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, 2020

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, 2020, the registrant had outstanding 8,353,678 shares of voting common stock, $1.00 par value per share and 44,783 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, 2020	June 30, 2019
Assets		
Cash and due from banks	$ 3,856	$ 2,482
Short-term investments	84,919	54,425
Total cash and cash equivalents	88,775	56,907
Available-for-sale debt securities, at fair value	66,318	75,774
Equity securities, at fair value	7,163	6,938
Total investment securities	73,481	82,712
Residential real estate loans held for sale	370	3,179
SBA loans held for sale	-	731
Total loans held for sale	370	3,910
Loans:		
Commercial real estate	696,403	668,496
Commercial and industrial	251,688	232,839
Residential real estate	83,830	71,218
Consumer	1,999	2,507
Total loans	1,033,920	975,060
Less: Allowance for loan losses	8,809	5,702
Loans, net	1,025,111	969,358
Premises and equipment, net	9,810	5,582
Real estate owned and other repossessed collateral, net	3,110	1,957
Federal Home Loan Bank stock, at cost	1,306	1,258
Intangible assets, net	109	434
Loan servicing rights, net	2,007	2,851
Bank-owned life insurance	16,965	17,057
Other assets	10,414	11,832
Total assets	$ 1,231,458	$ 1,153,858
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 70,443	$ 68,782
Savings and interest checking	114,441	101,061
Money market	286,240	270,835
Time	541,390	501,693
Total deposits	1,012,514	942,371
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	14,912	14,829
Lease liability	4,846	323
Other liabilities	24,661	27,755
Total liabilities	1,071,933	1,000,278
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2020 and June 30, 2019	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,588,989 and 8,997,326 shares issued and outstanding at March 31, 2020 and June 30, 2019, respectively	8,589	8,997
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 44,783 shares issued and outstanding at March 31, 2020 and June 30, 2019	45	45
Additional paid-in capital	73,700	78,095
Retained earnings	78,824	67,581
Accumulated other comprehensive loss	(1,633)	(1,138)
Total shareholders' equity	159,525	153,580
Total liabilities and shareholders' equity	$ 1,231,458	$ 1,153,858

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, 2020	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2020	Nine Months Ended March 31, 2019
Interest and dividend income:				
Interest and fees on loans	$ 20,266	$ 18,796	$ 59,459	$ 55,256
Interest on available-for-sale securities	426	444	1,320	1,229
Other interest and dividend income	395	939	1,061	2,789
Total interest and dividend income	21,087	20,179	61,840	59,274
Interest expense:				
Deposits	4,228	4,447	12,725	12,111
Federal Home Loan Bank advances	226	116	569	359
Subordinated debt	282	578	845	1,752
Obligation under lease agreements	30	5	98	19
Total interest expense	4,766	5,146	14,237	14,241
Net interest and dividend income before provision for loan losses	16,321	15,033	47,603	45,033
Provision for loan losses	3,489	414	3,595	1,047
Net interest and dividend income after provision for loan losses	12,832	14,619	44,008	43,986
Noninterest income:				
Fees for other services to customers	316	408	1,142	1,240
Gain on sales of SBA loans	237	568	793	2,361
Gain on sales of residential loans held for sale	139	108	565	387
Gain on sales of other loans	-	582	-	582
Net unrealized gain on equity securities	87	65	102	75
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	(64)	-	247	(64)
Bank-owned life insurance income	108	108	457	328
Other noninterest income	37	27	66	56
Total noninterest income	860	1,866	3,372	4,965
Noninterest expense:				
Salaries and employee benefits	5,960	5,782	18,272	16,991
Occupancy and equipment expense	919	957	2,667	2,692
Professional fees	339	483	1,175	1,516
Data processing fees	994	827	2,980	2,764
Marketing expense	91	160	239	413
Loan acquisition and collection expense	716	609	1,807	1,633
FDIC insurance premiums (credits)	4	81	(15)	242
Intangible asset amortization	109	107	326	325
Other noninterest expense	949	746	2,774	2,433
Total noninterest expense	10,081	9,752	30,225	29,009
Income before income tax expense	3,611	6,733	17,155	19,942
Income tax expense	1,736	1,905	5,637	5,455
Net income	$ 1,875	$ 4,828	$ 11,518	$ 14,487
Weighted-average shares outstanding:				
Basic	9,004,819	9,044,230	9,032,254	9,029,409
Diluted	9,128,651	9,198,077	9,187,891	9,194,346
Earnings per common share:				
Basic	$ 0.21	$ 0.53	$ 1.28	$ 1.60
Diluted	0.21	0.52	1.25	1.58
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net income	$ 1,875	$ 4,828	$ 11,518	$ 14,487
Other comprehensive income, before tax:				
Available-for-sale debt securities:				
Change in net unrealized gain on available-for-sale debt securities	740	365	842	925
Derivatives and hedging activities:				
Change in accumulated loss on effective cash flow hedges	(1,509)	(830)	(1,522)	(1,453)
Reclassification adjustments included in interest expense	-	40	-	147
Total derivatives and hedging activities	(1,509)	(790)	(1,522)	(1,306)
Total other comprehensive loss, before tax	(769)	(425)	(680)	(381)
Income tax benefit related to other comprehensive loss	(207)	(113)	(185)	(102)
Other comprehensive loss, net of tax	(562)	(312)	(495)	(279)
Comprehensive income	$ 1,313	$ 4,516	$ 11,023	$ 14,208

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	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at December 31, 2018	-	$ -	8,236,917	$ 8,237	811,946	$ 812	$ 77,455	$ 63,535	$ (1,548)	$ 148,491
Net income	-	-	-	-	-	-	-	4,828	-	4,828
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(312)	(312)
Conversions between voting common stock and non-voting common stock, net	-	-	11,392	11	(11,392)	(11)	-	-	-	-
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(89)	-	(89)
Stock-based compensation	-	-	-	-	-	-	309	-	-	309
Issuance of restricted common stock	-	-	-	-	-	-	-	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(10,289)	(10)	-	-	5	-	-	(5)
Stock options exercised, net	-	-	3,294	3	-	-	(37)	-	-	(34)
Balance at March 31, 2019	-	$ -	8,241,314	$ 8,241	800,554	$ 801	$ 77,732	$ 68,274	$ (1,860)	$ 153,188
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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at June 30, 2018	-	$ -	8,056,527	$ 8,057	882,314	$ 882	$ 77,016	$ 54,236	$ (1,761)	$ 138,430
Net income	-	-	-	-	-	-	-	14,487	-	14,487
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(279)	(279)
Conversions between voting common stock and non-voting common stock, net	-	-	81,760	81	(81,760)	(81)	-	-	-	-
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(269)	-	(269)
Stock-based compensation	-	-	-	-	-	-	997	-	-	997
Issuance of restricted common stock	-	-	116,925	117	-	-	(117)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(18,166)	(18)	-	-	(120)	-	-	(138)
Stock options exercised, net	-	-	4,268	4	-	-	(44)	-	-	(40)
Adjustment for adoption of ASU 2016-01	-	-	-	-	-	-	-	(180)	180	-
Balance at March 31, 2019	-	$ -	8,241,314	$ 8,241	800,554	$ 801	$ 77,732	$ 68,274	$ (1,860)	$ 153,188
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

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,	
	2020	2019
Operating activities:		
Net income	$ 11,518	$ 14,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,595	1,047
(Gain) loss recognized on real estate owned, other repossessed collateral and premises and equipment, net	(247)	64
Net unrealized gain on equity securities	(102)	(75)
Accretion of loans, net	(5,745)	(6,025)
Accretion of fair value adjustments on borrowings, net	-	176
Amortization of subordinated debt issuance costs	83	83
Originations of loans held for sale	(32,694)	(58,036)
Net proceeds from sales of loans held for sale	39,535	67,396
Gain on sales of residential loans held for sale	(565)	(387)
Gain on sales of SBA and other loans held for sale	(793)	(2,943)
Net decrease in servicing rights	844	27
Amortization of intangible assets	326	325
Bank-owned life insurance income, net	(457)	(328)
Depreciation and amortization of premises and equipment	1,893	992
Stock-based compensation	808	997
Amortization of available-for-sale debt securities, net	175	274
Changes in other assets and liabilities:		
Other assets	1,602	(269)
Other liabilities	(4,616)	(4,227)
Net cash provided by operating activities	15,160	13,578
Investing activities:		
Purchases of available-for-sale debt securities	(9,056)	(27,969)
Proceeds from maturities and principal payments on investment securities, net	19,056	32,626
Loan purchases	(158,518)	(88,741)
Loan originations, principal collections, and purchased loan paydowns, net	101,759	3,967
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(670)	(187)
Net redemptions of Federal Home Loan Bank stock	(48)	394
Proceeds from bank-owned life insurance death benefits	549	-
Proceeds from sales of real estate owned and other repossessed collateral	410	756
Net cash used in investing activities	(46,518)	(79,154)
Financing activities:		
Net increase in deposits	70,143	61,684
Repayment of lease liability	(1,031)	(210)
Dividends paid on common stock	(275)	(269)
Repurchases of common stock	(5,347)	-
Repurchases for tax withholdings on restricted common stock	(234)	(138)
Stock options exercised, net	(30)	(40)
Net cash provided by financing activities	63,226	61,027
Net change in cash and cash equivalents	31,868	(4,549)
Cash and cash equivalents, beginning of period	56,907	157,402
Cash and cash equivalents, end of period	$ 88,775	$ 152,853
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 1,213	$ 601
Transfer from fixed assets to real estate owned and other repossessed collateral, net	71	-
Capitalization of lease liability	5,554	-

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

NORTHEAST BANK
Notes to Unaudited Financial Statements
March 31, 2020

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, 2019 (“Fiscal 2019”) included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation (“FDIC”).

Corporate Reorganization

On May 15, 2019, as the result of a corporate reorganization designed to eliminate its bank holding company structure, Northeast Bancorp (the “Company”), a Maine corporation, merged with and into its wholly-owned subsidiary, the Bank, a Maine state-chartered bank, with the Bank continuing as the surviving corporation (the “Reorganization”). Unless the context otherwise requires, references to “Company,” “we,” “us” and “our” for periods prior to May 15, 2019, refer to Northeast Bancorp, which was the holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank.

At the effective time of the Reorganization, each share of Northeast Bancorp’s common stock issued and outstanding immediately prior to the Reorganization was automatically converted to one share of common stock of the Bank having the same designations, rights, powers and preferences and the same qualifications, limitations and restrictions as those associated with each share of Northeast Bancorp. As a result, Northeast Bancorp shareholders, upon consummation of the Reorganization, became Bank shareholders. The Bank continues to be subject to regulation by the Maine Bureau of Financial Institutions (the “Bureau”). Because the Bank is an insured depository institution that is not a member bank of the Board of Governors of the Federal Reserve System (“FRB”), its primary federal regulator is the FDIC. The Bank is no longer subject to the FRB’s regulation and supervision (except such regulations as are made applicable to the Bank by law and regulation of the FDIC).

Adoption of ASU 2016-02, Leases

On July 1, 2019, the Bank adopted Financial Accounting Standards Board (the “FASB”) Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“ASU 2016-02”). On adoption, the Bank recorded an asset of $4.5 million and a liability of $5.5 million as a result of recognizing the right-of-use assets and lease liabilities, which are included in premises and equipment, net, and lease liability, respectively, on the balance sheets.

The Bank has four real estate leases for offices and branches classified as operating leases. The Bank determines if an arrangement is a lease or contains a lease at inception. Generally, the initial terms of the leases for our leased properties range from ten to thirty years. The Bank evaluates whether the renewal of each lease is reasonably certain. The Bank has one lease that has not yet commenced but does not create unusual risks or obligations to the Bank. If the lease does not provide the implicit interest rate, the Bank uses its incremental borrowing rate at the commencement date of the lease in determining the present value of the future lease payments. No other significant judgments or assumptions were made in applying the requirements of ASU 2016-02.

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 November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments – Credit Losses ("ASU 2019-11"). The guidance provides further clarification on accounting for loans under Topic 326. This ASU will be effective under the same effective dates as ASU 2016-13, and subsequently updated by ASU 2019-10.

In April and May 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments ("ASU 2019-04") and ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief ("ASU 2019-05"), respectively. These updates clarify the guidance in ASU 2016-13 which introduced Topic 326. ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. ASU 2019-05 provides entities that have certain instruments within the scope of subtopic 326-20 with an option to irrevocably elect the fair value option. The guidance under ASU 2019-05 will be effective under the same effective dates as ASU 2016-13.. Upon adoption of ASU 2019-04 on July 1, 2019 on a prospective basis, there was no impact on the Bank's financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) ("ASU 2017-12"). This guidance permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk and improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases ("ASU 2018-10") and ASU 2018-11, Leases (Topic 842) ("ASU 2018-11"). The guidance provides clarification on the application of ASU 2016-02, specifically on certain narrow aspects of the guidance issued under ASU 2016-02, including comparative reporting requirements for initial adoption and, for lessors only, separating lease and non-lease components in a contract and allocating the consideration in the contract to the separate components. For entities that have not adopted ASU 2016-02 before the issuance of these updates, the amendments in this guidance are the same as the effective date and transition requirements in ASU 2016-02. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

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 is not expected to 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 2020-03, Codification Improvements to Financial Instruments ("ASU 2020-03"). This guidance provides updates on a wide variety of Topics in the Codification, including updates to the interaction of Topic 842 and Topic 326, and the interaction of Topic 326 and Subtopic 860-20. This ASU will be effective under the same effective dates as ASU 2016-13.

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. Investment Securities

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

March 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 51,032	$ 701	$ -	$ 51,733
Agency mortgage-backed securities	14,371	214	-	14,585
Total available-for-sale debt securities	65,403	915	-	66,318
Equity investments measured at net asset value	7,157	6	-	7,163
Total investment securities	$ 72,560	$ 921	$ -	$ 73,481

June 30, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 57,008	$ 370	$ (14)	$ 57,364
Agency mortgage-backed securities	18,693	2	(285)	18,410
Total available-for-sale debt securities	75,701	372	(299)	75,774
Equity investments measured at net asset value	7,034	-	(96)	6,938
Total investment securities	$ 82,735	$ 372	$ (395)	$ 82,712

At March 31, 2020, 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, 2020 or 2019. At March 31, 2020, securities with a fair value of $66.3 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, 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	$ -	$ -	$ -	$ -	$ -	$ -

June 30, 2019	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	$ -	$ -	$ 9,031	$ (14)	$ 9,031	$ (14)
Agency mortgage-backed securities	-	-	18,010	(285)	18,010	(285)
Total available-for-sale debt securities	-	-	27,041	(299)	27,041	(299)
Equity investments measured at net asset value	-	-	5,350	(96)	5,350	(96)
Total investment securities	$ -	$ -	$ 32,391	$ (395)	$ 32,391	$ (395)

There were no other-than-temporary impairment losses on securities during the three or nine months ended March 31, 2020 and 2019.

At March 31, 2020, the Bank had no securities in a loss position. At March 31, 2020, all of the Bank's investment securities were issued or guaranteed by either government agencies or government-sponsored enterprises.

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, 2020, 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 3.31 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of March 31, 2020. 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	$ 36,982	$ 37,403
Due after one year through five years	14,050	14,330
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,032	51,733
Agency mortgage-backed securities	14,371	14,585
Total available-for-sale debt securities	$ 65,403	$ 66,318

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. 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, 2020			June 30, 2019		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Commercial real estate	$ 269,547	$ 382,892	$ 652,439	$ 294,395	$ 316,835	$ 611,230
Commercial and industrial	246,967	379	247,346	226,424	628	227,052
SBA	48,306	-	48,306	63,053	-	63,053
Residential real estate	71,157	12,673	83,830	62,041	9,177	71,218
Consumer	1,999	-	1,999	2,507	-	2,507
Total loans	$ 637,976	$ 395,944	$ 1,033,920	$ 648,420	$ 326,640	$ 975,060

Total loans include deferred loan origination fees, net, of $235 thousand as of March 31, 2020 and $113 thousand as of June 30, 2019.

Past Due and Nonaccrual Loans

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

	March 31, 2020							
	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
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 5	$ -	$ -	$ 4,654	$ 4,659	$ 264,888	$ 269,547	$ 4,664
Commercial and industrial	-	-	-	404	404	246,563	246,967	404
SBA	90	49	-	4,557	4,696	43,610	48,306	4,597
Residential real estate	866	48	-	365	1,279	69,878	71,157	1,187
Consumer	42	21	-	17	80	1,919	1,999	40
Total originated portfolio	1,003	118	-	9,997	11,118	626,858	637,976	10,892
Purchased portfolio:								
Commercial real estate	12,782	967	-	9,459	23,208	359,684	382,892	11,710
Commercial and industrial	22	7	-	57	86	293	379	226
Residential real estate	471	-	-	1,549	2,020	10,653	12,673	1,549
Total purchased portfolio	13,275	974	-	11,065	25,314	370,630	395,944	13,485
Total loans	$ 14,278	$ 1,092	$ -	$ 21,062	$ 36,432	$ 997,488	$ 1,033,920	$ 24,377

	June 30, 2019							
	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
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 1,300	$ 17	$ -	$ 2,398	$ 3,715	$ 290,680	$ 294,395	$ 3,417
Commercial and industrial	-	-	-	13	13	226,411	226,424	13
SBA	392	-	-	1,288	1,680	61,373	63,053	1,745
Residential real estate	172	150	-	2,083	2,405	59,636	62,041	2,773
Consumer	37	27	-	81	145	2,362	2,507	148
Total originated portfolio	1,901	194	-	5,863	7,958	640,462	648,420	8,096
Purchased portfolio:								
Commercial real estate	777	961	-	3,969	5,707	311,128	316,835	5,543
Commercial and industrial	18	-	-	279	297	331	628	497
Residential real estate	-	4	-	631	635	8,542	9,177	631
Total purchased portfolio	795	965	-	4,879	6,639	320,001	326,640	6,671
Total loans	$ 2,696	$ 1,159	$ -	$ 10,742	$ 14,597	$ 960,463	$ 975,060	$ 14,767

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 non-owner 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 Loan Acquisition and Servicing Group ("LASG"). Loans acquired by the LASG 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 non-owner 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.

Three Months Ended March 31, 2020 (Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
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

Three Months Ended March 31, 2019 (Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
Beginning balance	$ 1,551	$ 874	$ 1,683	$ 585	$ 16	$ 599	$ 5,308
Provision (credit)	287	(166)	275	(38)	18	38	414
Recoveries	-	2	-	12	3	-	17
Charge-offs	-	-	-	(68)	(13)	-	(81)
Ending balance	$ 1,838	$ 710	$ 1,958	$ 491	$ 24	$ 637	$ 5,658

Nine Months Ended March 31, 2020 (Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
Beginning balance	$ 2,065	$ 717	$ 1,974	$ 376	$ 50	$ 520	$ 5,702
Provision	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

Nine Months Ended March 31, 2019 (Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
Beginning balance	$ 1,527	$ 507	$ 1,542	$ 605	$ 39	$ 587	$ 4,807
Provision	417	81	416	101	(18)	50	1,047
Recoveries	7	11	-	15	24	-	57
Charge-offs	-	(2)	-	(230)	(21)	-	(253)
Ending balance	$ 1,951	$ 597	$ 1,958	$ 491	$ 24	$ 637	$ 5,658

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

March 31, 2020 (Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
Allowance for loan losses:							
Individually evaluated	$ 111	$ 116	$ 286	$ 88	$ 5	$ -	$ 606
Collectively evaluated	1,933	1,018	4,299	391	30	-	7,671
ASC 310-30	-	-	-	-	-	532	532
Total	$ 2,044	$ 1,134	$ 4,585	$ 479	$ 35	$ 532	$ 8,809
Loans:							
Individually evaluated	$ 7,199	$ 7,304	$ 4,721	$ 3,006	$ 90	$ 16,840	$ 39,160
Collectively evaluated	262,348	239,663	43,585	68,151	1,909	-	615,656
ASC 310-30	-	-	-	-	-	379,104	379,104
Total	$ 269,547	$ 246,967	$ 48,306	$ 71,157	$ 1,999	$ 395,944	$ 1,033,920

	June 30, 2019						
	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 105	$ 4	$ 227	$ 128	$ 33	$ -	$ 497
Collectively evaluated	1,960	713	1,747	248	17	-	4,685
ASC 310-30	-	-	-	-	-	520	520
Total	$ 2,065	$ 717	$ 1,974	$ 376	$ 50	$ 520	$ 5,702
Loans:							
Individually evaluated	$ 3,666	$ 6,913	$ 3,348	$ 4,930	$ 182	$ 12,695	$ 31,734
Collectively evaluated	290,729	219,511	59,705	57,111	2,325	-	629,381
ASC 310-30	-	-	-	-	-	313,945	313,945
Total	$ 294,395	$ 226,424	$ 63,053	$ 62,041	$ 2,507	$ 326,640	$ 975,060

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, 2020			June 30, 2019		
	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	$ 6,529	$ 6,529	$ -	$ 2,643	$ 2,643	$ -
Commercial and industrial	7,066	7,066	-	6,909	6,909	-
SBA	3,204	3,204	-	3,014	3,001	-
Residential real estate	2,055	2,055	-	3,550	3,550	-
Consumer	60	60	-	143	143	-
Purchased:						
Commercial real estate	12,763	15,151	-	7,892	10,108	-
Commercial and industrial	72	117	-	297	359	-
Residential real estate	1,549	1,603	-	202	217	-
Total	33,298	35,785	-	24,650	26,930	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	670	670	111	1,023	1,023	105
Commercial and industrial	238	238	116	4	4	4
SBA	1,517	1,517	286	334	334	227
Residential real estate	951	951	88	1,380	1,380	128
Consumer	30	30	5	39	39	33
Purchased:						
Commercial real estate	2,301	3,177	377	3,676	4,031	316
Commercial and industrial	155	200	155	199	244	199
Residential real estate	-	-	-	429	488	5
Total	5,862	6,783	1,138	7,084	7,543	1,017
Total impaired loans	$ 39,160	$ 42,568	$ 1,138	$ 31,734	$ 34,473	$ 1,017

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

	Three Months Ended March 31,			
	2020		2019	
	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	$ 5,994	$ 36	$ 2,538	$ -
Commercial and industrial	7,066	89	13	-
SBA	3,193	3	2,096	11
Residential real estate	2,038	7	2,735	2
Consumer	68	-	258	-
Purchased:				
Commercial real estate	10,986	47	7,203	83
Commercial and industrial	109	-	82	-
Residential real estate	1,552	-	202	-
Total	31,006	182	15,127	96
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	726	2	1,062	16
Commercial and industrial	119	6	3,466	137
SBA	1,315	-	1,735	-
Residential real estate	1,246	12	1,966	10
Consumer	23	1	20	-
Purchased:				
Commercial real estate	4,292	96	3,499	51
Commercial and industrial	160	-	394	-
Residential real estate	-	-	-	-
Total	7,881	117	12,142	214
Total impaired loans	$ 38,887	$ 299	$ 27,269	$ 310

	Nine Months Ended March 31,			
	2020		2019	
	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	$ 4,311	$ 47	$ 2,113	$ -
Commercial and industrial	6,985	235	14	-
SBA	2,956	68	2,009	100
Residential real estate	2,471	25	2,833	33
Consumer	103	2	265	1
Purchased:				
Commercial real estate	9,920	154	6,929	210
Commercial and industrial	202	-	86	-
Residential real estate	984	19	202	-
Total	27,932	550	14,451	344
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	846	8	1,134	57
Commercial and industrial	61	6	2,320	137
SBA	998	-	1,739	-
Residential real estate	1,369	47	2,013	64
Consumer	31	1	34	-
Purchased:				
Commercial real estate	4,078	203	3,800	106
Commercial and industrial	175	-	381	1
Residential real estate	107	-	-	-
Total	7,665	265	11,421	365
Total impaired loans	$ 35,597	$ 815	$ 25,872	$ 709

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.

	March 31, 2020					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1- 6	$ 264,440	$ 239,660	$ 43,836	$ 29,717	$ 377,514	$ 955,167
Loans rated 7	444	6,901	4,470	33	4,517	16,365
Loans rated 8	4,663	406	-	154	13,913	19,136
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 269,547	$ 246,967	$ 48,306	$ 29,904	$ 395,944	$ 990,668

	June 30, 2019					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1- 6	$ 290,530	$ 219,262	$ 56,076	$ 10,805	$ 315,767	$ 892,440
Loans rated 7	597	6,902	5,186	36	4,001	16,722
Loans rated 8	3,268	260	1,791	485	6,872	12,676
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 294,395	$ 226,424	$ 63,053	$ 11,326	$ 326,640	$ 921,838

(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,			
	2020		2019		2020		2019	
	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	2	$ 174	7	$ 1,155	4	$ 194
Adjusted interest rate	1	63	-	-	1	63	-	-
Rate and maturity	-	-	-	-	-	-	4	170
Principal deferment	-	-	-	-	5	382	-	-
	4	$ 439	2	$ 174	13	$ 1,600	8	$ 364

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

	Three Months Ended March 31,					
	2020			2019		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Commercial real estate	-	$ -	$ -	2	$ 174	$ 174
Commercial and industrial	-	-	-	-	-	-
Residential real estate	2	72	72	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	2	72	72	2	174	174
Purchased portfolio:						
Commercial real estate	2	367	367	-	-	-
Commercial and industrial	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Total purchased portfolio	2	367	367	-	-	-
Total	4	$ 439	$ 439	2	$ 174	$ 174

	Nine Months Ended March 31,					
	2020			2019		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Commercial real estate	-	$ -	$ -	2	$ 174	$ 174
Commercial and industrial	-	-	-	-	-	-
Residential real estate	7	434	434	3	170	170
Consumer	-	-	-	-	-	-
Total originated portfolio	7	434	434	5	344	344
Purchased portfolio:						
Commercial real estate	6	1,166	1,166	-	-	-
Commercial and industrial	-	-	-	3	20	20
Residential real estate	-	-	-	-	-	-
Total purchased portfolio	6	1,166	1,166	3	20	20
Total	13	$ 1,600	$ 1,600	8	$ 364	$ 364

As of March 31, 2020, 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. 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. Two loans modified in a TDR in the twelve months ended March 31, 2019 totaling $1.5 million defaulted during the three and nine months ended March 31, 2019.

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,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Contractually required payments receivable	$ 94,672	$ 5,491	$ 222,817	$ 127,059
Nonaccretable difference	(1,040)	(25)	(2,263)	(1,074)
Cash flows expected to be collected	93,632	5,466	220,554	125,985
Accretable yield	(28,576)	(862)	(62,036)	(37,244)
Fair value of loans acquired	$ 65,056	$ 4,604	$ 158,518	$ 88,741

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,			
	2020		2019		2020		2019	
	(Dollars in thousands)				(Dollars in thousands)			
Loans acquired during the period	$	699	$	-	$	1,172	$	-
Loans at end of period		12,660		4,950		12,660		4,950

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,			
	2020		2019		2020		2019	
	(Dollars in thousands)				(Dollars in thousands)			
Beginning balance	$	154,347	$	152,835	$	146,995	$	138,178
Acquisitions		28,576		862		62,036		37,244
Accretion		(6,495)		(6,017)		(18,643)		(17,198)
Reclassifications from non-accretable difference to accretable yield		956		256		3,754		1,244
Disposals and other changes		(10,656)		(4,848)		(27,414)		(16,380)
Ending balance	$	166,728	$	143,088	$	166,728	$	143,088

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

	March 31, 2020		June 30, 2019	
	(Dollars in thousands)			
Unpaid principal balance	$	428,405	$	352,717
Carrying amount		392,448		318,886

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 as of March 31, 2020 totaled $2.0 million, compared to $2.9 million as of June 30, 2019, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold during the three months ended March 31, 2020 totaled $6.3 million, compared to $7.8 million during the three months ended March 31, 2019. Mortgage loans sold during the nine months ended March 31, 2020 totaled $28.0 million, compared to $28.7 million during the nine months ended March 31, 2019. Mortgage loans serviced for others totaled $6.5 million at March 31, 2020 and $7.1 million at June 30, 2019. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $20.2 million and $22.3 million at March 31, 2020 and June 30, 2019, respectively.

SBA loans sold during the three months ended March 31, 2020 totaled $4.1 million, compared to $6.7 million during the three months ended March 31, 2019. SBA loans sold during the nine months ended March 31, 2020 totaled $10.5 million, compared to $31.8 million during the nine months ended March 31, 2019. SBA loans serviced for others totaled $154.9 million at March 31, 2020 and $171.9 million at June 30, 2019.

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 $105 thousand and $185 thousand for the three months ended March 31, 2020 and 2019, respectively, and were included as a component of loan-related fees within noninterest income. Contractually specified servicing fees were $469 thousand and $533 thousand for the nine months ended March 31, 2020 and 2019, respectively.

The significant assumptions used in the valuation of the servicing rights included a range of discount rates from 7.1% to 15.9% and a weighted average prepayment speed assumption of 19.0%.

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, 2020	Three Months Ended March 31, 2019	Nine Months Ended March 31, 2020	Nine Months Ended March 31, 2019
	(In thousands, except share and per share data)			
Net income	$ 1,875	$ 4,828	$ 11,518	$ 14,487
Weighted average shares used in calculation of basic EPS	9,004,819	9,044,230	9,032,254	9,029,409
Incremental shares from assumed exercise of dilutive securities	123,832	153,847	155,637	164,937
Weighted average shares used in calculation of diluted EPS	9,128,651	9,198,077	9,187,891	9,194,346
Basic earnings per common share	$ 0.21	$ 0.53	$ 1.28	$ 1.60
Diluted earnings per common share	$ 0.21	$ 0.52	$ 1.25	$ 1.58

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, 2020 and 2019.

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, 2020 and June 30, 2019, the Bank had posted cash collateral totaling $3.3 million and $1.6 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:

March 31, 2020

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	1.45%	3.38%	n/a	$ (1,703)	$ (1,703)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	1.45%	3.23%	n/a	(1,066)	(1,066)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	1.45%	2.77%	n/a	(383)	(383)	Other Liabilities
$ 15,000							$ (3,152)	$ (3,152)	

June 30, 2019

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.32%	3.38%	n/a	$ (846)	$ (846)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.32%	3.23%	n/a	(573)	(573)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.32%	2.77%	n/a	(211)	(211)	Other Liabilities
$ 15,000							$ (1,630)	$ (1,630)	

During the three and nine months ended March 31, 2020 and 2019, 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, 2020 and 2019 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. Other Comprehensive Income

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

	Three Months Ended March 31,					
	2020			2019		
	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 debt securities	$ 740	$ 200	$ 540	$ 365	$ 99	$ 266
Change in accumulated loss on effective cash flow hedges	(1,509)	(407)	(1,102)	(830)	(223)	(607)
Reclassification adjustment for losses included in net income	-	-	-	40	11	29
Total derivatives and hedging activities	(1,509)	(407)	(1,102)	(790)	(212)	(578)
Total other comprehensive income (loss)	$ (769)	$ (207)	$ (562)	$ (425)	$ (113)	$ (312)

	Nine Months Ended March 31,					
	2020			2019		
	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	$ 842	$ 227	$ 615	$ 925	$ 251	$ 674
Change in accumulated loss on effective cash flow hedges	(1,522)	(412)	(1,110)	(1,453)	(393)	(1,060)
Reclassification adjustment for losses included in net income	-	-	-	147	40	107
Total derivatives and hedging activities	(1,522)	(412)	(1,110)	(1,306)	(353)	(953)
Total other comprehensive income	$ (680)	$ 185	$ (495)	$ (381)	$ (102)	$ (279)

Accumulated other comprehensive loss is comprised of the following:

	March 31, 2020	June 30, 2019
	(Dollars in thousands)	
Unrealized gain on available-for-sale debt securities	$ 915	$ 73
Tax effect	(247)	(20)
After tax amount	668	53
Unrealized loss on cash flow hedges	(3,152)	(1,630)
Tax effect	851	439
After tax amount	(2,301)	(1,191)
Accumulated other comprehensive loss	$ (1,633)	$ (1,138)

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, 2020	June 30, 2019
	(Dollars in thousands)	
Commitments to originate loans	$ 5,793	$ 11,991
Unused lines of credit	28,236	21,488
Standby letters of credit	2,323	2,383

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 $72 thousand and $52 thousand recorded in other liabilities at March 31, 2020 and June 30, 2019, 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.

	March 31, 2020			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,733	$ -	$ 51,733	$ -
Agency mortgage-backed securities	14,585	-	14,585	-
Equity investments measured at net asset value[1]	7,163	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 3,152	$ -	$ 3,152	$ -

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Investment securities:				
U.S. Government agency securities	$ 57,364	$ -	$ 57,364	$ -
Agency mortgage-backed securities	18,410	-	18,410	-
Equity investments measured at net asset value[1]	6,938	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 1,630	$ -	$ 1,630	$ -

(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, 2020			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 3,560	$ -	$ -	$ 3,560
Real estate owned and other repossessed collateral	3,110	-	-	3,110
Loan servicing rights	2,007	-	-	2,007

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 1,683	$ -	$ -	$ 1,683
Real estate owned and other repossessed collateral	1,957	-	-	1,957
Loan servicing rights	2,851	-	-	2,851

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, 2020	June 30, 2019	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 3,560	$ 1,683	Appraisal of collateral[1]
Real estate owned and other repossessed collateral	3,110	1,957	Appraisal of collateral[1]
Loan servicing rights	2,007	2,851	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 38%.
(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 14.7% to 19.0%. For discount rates, the range was 6.0% to 17.6%.

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, 2020 and 2019.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Collateral dependent impaired loans	$ (222)	$ (3)	$ (439)	$ (281)
Real estate owned and other repossessed collateral	-	-	395	(64)
Loan servicing rights	(215)	94	(344)	(44)
Total	$ (437)	$ 91	$ (388)	$ (389)

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

	Carrying Amount	Fair Value Measurements at March 31, 2020			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 88,775	$ 88,775	$ 88,775	$ -	$ -
Available-for-sale debt securities	66,318	66,318	-	66,318	-
Equity investments measured at net asset value[1]	7,163	7,163	-	-	-
Federal Home Loan Bank stock	1,306	1,306	-	1,306	-
Loans held for sale	370	370	-	370	-
Loans, net	1,025,111	1,030,208	-	-	1,030,208
Accrued interest receivable	3,344	3,344	-	3,344	-
Financial liabilities:					
Deposits	1,012,514	1,018,347	-	1,018,347	-
Federal Home Loan Bank advances	15,000	15,002	-	15,002	-
Subordinated debt	14,912	14,829	-	-	14,829
Lease liability	4,846	4,999	-	4,999	-
Interest rate swaps	3,152	3,152	-	3,152	-

	Carrying Amount	Fair Value Measurements at June 30, 2019			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 56,907	$ 56,907	$ 56,907	$ -	$ -
Available-for-sale debt securities	75,774	75,774	-	75,774	-
Equity investments measured at net asset value[1]	6,938	6,938	-	-	-
Federal Home Loan Bank stock	1,258	1,258	-	1,258	-
Loans held for sale	3,910	3,910	-	3,910	-
Loans, net	969,358	973,018	-	-	973,018
Accrued interest receivable	3,559	3,559	-	3,559	-
Financial liabilities:					
Deposits	942,371	944,278	-	944,278	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Subordinated debt	14,829	14,041	-	-	14,041
Lease liability	323	327	-	327	-
Interest rate swaps	1,630	1,630	-	1,630	-

(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. As a result of the ongoing COVID-19 pandemic, certain economic uncertainties have arisen. The Bank has recognized the effects of the COVID-19 pandemic on its allowance for loan losses and provision for loan losses as of and for the quarter ended March 31, 2020. The Bank expects potential future financial impact could occur; however, such potential impact cannot be reasonably estimated at this time.

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 Annual Report on Form 10-K for the fiscal year ended June 30, 2019, 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 negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, and business operations, as well as limit its effects on credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; continued deterioration in general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions or legislative or regulatory initiatives; continued turbulence in the capital and debt markets; changes in interest rates; increases in loan defaults and charge-off rates; decreases in the value of securities and other assets; changes in loan loss reserves; decreases in deposit levels necessitating increased borrowing to fund loans and investments; 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; changes in regulation; reputational risk relating to the Bank's participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; 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 for the fiscal year ended June 30, 2019 as updated in the Bank's 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 bank.

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"). As a result of the Reorganization, the bank holding company structure was eliminated and the Bank became the top-level company in the organization. Commitments made by Northeast Bancorp to the Board of Governors of the Federal Reserve System ("FRB") in 2010 in connection with the merger of Northeast Bancorp and FHB Formation LLC have been replaced with standards that are incorporated into the Bank's policies and procedures. The Bank's current standards are as follows:

- Maintain a Tier 1 leverage ratio of at least 9%;
- Maintain a Total capital ratio of at least 12%;
- 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 newly established 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 as compared to operating under the existing commitments. The Maine Bureau of Financial Institutions' (the "Bureau") order approving FHB Formation LLC's acquisition of Northeast Bancorp in December of 2010 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 13.5%. Effective April 13, 2020, these conditions have been rescinded by the Bureau and no longer apply to the Bank provided that the policies reflect a minimum Tier 1 leverage ratio of at least 8.5% and a Total capital ratio of at least 12%.

As of March 31, 2020, the Bank had total assets of $1.23 billion, including total loans of $1.03 billion, total deposits of $1.01 billion, and shareholders' equity of $159.5 million. We gather retail deposits through our ten full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our Loan Acquisition and Servicing Group ("LASG").

Impact of the COVID-19 Pandemic

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.

- *Paycheck Protection Program*. The CARES Act appropriated $349 billion for "paycheck protection loans" through the U.S. Small Business Administration's ("SBA") 7(a) Loan Guaranty Program (the "PPP"). The amount appropriated was subsequently increased to $659 billion. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances, and are 100% guaranteed by the SBA. As of April 22, 2020, the Bank had originated 194 PPP loans totaling $37.2 million. In conjunction with the PPP, the FRB has created a lending facility for qualified financial institutions. The Paycheck Protection Program Lending Facility will extend credit to depository institutions with a term of up to two years at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility.
- *Troubled Debt Restructuring Relief*. From March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak (the "national emergency"), a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a troubled debt restructure, including impairment accounting. This troubled debt restructuring relief applies for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019.
- *CECL Delay*. Banks, savings associations, credit unions, bank holding companies and their affiliates are not required to comply with the Financial Accounting Standards Board Accounting Standards Update No. 2016–13 ("*Measurement of Credit Losses on Financial Instruments*"), including the current expected credit losses methodology for estimating allowances for credit losses ("CECL"), from the date of the law's enactment until the earlier of the end of the national emergency or December 31, 2020. On March 27, 2020, the FRB, the FDIC and the Office of the Comptroller of the Currency issued an interim final rule that allows banking organizations that are required to adopt CECL this year to mitigate the estimated cumulative regulatory capital effects for up to two years. The relief afforded by the CARES Act and interim final rule is in addition to the three-year transition period already in place. As a smaller reporting company, management has elected to delay adoption of the CECL standard until July 1, 2023.
- *Reduction of the Community Bank Leverage Ratio*. The CARES Act reduced the community bank leverage ratio from 9% to 8% until the earlier of the end of the national emergency or December 31, 2020. In response to the CARES Act, federal banking regulators set the community bank leverage ratio at 8% for the remainder of 2020, 8.5% for 2021 and 9% thereafter.
- *Revival of Bank Debt Guarantee Program*. The CARES Act amends the Dodd-Frank Act to provide the FDIC with the authority to guarantee bank-issued debt and noninterest-bearing transaction accounts that exceed the FDIC's $250,000 limit through December 31, 2020. The FDIC has discretion to determine whether and how to exercise this authority.
- *Foreclosure and Forbearance.* The CARES Act codifies recent guidance from state and federal regulators and government-sponsored enterprises, including the 60-day suspension of foreclosures on federally-backed mortgages and requirements that servicers grant forbearance to borrowers affected by COVID-19.
- *Moratorium on Negative Credit Reporting*. Any furnisher of credit information that agrees to defer payments, forbear on any delinquent credit or account, or provide any other relief to consumers affected by the COVID-19 pandemic must report the credit obligation or account as current if the credit obligation or account was current before the accommodation.

As of March 31, 2020, except for the increased allowance for loan losses discussed in further detail below, the COVID-19 pandemic had not had a significant or direct impact on our financial condition and results of operations. The Bank has not shifted, and does not plan to shift, its business strategy from its focus on growing the business. However, the COVID-19 pandemic and the measures taken to control its spread have significantly and directly impacted many of our borrowers' results of operations and has impacted their ability to repay us in the near and potentially long term. As of April 22, 2020, the Bank had received modification requests and was evaluating these requests for 209 loans totaling balances of $143 million. Additionally, we have increased qualitative factors across all segments in our allowance for loan losses, primarily in the SBA segment, where we have identified the largest risk of loss of principal, thereby increasing the amount reserved for in our allowance for loan losses as of March 31, 2020 to reflect the losses inherent in our loan portfolio as of that date. Future circumstances and developments could require us to further adjust qualitative factors which could impact future periods and losses. We expect that the COVID-19 pandemic will continue to have an impact on future quarters as our borrowers and their businesses resume operations and the economy begins to stabilize. We expect that our level of delinquencies and nonaccrual loans could increase and remain elevated over the next several quarters as impacted businesses return to their normal operating levels.

The Bank's Business Continuity and Pandemic Plans provided for employees to work remotely in order to continue operations. The Bank has moved primarily to a remote work environment, except for its branches that offer drive-through capability, which are primarily operating under drive-through only and reduced hours. The vast majority of the employees of the Bank have been in a remote work environment since mid-March 2020 and have encountered no significant challenges to date. Management expects that its employees will continue to be able to work remotely until the pandemic has ended or subsided. To date, the change in work environment has not adversely impacted the Bank's ability to maintain operations, including financial reporting systems, and internal controls over financial reporting and disclosure controls and procedures, and there has been no loss or interruption of the services offered by the Bank.

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 LASG'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 included in our Annual Report on Form 10-K for the year ended June 30, 2019, 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, 2020.

Overview

Net income decreased by $3.0 million to $1.9 million for the three months ended March 31, 2020, compared to net income of $4.8 million for the three months ended March 31, 2019. The decrease was primarily due to a higher provision for loan losses, which increased by $3.1 million compared to the three months ended March 31, 2019, lower noninterest income primarily from lower gain on sale of SBA and other loans, and higher noninterest expense, partially offset by higher net interest income.

Net income decreased by $3.0 million to $11.5 million for the nine months ended March 31, 2020, compared to net income of $14.5 million for the nine months ended March 31, 2019. The decrease was primarily due to a higher provision for loan losses, which increased by $2.5 million compared to the nine months ended March 31, 2019, lower noninterest income, primarily from lower gain on sale of SBA and other loans, and higher noninterest expense, primarily related to salaries and employee benefits. These changes were partially offset by an increase in net interest income.

Financial Condition

Overview

As of March 31, 2020, total assets were $1.23 billion, an increase of $77.6 million, or 6.7%, from total assets of $1.15 billion as of June 30, 2019. The principal components of the changes in the balance sheet follow:

The following table highlights the changes in the loan portfolio for the three and nine months ended March 31, 2020:

	Loan Portfolio Changes			
	Three Months Ended March 31, 2020			
	March 31, 2020 Balance	December 31, 2019 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
LASG Purchased	$ 395,944	$ 367,625	$ 28,319	7.70%
LASG Originated	512,964	497,386	15,578	3.13%
SBA	48,306	54,572	(6,266)	(11.48%)
Community Banking	76,706	81,195	(4,489)	(5.53%)
Total	$ 1,033,920	$ 1,000,778	$ 33,142	3.31%

	Nine Months Ended March 31, 2020			
	March 31, 2020 Balance	June 30, 2019 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
LASG Purchased	$ 395,944	$ 326,640	$ 69,304	21.22%
LASG Originated	512,964	493,413	19,551	3.96%
SBA	48,306	63,053	(14,747)	(23.39%)
Community Banking	76,706	91,954	(15,248)	(16.58%)
Total	$ 1,033,920	$ 975,060	$ 58,860	6.04%

Loans generated by the Bank's LASG for the quarter ended March 31, 2020 totaled $113.8 million, which consisted of $65.0 million of purchased loans, at an average price of 91.8% of unpaid principal balance, and $48.8 million of originated loans. The Bank sold the guaranteed portion of SBA loans totaling $4.1 million in the secondary market, all of which was originated or purchased in prior quarters. Residential loan production sold in the secondary market totaled $6.3 million for the quarter.

An overview of the Bank’s LASG portfolio follows:

	LASG Portfolio					
	Three Months Ended March 31,					
	2020			2019		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 70,860	$ 48,772	$ 119,632	$ 4,675	$ 84,546	$ 89,221
Net investment basis	65,056	48,772	113,828	4,604	84,546	89,150
Loan returns during the period:						
Yield	10.05%	7.35%	8.50%	9.49%	7.87%	8.56%
Total Return on Purchased Loans (1)	10.05%	7.35%	8.50%	10.22%	7.87%	8.87%

	Nine Months Ended March 31,					
	2020			2019		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 167,977	$ 187,872	$ 355,849	$ 94,423	$ 219,348	$ 313,771
Net investment basis	158,518	187,872	346,390	88,741	219,348	308,089
Loan returns during the period:						
Yield	9.85%	7.53%	8.51%	9.75%	7.64%	8.54%
Total Return on Purchased Loans (1)	10.00%	7.53%	8.57%	10.00%	7.64%	8.65%
Total loans as of period end:						
Unpaid principal balance	$ 432,920	$ 512,964	$ 945,884	$ 354,655	$ 478,020	$ 832,675
Net investment basis	395,944	512,964	908,908	320,326	478,020	798,346

(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.”

Assets

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

Cash and cash equivalents were $88.8 million as of March 31, 2020, an increase of $31.9 million, or 56.0%, from $56.9 million at June 30, 2019. The increase is primarily due to the increase in deposits of $70.1 million, which increased to fund loan growth, including loans held for sale, of $55.3 million.

Investment securities totaled $73.5 million as of March 31, 2020, compared to $82.7 million as of June 30, 2019, representing a decrease of $9.2 million, or 11.2%, primarily due to maturities of government agencies and 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 $5.5 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, 2020, securities with a fair value of $66.3 million were pledged for potential and outstanding borrowings.

Loans

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

	March 31, 2020				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Commercial real estate: non-owner occupied	$ 12,600	$ 179,951	$ 25,697	$ 218,248	21.11%
Commercial real estate: owner-occupied	7,960	69,036	18,267	95,263	9.21%
Commercial and industrial	8,452	238,515	4,342	251,309	24.31%
Residential real estate	45,695	25,462	-	71,157	6.88%
Consumer	1,999	-	-	1,999	0.19%
Subtotal	76,706	512,964	48,306	637,976	61.70%
Purchased loans:					
Commercial real estate: non-owner occupied	-	251,220	-	251,220	24.30%
Commercial real estate: owner-occupied	-	131,672	-	131,672	12.73%
Commercial and industrial	-	379	-	379	0.04%
Residential real estate	-	12,673	-	12,673	1.23%
Subtotal	-	395,944	-	395,944	38.30%
Total	$ 76,706	$ 908,908	$ 48,306	$ 1,033,920	100.00%

	June 30, 2019				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Commercial real estate: non-owner occupied	$ 15,781	$ 190,365	$ 36,048	$ 242,194	24.84%
Commercial real estate: owner-occupied	9,303	78,946	21,218	109,467	11.23%
Commercial and industrial	8,505	217,919	5,787	232,211	23.82%
Residential real estate	55,858	6,183	-	62,041	6.36%
Consumer	2,507	-	-	2,507	0.25%
Subtotal	91,954	493,413	63,053	648,420	66.50%
Purchased loans:					
Commercial real estate: non-owner occupied	-	190,110	-	190,110	19.50%
Commercial real estate: owner-occupied	-	126,725	-	126,725	13.00%
Commercial and industrial	-	628	-	628	0.06%
Residential real estate	-	9,177	-	9,177	0.94%
Subtotal	-	326,640	-	326,640	33.50%
Total	$ 91,954	$ 820,053	$ 63,053	$ 975,060	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, loans classified as TDRs remain 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, 2020 and June 30, 2019. 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, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 7,439	$ 11,710	$ 19,149
Commercial and industrial	2,226	226	2,452
Residential real estate	1,187	1,549	2,736
Consumer	40	-	40
Total nonperforming loans	10,892	13,485	24,377
Real estate owned and other repossessed collateral	1,028	2,082	3,110
Total nonperforming assets	$ 11,920	$ 15,567	$ 27,487
Ratio of nonperforming loans to total loans			2.36%
Ratio of nonperforming assets to total assets			2.23%
Ratio of loans past due to total loans			3.52%
Nonperforming loans that are current			$ 1,246
Commercial loans risk rated substandard or worse			$ 19,136
Troubled debt restructurings:			
On accrual status			$ 11,862
On nonaccrual status			$ 4,735

	Nonperforming Assets at June 30, 2019		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 3,892	$ 5,543	$ 9,435
Commercial and industrial	1,284	497	1,781
Residential real estate	2,772	631	3,403
Consumer	148	-	148
Total nonperforming loans	8,096	6,671	14,767
Real estate owned and other repossessed collateral	22	1,935	1,957
Total nonperforming assets	$ 8,118	$ 8,606	$ 16,724
Ratio of nonperforming loans to total loans			1.51%
Ratio of nonperforming assets to total assets			1.45%
Ratio of loans past due to total loans			1.50%
Nonperforming loans that are current			$ 3,544
Commercial loans risk rated substandard or worse			$ 11,560
Troubled debt restructurings:			
On accrual status			$ 16,905
Nonaccrual status			$ 3,846

As of March 31, 2020, nonperforming assets totaled $27.5 million, or 2.23% of total assets, as compared to $16.7 million, or 1.45% of total assets, as of June 30, 2019. The increase was primarily due to four LASG purchased loans totaling $4.9 million, one LASG originated loan totaling $2.7 million, and two SBA loans totaling $2.1 million that were placed on nonaccrual.

OREO increased by $1.2 million, or 58.9%, to $3.1 million at March 31, 2020, compared to $2.0 million at June 30, 2019. The increase was the result of the addition of three properties, partially offset by the sale of two properties during the nine months ended March 31, 2020.

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, 2020, compared to $5.7 million as of June 30, 2019. The increase in the period is 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. Management determined there was a higher risk of losses inherent in the SBA portfolio due to the nature of SBA lending, which typically involves providing credit to borrowers with lower net worth and capital levels and at higher loan-to-value ratios.

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

	March 31, 2020	June 30, 2019	March 31, 2019
Allowance for loan losses to nonperforming loans	36.14%	38.61%	44.38%
Allowance for loan losses to total loans	0.85%	0.58%	0.59%
Last twelve months of net-charge offs to average loans	0.07%	0.04%	0.04%

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 $4.2 million, or 75.7%, to $9.8 million at March 31, 2020, compared to $5.6 million at June 30, 2019. The increase was primarily due to the capitalization of the Bank's right-of-use assets as a result of ASU 2016-02, which was adopted by the Bank during the fiscal year, partially offset by depreciation for the period.

Intangible assets totaled $109 thousand and $434 thousand at March 31, 2020 and June 30, 2019, respectively. The $326 thousand decrease was the result of amortization during the period.

Loan servicing rights, net totaled $2.0 million and $2.9 million at March 31, 2020 and June 30, 2019, respectively. The $844 thousand decrease was the result of the payoff of SBA loans, amortization, and impairment charges resulting from the revaluation of the servicing rights performed on a quarterly basis, partially offset by servicing rights recorded from SBA loans sold during the nine months ended March 31, 2020.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets decreased $92 thousand, or 0.5% to $17.0 million at March 31, 2020, compared to $17.1 million at June 30, 2019. The decrease in cash surrender value was due to death benefit proceeds of $549 thousand received on policies during the nine months ended March 31, 2020, partially offset by increases in cash surrender values. 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 9.2% of the Bank's regulatory total capital at March 31, 2020.

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, 2020, non-maturity accounts and non-brokered insured time deposits represented 99.3% of total deposits.

Total deposits increased by $70.1 million, or 7.4%, from June 30, 2019, attributable primarily to increases in time deposits of $39.7 million, or 7.9%, money market accounts of $15.4 million, or 5.7%, and savings and interest checking accounts of $13.4 million, or 13.2%.

The composition of total deposits at March 31, 2020 and June 30, 2019 is as follows:

	March 31, 2020		June 30, 2019	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 70,443	6.96%	$ 68,782	7.30%
NOW accounts	80,535	7.95%	66,491	7.06%
Regular and other savings	33,906	3.35%	34,570	3.67%
Money market deposits	286,240	28.27%	270,835	28.74%
Total non-certificate accounts	471,124	46.53%	440,678	46.77%
Term certificates of $250 thousand or less	533,837	52.72%	501,192	53.18%
Term certificates greater than $250 thousand	7,553	0.75%	501	0.05%
Total certificate accounts	541,390	53.47%	501,693	53.23%
Total deposits	$ 1,012,514	100.00%	$ 942,371	100.00%

FHLBB Advances

Advances from the FHLBB were $15.0 million at both March 31, 2020 and June 30, 2019. As of March 31, 2020, the Bank had pledged certain residential and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of March 31, 2020, securities with a fair value of $66.3 million were pledged for potential and outstanding borrowings.

Subordinated Debt

On June 29, 2016, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which the Company 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 $14.9 million and $14.8 million at March 31, 2020 and June 30, 2019, respectively.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at March 31, 2020, in addition to traditional retail deposit products:

	As of March 31, 2020 (Dollars in thousands)	
Brokered time deposits	$ 307,865	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	169,467	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 494,832	

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, 2020, the Bank had $482.9 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 39.2% of total assets. The Bank also had $88.8 million of cash and cash equivalents at March 31, 2020.

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, 2020, shareholders’ equity was $159.5 million, an increase of $5.9 million, or 3.9% from June 30, 2019. Book value per outstanding common share was $18.48 at March 31, 2020 and $16.98 at June 30, 2019.

As of March 31, 2020, the Bank’s Tier 1 leverage capital ratio was 13.0%, compared to 12.9% at June 30, 2019, and the Total capital ratio was 18.0% at both March 31, 2020 and June 30, 2019.

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, 2020 and June 30, 2019, 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, 2020 and June 30, 2019, 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, 2020 and June 30, 2019. The Bank's regulatory capital ratios are set forth below as of March 31, 2020 and June 30, 2019.

	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, 2020							
Common equity tier 1 capital to risk weighted assets	$ 161,016	15.71%	$ 46,132	≥4.5%	$ 66,635	≥6.5%	7.0%
Total capital to risk weighted assets	184,809	18.03%	82,012	≥8.0%	102,515	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	161,016	15.71%	61,509	≥6.0%	82,012	≥8.0%	8.5%
Tier 1 capital to average assets	161,016	13.04%	49,396	≥4.0%	61,745	≥5.0%	4.0%
June 30, 2019							
Common equity tier 1 capital to risk weighted assets	$ 154,311	15.89%	$ 43,706	≥4.5%	$ 63,131	≥6.5%	7.0%
Total capital to risk weighted assets	174,894	18.01%	77,699	≥8.0%	97,124	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	154,311	15.89%	58,274	≥6.0%	77,699	≥8.0%	8.5%
Tier 1 capital to average assets	154,311	12.86%	47,979	≥4.0%	59,974	≥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. The repurchase program may be suspended or terminated at any time without prior notice, and it will expire October 21, 2020.

During the three months ended March 31, 2020, the Bank repurchased 416,700 shares at a weighted average share price of $12.83 per share.

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 decreased by $3.0 million to $1.9 million for the three months ended March 31, 2020, compared to net income of $4.8 million for the three months ended March 31, 2019, due to a higher provision for loan losses as a result of qualitative factors increased due to the COVID-19 pandemic, lower noninterest income primarily from lower gain on sale of SBA and other loans, and higher noninterest expense, partially offset by higher net interest income. Net income decreased by $3.0 million to $11.5 million for the nine months ended March 31, 2020, compared to net income of $14.5 million for the nine months ended March 31, 2019, due to a higher provision for loan losses as a result of qualitative factors increased due to the COVID-19 pandemic, lower noninterest income primarily from lower gain on sale of SBA and other loans, and higher noninterest expense, partially offset by higher net interest income.

Net Interest Income

Three Months Ended March 31, 2020 and 2019

Net interest and dividend income before provision for loan losses increased by $1.3 million to $16.3 million for the quarter ended March 31, 2020, compared to $15.0 million for the quarter ended March 31, 2019. The increase was primarily due to higher average balances in the LASG portfolio, higher transactional interest income in the purchased portfolio, lower deposit interest expense due to lower average balances and rates, and a decrease in interest expense on subordinated debt from the redemption of trust preferred securities in May 2019. This activity was partially offset by lower average balances and yields from short-term investments, the SBA loan portfolio, and the Community Banking loan portfolio.

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,					
	2020			2019		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 79,325	$ 1,036	5.25%	$ 102,850	$ 1,348	5.32%
SBA	53,643	952	7.14%	69,247	1,366	8.00%
LASG:						
Originated	497,773	9,092	7.35%	437,499	8,490	7.87%
Purchased	367,486	9,186	10.05%	324,414	7,592	9.49%
Total LASG	865,259	18,278	8.50%	761,913	16,082	8.56%
Total	$ 998,227	$ 20,266	8.17%	$ 934,010	$ 18,796	8.16%

(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, 2019, transactional income for the quarter ended March 31, 2020 increased by $509 thousand, while regularly scheduled interest and accretion increased by $503 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended March 31, 2020 was 10.1%, a decrease from 10.2% for the quarter ended March 31, 2019. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended March 31,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 6,731	7.36%	$ 6,228	7.79%
Transactional income:				
Gain on loan sales	-	0.00%	582	0.73%
Gain on sale of real estate owned	-	0.00%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	2,455	2.69%	1,364	1.70%
Total transactional income	2,455	2.69%	1,946	2.43%
Total	$ 9,186	10.05%	$ 8,174	10.22%

(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, 2020 and 2019.

	Three Months Ended March 31,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 78,369	$ 426	2.19%	$ 84,318	$ 444	2.14%
Loans (1) (2) (3)	998,227	20,266	8.17%	934,010	18,796	8.16%
Federal Home Loan Bank stock	2,295	29	5.08%	1,332	26	7.92%
Short-term investments (4)	114,794	366	1.28%	152,854	913	2.42%
Total interest-earning assets	1,193,685	21,087	7.11%	1,172,514	20,179	6.98%
Cash and due from banks	3,054			2,647		
Other non-interest earning assets	37,634			28,399		
Total assets	$ 1,234,373			$ 1,203,560		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 78,777	$ 104	0.53%	$ 68,869	$ 59	0.35%
Money market accounts	279,852	1,105	1.59%	318,423	1,251	1.59%
Savings accounts	33,912	13	0.15%	35,599	14	0.16%
Time deposits	519,980	3,006	2.33%	501,378	3,123	2.53%
Total interest-bearing deposits	912,521	4,228	1.86%	924,269	4,447	1.95%
Federal Home Loan Bank advances	39,011	226	2.33%	15,000	116	3.14%
Subordinated debt	14,897	282	7.61%	24,170	578	9.70%
Lease obligations	4,997	30	2.41%	419	5	4.84%
Total interest-bearing liabilities	971,426	4,766	1.97%	963,858	5,146	2.17%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	89,248			79,599		
Other liabilities	8,671			9,489		
Total liabilities	1,069,345			1,052,946		
Shareholders' equity	165,028			150,614		
Total liabilities and shareholders' equity	$ 1,234,373			$ 1,203,560		
Net interest income		$ 16,321			$ 15,033	
Interest rate spread			5.14%			4.81%
Net interest margin (5)			5.50%			5.20%

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

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, 2020 Compared to 2019		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (30)	$ 12	$ (18)
Loans	1,460	10	1,470
Federal Home Loan Bank stock	14	(11)	3
Short-term investments	(189)	(358)	(547)
Total interest-earning assets	1,255	(347)	908
Interest-bearing liabilities:			
Interest-bearing deposits	(24)	(195)	(219)
Federal Home Loan Bank advances	146	(36)	110
Subordinated debt	(190)	(106)	(296)
Lease liability	29	(4)	25
Total interest-bearing liabilities	(39)	(341)	(380)
Total change in net interest income	$ 1,294	$ (6)	$ 1,288

Nine Months Ended March 31, 2020 and 2019

Net interest and dividend income before provision for loan losses increased by $2.6 million to $47.6 million for the nine months ended March 31, 2020, compared to $45.0 million for the nine months ended March 31, 2019. The increase was primarily due to higher average balances in the LASG portfolio, higher transactional interest income in the purchased portfolio, and a decrease in interest expense on subordinated debt from the redemption of trust preferred securities in May 2019. This activity was partially offset by lower average balances and yields from short-term investments, lower balances in the SBA loan portfolio and the Community Banking loan portfolio, along with higher deposit interest expense as a result of higher rates offered on deposits.

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,					
	2020			2019		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 85,254	$ 3,494	5.45%	$ 110,566	$ 4,319	5.20%
SBA	57,939	3,424	7.87%	71,309	4,091	7.64%
LASG:						
Originated	474,568	26,834	7.53%	418,747	24,031	7.64%
Purchased	347,278	25,707	9.85%	311,780	22,815	9.75%
Total LASG	821,846	52,541	8.51%	730,527	46,846	8.54%
Total	$ 965,039	$ 59,459	8.20%	$ 912,402	$ 55,256	8.07%

(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, 2019, transactional income for the nine months ended March 31, 2020 increased by $1.2 million, while regularly scheduled interest and accretion increased by $1.5 million due to the increase in average balances. The total return on purchased loans for the nine months ended March 31, 2020 and 2019 was 10.0% for both periods. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Nine Months Ended March 31,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 19,311	7.40%	$ 17,849	7.63%
Transactional income:				
Gain on loan sales	-	0.00%	582	0.25%
Gain on sale of real estate owned	395	0.15%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	6,396	2.45%	4,966	2.12%
Total transactional income	6,791	2.60%	5,548	2.37%
Total	$ 26,102	10.00%	$ 23,397	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, 2020 and 2019.

	Nine Months Ended March 31,					
	2020			2019		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 80,494	$ 1,320	2.18%	$ 85,850	$ 1,229	1.91%
Loans (1) (2) (3)	965,039	59,459	8.20%	912,402	55,256	8.07%
Federal Home Loan Bank stock	1,876	66	4.68%	1,547	74	6.37%
Short-term investments (4)	84,025	995	1.58%	164,841	2,715	2.19%
Total interest-earning assets	1,131,434	61,840	7.27%	1,164,640	59,274	6.78%
Cash and due from banks	2,820			2,606		
Other non-interest earning assets	38,663			30,339		
Total assets	$ 1,172,887			$ 1,197,585		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 71,614	$ 241	0.45%	$ 70,882	$ 183	0.34%
Money market accounts	271,506	3,268	1.60%	366,326	4,259	1.55%
Savings accounts	34,236	43	0.17%	35,592	42	0.16%
Time deposits	489,396	9,173	2.49%	450,064	7,627	2.26%
Total interest-bearing deposits	866,752	12,725	1.95%	922,864	12,111	1.75%
Federal Home Loan Bank advances	30,055	569	2.52%	15,000	359	3.19%
Subordinated debt	14,869	845	7.56%	24,084	1,752	9.69%
Lease obligations	5,352	98	2.44%	490	19	5.17%
Total interest-bearing liabilities	917,028	14,237	2.07%	962,438	14,241	1.97%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	86,735			80,953		
Other liabilities	8,730			8,575		
Total liabilities	1,012,493			1,051,966		
Shareholders' equity	160,394			145,619		
Total liabilities and shareholders' equity	$ 1,172,887			$ 1,197,585		
Net interest income		$ 47,603			$ 45,033	
Interest rate spread			5.20%			4.81%
Net interest margin (5)			5.60%			5.15%

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

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, 2020 Compared to 2019		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (80)	$ 171	$ 91
Loans	3,270	933	4,203
Federal Home Loan Bank stock	14	(22)	(8)
Short-term investments	(1,093)	(627)	(1,720)
Total interest-earning assets	2,111	455	2,566
Interest-bearing liabilities:			
Interest-bearing deposits	(423)	1,037	614
Federal Home Loan Bank advances	298	(88)	210
Subordinated debt	(576)	(331)	(907)
Lease liability	94	(15)	79
Total interest-bearing liabilities	(607)	603	(4)
Total change in net interest income	$ 2,718	$ (148)	$ 2,570

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, 2020 and 2019

The provision for loan losses for the three months ended March 31, 2020 increased by $3.1 million to $3.5 million, of which $3.0 million was allocated to the SBA portfolio. The increase 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 loan portfolio during the three months ended March 31, 2020.

Nine Months Ended March 31, 2020 and 2019

The provision for loan losses for the nine months ended March 31, 2020 increased by $2.5 million to $3.6 million, of which $3.0 million was allocated to the SBA portfolio. The increase 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.

Noninterest Income

Three Months Ended March 31, 2020 and 2019

Noninterest income decreased by $1.0 million for the quarter ended March 31, 2020, compared to the quarter ended March 31, 2019, primarily due to the following:

- A decrease in gain on sale of other loans of $582 thousand, due to no loans sold during the current quarter, compared to three LASG purchased loans sold in the quarter ended March 31, 2019;
- A decrease in gain on sale of SBA loans of $331 thousand, due to a lower volume of SBA loans sold in the current quarter resulting from lower originations in previous quarters; and,
- A decrease of $92 thousand in fees for other services to customers due to lower commercial loans servicing fees resulting from a higher volume of SBA loan payoffs.

Nine Months Ended March 31, 2020 and 2019

Noninterest income decreased by $1.6 million for the nine months ended March 31, 2020, compared to the nine months ended March 31, 2019, principally due to the following:

- A decrease in gain on sale of SBA loans of $1.6 million, due to a lower volume of SBA loans sold in the nine months ended March 31, 2020, resulting from lower originations in previous quarters; and,
- A decrease in gain on sale of other loans of $582 thousand, due to no loans sold during the nine months ended March 31, 2020, compared to three LASG purchased loans sold in the nine months ended March 31, 2019; partially offset by,
- An increase in gain on real estate owned of $311 thousand, primarily due to the gain recorded on the transfer of a loan into real estate owned, partially offset by write-downs recorded on other properties during the nine months ended March 31, 2020; and
- An increase in bank-owned life insurance income of $129 thousand, due to a gain from death benefit proceeds recognized in the nine months ended March 31, 2020.

Noninterest Expense

Three Months Ended March 31, 2020 and 2019

Noninterest expense increased by $329 thousand for the quarter ended March 31, 2020 compared to the quarter ended March 31, 2019, primarily due to the following:

- An increase in other noninterest expense of $203 thousand, due to a $215 thousand impairment charge on the SBA servicing asset, compared to a $94 thousand recovery in the quarter ended March 31, 2019;
- An increase in salaries and employee benefits of $178 thousand, primarily due to increases in regular compensation and incentive compensation, partially offset by a decrease in stock-based compensation;
- An increase in data processing fees of $167 thousand, primarily due to increased IT outsourcing costs; and
- An increase in loan acquisition and collection expense of $107 thousand, primarily related to increased costs associated with real estate owned properties; partially offset by,

- A decrease in professional fees of $144 thousand, due to a decrease in legal expenses related to the corporate reorganization completed in the prior period, as well as lower other professional fees; and
- A decrease in FDIC insurance expense of $77 thousand, primarily due to credits issued from the FDIC in the current quarter.

Nine Months Ended March 31, 2020 and 2019

Noninterest expense increased by $1.2 million for the nine months ended March 31, 2020, compared to the nine months ended March 31, 2019, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.3 million, primarily due to increases in base salary and incentive compensation, offset by a decrease in stock-based compensation expense; and
- An increase in other noninterest expense of $341 thousand, primarily due to the quarterly valuation of SBA servicing rights, which required a net impairment charge of $344 thousand during the nine months ended March 31, 2020, compared to a net impairment charge of $44 thousand during the nine months March 31, 2019; offset by,
- A decrease in professional fees of $341 thousand, primarily due to a decrease in legal expenses related to the Reorganization.

Income Taxes

Three Months Ended March 31, 2020 and 2019

Income tax expense decreased by $169 thousand to $1.7 million, or an effective tax rate of 48.1%, for the quarter ended March 31, 2020, compared to $1.9 million, or an effective tax rate of 28.3%, for the quarter ended March 31, 2019. The decrease was due to lower pre-tax income, which decreased by $3.1 million during the quarter ended March 31, 2020 compared to the quarter ended March 31, 2019. Offsetting this activity was a $554 thousand expense related to the recapture of the tax reserve for loan losses as a result of the repurchase of common stock by the Bank during the quarter ended March 31, 2020. This is 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 now must be recaptured. Because the Bank had only intended to use the reserve to absorb loan losses, no provision had been made for this liability.

Nine Months Ended March 31, 2020 and 2019

Income tax expense increased by $182 thousand to $5.6 million, or an effective tax rate of 32.9%, for the nine months ended March 31, 2020, compared to $5.5 million, or an effective tax rate of 27.4%, for the nine months ended March 31, 2019. The increase 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; partially offset by lower pre-tax income which decreased by $2.8 million during the nine months ended March 31, 2020 compared to the nine months ended March 31, 2019.

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, 2020.

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, 2020 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

This section supplements and updates certain of the information found under Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended June 30, 2019 filed with the FDIC on September 13, 2019 (the "Annual Report"), based on information currently known to us and recent developments since the date of the Annual Report filing. The matters discussed below should be read in conjunction with the risks described in Part I. Item 1A. "Risk Factors" of our Annual Report. However, the risks and uncertainties that we face are not limited to those described below and those set forth in the Annual Report. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business and the trading price of our securities, particularly in light of the fast-changing nature of the COVID-19 pandemic, containment measures and the related impacts to economic and operating conditions.

The COVID-19 pandemic, and the measures taken to control its spread, will likely continue to adversely impact our employees, customers, business operations and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted.

The COVID-19 pandemic has impacted and is likely to continue to impact the national economy and the regional and local markets in which we operate, lower equity market valuations, create significant volatility and disruption in capital and debt markets, and increase unemployment levels. Our business operations may be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. We are subject to heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements that we have put in place for our employees. FRB actions to combat the economic contraction caused by the COVID-19 pandemic, including the reduction of the target federal funds rate and quantitative easing programs, could, if prolonged, adversely affect our net interest income and margins, and our profitability. The continued closures of many businesses and the institution of social distancing, shelter-in-place and stay-at-home orders in the states and communities we serve, have reduced business activity and financial transactions. It is unclear whether any COVID-19 pandemic-related business losses that we or our customers may suffer will be recovered by existing insurance policies. Changes in customer behavior due to worsening business and economic conditions or legislative or regulatory initiatives may impact the demand for our products and services, which could adversely affect our revenue, increase the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses. Pandemic-related delays in our ability to execute appraisals of collateral securing impaired loans may add uncertainty about the adequacy of our allowance for credit losses. Because of adverse economic and market conditions affecting issuers, we may be required to recognize impairments on the securities we hold as well as reductions in other comprehensive income. While the COVID-19 pandemic negatively impacted our results of operations for the third quarter of fiscal year 2020, the extent to which the COVID-19 pandemic will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic, as well as further actions we may take as may be required by government authorities or that we determine is in the best interests of our employees and customers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the pandemic.

Our participation in the SBA's PPP may expose us to reputational harm, increased litigation risk, as well as the risk that the SBA may not fund some or all of the guarantees associated with PPP loans.

As of April 22, 2020, we have originated 194 loans aggregating $37.2 million through the PPP. Lenders participating in the PPP have faced increased public scrutiny about their loan application process and procedures, and the nature and type of the borrowers receiving PPP loans. We depend on our reputation as a trusted and responsible financial services company to compete effectively in the communities that we serve, and any negative public or customer response to, or any litigation or claims that might arise out of, our participation in the PPP and any other legislative or regulatory initiatives and programs that may be enacted in response to the COVID-19 pandemic, could adversely impact our business. Other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP, and we may be subject to the same or similar litigation. In addition, if the SBA determines that there is a deficiency in the manner in which a PPP loan was originated, funded, or serviced by us, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

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

The following table summarizes repurchases of the Bank's outstanding common shares in the third quarter of fiscal year 2020.

	Issuer Purchases of Equity Securities			
Period	**(a) Total number of shares purchased**	**(b) Average price paid per share**	**(c) Total number of shares purchased as part of publicly announced plans**	**(d) Maximum number of shares that may yet be purchased under the plans**
January 1 - 31, 2020	-	$ -	-	-
February 1 - 29, 2020	-	-	-	-
March 1 - 31, 2020	416,700	12.83	416,700	483,300
Total	416,700	$ 12.83	416,700	483,300

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. The repurchase program may be suspended or terminated at any time without prior notice, and it will expire October 21, 2020. During the three months ended March 31, 2020, the Bank repurchased 416,700 shares at a weighted average share price of $12.83 per share.

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
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 8, 2020

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 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 8, 2020

/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 8, 2020

/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, 2020 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 8, 2020

/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, 2020 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 8, 2020

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