The underlying cash flows generated by nonowner-occupied properties may be adversely affected by increased vacancy rates. Management periodically obtains rent rolls and operating statements, with which it monitors the cash flows of these loans. Adverse developments in either of these areas will have an adverse effect on the credit quality of this segment. For purposes of the allowance for loan losses, this segment also includes construction loans.

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

Purchased: Loans in this segment are typically secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the Bank's National Lending Division. Loans acquired by the National Lending Division are, with limited exceptions, performing loans at the date of purchase. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of nonowner-occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type. Loans in this segment are evaluated for impairment under ASC 310-30. The Bank reviews expected cash flows from purchased loans on a quarterly basis. The effect of a decline in expected cash flows subsequent to the acquisition of the loan is recognized through a specific allocation in the allowance for loan losses.

SBA: Loans in this segment are comprised of both commercial real estate and commercial and industrial loans to small businesses, underwritten and originated by the Bank's national SBA group ("SBA Division"). Loans are underwritten and originated primarily in accordance with SBA 7(a) guidelines and are partially guaranteed by the SBA. Loans are primarily secured by income-producing properties and/or assets of the businesses or borrowers. Adverse developments in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

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

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

The general component of the allowance for loan losses for originated loans is based on historical loss experience adjusted for qualitative factors stratified by loan segment. The Bank does not weight periods used in that analysis to determine the average loss rate in each portfolio segment. This historical loss factor is adjusted for the following qualitative factors:

- Levels and trends in delinquencies;
- Trends in the volume and nature of loans;
- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff;
- Trends in portfolio concentration;
- National and local economic trends and conditions;
- Effects of changes or trends in internal risk ratings; and
- Other effects resulting from trends in the valuation of underlying collateral.

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. 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 less estimated costs to sell 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 value of the loan.

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

The following table sets forth activity in the Bank's allowance for loan losses.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
Three Months Ended March 31, 2021							
Beginning balance	$ 2,441	$ 1,310	$ 5,222	$ 308	$ 36	$ 609	$ 9,926
Provision (credit)	(16)	(129)	(21)	(27)	-	(18)	(211)
Recoveries	-	-	-	1	3	8	12
Charge-offs	-	-	(721)	-	(7)	(179)	(907)
Ending balance	$ 2,425	$ 1,181	$ 4,480	$ 282	$ 32	$ 420	$ 8,820
Three Months Ended March 31, 2020							
Beginning balance	$ 1,898	$ 836	$ 1,708	$ 373	$ 30	$ 560	$ 5,405
Provision (credit)	192	296	2,877	109	5	10	3,489
Recoveries	-	2	-	2	-	-	4
Charge-offs	(46)	-	-	(5)	-	(38)	(89)
Ending balance	$ 2,044	$ 1,134	$ 4,585	$ 479	$ 35	$ 532	$ 8,809
Nine Months Ended March 31, 2021							
Beginning balance	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Provision (credit)	358	224	202	(170)	15	(98)	531
Recoveries	-	-	22	3	3	17	45
Charge-offs	(10)	-	(721)	-	(15)	(188)	(934)
Ending balance	$ 2,425	$ 1,181	$ 4,480	$ 282	$ 32	$ 420	$ 8,820
Nine Months Ended March 31, 2020							
Beginning balance	$ 2,065	$ 717	$ 1,974	$ 376	$ 50	$ 520	$ 5,702
Provision (credit)	43	401	2,829	165	25	132	3,595
Recoveries	-	20	-	3	3	-	26
Charge-offs	(64)	(4)	(218)	(65)	(43)	(120)	(514)
Ending balance	$ 2,044	$ 1,134	$ 4,585	$ 479	$ 35	$ 532	$ 8,809

The following table sets forth information regarding the allowance for loan losses by portfolio segment and impairment methodology.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(Dollars in thousands)			
March 31, 2021							
Allowance for loan losses:							
Individually evaluated	$ 37	$ 161	$ 70	$ 63	$ 7	$ -	$ 338
Collectively evaluated	2,388	1,020	4,410	219	25	-	8,062
ASC 310-30	-	-	-	-	-	420	420
Total	$ 2,425	$ 1,181	$ 4,480	$ 282	$ 32	$ 420	$ 8,820
Loans:							
Individually evaluated	$ 9,111	$ 7,081	$ 2,722	$ 2,172	$ 60	$ 24,005	$ 45,151
Collectively evaluated	235,977	214,869	39,985	56,181	1,153	-	548,165
ASC 310-30	-	-	-	-	-	409,492	409,492
Total	$ 245,088	$ 221,950	$ 42,707	$ 58,353	$ 1,213	$ 433,497	$ 1,002,808
June 30, 2020							
Allowance for loan losses:							
Individually evaluated	$ 14	$ 103	$ 759	$ 90	$ 3	$ -	$ 969
Collectively evaluated	2,063	854	4,218	359	26	-	7,520
ASC 310-30	-	-	-	-	-	689	689
Total	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Loans:							
Individually evaluated	$ 4,813	$ 7,116	$ 4,243	$ 2,574	$ 76	$ 14,111	$ 32,933
Collectively evaluated	257,329	201,053	42,852	63,424	1,498	-	566,156
ASC 310-30	-	-	-	-	-	372,513	372,513
Total	$ 262,142	$ 208,169	$ 47,095	$ 65,998	$ 1,574	$ 386,624	$ 971,602

The following table sets forth information regarding impaired loans. Loans accounted for under ASC 310-30 that have performed based on cash flow and accretable yield expectations determined at date of acquisition are not considered impaired assets and have been excluded from the tables below.

	March 31, 2021			June 30, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(Dollars in thousands)			
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 4,755	$ 4,755	$ -	$ 4,660	$ 4,660	$ -
Commercial and industrial	12	12	-	6,900	6,900	-
SBA	2,221	2,221	-	2,185	2,185	-
Residential real estate	1,350	1,350	-	1,624	1,624	-
Consumer	38	37	-	49	49	-
Purchased:						
Commercial real estate	18,920	22,015	-	9,168	11,299	-
Commercial and industrial	66	112	-	69	114	-
Residential real estate	2,079	2,128	-	1,169	1,190	-
Total	29,441	32,630	-	25,824	28,021	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	4,356	4,356	37	153	153	14
Commercial and industrial	7,069	7,070	161	216	216	103
SBA	501	501	70	2,058	2,058	759
Residential real estate	822	822	63	950	950	90
Consumer	22	22	7	27	27	3
Purchased:						
Commercial real estate	2,841	3,911	323	3,564	4,353	548
Commercial and industrial	99	143	97	141	186	141
Residential real estate	-	-	-	-	-	-
Total	15,710	16,825	758	7,109	7,943	1,658
Total impaired loans	$ 45,151	$ 49,455	$ 758	$ 32,933	$ 35,964	$ 1,658

The following tables set forth information regarding interest income recognized on impaired loans.

	Three Months Ended March 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 5,380	$ 733	$ 5,994	$ 36
Commercial and industrial	6	-	7,066	89
SBA	1,800	11	3,193	3
Residential real estate	4,390	(41)	2,038	7
Consumer	41	8	68	-
Purchased:				
Commercial real estate	17,761	39	10,986	47
Commercial and industrial	67	-	109	-
Residential real estate	2,105	11	1,552	-
Total	31,550	761	31,006	182
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	2,395	48	726	2
Commercial and industrial	7,071	60	119	6
SBA	3,583	2	1,315	-
Residential real estate	1,336	18	1,246	12
Consumer	23	1	23	1
Purchased:				
Commercial real estate	4,011	23	4,292	96
Commercial and industrial	106	-	160	-
Residential real estate	-	-	-	-
Total	18,525	152	7,881	117
Total impaired loans	$ 50,075	$ 913	$ 38,887	$ 299

	Nine Months Ended March 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 4,425	$ 737	$ 4,311	$ 47
Commercial and industrial	3,453	60	6,985	235
SBA	1,970	(5)	2,956	68
Residential real estate	3,014	118	2,471	25
Consumer	45	10	103	2
Purchased:				
Commercial real estate	13,671	195	9,920	154
Commercial and industrial	68	-	202	-
Residential real estate	1,885	32	984	19
Total	28,351	1,147	27,932	550
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	2,047	50	846	8
Commercial and industrial	3,635	102	61	6
SBA	2,840	(52)	998	-
Residential real estate	1,417	64	1,369	47
Consumer	24	3	31	1
Purchased:				
Commercial real estate	4,355	116	4,078	203
Commercial and industrial	120	-	175	-
Residential real estate	-	22	107	-
Total	14,438	305	7,665	265
Total impaired loans	$ 42,789	$ 1,452	$ 35,597	$ 815

Credit Quality

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

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

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

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

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

Loans rated 10: Loans in this category are considered “loss” and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Bank formally reviews the credit quality and ratings of all loans subject to risk ratings. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. Risk ratings on purchased loans, with and without evidence of credit deterioration at acquisition, are determined relative to the Bank’s recorded investment in that loan, which may be significantly lower than the loan’s unpaid principal balance.

The following tables present the Bank’s loans by risk rating.

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[1]	Purchased Portfolio	Total
			(In thousands)			
March 31, 2021						
Loans rated 1- 6	$ 236,590	$ 214,878	$ 37,548	$ 28,549	$ 414,481	$ 932,046
Loans rated 7	7,025	6,900	2,699	30	6,683	23,337
Loans rated 8	1,473	172	2,460	35	12,333	16,473
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 245,088	$ 221,950	$ 42,707	$ 28,614	$ 433,497	$ 971,856
June 30, 2020						
Loans rated 1- 6	$ 257,157	$ 201,051	$ $ 38,054	$ 28,740	$ 371,354	$ 896,356
Loans rated 7	401	6,900	5,055	32	3,893	16,281
Loans rated 8	4,584	218	3,986	35	11,377	20,200
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 262,142	$ 208,169	$ $ 47,095	$ 28,807	$ 386,624	$ 932,837

(1) Certain of the Bank’s loans made for commercial purposes, but secured by residential collateral, are rated under the Bank’s risk-rating system.

Troubled Debt Restructurings

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2021		2020		2021		2020	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
				(Dollars in thousands)				
Extended maturity	-	$ -	3	$ 376	6	$ 9,612	7	$ 1,155
Adjusted interest rate	-	-	1	63	-	-	1	63
Rate and maturity	-	-	-	-	4	4,251	-	-
Principal deferment	1	182	-	-	5	5,799	5	382
Court ordered concession	2	331	-	-	2	331	-	-
	3	$ 513	4	$ 439	17	$ 19,993	13	$ 1,600

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

	2021			2020		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
Three Months Ended March 31,	(Dollars in thousands)					
Originated portfolio:						
Commercial real estate	1	$ 45	$ 45	-	$ -	$ -
Commercial and industrial	1	286	286	-	-	-
Residential real estate	-	-	-	2	72	72
Consumer	-	-	-	-	-	-
Total originated portfolio	2	331	331	2	72	72
Purchased portfolio:						
Commercial real estate	1	182	182	2	367	367
Commercial and industrial	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Total purchased portfolio	1	182	182	2	367	367
Total	3	$ 513	$ 513	4	$ 439	$ 439
Nine Months Ended March 31,						
Originated portfolio:						
Commercial real estate	2	$ 3,594	$ 3,919	-	$ -	$ -
Commercial and industrial	2	336	336	-	-	-
Residential real estate	3	7,150	7,150	7	434	434
Consumer	-	-	-	-	-	-
Total originated portfolio	7	11,080	11,405	7	434	434
Purchased portfolio:						
Commercial real estate	9	7,732	7,798	6	1,166	1,166
Commercial and industrial	-	-	-	-	-	-
Residential real estate	1	790	790	-	-	-
Total purchased portfolio	10	8,522	8,588	6	1,166	1,166
Total	17	$ 19,602	$ 19,993	13	$ 1,600	$ 1,600

As of March 31, 2021, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three and nine months ended March 31, 2021. One loan modified in a TDR in the last twelve months totaling $9 thousand defaulted during the three and nine months ended March 31, 2020.

ASC 310-30 Loans

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

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2021	2020	2021	2020
	(In thousands)			
Contractually required payments receivable	$ 49,799	$ 94,672	$ 170,928	$ 222,817
Nonaccretable difference	(401)	(1,040)	(3,344)	(2,263)
Cash flows expected to be collected	49,398	93,632	167,584	220,554
Accretable yield	(9,503)	(28,576)	(31,827)	(62,036)
Fair value of loans acquired	$ 39,895	$ 65,056	$ 135,757	$ 158,518

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

	As of and for the Three Months Ended March 31,		As of and for the Nine Months Ended March 31,	
	2021	2020	2021	2020
	(Dollars in thousands)		(Dollars in thousands)	
Loans acquired during the period	$ -	$ 699	$ 1,035	$ 1,172
Loans at end of period	11,547	12,660	11,547	12,660

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

	For the Three Months Ended March 31,				For the Nine Months Ended March 31,			
	2021		2020		2021		2020	
	(Dollars in thousands)				(Dollars in thousands)			
Beginning balance	$	148,976	$	154,347	$	154,936	$	146,995
Acquisitions		9,503		28,576		31,827		62,036
Accretion		(6,718)		(6,495)		(19,830)		(18,643)
Reclassifications from non-accretable difference to accretable yield		1,074		956		3,346		3,754
Disposals and other changes		(6,735)		(10,656)		(24,179)		(27,414)
Ending balance	$	146,100	$	166,728	$	146,100	$	166,728

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

	March 31, 2021		June 30, 2020	
	(Dollars in thousands)			
Unpaid principal balance	$	458,060	$	417,190
Carrying amount		421,583		383,142

5. Transfers and Servicing of Financial Assets

The Bank sells loans in the secondary market and, for certain loans, retains the servicing responsibility. Consideration for the sale includes the cash received, as well as the related servicing rights asset. The Bank receives fees for the services provided.

Capitalized servicing rights at both March 31, 2021 and June 30, 2020 totaled $2.1 million, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold during the three months ended March 31, 2021 totaled $161 thousand, compared to $6.3 million during the three months ended March 31, 2020. Mortgage loans sold during the nine months ended March 31, 2021 totaled $6.5 million, compared to $28.0 million during the nine months ended March 31, 2020. Mortgage loans serviced for others totaled $5.0 million at March 31, 2021 and $6.3 million at June 30, 2020. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $28.6 million and $18.4 million at March 31, 2021 and June 30, 2020, respectively.

The Bank sold no SBA loans during the three months ended March 31, 2021, compared to $4.1 million during the three months ended March 31, 2020. The Bank sold no SBA loans during the nine months ended March 31, 2021, compared to $10.5 million during the nine months ended March 31, 2020. SBA loans serviced for others totaled $152.9 million at March 31, 2021 and $152.8 million at June 30, 2020.

Mortgage and SBA loans serviced for others are accounted for as sales and therefore are not included on the accompanying balance sheets. The risks inherent in mortgage servicing assets and SBA servicing assets relate primarily to changes in prepayments that result from shifts in interest rates.

Contractually specified servicing fees were $225 thousand and $105 thousand for the three months ended March 31, 2021 and 2020, respectively, and were included as a component of loan-related fees within noninterest income. Contractually specified servicing fees were $778 thousand and $469 thousand for the nine months ended March 31, 2021 and 2020, respectively.

The significant assumptions used in the valuation of the servicing rights included a range of discount rates from 1.3% to 20.2% and a weighted average prepayment speed assumption of 19.1%.

6. **Earnings Per Share (EPS)**

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2021	2020	2021	2020
	(In thousands, except share and per share data)			
Net income	$ 34,162	$ 1,875	$ 50,132	$ 11,518
Weighted average shares used in calculation of basic EPS	8,344,797	9,004,819	8,261,248	9,032,254
Incremental shares from assumed exercise of dilutive securities	76,450	123,832	86,634	155,637
Weighted average shares used in calculation of diluted EPS	8,421,247	9,128,651	8,347,882	9,187,891
Basic earnings per common share	$ 4.09	$ 0.21	$ 6.07	$ 1.28
Diluted earnings per common share	$ 4.06	$ 0.21	$ 6.01	$ 1.25

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the three and nine months ended March 31, 2021 and 2020.

7. **Derivatives and Hedging Activities**

The Bank has stand-alone derivative financial instruments in the form of swap agreements that derive their value from the underlying interest rate. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure arises in the event of nonperformance by the counterparties to these agreements and is limited to the net difference between the calculated amounts to be received and paid, if any. Such differences, which represent the fair value of the derivative instruments, are reflected on the Bank's balance sheet as derivative assets and derivative liabilities. The Bank controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail to meet their obligations.

The Bank currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At March 31, 2021 and June 30, 2020, the Bank had posted cash collateral totaling $2.5 million and $3.3 million, respectively, with dealer banks related to derivative instruments in a net liability position.

The Bank does not offset fair value amounts recognized for derivative instruments. The Bank does not net the amount recognized for the right to reclaim cash collateral against the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Risk Management Policies—Derivative Instruments

The Bank evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net income volatility within an assumed range of interest rates.

Interest Rate Risk Management—Cash Flow Hedging Instruments

The Bank uses variable rate debt as a source of funds for use in the Bank's lending and investment activities and other general business purposes. These debt obligations expose the Bank to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments.

Information pertaining to outstanding swap agreements is as follows:

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
March 31, 2021									
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.19%	3.38%	n/a	$ (851)	$ (851)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.19%	3.23%	n/a	(633)	(633)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.19%	2.77%	n/a	(277)	(277)	Other Liabilities
$ 15,000							$ (1,761)	$ (1,761)	

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
June 30, 2020									
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.30%	3.38%	n/a	$ (1,708)	$ (1,708)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.30%	3.23%	n/a	(1,094)	(1,094)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.30%	2.77%	n/a	(385)	(385)	Other Liabilities
$ 15,000							$ (3,187)	$ (3,187)	

During the three and nine months ended March 31, 2021 and 2020, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three and nine months ended March 31, 2021 and 2020 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. <u>Other Comprehensive Income</u>

The components of other comprehensive income (loss) are as follows:

	Three Months Ended March 31,					
	2021			2020		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ (127)	$ (35)	$ (92)	$ 740	$ 200	$ 540
Change in accumulated loss on effective cash flow hedges	931	252	679	(1,509)	(407)	(1,102)
Total other comprehensive income (loss)	$ 804	$ 217	$ 587	$ (769)	$ (207)	$ (562)

	Nine Months Ended March 31,					
	2021			2020		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ (521)	$ (141)	$ (380)	$ 842	$ 227	$ 615
Change in accumulated loss on effective cash flow hedges	1,426	385	1,041	(1,522)	(412)	(1,110)
Total other comprehensive income	$ 905	$ 244	$ 661	$ (680)	$ 185	$ (495)

Accumulated other comprehensive loss is comprised of the following:

	March 31, 2021	June 30, 2020
	(Dollars in thousands)	
Unrealized gain on available-for-sale debt securities	$ 307	$ 828
Tax effect	(82)	(223)
After tax amount	225	605
Unrealized loss on cash flow hedges	(1,761)	(3,187)
Tax effect	475	860
After tax amount	(1,286)	(2,327)
Accumulated other comprehensive loss	$ (1,061)	$ (1,722)

9. Commitments and Contingencies

Commitments

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

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

	March 31, 2021	June 30, 2020
	(Dollars in thousands)	
Commitments to originate loans	$ 17,736	$ 28,709
Unused lines of credit	5,071	33,146
Standby letters of credit	-	2,323

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling $104 thousand and $52 thousand recorded in other liabilities at March 31, 2021 and June 30, 2020, respectively.

Contingencies

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

10. Fair Value Measurements

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

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

Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Valuations based on significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

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

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

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

Investment securities - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Examples of such instruments include publicly-traded common and preferred stocks. If quoted prices are not available, then fair values are estimated by using pricing models (*i.e.*, matrix pricing) and market interest rates and credit assumptions or quoted prices of securities with similar characteristics and are classified within Level 2 of the valuation hierarchy. Examples of such instruments include government agency and government-sponsored enterprise mortgage-backed securities, as well as certain preferred and trust preferred stocks. Level 3 securities are securities for which significant unobservable inputs are utilized.

Certain investments are measured at fair value using the net asset value per share as a practical expedient. These investments include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally-guaranteed portion of SBA 7(a) loans. The Bank's investment in securities either issued or guaranteed by the U.S. government or its agencies can be redeemed daily at the closing net asset value per share. The Bank's investment in SBA 7(a) loans can be redeemed quarterly with sixty days' notice. In accordance with ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (Or Its Equivalent), these investments have not been included in the fair value hierarchy.

Derivative financial instruments **-** The valuation of the Bank's interest rate swaps are determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of derivatives. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including forward interest rate curves and implied volatilities. Unobservable inputs, such as credit valuation adjustments are insignificant to the overall valuation of the Bank's derivative financial instruments. Accordingly, the Bank has determined that its interest rate derivatives fall within Level 2 of the fair value hierarchy.

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

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

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

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

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

Fair Value of other Financial Instruments:

Cash and cash equivalents - The fair value of cash, due from banks, interest-bearing deposits and Federal Home Loan Bank of Boston ("FHLBB") overnight deposits approximates their relative book values, as these financial instruments have short maturities.

FHLBB stock - The carrying value of FHLBB stock approximates fair value based on redemption provisions of the FHLBB.

Loans - Fair values are estimated for portfolios of loans with similar financial characteristics. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimates of maturity are based on the Bank's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic conditions, lending conditions and the effects of estimated prepayments.

Loans held for sale - The fair value of loans held-for-sale is estimated based on bid quotations received from loan dealers.

Interest receivable - The fair value of this financial instrument approximates the book value as this financial instrument has a short maturity. It is the Bank's policy to stop accruing interest on loans past due by more than 90 days. Therefore, this financial instrument has been adjusted for estimated credit losses.

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Bank's net assets could increase.

FHLBB advances, lease liabilities and subordinated debentures - The fair value of the Bank's borrowings with the FHLBB is estimated by discounting the cash flows through maturity or the next re-pricing date based on current rates available to the Bank for borrowings with similar maturities. The fair value of the Bank's lease liabilities and subordinated debentures are estimated by discounting the cash flows through maturity based on current rates available to the Bank for borrowings with similar maturities.

Off-Balance Sheet Credit-Related Instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of such instruments was nominal at each date presented.

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

	Total	Level 1	Level 2	Level 3
March 31, 2021		(In thousands)		
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,589	$ -	$ 51,589	$ -
Agency mortgage-backed securities	9,270	-	9,270	-
Equity investments measured at net asset value[(1)]	7,199	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 1,761	$ -	$ 1,761	$ -
June 30, 2020				
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,503	$ -	$ 51,503	$ -
Agency mortgage-backed securities	13,415	-	13,415	-
Equity investments measured at net asset value[(1)]	7,239	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 3,187	$	$ 3,187	$ -

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

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

	March 31, 2021			
	Total	Level 1	Level 2	Level 3
		(Dollars in thousands)		
Collateral dependent impaired loans	$ 2,071	$ -	$ -	$ 2,071
Real estate owned and other repossessed collateral	2,885	-	-	2,885
Loan servicing rights	2,149	-	-	2,149
	June 30, 2020			
	Total	Level 1	Level 2	Level 3
		(Dollars in thousands)		
Collateral dependent impaired loans	$ 3,095	$ -	$ -	$ 3,095
Real estate owned and other repossessed collateral	3,274	-	-	3,274
Loan servicing rights	2,113	-	-	2,113

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

	Fair Value March 31, 2021	Fair Value June 30, 2020	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 2,071	$ 3,095	Appraisal of collateral(1)
Real estate owned and other repossessed collateral	2,885	3,274	Appraisal of collateral(1)
Loan servicing rights	2,149	2,113	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 20% to 40%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 19.1% to 19.9%. For discount rates, the range was 1.3% to 21.1%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the three and nine months ended March 31, 2021 and 2020.

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Nine Months Ended March 31, 2021	Nine Months Ended March 31, 2020
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 49	$ (222)	$ (12)	$ (439)
Real estate owned and other repossessed collateral	-	-	(337)	395
Loan servicing rights	276	(215)	170	(344)
Total	$ 325	$ (437)	$ (179)	$ (388)

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

	Carrying Amount	Total	Level 1	Level 2	Level 3
			(Dollars in thousands)		
March 31, 2021					
Financial assets:					
Cash and cash equivalents	$ 464,426	$ 464,426	$ 464,426	$ -	$ -
Securities	60,859	60,859	-	60,859	-
Equity investments measured at net asset value(1)	7,199	7,199	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	106,303	106,303	-	106,303	-
Loans, net	993,988	998,027	-	-	998,027
Accrued interest receivable	3,571	3,571	-	3,571	-
Financial liabilities:					
Deposits	1,298,704	1,301,276	-	1,301,276	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	108,101	108,102	-	108,102	-
Lease liability	6,471	6,499	-	6,499	-
Subordinated debt	15,023	15,890	-	-	15,890
Interest rate swaps	1,761	1,761	-	1,761	-
June 30, 2020					
Financial assets:					
Cash and cash equivalents	$ 143,657	$ 143,657	$ 143,657	$ -	$ -
Securities	64,918	64,918	-	64,918	-
Equity investments measured at net asset value(1)	7,239	7,239	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	29,453	29,453	-	29,453	-
Loans, net	962,424	971,371	-	-	971,371
Accrued interest receivable	4,063	4,063	-	4,063	-
Financial liabilities:					
Deposits	1,012,352	1,019,120	-	1,019,120	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	12,440	12,440	-	12,440	-
Capital Lease Obligation	4,496	4,669	-	4,669	-
Subordinated debt	14,940	15,544	-	-	15,544
Interest rate swaps	3,187	3,187	-	3,187	-

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

11. Subsequent Events

The Bank evaluated for subsequent events through the date the financial statements were issued. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended March 31, 2021.

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

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's (the "Bank's") Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the Federal Deposit Insurance Corporation ("FDIC").

A Note about Forward Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the ongoing 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; changes in general business and economic conditions on a national basis and in the local markets in which the Bank operates, including changes which adversely affect borrowers' ability to service and repay 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 FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

Business Overview

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

On May 15, 2019, Northeast Bancorp, the Bank's former bank holding company, merged with and into the Bank, with the Bank continuing as the surviving entity (the "Reorganization"). The Reorganization eliminated the bank holding company structure and the Bank became the top-level company in the organization. Additionally, the commitments made by Northeast Bancorp to the Federal Reserve were replaced with the following standards relating to its capital levels and asset portfolio composition, which have been incorporated into the Bank's policies and procedures.

- Maintain a Tier 1 leverage ratio of at least 10% (subsequently lowered to 9%);
- Maintain a Total capital ratio of at least 13.5% (subsequently lowered to 11%);
- Limit purchased loans to 60% of total loans;
- Maintain a ratio of the Bank's loans to core deposits of not more than 125%; and

- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital.

These standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, while permitting further growth in the Bank's loan portfolio. Effective March 1, 2021, the Maine Bureau of Financial Institutions requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 11.0%

As of March 31, 2021, the Bank had total assets of $1.71 billion, total deposits of $1.30 billion, and shareholders' equity of $216.9 million. We gather retail deposits through our nine full-service branches in Maine and through our online deposit program, ableBanking; originate loans through our Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is a highly unusual, unprecedented and evolving public health and economic crisis that may have a significant adverse impact on the economy, the banking industry and the Bank in future fiscal periods, all subject to a high degree of uncertainty.

On March 27, 2020, Congress passed, and the President signed, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to address the economic effects of the COVID-19 pandemic, including the establishment of participating in the Small Business Administration's (the "SBA") Paycheck Protection Program (the "PPP"). The CARES Act appropriated $349 billion for "paycheck protection loans" through the PPP. The amount appropriated for the PPP was subsequently increased to $659 billion. Additionally, on December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "Economic Aid Act") was enacted which, among other items provides for a third round of PPP loans.

- *PPP*. As of March 31, 2021, the Bank had originated more than 27,000 PPP loans totaling approximately $2.76 billion. Qualifying PPP loans are fully guaranteed by the U.S. government, have an initial term of up to five years and earn interest at rate of 1%. The Bank estimates that hundreds of thousands of jobs were positively impacted by the Bank's participation in the PPP and currently expects that a significant portion of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. On May 5, 2021, the SBA stopped accepting PPP loan applications from most lenders, including the Bank, because PPP funding has been exhausted. As previously announced, the Bank has entered into an agreement with The Loan Source, Inc. ("Loan Source") under which the Bank sold PPP loans originated by the Bank to Loan Source. The Bank has also contracted to act as the correspondent for Loan Source in connection with Loan Source's pledge of PPP loans to the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF"). The PPPLF extends credit to depository institutions with a term of up to five years at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility.

- *Loan Deferrals*. As of March 31, 2021, the Bank granted short-term deferments on loan balances of $188.8 million. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided they perform in accordance with the modified terms. Of the $188.8 million of loan deferrals, $142.1 million were full payment deferrals, of which only $13.9 million are still on deferral as of March 31, 2021. Of the full payment deferrals that have resumed payments, as of March 31, 2021, $124.4 million are current, $600 thousand are 30-59 days past due, $2.0 million are 60-89 days past due, and $1.2 million are greater than 90 days past due. The remaining $46.7 million of deferrals were interest-only deferrals, whereby the customer is required to make interest-only payments during the deferral period. Of the $46.7 million, as of March 31, 2021, all but $200 thousand of the interest-only loan payments are current and $14.6 million remained under interest-only deferral.

Strategy

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

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

Continuing our community banking tradition. With a history that dates back to 1872, our Community Banking Division maintains its focus on sales and service, with the goal of attracting and retaining deposits, and serving the lending needs of retail and commercial customers within our core markets.

Generating deposits to fund our business. We offer a full line of deposit products through our ten-branch network located in the Community Banking Division's market. ableBanking is a direct savings platform providing an additional channel to raise core deposits to fund our asset strategy.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies discussed in our Annual Report on Form 10-K for the year ended June 30, 2020, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported. There has been no material change in critical accounting policies during the three and nine months ended March 31, 2021.

Overview

Net income increased by $32.3 million to $34.2 million for the three months ended March 31, 2021, compared to net income of $1.9 million for the three months ended March 31, 2020. The increase was primarily due to a higher gain on sale of PPP loans, higher correspondent fee income, higher net interest income and a lower provision for loan losses.

Net income increased by $38.6 million to $50.1 million for the nine months ended March 31, 2021, compared to net income of $11.5 million for the nine months ended March 31, 2020. The increase was primarily due to a higher gain on sale of PPP loans, higher correspondent fee income, higher net interest income and a lower provision for loan losses.

Financial Condition

Overview

As of March 31, 2021, total assets were $1.71 billion, an increase of $457.1 million, or 36.3%, from total assets of $1.26 billion as of June 30, 2020. The principal components of the changes in the balance sheet follow:

1. Cash and short-term investments increased by $320.8 million, or 223.3%, primarily due to the timing of a large deposit account related to PPP payoff collections that is subject to significant fluctuation given the PPP activity during the quarter ended March 31, 2021.

2. The following table highlights the changes in the loan portfolio for the three and nine months ended March 31, 2021:

Loan Portfolio Changes

	Three Months Ended March 31, 2021			
	March 31, 2021 Balance	December 31, 2020 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 433,497	$ 418,584	$ 14,913	3.56%
National Lending Originated	473,930	478,423	(4,493)	(0.94%)
SBA National	42,707	48,797	(6,090)	(12.48%)
Community Banking	52,674	55,773	(3,099)	(5.56%)
Total	$ 1,002,808	$ 1,001,577	$ 1,231	0.12%

	Nine Months Ended March 31, 2021			
	March 31, 2021 Balance	June 30, 2020 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 433,497	$ 386,624	$ 46,873	12.12%
National Lending Originated	473,930	467,612	6,318	1.35%
SBA National	42,707	47,095	(4,388)	(9.32%)
Community Banking	52,674	70,271	(17,597)	(25.04%)
Total	$ 1,002,808	$ 971,602	$ 31,206	3.21%

Loans generated by the Bank's National Lending Division for the quarter ended March 31, 2021 totaled $109.2 million, which consisted of $39.9 million of purchased loans, at an average price of 93.8% of unpaid principal balance, and $69.3 million of originated loans.

Additionally, the Bank originated $2.25 billion of loans in connection with the PPP, of which $2.14 billion were sold during the quarter ended March 31, 2021. The Bank recorded a net gain of $33.0 million from the sale of PPP loans, primarily resulting from the recognition of net deferred origination fees upon the sale of the loans. The remaining $106.1 million of PPP loans are classified as held for sale at March 31, 2021, net of unamortized deferred fees.

An overview of the Bank's National Lending Division portfolio follows:

	National Lending Portfolio					
	Three Months Ended March 31,					
	2021			2020		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 42,547	$ 69,327	$ 111,874	$ 70,860	$ 48,772	$ 119,632
Net investment basis	39,895	69,327	109,222	65,056	48,772	113,828
Loan returns during the period:						
Yield	8.48%	7.28%	7.83%	10.05%	7.35%	8.50%
Total Return on Purchased Loans (1)	8.48%	7.28%	7.83%	10.05%	7.35%	8.50%
	Nine Months Ended March 31,					
	2021			2020		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 146,135	$ 194,842	$ 340,977	$ 167,977	$ 187,872	$ 355,849
Net investment basis	135,757	194,842	330,599	158,518	187,872	346,390
Loan returns during the period:						
Yield	8.88%	7.06%	7.90%	9.85%	7.53%	8.51%
Total Return on Purchased Loans (1)	8.88%	7.06%	7.90%	10.00%	7.53%	8.57%
Total loans as of period end:						
Unpaid principal balance	$ 471,778	$ 473,930	$ 945,708	$ 432,920	$ 512,964	$ 945,884
Net investment basis	433,497	473,930	907,427	395,944	512,964	908,908

(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."

3. Deposits increased by $286.4 million, or 28.3%, from June 30, 2020. The increase was attributable to increases in demand deposits of $318.8 million, or 336.5%, and savings and interest checking accounts of $128.3 million, or 93.1%, partially offset by a decrease in time deposits of $181.4 million, or 38.0%, due to intentional runoff. The increase in demand deposits was primarily due to the timing of a large deposit account related to PPP collections and payoffs that is subject to significant fluctuation given the PPP activity during the quarter ended March 31, 2021.

4. Shareholders' equity increased by $52.1 million, or 31.6%, from June 30, 2020, primarily due to net income of $50.1 million. Shareholders' equity also increased by $1.0 million as a result of stock options exercised, which resulted in 153 thousand shares of common stock issued, and $660 thousand due to a decrease in accumulated other comprehensive loss.

Assets

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

Cash and cash equivalents were $464.4 million as of March 31, 2021, an increase of $320.8 million, or 223.3%, from $143.7 million at June 30, 2020. The increase is primarily due to the timing of a large deposit account related to PPP payoff collections that is subject to significant fluctuation given the PPP activity during the quarter ended March 31, 2021. Cash and short-term investments may remain at an elevated level while PPP collections, including forgiveness amounts, continue, depending on the timing of receipts and remittances of cash amounts.

Investment securities totaled $68.1 million as of March 31, 2021, compared to $72.2 million as of June 30, 2020, representing a decrease of $4.1 million, or 5.7%, primarily due to principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.6 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, and an investment of $1.6 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At March 31, 2021, securities with a fair value of $60.9 million were pledged for potential and outstanding borrowings.

Loans

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

	Community Banking	National Lending	SBA Division	Total	Percent of Total
March 31, 2021		(Dollars in thousands)			
Originated loans:					
Commercial real estate: non-owner occupied	$ 9,894	$ 166,545	$ 20,599	$ 197,038	19.65%
Commercial real estate: owner occupied	6,038	62,611	18,679	87,328	8.71%
Commercial and industrial	2,808	219,142	3,429	225,379	22.47%
Residential real estate	32,721	25,632	-	58,353	5.82%
Consumer	1,213	-	-	1,213	0.12%
Subtotal	52,674	473,930	42,707	569,311	56.77%
Purchased loans:					
Commercial real estate: non-owner occupied	-	277,990	-	277,990	27.72%
Commercial real estate: owner occupied	-	146,121	-	146,121	14.57%
Commercial and industrial	-	350	-	350	0.04%
Residential real estate	-	9,036	-	9,036	0.90%
Subtotal	-	433,497	-	433,497	43.23%
Total	$ 52,674	$ 907,427	$ 42,707	$ 1,002,808	100.00%
June 30, 2020					
Originated loans:					
Commercial real estate: non-owner occupied	$ 11,735	$ 180,261	$ 24,873	$ 216,869	22.32%
Commercial real estate: owner occupied	7,777	62,369	17,977	88,123	9.07%
Commercial and industrial	7,860	200,309	4,245	212,414	21.86%
Residential real estate	41,325	24,673	-	65,998	6.80%
Consumer	1,574	-	-	1,574	0.16%
Subtotal	70,271	467,612	47,095	584,978	60.21%
Purchased loans:					
Commercial real estate: non-owner occupied	-	238,429	-	238,429	24.54%
Commercial real estate: owner-occupied	-	136,116	-	136,116	14.00%
Commercial and industrial	-	355	-	355	0.04%
Residential real estate	-	11,724	-	11,724	1.21%
Subtotal	-	386,624	-	386,624	39.79%
Total	$ 70,271	$ 854,236	$ 47,095	$ 971,602	100.00%

Classification of Assets

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

In cases where a borrower experiences financial difficulty and the Bank makes certain concessionary modifications, the loan is classified as a troubled debt restructuring ("TDR"). Concessionary modifications may include adjustments to interest rates, extensions of maturity, or other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, a loan classified as a TDR remains classified as such until the loan is paid off.

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

The following table details the Bank's nonperforming assets and other credit quality indicators as of March 31, 2021 and June 30, 2020. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Nonperforming Assets at March 31, 2021		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 4,790	$ 14,626	$ 19,416
Commercial and industrial	1,408	165	1,573
Residential real estate	643	1,268	1,911
Consumer	23	-	23
Total nonperforming loans	6,864	16,059	22,923
Real estate owned and other repossessed collateral	800	2,085	2,885
Total nonperforming assets	$ 7,664	$ 18,144	$ 25,808
Ratio of nonperforming loans to total loans			2.29%
Ratio of nonperforming assets to total assets			1.51%
Ratio of loans past due to total loans			1.67%
Nonperforming loans that are current			$ 9,443
Commercial loans risk rated substandard or worse			$ 15,170
Troubled debt restructurings:			
On accrual status			$ 20,180
On nonaccrual status			$ 7,561

	Nonperforming Assets at June 30, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 6,861	$ 9,946	$ 16,807
Commercial and industrial	2,058	210	2,268
Residential real estate	832	1,169	2,001
Consumer	29	-	29
Total nonperforming loans	9,780	11,325	21,105
Real estate owned and other repossessed collateral	1,028	2,246	3,274
Total nonperforming assets	$ 10,808	$ 13,571	$ 24,379
Ratio of nonperforming loans to total loans			2.17%
Ratio of nonperforming assets to total assets			1.94%
Ratio of loans past due to total loans			1.69%
Nonperforming loans that are current			$ 5,703
Commercial loans risk rated substandard or worse			$ 20,200
Troubled debt restructurings:			
On accrual status			$ 11,787
Nonaccrual status			$ 4,670

As of March 31, 2021, nonperforming assets totaled $25.8 million, or 1.51% of total assets, compared to $24.4 million, or 1.94% of total assets, as of June 30, 2020.

OREO decreased by $389 thousand, or 11.9%, to $2.9 million at March 31, 2021, compared to $3.3 million at June 30, 2020. The decrease was the result of write-downs on two existing properties and the sale of another OREO property during the period, partially offset by the addition of one property during the nine months ended March 31, 2021.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that management considers adequate to provide for probable loan losses based upon evaluation of known and inherent risks in the loan portfolio. The allowance is increased by providing for loan losses through a charge to expense and by recoveries of loans previously charged-off and is reduced by loans being charged-off.

The Bank's allowance for loan losses amounted to $8.8 million as of March 31, 2021, compared to $9.2 million as of June 30, 2020. The decrease in the period is primarily the result of $889 thousand in net charge offs during the period, and the decrease in the originated loan portfolio, specifically the SBA National portfolio, during the period.

The following table details ratios related to the allowance for loan losses for the periods indicated.

	March 31, 2021	June 30, 2020	March 31, 2020
Allowance for loan losses to nonperforming loans	38.48%	43.49%	36.14%
Allowance for loan losses to total loans	0.88%	0.94%	0.85%
Last twelve months of net-charge offs to average loans	0.12%	0.10%	0.07%

While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Bank will not have to increase its provision for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors.

Other Assets

Premises and equipment, net, increased by $2.2 million, or 23.1%, to $11.8 million at March 31, 2021, compared to $9.7 million at June 30, 2020. The increase was primarily due to the capitalization of the Bank's right-of-use assets for two new leases, partially offset by depreciation for the period.

Loan servicing rights, net totaled $2.1 million at March 31, 2021 and June 30, 2020. The $36 thousand increase was the result of the revaluation of the servicing rights performed on a quarterly basis, which resulted in a net recovery, partially offset by the payoff of SBA loans and amortization during the nine months ended March 31, 2021.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased $317 thousand, or 1.9%, to $17.4 million at March 31, 2021, compared to $17.1 million at June 30, 2020. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 7.2% of the Bank's regulatory total capital at March 31, 2021.

Deposits, FHLBB Advances, Subordinated Debt, Liquidity, Capital, and Stock Repurchases

Deposits

The Bank's principal source of funding is its core deposit accounts. At March 31, 2021, non-maturity accounts and non-brokered insured time deposits represented 99.4% of total deposits.

Total deposits increased by $286.4 million, or 28.3%, from June 30, 2020. The increase was attributable to increases in demand deposits of $318.8 million, or 336.5%, and savings and interest checking accounts of $128.3 million, or 93.1%, partially offset by a decrease in time deposits of $181.4 million, or 38.0%, due to intentional runoff. The increase in demand deposits was primarily due to the timing of a large deposit account related to PPP collections and payoffs that is subject to significant fluctuation given the PPP activity during the quarter ended March 31, 2021.

The composition of total deposits at March 31, 2021 and June 30, 2020 is as follows:

	March 31, 2021		June 30, 2020	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 413,570	31.85%	$ 68,782	7.30%
NOW accounts	225,609	17.37%	66,491	7.06%
Regular and other savings	40,471	3.12%	34,570	3.67%
Money market deposits	323,027	24.87%	270,835	28.74%
Total non-certificate accounts	1,002,677	77.21%	440,678	46.77%
Term certificates of $250 thousand or less	288,606	22.22%	501,192	53.18%
Term certificates greater than $250 thousand	7,421	0.57%	501	0.05%
Total certificate accounts	296,027	22.79%	501,693	53.23%
Total deposits	$ 1,298,704	100.00%	$ 942,371	100.00%

FHLBB Advances

Advances from the Federal Home Loan Bank of Boston (the "FHLBB") were $15.0 million at both March 31, 2021 and June 30, 2020. As of March 31, 2021, the Bank had pledged certain residential and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of March 31, 2021, securities with a fair value of $60.8 million were pledged for potential and outstanding borrowings.

Subordinated Debt

On June 29, 2016, Northeast Bancorp entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which Northeast Bancorp issued subordinated notes equal to $15.1 million in aggregate principal amount with an interest rate of 6.75% fixed-to-floating maturing in 2026 ("subordinated notes"). The subordinated notes were assumed by the Bank as a result of the Reorganization in May 2019. The subordinated notes, net of issuance costs, totaled $15.0 million and $14.9 million at March 31, 2021 and June 30, 2020, respectively.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at March 31, 2021, in addition to traditional retail deposit products:

	As of March 31, 2021 (Dollars in thousands)	
Brokered time deposits	$ 428,680	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	178,797	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 624,977	

Retail deposits and other core deposit sources including deposit listing services are used by the Bank to manage its overall liquidity position. While we currently do not seek wholesale funding such as FHLBB advances and brokered deposits, the ability to raise them remains an important part of our liquidity contingency planning. While we closely monitor and forecast our liquidity position, it is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of our forecast assumptions may increase or decrease our overall available liquidity. To utilize the FHLBB advance capacity, the purchase of additional capital stock of the FHLBB may be required.

At March 31, 2021, the Bank had $613.0 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 35.8% of total assets. The Bank also had $464.4 million of cash and cash equivalents at March 31, 2021.

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

Capital

At March 31, 2021, shareholders' equity was $216.9 million, an increase of $52.1 million, or 31.6% from June 30, 2020. Book value per outstanding common share was $25.99 at March 31, 2021 and $20.09 at June 30, 2020.

As of March 31, 2021, the Bank's Tier 1 leverage capital ratio was 14.3%, compared to 13.4% at June 30, 2020, and the Total capital ratio was 23.4% at March 31, 2021, compared to 19.6% at June 30, 2020. Capital ratios were affected by earnings during the nine months ended March 31, 2021.

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

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

As of March 31, 2021 and June 30, 2020, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Common equity tier 1 capital, Total capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At March 31, 2021 and June 30, 2020, the Bank's ratios exceeded the regulatory requirements. Management believes that the Bank met all capital adequacy requirements to which they were subject as of March 31, 2021 and June 30, 2020. The Bank's regulatory capital ratios are set forth below as of March 31, 2021 and June 30, 2020.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(Dollars in thousands)						
March 31, 2021							
Common equity tier 1 capital to risk-weighted assets	$ 217,889	21.07%	$ 46,534	≥4.5%	$ 67,216	≥6.5%	7.0%
Total capital to risk-weighted assets	241,834	23.39%	87,727	≥8.0%	103,409	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	217,889	21.07%	62,045	≥6.0%	82,727	≥8.0%	8.5%
Tier 1 capital to average assets	217,889	14.32%	60,859	≥4.0%	76,073	≥5.0%	4.0%
June 30, 2020							
Common equity tier 1 capital to risk-weighted assets	$ 166,423	17,13%	$ 43,730	≥4.5%	$ 63,166	≥6.5%	7.0%
Total capital to risk-weighted assets	190,593	19.61%	77,742	≥8.0%	97,178	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	166,423	17.13%	58,307	≥6.0%	77,742	≥8.0%	8.5%
Tier 1 capital to average assets	166,423	13.36%	49,839	≥4.0%	62,299	≥5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Bank is required to maintain a capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses and to engage in share repurchases. The required amount of the capital conservation buffer is 2.5%.

Stock Repurchases

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remain available to repurchase. The repurchase program may be suspended or terminated at any time without prior notice and will expire October 21, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. On April 21, 2021, the FDIC and MBFI approved the number of shares available under this plan to increase up to 1,000,000 shares, or up to $25.0 million of common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire July 21, 2021. No shares have been repurchased under this plan.

Off-Balance Sheet Financial Instruments

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

See Part I. Item I. "Notes to Unaudited Financial Statements – Note 9: Commitments and Contingencies" for further discussion.

Results of Operations

General

Net income increased by $32.3 million to $34.2 million for the three months ended March 31, 2021, compared to net income of $1.9 million for the three months ended March 31, 2020. The increase was primarily due to a higher gain on sale of PPP loans, higher correspondent fee income, higher net interest income and a lower provision for loan losses. Net income increased by $38.6 million to $50.1 million for the nine months ended March 31, 2021, compared to net income of $11.5 million for the nine months ended March 31, 2020. The increase was primarily due to a higher gain on sale of PPP loans, higher correspondent fee income, higher net interest income and a lower provision for loan losses.

Net Interest Income

Three Months Ended March 31, 2021 and 2020

Net interest and dividend income before provision for loan losses increased by $2.3 million to $18.6 million for the quarter ended March 31, 2021, compared to $16.3 million for the quarter ended March 31, 2020. The increase was primarily due to the following:

- A decrease in deposit interest expense of $2.4 million, due to lower interest rates, partially offset by higher average balances; and
- An increase in PPP loan interest income of $2.6 million, due to higher interest income earned on PPP loans; partially offset by
- A decrease in interest income earned on the National Lending Division's purchased and originated portfolios of $1.3 million, due to lower interest rates in both portfolios and lower average balances in the National Lending Division's originated portfolio; and
- An increase of $300 thousand in interest expense due to advances taken from the PPPLF to fund PPP originations during the quarter ended March 31, 2021.

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

	Interest Income and Yield on Loans					
	Three Months Ended March 31,					
	2021			2020		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 52,852	$ 658	5.05%	$ 79,325	$ 1,036	5.25%
SBA National	44,775	663	6.01%	53,643	952	7.14%
National Lending:						
Originated	473,881	8,501	7.28%	497,773	9,092	7.35%
Purchased	406,979	8,513	8.48%	367,486	9,186	10.05%
Total National Lending	880,860	17,014	7.83%	865,259	18,278	8.50%
Total excluding SBA PPP	$ 978,487	$ 18,335	7.60%	$ 998,227	$ 20,266	8.17%
SBA PPP	$ 481,853	$ 2,558	2.15%	$ -	$ -	0.00%
Total including SBA PPP	$ 1,460,340	$ 20,893	5.80%	$ 998,227	$ 20,266	8.17%

(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 March 31, 2020, transactional income decreased by $731 thousand for the quarter ended March 31, 2021, while regularly scheduled interest and accretion increased by $58 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended March 31, 2021 was 8.5%, a decrease from 10.1% for the quarter ended March 31, 2020. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended March 31,			
	2021		2020	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 6,789	6.77%	$ 6,731	7.36%
Transactional income:				
Gain on real estate owned	-	0.00%	-	0.00%
Accelerated accretion and loan fees	1,724	1.71%	2,455	2.69%
Total transactional income	1,724	1.71%	2,455	2.69%
Total	$ 8,513	8.48%	$ 9,186	10.05%

(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 quarter. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,					
	2021			2020		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 69,034	$ 158	0.93%	$ 78,369	$ 426	2.19%
Loans (1) (2) (3)	1,460,340	20,893	5.80%	998,227	20,266	8.17%
Federal Home Loan Bank stock	2,410	6	1.01%	2,295	29	5.08%
Short-term investments (4)	387,198	104	0.11%	114,794	366	1.28%
Total interest-earning assets	1,918,982	21,161	4.47%	1,193,685	21,087	7.11%
Cash and due from banks	2,112			3,054		
Other non-interest earning assets	62,127			37,634		
Total assets	$ 1,983,221			$ 1,234,373		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 180,630	$ 90	0.20%	$ 78,777	$ 104	0.53%
Money market accounts	316,116	347	0.45%	279,852	1,105	1.59%
Savings accounts	38,500	10	0.11%	33,912	13	0.15%
Time deposits	587,440	1,356	0.94%	519,980	3,006	2.33%
Total interest-bearing deposits	1,122,686	1,803	0.65%	912,521	4,228	1.86%
Federal Home Loan Bank advances	39,306	145	1.50%	39,011	226	2.33%
PPPLF advances	345,063	300	0.35%	-	-	0.00%
Subordinated debt	15,015	282	7.62%	14,897	282	7.61%
Capital lease obligations	6,588	28	1.72%	4,997	30	2.41%
Total interest-bearing liabilities	1,528,658	2,558	0.68%	971,426	4,766	1.97%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	238,756			89,248		
Other liabilities	20,850			8,671		
Total liabilities	1,788,264			1,069,345		
Shareholders' equity	194,957			165,028		
Total liabilities and shareholders' equity	$ 1,983,221			$ 1,234,373		
Net interest income		$ 18,603			$ 16,321	
Interest rate spread			3.79%			5.14%
Net interest margin (5)			3.93%			5.50%
Cost of funds (6)			0.59%			1.81%

(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 FHLBB overnight deposits and other interest-bearing deposits.
(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.
(6) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

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

	Three Months Ended March 31, 2021 Compared to 2020		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (46)	$ (222)	$ (268)
Loans	7,544	(6,917)	627
Federal Home Loan Bank stock	1	(24)	(23)
Short-term investments	290	(552)	(262)
Total interest-earning assets	7,789	(7,715)	74
Interest-bearing liabilities:			
Interest-bearing deposits	573	(2,998)	(2,425)
Federal Home Loan Bank advances	2	(83)	(81)
PPPLF advances	300	-	300
Lease liability	8	(10)	(2)
Total interest-bearing liabilities	883	(3,091)	(2,208)
Total change in net interest income	$ 6,906	$ (4,624)	$ 2,282

Nine Months Ended March 31, 2021 and 2020

Net interest and dividend income before provision for loan losses increased by $1.4 million to $49.0 million for the nine months ended March 31, 2021, compared to $47.6 million for the nine months ended March 31, 2020. The increase was primarily due to the following:

- A decrease in deposit interest expense of $5.3 million, due to lower interest rates, partially offset by higher average balances; and
- An increase in PPP loan interest income of $2.6 million, due to higher interest income earned on PPP loans; partially offset by
- A decrease in interest income earned on the National Lending Division's originated portfolio of $2.5 million, due to lower interest rates and lower average balances;
- A decrease in interest income earned on the SBA National and Community Banking portfolios of $2.9 million, due to lower interest rates and lower average balances;
- A decrease in interest income earned on short-term investments of $809 thousand, due to lower rates earned, partially offset by higher average balances; and
- An increase of $302 thousand in interest expense due to advances taken from the PPPLF to fund PPP originations during the quarter ended March 31, 2021.

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

	Interest Income and Yield on Loans					
	Nine Months Ended March 31,					
	2021			2020		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 59,272	$ 2,160	4.85%	$ 85,254	$ 3,494	5.45%
SBA National	47,236	1,835	5.17%	57,939	3,424	7.87%
National Lending:						
Originated	459,000	24,331	7.06%	474,568	26,834	7.53%
Purchased	392,183	26,142	8.88%	347,278	25,707	9.85%
Total National Lending	851,183	50,473	7.90%	821,846	52,541	8.51%
Total excluding SBA PPP	$ 957,691	$ 54,468	7.58%	$ 965,039	$ 59,459	8.20%
SBA PPP	$ 164,053	$ 2,638	2.14%	$ -	$ -	0.00%
Total including SBA PPP	$ 1,121,744	$ 57,106	6.78%	$ 965,039	$ 59,459	8.20%

(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 nine months ended March 31, 2020, transactional income for the nine months ended March 31, 2021 decreased by $1.1 million, while regularly scheduled interest and accretion increased by $1.2 million due to the increase in average balances. The total return on purchased loans for the nine months ended March 31, 2021 was 8.9%, a decrease from 10.0% for the nine months ended March 31, 2020. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Nine Months Ended March 31,			
	2021		2020	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 20,466	6.95%	$ 19,311	7.40%
Transactional income:				
Gain on real estate owned	-	0.00%	395	0.15%
Accelerated accretion and loan fees	5,676	1.93%	6,396	2.45%
Total transactional income	5,676	1.93%	6,791	2.60%
Total	$ 26,142	8.88%	$ 26,102	10.00%

(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 quarter. Total return is considered a non-GAAP financial measure.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the nine months ended March 31, 2021 and 2020.

	Nine Months Ended March 31,					
	2021			2020		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 70,539	$ 641	1.21%	$ 80,494	$ 1,320	2.18%
Loans (1) (2) (3)	1,121,744	57,106	6.78%	965,039	59,459	8.20%
Federal Home Loan Bank stock	1,725	51	3.94%	1,876	66	4.68%
Short-term investments (4)	232,237	201	0.12%	84,025	995	1.58%
Total interest-earning assets	1,426,245	57,999	5.42%	1,131,434	61,840	7.27%
Cash and due from banks	2,703			2,820		
Other non-interest earning assets	47,581			38,633		
Total assets	$ 1,476,529			$ 1,172,887		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 143,938	$ 330	0.31%	$ 71,614	$ 241	0.45%
Money market accounts	312,797	1,259	0.54%	271,506	3,268	1.60%
Savings accounts	37,771	36	0.13%	34,236	43	0.17%
Time deposits	469,793	5,765	1.63%	489,396	9,173	2.49%
Total interest-bearing deposits	964,299	7,390	1.02%	866,752	12,725	1.95%
Federal Home Loan Bank advances	22,984	395	2.29%	30,055	569	2.52%
PPPLF advances	113,932	302	0.35%	-	-	0.00%
Subordinated debt	14,983	845	7.51%	14,869	845	7.56%
Capital lease obligations	5,793	84	1.93%	5,352	98	2.44%
Total interest-bearing liabilities	1,121,991	9,016	1.07%	917,028	14,237	2.07%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	157,569			86,735		
Other liabilities	17,527			8,730		
Total liabilities	1,297,087			1,012,493		
Shareholders' equity	179,442			160,394		
Total liabilities and shareholders' equity	$ 1,476,529			$ 1,172,887		
Net interest income		$ 48,983			$ 47,603	
Interest rate spread			4.35%			5.20%
Net interest margin (5)			4.58%			5.60%
Cost of funds (6)			0.94%			1.89%

(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 FHLBB overnight deposits and other interest-bearing deposits.
(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.
(6) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

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

	Nine Months Ended March 31, 2021 Compared to 2020		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (148)	$ (531)	$ (679)
Loans	8,812	(11,165)	(2,353)
Federal Home Loan Bank stock	(5)	(10)	(15)
Short-term investments	687	(1,481)	(794)
Total interest-earning assets	9,346	(13,187)	(3,841)
Interest-bearing liabilities:			
Interest-bearing deposits	358	(5,693)	(5,335)
Federal Home Loan Bank advances	(125)	(49)	(174)
PPPLF advances	302	-	302
Subordinated debt	6	(6)	-
Lease liability	7	(21)	(14)
Total interest-bearing liabilities	548	(5,769)	(5,221)
Total change in net interest income	$ 8,798	$ (7,418)	$ 1,380

Provision for Loan Losses

Quarterly, the Bank determines the amount of the allowance for loan losses that is appropriate to provide for losses inherent in the Bank's loan portfolios, with the provision for loan losses determined by the net change in the allowance for loan losses. For loans accounted for under ASC 310-30, a provision for loan loss is recorded when estimates of future cash flows are lower than had been previously expected. See Part I. Item I. "Notes to Unaudited Financial Statements — Note 4: Loans, Allowance for Loan Losses and Credit Quality" for further discussion.

Three Months Ended March 31, 2021 and 2020

The provision for loan losses for the three months ended March 31, 2021 decreased by $3.7 million to a credit of $211 thousand. The decrease in the Bank's provision (credit) for loan losses was primarily the result of an increased general factor across all portfolios, primarily the SBA portfolio, based on management's analysis of the effect of the COVID-19 pandemic on the loan portfolio during the three months ended March 31, 2020, as compared to no increase in general factors during the three months ended March 31, 2021.

Nine Months Ended March 31, 2021 and 2020

The provision for loan losses for the nine months ended March 31, 2021 decreased by $3.1 million to $531 thousand. The decrease in the Bank's provision for loan losses was primarily the result of an increased general factor across all portfolios, primarily the SBA portfolio, based on management's analysis of the effect of the COVID-19 pandemic on the portfolio during the nine months ended March 31, 2020, as compared to more minor increases in general factors during the nine months ended March 31, 2021, partially offset by an $825 thousand decrease in specific reserves over the period.

Noninterest Income
Three Months Ended March 31, 2021 and 2020

Noninterest income increased by $38.6 million for the quarter ended March 31, 2021, compared to the quarter ended March 31, 2020, principally due to the following:

- An increase in gain on sale of PPP loans of $33.0 million, due to the sale of PPP loans with a total principal balance of $2.14 billion, which resulted in a net gain based on the recognition of net deferred fees in the quarter ended March 31, 2021; and
- An increase in correspondent fee income of $6.0 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. Under the correspondent arrangement, the Bank earns a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the quarter is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 1,098
Amortization of Purchased Accrued Interest	922
Earned Net Servicing Interest	3,950
Total	$ 5,970

A summary of PPP loans purchased by Loan Source and related amounts that the Bank will earn over the expected life of the loans is as follows:

Quarter	PPP Loans Purchased by Loan Source	Correspondent Fee	Purchased Accrued Interest[1]	Total[2]
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Q2 FY 2021	1,333,500	495	3,766	4,261
Q3 FY 2021	2,141,900	-	598	598
Total	$ 6,860,400	$ 8,734	$ 7,856	$ 16,590
Less amounts recognized in Q3 FY 21		(1,098)	(922)	(2,020)
Less amounts recognized in previous quarters		(1,903)	(891)	(2,794)
Amount remaining to be recognized		$ 5,733	$ 6,043	$ 11,776

(1) - Northeast Bank's share
(2) - Expected to be recognized into income over approximate life of loans

These increases were partially offset by:

- A decrease in gain on sale of SBA loans of $237 thousand, since no traditional SBA loans were sold in the quarter ended March 31, 2021; and
- A decrease in gain on sale of residential loans held for sale of $135 thousand, due to lower volume of loans sold compared to the quarter ended March 31, 2020.

Nine Months Ended March 31, 2021 and 2020

Noninterest income increased by $49.0 million for the nine months ended March 31, 2021, compared to the nine months ended March 31, 2020, principally due to the following:

- An increase in gain on sale of PPP loans of $34.1 million, due to the sale of $2.20 billion of PPP loans, which resulted in a net gain resulting from the recognition of net deferred fees during the nine months ended March 31, 2021;
- An increase in correspondent fee income of $16.8 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. The correspondent arrangement provides for the Bank to earn a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the year-to-date is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 2,981
Amortization of Purchased Accrued Interest	1,813
Earned Net Servicing Interest	12,004
Total	$ 16,798

These increases were partially offset by:

- A decrease in gain on sale of SBA loans of $793 thousand, due to no SBA National loans sold in the nine months ended March 31, 2021;
- An increase in loss on OREO of $591 thousand, due to write-downs and net loss on sales of OREO properties in the nine months ended March 31, 2021, as compared to a gain recorded on the transfer of a loan into OREO, partially offset by smaller write-downs in the nine months ended March 31, 2020; and
- A decrease in gain on sale of residential loans held for sale of $460 thousand, due to lower volume of loans sold as compared to the nine months ended March 31, 2020.

Noninterest Expense

Three Months Ended March 31, 2021 and 2020

Noninterest expense decreased by $445 thousand for the quarter ended March 31, 2021 compared to the quarter ended March 31, 2020, primarily due to the following:

- A decrease in salaries expense of $847 thousand, primarily due to an increase of $4.4 million in deferred salaries contra-expense related to PPP originations, partially offset by an increase of $3.3 million in bonus expense, attributable to the high level of PPP originations and sales; and
- A decrease in other noninterest expense of $371 thousand, primarily due to the $276 thousand recovery on the SBA servicing asset during the quarter ended March 31, 2021, as compared to a $215 thousand write-down in the quarter ended March 31, 2020, partially offset by other expenses, including charitable contributions.

These decreases in noninterest expense were partially offset by:

- An increase in data processing expense of $308 thousand, primarily due to increased IT hardware expense, computer service fees, and implementation fees;
- An increase in professional fees of $260 thousand; and
- An increase in loan expense of $139 thousand, primarily due to $422 thousand in correspondent expenses associated with the Loan Source arrangement, partially offset by an increase in collection expense reimbursements received during the quarter ended March 31, 2021.

Nine Months Ended March 31, 2021 and 2020

Noninterest expense increased by $228 thousand for the nine months ended March 31, 2021 compared to the nine months ended March 31, 2020, primarily due to the following:

- A decrease in other noninterest expense of $906 thousand, primarily due to a net recovery on the SBA servicing asset of $170 thousand for the nine months ended March 31, 2021, as compared to net impairment of $344 thousand for the nine months ended March 31, 2020, and lower travel, meals and entertainment expense during the nine months ended March 31, 2021;

- A decrease in salaries expense of $836 thousand, primarily due to an increase of $4.4 million in deferred salaries contra-expense related to PPP originations, partially offset by an increase of $3.3 million in bonus expense, attributable to the high level of PPP originations and sales; partially offset by,
- An increase in loan expense of $561 thousand, primarily due to $1.2 million in correspondent expenses associated with the Loan Source arrangement, partially offset by an increase of $511 thousand of collection expense reimbursements received during the nine months ended March 31, 2021;
- An increase in data processing fees of $412 thousand, primarily due to increased IT hardware expense, computer service fees, and implementation fees; and
- An increase in FDIC insurance premium expense of $339 thousand, due to credits received during the nine months ended March 31, 2020, which have now run out.

Income Taxes

Three Months Ended March 31, 2021 and 2020

Income tax expense increased by $12.7 million to $14.5 million, or an effective tax rate of 29.8%, for the quarter ended March 31, 2021, compared to $1.7 million, or an effective tax rate of 48.1%, for the quarter ended March 31, 2020. The increase in income tax expense is due to the increase in pre-tax income. The decrease in the effective tax rate from March 31, 2020 is primarily due to the Bank's recording of a $554 thousand expense related to the recapture of the tax reserve for loan losses as a result of the repurchase of common stock in the quarter ended March 31, 2020. This was a one-time expense as the Bank has now recaptured all of its tax bad debt reserve, which arose from pre-1988 bad debt deductions taken for tax purposes in excess of net charge-offs, which had to be recaptured.

Nine Months Ended March 31, 2021 and 2020

Income tax expense increased by $15.1 million to $20.7 million, or an effective tax rate of 29.2%, for the nine months ended March 31, 2021, compared to $5.6 million, or an effective tax rate of 32.9%, for the nine months ended March 31, 2020. The increase in income tax expense is due to the increase in pre-tax income. The decrease in the effective tax rate from the nine months ended March 31, 2020 was primarily due to a $554 thousand expense related to the recapture of the tax reserve for loan losses as a result of the repurchase of common stock during the quarter ended March 31, 2020, and the update of state tax apportionment rates. This was a one-time expense as the Bank has now recaptured all of its tax bad debt reserve, which arose from pre-1988 bad debt deductions taken for tax purposes in excess of net charge-offs, which had to be recaptured.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

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

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

Based on this evaluation of the Bank's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of March 31, 2021.

There were no changes in the Bank's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2021 that have materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

Exhibits No.	Description
10.1	Northeast Bank 2021 Stock Option and Incentive Plan. *
10.2	First Amendment to Paycheck Protection Program Liquidity Facility Correspondent Agreement, dated March 2, 2021, by and among Northeast Bank, The Loan Source, Inc. and ACAP SME, LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 3, 2021).
10.3	Loan Purchase and Sale Agreement, dated March 2, 2021, by and between Northeast Bank and The Loan Source, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 4, 2021).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

* Filed herewith
** Furnished herewith

SIGNATURES

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

Date: May 7, 2021

NORTHEAST BANK

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

By:/s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer

Exhibit 10.1

NORTHEAST BANK

2021 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Northeast Bank 2021 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and Non-Employee Directors of Northeast Bank (the "Bank") and its Affiliates upon whose judgment, initiative and efforts the Bank largely depends for the successful conduct of its business to acquire a proprietary interest in the Bank. It is anticipated that providing such persons with a direct stake in the Bank's welfare will assure a closer identification of their interests with those of the Bank and its shareholders, thereby stimulating their efforts on the Bank's behalf and strengthening their desire to remain with the Bank.

The following terms shall be defined as set forth below:

"Act" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Administrator" means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

"*Affiliate*" means, at the time of determination, any "parent" or "subsidiary" of the Bank as such terms are defined in Rule 405 of the Act. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

"Award" or *"Awards,"* except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Units, Restricted Stock Awards, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights.

"Award Certificate" means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

"Board" means the Board of Directors of the Bank.

"Cash-Based Award" means an Award entitling the recipient to receive a cash-denominated payment.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Dividend Equivalent Right" means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

"Effective Date" means the date on which the Plan becomes effective as set forth in Section 19.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Fair Market Value" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is listed on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), NASDAQ Global Market, The New York Stock Exchange or another national securities exchange or traded on any established market, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Minimum Vesting Period" means the one-year period following the date of grant of an Award.

"Non-Employee Director" means a member of the Board who is not also an employee of the Bank or any Subsidiary.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Option" or *"Stock Option"* means any option to purchase shares of Stock granted pursuant to Section 5.

"Restricted Shares" means the shares of Stock underlying a Restricted Stock Award that remain subject to a risk of forfeiture or the Bank's right of repurchase.

"Restricted Stock Award" means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"Restricted Stock Units" means an Award of stock units subject to such restrictions and conditions as the Administrator may determine at the time of grant.

"Sale Event" shall mean (i) the sale of all or substantially all of the assets of the Bank on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Bank's outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding

voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Bank to an unrelated person, entity or group thereof acting in concert, or (iv) any other transaction in which the owners of the Bank's outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Bank or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Bank.

"*Sale Price*" means the value as determined by the Administrator of the consideration payable, or otherwise to be received by shareholders, per share of Stock pursuant to a Sale Event.

"Section 409A" means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

"Service Relationship" means any relationship as an employee, director or others service provider of the Bank or any Affiliate.

"Stock" means the Voting Common Stock, par value $1.00 per share, of the Bank, subject to adjustments pursuant to Section 3.

"Stock Appreciation Right" means an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

"Subsidiary" means any corporation or other entity (other than the Bank) in which the Bank has at least a 50 percent interest, either directly or indirectly.

"Ten Percent Owner" means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Bank or any parent or subsidiary corporation.

"Unrestricted Stock Award" means an Award of shares of Stock free of any restrictions.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS

(a) Administration of Plan. The Plan shall be administered by the Administrator.

(b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock

Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Bank and Plan grantees.

(c) Delegation of Authority to Grant Awards. Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer of the Bank all or part of the Administrator's authority and duties with respect to the granting of Awards to individuals who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not members of the delegated committee. Any such delegation by the Administrator shall include a limitation as to the amount of Stock underlying Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) Award Certificate. Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or service terminates.

(e) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Bank in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Bank's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Bank.

(f) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Bank and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

(g) Minimum Vesting Period. The vesting period for each Award granted under the Plan must be at least equal to the Minimum Vesting Period; provided, however, nothing in this Section 2(g) shall limit the Administrator's authority to accelerate the vesting of Awards as set forth in Section 2(b)(v) above; and, provided further, notwithstanding the foregoing, up to 5% of the shares of Stock authorized for issuance under the Plan may be utilized for Unrestricted Stock Awards or other Awards with a vesting period that is less than the Minimum Vesting Period (each such Award, an "Excepted Award"). Notwithstanding the foregoing, in addition to Excepted Awards, the Administrator may grant Awards that vest (or permit previously granted Awards to vest) within the Minimum Vesting Period (i) if such Awards are granted as substitute Awards in replacement of other Awards (or awards previously granted by an entity being acquired (or assets of which are being acquired)) that were scheduled to vest within the Minimum Vesting Period, (ii) if such Awards are being granted in connection with an elective deferral of cash compensation that, absent a deferral election, otherwise would have been paid to the grantee within the Minimum Vesting Period or (iii) if such Awards are annual awards to non-employee directors that occur in connection with the Bank's annual meeting of stockholders may vest on the date of the Bank's next annual meeting of shareholders.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 550,000 shares, subject to adjustment as provided in this Section 3. For purposes of this limitation, the shares of Stock underlying any awards under the Plan and under the Bank's Amended and Restated 2010 Stock Option and Incentive Plan that are forfeited, canceled or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan and, to the extent permitted under Section

422 of the Code and the regulations promulgated thereunder, the shares of Stock that may be issued as Incentive Stock Options. Notwithstanding the foregoing, the following shares shall not be added to the shares authorized for grant under the Plan: (i) shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, and (ii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right upon exercise thereof. In the event the Bank repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that no more than 550,000 shares of Stock may be issued in the form of Incentive Stock Options. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Bank.

(b) Changes in Stock. Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Bank's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Bank, or additional shares or new or different shares or other securities of the Bank or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Bank, the outstanding shares of Stock are converted into or exchanged for securities of the Bank or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iii) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (iv) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of shares subject to Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(c) Mergers and Other Transactions. In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In such case, except as may be otherwise provided in the relevant Award Certificate, all Options and Stock Appreciation Rights with time-based vesting conditions or restrictions that are not vested and/or exercisable immediately prior to the effective time of the Sale Event shall become fully vested and exercisable as of the effective time of the Sale Event, all other Awards with time-based vesting, conditions or restrictions shall become fully vested and nonforfeitable as of the effective time of the Sale Event, and all Awards with conditions and restrictions relating to the attainment of performance goals shall become earned and vested and the performance-based criteria shall be deemed achieved or fulfilled at the greater of (x) the actual performance achieved or (y) the target level of performance applicable to the Award, but prorated based on the elapsed proportion of the performance period as of the Sale Event. In the event of such termination, (i) the Bank shall have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights (provided that, in the case of an Option or Stock Appreciation Right with an exercise price equal to or greater than the Sale Price, such Option or Stock Appreciation Right shall be cancelled for no consideration); or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee. The Bank shall also have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding other Awards in an amount equal to the Sale Price multiplied by the number of vested shares of Stock under such Awards.

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such employees or Non-Employee Directors of the Bank and its Affiliates as are selected from time to time by the Administrator in its sole discretion; provided that Awards may not be granted to employees or Non-Employee Directors who are providing services only to any "parent" of the Bank, as such term is defined in Rule 405 of the Act, unless (i) the stock underlying the Awards is treated as "service recipient stock" under Section 409A or (ii) the Bank has determined that such Awards are exempt from or otherwise comply with Section 409A.

SECTION 5. STOCK OPTIONS

(a) Award of Stock Options. The Administrator may grant Stock Options under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Bank or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(b) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the exercise price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date. Notwithstanding the foregoing, Stock Options may be granted with an exercise price per share that is less than 100 percent of the Fair Market Value on the date of grant (i) pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code, (ii) to individuals who are not subject to U.S. income tax on the date of grant or (iii) the Stock Option is otherwise compliant with Section 409A.

(c) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

(d) Exercisability; Rights of a Shareholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. The Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(e) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Bank, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Award Certificate:

(i) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(ii) Through the delivery (or attestation to the ownership following such procedures as the Bank may prescribe) of shares of Stock that are not then subject to restrictions under any Bank plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(iii) By the optionee delivering to the Bank a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Bank cash or a check payable and acceptable to the Bank for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Bank shall prescribe as a condition of such payment procedure; or

(iv) With respect to Stock Options that are not Incentive Stock Options, by a "net exercise" arrangement pursuant to which the Bank will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Bank or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Bank of the full purchase price for such shares and the fulfillment of any other requirements contained in the Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Bank is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Bank establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(f) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Bank or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

(a) Award of Stock Appreciation Rights. The Administrator may grant Stock Appreciation Rights under the Plan. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of a share of Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

(b) Exercise Price of Stock Appreciation Rights. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant.

(c) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

(d) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined on the date of grant by the Administrator. The term of a Stock Appreciation Right may not exceed ten years. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

SECTION 7. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Awards. The Administrator may grant Restricted Stock Awards under the Plan. A Restricted Stock Award is any Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives.

(b) Rights as a Shareholder. Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a shareholder with respect to the voting of the Restricted Shares and receipt of dividends; provided that any dividends paid by the Bank with respect to any unvested Restricted Shares shall accrue and shall not be paid to the grantee unless and until such Restricted Shares vest and if any such Restricted Shares are forfeited, the grantee shall have no rights to any such accrued dividends. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Bank or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Bank until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Bank such instruments of transfer as the Administrator may prescribe.

(c) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, if a grantee's employment (or other Service Relationship) with the Bank and its Subsidiaries terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Bank be deemed to have been reacquired by the Bank at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other Service Relationship), and thereafter shall cease to represent any ownership of the Bank by the grantee or rights of the grantee as a shareholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Bank upon request without consideration.

(d) Vesting of Restricted Shares. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Bank's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

SECTION 8. RESTRICTED STOCK UNITS

(a) Nature of Restricted Stock Units. The Administrator may grant Restricted Stock Units under the Plan. A Restricted Stock Unit is an Award of stock units that may be settled in shares of Stock (or cash, to the extent explicitly provided for in the Award Certificate) upon the satisfaction of such restrictions and conditions at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Except in the case of Restricted Stock Units with a deferred settlement date that complies with Section 409A, at the end of the vesting period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Stock. Restricted Stock Units with deferred settlement dates are subject to Section 409A and shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.

(b) Election to Receive Restricted Stock Units in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Bank no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.

(c) Rights as a Shareholder. A grantee shall have the rights as a shareholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.

(d) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of Service Relationship) with the Bank and its Subsidiaries for any reason.

SECTION 9. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. An Unrestricted Stock Award is an Award pursuant to which the grantee may receive shares of Stock free of any restrictions under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

SECTION 10. CASH-BASED AWARDS

Grant of Cash-Based Awards. The Administrator may grant Cash-Based Awards under the Plan. A Cash-Based Award is an Award that entitles the grantee to a payment in cash upon the attainment of specified performance goals. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash.

SECTION 11. DIVIDEND EQUIVALENT RIGHTS

(a) Dividend Equivalent Rights. The Administrator may grant Dividend Equivalent Rights under the Plan. A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other Award to which it relates) if such shares had been issued to the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may accrue or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Bank, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments, but only upon vesting of the Dividend Equivalent Right (or other Award to which it relates). A Dividend Equivalent Right granted as a component of an Award of Restricted Stock Units shall provide that such Dividend Equivalent Right shall be settled only upon vesting of such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. In no event shall a Dividend Equivalent Right be granted as a component of a Stock Option or Stock Appreciation Right.

(b) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee’s rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or cessation of Service Relationship) with the Bank and its Subsidiaries for any reason.

(c) No Dividends or Dividend Equivalent Rights on Unvested Awards. Notwithstanding anything herein to the contrary, in no event shall any dividends or Dividend Equivalent Rights be paid with respect to an Award while an Award is unvested (provided that, for the avoidance of doubt, such dividends or Dividend Equivalent Rights may accrue with respect to an unvested Award but shall only be paid upon the vesting of the related Award).

SECTION 12. TRANSFERABILITY OF AWARDS

(a) Transferability. Except as provided in Section 12(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) Administrator Action. Notwithstanding Section 12(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Non-Qualified Stock Options to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Bank to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.

(c) Family Member. For purposes of Section 12(b), "family member" shall mean a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) Designation of Beneficiary. To the extent permitted by the Bank, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 13. TAX WITHHOLDING

(a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Bank, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Bank with respect to such income. The Bank and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Bank's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) Payment in Stock. The Administrator may require the Bank's tax withholding obligation to be satisfied, in whole or in part, by the Bank withholding from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due; provided, however, that the amount withheld does not exceed the maximum statutory tax rate or such lesser amount as is necessary to avoid liability accounting treatment. For purposes of share withholding, the Fair Market Value of withheld shares shall be determined in the same manner as the value of Stock includible in income of the grantees. The Administrator may also require the Bank's tax withholding obligation to be satisfied, in whole or in part, by an arrangement whereby a certain number of shares of Stock issued pursuant to any Award are immediately sold and proceeds from such sale are remitted to the Bank in an amount that would satisfy the withholding amount due.

SECTION 14. SECTION 409A AWARDS

Awards are intended to be exempt from Section 409A to the greatest extent possible and to otherwise comply with Section 409A. The Plan and all Awards shall be interpreted in accordance with such intent. To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any 409A Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 15. TERMINATION OF SERVICE RELATIONSHIP, TRANSFER, LEAVE OF ABSENCE, ETC.

(a) Termination of Service Relationship. If the grantee's Service Relationship is with an Affiliate and such Affiliate ceases to be an Affiliate, the grantee shall be deemed to have terminated his or her Service Relationship for purposes of the Plan.

(b) For purposes of the Plan, the following events shall not be deemed a termination of a Service Relationship:

(i) a transfer to the employment of the Bank from an Affiliate or from the Bank to an Affiliate, or from one Affiliate to another; or

(ii) an approved leave of absence for military service or sickness, or for any other purpose approved by the Bank, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 16. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall materially and adversely affect rights under any outstanding Award without the holder's consent. Except as provided in Section 3(b) or 3(c), without prior shareholder approval, in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants or cancellation of Stock Options or Stock Appreciation Rights in exchange for cash or other Awards. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, Plan amendments shall be subject to approval by the Bank's shareholders. Nothing in this Section 16 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(b) or 3(c).

SECTION 17. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Bank unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Bank's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 18. GENERAL PROVISIONS

(a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Bank in writing that such person is acquiring the shares without a view to distribution thereof.

(b) Issuance of Stock. To the extent certificated, stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Bank or a stock transfer agent of the Bank shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Bank. Uncertificated Stock shall be deemed delivered for all purposes when the Bank or a Stock transfer agent of the Bank shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Bank, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Bank shall not be required to issue or deliver any evidence of book entry or certificates evidencing shares of Stock pursuant to the exercise or settlement of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. Any Stock issued pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate or notations on any book entry to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) Shareholder Rights. Until Stock is deemed delivered in accordance with Section 18(b), no right to vote or receive dividends or any other rights of a shareholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Bank or any Subsidiary.

(e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to the Bank's insider trading policies and procedures, as in effect from time to time.

(f) Clawback Policy. Awards under the Plan shall be subject to the Bank's clawback policy, as in effect from time to time.

SECTION 19. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon shareholder approval in accordance with applicable state law, the Bank's bylaws and articles of incorporation, and applicable stock exchange rules. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 20. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Maine, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS:	February 26, 2021
DATE APPROVED BY SHAREHOLDERS:	April 30, 2021

Exhibit 31.1 Certification of the Chief Executive Officer

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

I, Richard Wayne, certify that:

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

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

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

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

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

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

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

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

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

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

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

May 7, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

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

I, Jean-Pierre Lapointe, certify that:

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

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

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

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

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

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

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

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

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

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

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

May 7, 2021

/s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer

Exhibit 32.1. Certificate of the Chief Executive Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

May 7, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

May 7, 2021

/s/ Jean-Pierre Lapointe
Jean-Pierre Lapointe
Chief Financial Officer and Treasurer