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 December 31, 2022

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	Name of each exchange on which registered
Voting Common Stock, $1.00 par value	NBN	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subjected 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 or an emerging growth company. See definition of "accelerated filer," and "large accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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 February 1, 2023, the registrant had outstanding 7,508,544 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	December 31, 2022	June 30, 2022
Assets		
Cash and due from banks	$ 2,540	$ 2,095
Short-term investments	161,776	169,984
Total cash and cash equivalents	164,316	172,079
Available-for-sale debt securities, at fair value	53,698	54,911
Equity securities, at fair value	6,665	6,798
Total investment securities	60,363	61,709
Loans:		
Commercial real estate	1,939,151	882,187
Commercial and industrial	479,215	352,729
Residential real estate	85,782	69,209
Consumer	609	741
Total loans	2,504,757	1,304,866
Less: Allowance for loan losses	6,411	5,028
Loans, net	2,498,346	1,299,838
Premises and equipment, net	27,333	9,606
Federal Home Loan Bank stock, at cost	11,481	1,610
Loan servicing rights, net	1,860	1,285
Bank-owned life insurance	18,141	17,922
Other assets	27,577	18,710
Total assets	$ 2,809,417	$ 1,582,759
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 183,485	$ 329,007
Savings and interest checking	725,356	585,274
Money market	248,129	246,095
Time	1,078,439	127,317
Total deposits	2,235,409	1,287,693
Federal Home Loan Bank advances	260,000	15,000
Lease liability	20,903	4,451
Other liabilities	29,678	27,294
Total liabilities	2,545,990	1,334,438
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at December 31, 2022 and June 30, 2022	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 7,511,044 and 7,442,103 shares issued and outstanding at December 31, 2022 and June 30, 2022, respectively	7,511	7,442
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; no shares issued and outstanding at December 31, 2022 and June 30, 2022	-	-
Additional paid-in capital	34,423	38,749
Retained earnings	222,417	202,980
Accumulated other comprehensive loss	(924)	(850)
Total shareholders' equity	263,427	248,321
Total liabilities and shareholders' equity	$ 2,809,417	$ 1,582,759

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 December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Interest and dividend income:				
Interest and fees on loans	$ 37,228	$ 21,195	$ 63,307	$ 41,188
Interest on available-for-sale securities	270	76	419	170
Other interest and dividend income	1,703	118	2,339	292
Total interest and dividend income	39,201	21,389	66,065	41,650
Interest expense:				
Deposits	9,896	1,184	12,698	2,492
Federal Home Loan Bank advances	538	127	933	255
Obligation under capital lease agreements	15	23	33	49
Total interest expense	10,449	1,334	13,664	2,796
Net interest and dividend income before provision for loan losses	28,752	20,055	52,401	38,854
Provision (credit) for loan losses	325	(1,069)	1,175	(1,295)
Net interest and dividend income after provision for loan losses	28,427	21,124	51,226	40,149
Noninterest income:				
Fees for other services to customers	503	304	770	761
Gain on sales of SBA loans	35	-	71	-
Gain on sales of PPP loans	-	-	-	86
Net unrealized gain (loss) on equity securities	11	(53)	(207)	(74)
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	(29)	73	23	(1)
Correspondent fee income	618	6,041	2,000	13,872
Gain on termination of interest rate swap	-	-	96	-
Bank-owned life insurance income	110	106	219	212
Other noninterest income	53	22	(12)	36
Total noninterest income	1,301	6,493	2,960	14,892
Noninterest expense:				
Salaries and employee benefits	8,452	7,406	16,717	14,968
Occupancy and equipment expense	1,200	864	2,052	1,752
Professional fees	464	394	979	915
Data processing fees	1,216	1,099	2,320	2,174
Marketing expense	219	158	395	350
Loan acquisition and collection expense	749	211	1,390	2,459
FDIC insurance expense	144	120	241	200
Other noninterest expense	1,260	935	2,243	1,708
Total noninterest expense	13,704	11,187	26,337	24,526
Income before income tax expense	16,024	16,430	27,849	30,515
Income tax expense	4,726	5,027	8,264	9,236
Net income	$ 11,298	$ 11,403	$ 19,585	$ 21,279
Weighted-average shares outstanding:				
Basic	7,256,281	7,952,938	7,305,331	8,012,106
Diluted	7,323,402	8,041,476	7,379,790	8,096,728
Earnings per common share:				
Basic	$ 1.56	$ 1.43	$ 2.68	$ 2.66
Diluted	1.54	1.42	2.65	2.63
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.02	$ 0.02

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net income	$ 11,298	$ 11,403	$ 19,585	$ 21,279
Other comprehensive income (loss), before tax:				
Change in net unrealized gain (loss) on available-for-sale debt securities	150	(210)	(322)	(272)
Change in accumulated loss on effective cash flow hedges	-	156	221	331
Total other comprehensive income (loss), before tax	150	(54)	(101)	59
Income tax expense (benefit) related to other comprehensive income	40	(15)	(27)	14
Other comprehensive income (loss), net of tax	110	(39)	(74)	45
Comprehensive income	$ 11,408	$ 11,364	$ 19,511	$ 21,324

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				Accumulated Other	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Loss	Shareholders' Equity
Balance at September 30, 2021	-	$ -	8,172,776	$ 8,173	-	$ -	$ 61,634	$ 170,929	$ (1,228)	$ 239,508
Net income	-	-	-	-	-	-	-	11,403	-	11,403
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(39)	(39)
Common stock repurchased	-	-	(353,590)	(354)	-	-	(11,647)	-	-	(12,001)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(84)	-	(84)
Stock-based compensation	-	-	-	-	-	-	480	-	-	480
Cancellation and forfeiture of restricted common stock	-	-	(7,196)	(7)	-	-	-	-	-	(7)
Stock options exercised, net	-	-	3,576	4	-	-	(27)	-	-	(23)
Balance at December 31, 2021	-	$ -	7,815,566	$ 7,816	-	$ -	$ 50,440	$ 182,248	$ (1,267)	$ 239,237
Balance at September 30, 2022	-	$ -	7,477,158	$ 7,477	-	$ -	$ 34,526	$ 211,194	$ (1,034)	$ 252,163
Net income	-	-	-	-	-	-	-	11,298	-	11,298
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	110	110
Common stock issued, net of issuance costs	-	-	33,505	34	-	-	1,111	-	-	1,145
Common stock repurchased	-	-	(28,161)	(28)	-	-	(1,054)	-	-	(1,082)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(75)	-	(75)
Stock-based compensation	-	-	-	-	-	-	892	-	-	892
Cancellation and forfeiture of restricted common stock	-	-	(1,695)	(2)	-	-	(66)	-	-	(68)
Stock options exercised, net	-	-	30,237	30	-	-	(986)	-	-	(956)
Balance at December 31, 2022	-	$ -	7,511,044	$ 7,511	-	$ -	$ 34,423	$222,417	$ (924)	$ 263,427

	Preferred Stock		Voting Common Stock		Non-voting Common Stock				Accumulated Other	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Comprehensive Loss	Shareholders' Equity
Balance at June 30, 2021	-	$ -	8,150,480	$ 8,151	-	$ -	$ 64,420	$ 161,132	$ (1,312)	$ 232,391
Net income	-	-	-	-	-	-	-	21,279	-	21,279
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	45	45
Common stock repurchased	-	-	(455,901)	(456)	-	-	(14,605)	-	-	(15,061)
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(163)	-	(163)
Stock-based compensation	-	-	-	-	-	-	1,015	-	-	1,015
Issuance of restricted common stock	-	-	136,575	136			(136)			-
Cancellation and forfeiture of restricted common stock	-	-	(21,008)	(21)	-	-	(198)	-	-	(219)
Stock options exercised, net	-	-	5,420	6	-	-	(56)	-	-	(50)
Balance at December 31, 2021	-	$ -	7,815,566	$ 7,816	-	$ -	$ 50,440	$ 182,248	$ (1,267)	$ 239,237
Balance at June 30, 2022	-	$ -	7,442,103	$ 7,442	-	$ -	$ 38,749	$ 202,980	$ (850)	$ 248,321
Net income	-	-	-	-	-	-	-	19,585	-	19,585
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(74)	(74)
Common stock issued, net of issuance costs	-	-	33,505	34	-	-	1,111	-	-	1,145
Common stock repurchased	-	-	(135,883)	(136)	-	-	(5,027)	-	-	(5,163)
Dividends on common stock at $0.02 per share	-	-	-	-	-	-	-	(148)	-	(148)
Stock-based compensation	-	-	-	-	-	-	1,701	-	-	1,701
Issuance of restricted common stock	-	-	132,715	133			(133)			-
Cancellation and forfeiture of restricted common stock	-	-	(10,936)	(11)	-	-	(440)	-	-	(451)
Stock options exercised, net	-	-	49,540	49	-	-	(1,538)	-	-	(1,489)
Balance at December 31, 2022	-	$ -	7,511,044	$ 7,511	-	$ -	$ 34,423	$ 222,417	$ (924)	$ 263,427

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

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

	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Operating activities:		
Net income	$ 19,585	$ 21,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	1,175	(1,295)
(Gain) loss recognized on real estate owned, other repossessed collateral and premises and equipment, net	(23)	1
Net unrealized loss on equity securities	207	74
Accretion of loans, net	(1,510)	(6,191)
Originations of loans held for sale	(2,080)	(6,333)
Net proceeds from sales of loans held for sale	2,252	6,232
Gain on sales of SBA loans	(71)	-
Gain on sales of PPP loans	-	(86)
Net (increase) decrease in servicing rights	(575)	416
Bank-owned life insurance income, net	(219)	(212)
Depreciation and amortization of premises and equipment	1,606	1,321
Stock-based compensation	1,701	1,015
Amortization of available-for-sale debt securities, net	104	257
Changes in other assets and liabilities:		
Other assets	(8,766)	6,511
Other liabilities	2,605	4,120
Net cash provided by operating activities	15,991	27,109
Investing activities:		
Purchases of available-for-sale debt securities	(16,978)	(5,989)
Proceeds from maturities and principal payments on investment securities, net	17,691	7,836
Loan purchases	(1,076,064)	(127,492)
Loan originations, principal collections, and purchased loan paydowns, net	(122,210)	(6,721)
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(1,919)	(145)
Purchases of Federal Home Loan Bank stock	(9,871)	(70)
Proceeds from sales of real estate owned and other repossessed collateral	61	1,763
Net cash used in investing activities	(1,209,290)	(130,818)
Financing activities:		
Net decrease in deposits	947,716	(709,235)
Proceeds from Federal Home Loan Bank advances	245,000	-
Redemption of subordinated debt	-	(15,050)
Repayment of lease liability	(1,074)	(795)
Dividends paid on common stock	(148)	(163)
Issuances of common stock	1,145	-
Repurchases of common stock	(5,163)	(15,061)
Cancellations for tax withholdings on restricted common stock	(451)	(219)
Stock options exercised, net	(1,489)	(50)
Net cash used in financing activities	1,185,536	(740,573)
Net change in cash and cash equivalents	(7,763)	(844,282)
Cash and cash equivalents, beginning of period	172,079	1,010,491
Cash and cash equivalents, end of period	$ 164,316	$ 166,209
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ -	$ 53
Transfers from fixed assets to real estate owned and other repossessed collateral, net	90	118
Capitalization of lease liability	17,526	-

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

NORTHEAST BANK
Notes to Unaudited Financial Statements
December 31, 2022

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 Article 10 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, 2022 ("Fiscal 2022") included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into during June 2020. As a result of this agreement, when the third party purchases Paycheck Protection Program ("PPP") loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). During the three and six months ended December 31, 2022 and 2021, the Bank did not receive any correspondent fees. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the expected lives of the related loans (approximately two years). For the quarters ended December 31, 2022 and 2021, the Bank recognized $29 thousand and $1.1 million in correspondent fee income, respectively. For the six months ended December 31, 2022 and 2021, the Bank recognized $295 thousand and $2.2 million in correspondent fee income, respectively.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. At December 31, 2022, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (approximately two years). For the quarters ended December 31, 2022 and 2021, the Bank recognized $589 thousand and $4.9 million in net servicing income, respectively. For the six months ended December 31, 2022 and 2021, the Bank recognized $1.7 million and $11.7 million in net servicing income, respectively. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the Small Business Administration ("SBA") approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

Funding and Capital

At-the-Market Offering

To support the Bank's growth strategy, primarily for the purchase of loans during the quarter ended December 31, 2022 and for future loan growth opportunities, the Bank approved and initiated an At-the-Market ("ATM") offering to sell up to $50.0 million of voting common stock. During the quarter ended December 31, 2022, the Bank issued 33,505 shares at a weighted average price per share of $42.67, which resulted in an increase of $1.1 million to capital.

Brokered Deposits

To support the funding needs of the Bank to execute on its growth strategies, including the purchase of loans during the quarter ended December 31, 2022, the Bank increased brokered time deposits from $50.1 million at September 30, 2022 to $843.3 million at December 31, 2022. Brokered time deposits taken during the quarter ended December 31, 2022 were for terms ranging from three to 12 months.

2. Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 October 2019, the FASB made a final decision to delay 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 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 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326)* ("ASU 2022-02"). This guidance provides updates on Troubled Debt Restructurings ("TDRs") by Creditors and Vintage Disclosures. The amendments in this Update eliminate the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. This ASU will be effective under the same effective dates as ASU 2016-13.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
December 31, 2022				
U.S. Government agency securities	$ 50,977	$ 4	$ (1,029)	$ 49,952
Agency mortgage-backed securities	3,987	-	(241)	3,746
Total available-for-sale debt securities	54,964	4	(1,270)	53,698
Equity investments measured at net asset value	7,435	-	(770)	6,665
Total securities	$ 62,399	$ 4	$ (2,040)	$ 60,363
June 30, 2022				
U.S. Government agency securities	$ 51,080	$ -	$ (795)	$ 50,285
Agency mortgage-backed securities	4,775	-	(149)	4,626
Total available-for-sale debt securities	55,855	-	(944)	54,911
Equity investments measured at net asset value	7,361	-	(563)	6,798
Total securities	$ 63,216	$ -	$ (1,507)	$ 61,709

At December 31, 2022, 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 six months ended December 31, 2022 or 2021. At December 31, 2022, securities with a fair value of $53.7 million were pledged as collateral to secure potential or outstanding Federal Home Loan Bank of Boston ("FHLBB") advances or letters of credit.

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.

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
December 31, 2022						
U.S. Government agency securities	$ 21,562	$ (405)	$ 25,392	$ (624)	$ 46,954	$ (1,029)
Agency mortgage-backed securities	3,746	(241)	-	-	3,746	(241)
Equity investments measured at net asset value	-	-	4,981	(770)	4,981	(770)
Total investment securities	$ 25,308	$ (646)	$ 30,373	$ (1,394)	$ 55,681	$ (2,040)
June 30, 2022						
U.S. Government agency securities	$ 36,516	$ (449)	$ 13,769	$ (346)	$ 50,285	$ (795)
Agency mortgage-backed securities	4,626	(149)	-	-	4,626	(149)
Equity investments measured at net asset value	-	-	5,142	(563)	5,142	(563)
Total investment securities	$ 41,142	$ (598)	$ 18,911	$ (909)	$ 60,053	$ (1,507)

There were no other-than-temporary impairment losses on securities during the three or six months ended December 31, 2022 and 2021.

At December 31, 2022, all of the Bank's debt securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The change in fair value of the Bank's securities at December 31, 2022 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's investment portfolio, management of the Bank considers the Bank's ability and intent to hold such securities to maturity or recovery of cost.

The securities 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 December 31, 2022, 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 4.50 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of December 31, 2022. 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
	(In thousands)	
Due within one year	$ 23,035	$ 22,531
Due after one year through five years	27,942	27,421
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	50,977	49,952
Agency mortgage-backed securities	3,987	3,746
Total available-for-sale debt securities	$ 54,964	$ 53,698

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, maturity forbearances, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. The Bank began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. 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:

	December 31, 2022			June 30, 2022		
	Originated	Purchased	Total	Originated	Purchased	Total
	(In thousands)					
Commercial real estate	$ 464,931	$ 1,451,541	$ 1,916,472	$ 381,785	$ 470,091	$ 851,876
Commercial and industrial	450,936	23,719	474,655	349,914	80	349,994
SBA	27,239	-	27,239	33,046	-	33,046
Residential real estate	77,475	8,307	85,782	61,698	7,511	69,209
Consumer	609	-	609	741	-	741
Total loans	$ 1,021,190	$ 1,483,567	$ 2,504,757	$ 827,184	$ 477,682	$ 1,304,866

Total loans include deferred loan origination fees, net, of $247 thousand as of December 31, 2022 and $598 thousand as of June 30, 2022.

Past Due and Nonaccrual Loans

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

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
December 31, 2022					(In thousands)			
Originated portfolio:								
Commercial real estate	$ -	$ 18	$ -	$ 1,200	$ 1,217	$ 463,714	$ 464,931	$ 2,848
Commercial and industrial	-	-	-	3	3	450,933	450,936	3
SBA	116	-	-	768	884	26,355	27,239	1,077
Residential real estate	365	82	-	125	572	76,903	77,475	448
Consumer	17	-	-	6	23	586	609	8
Total originated portfolio	498	100	-	2,102	2,699	1,018,491	1,021,190	4,384
Purchased portfolio:								
Commercial real estate	7,433	2,953	-	4,582	14,968	1,436,573	1,451,541	8,112
Commercial and industrial	294	242	-	243	779	22,940	23,719	332
Residential real estate	-	-	-	71	71	8,236	8,307	71
Total purchased portfolio	7,727	3,195	-	4,896	15,818	1,467,749	1,483,567	8,515
Total loans	$ 8,225	$ 3,295	$ -	$ 6,998	$ 18,517	$ 2,486,240	$ 2,504,757	$ 12,899
June 30, 2022								
Originated portfolio:								
Commercial real estate	$ -	$ -	$ -	$ 1,221	$ 1,221	$ 380,564	$ 381,785	$ 4,573
Commercial and industrial	-	-	-	5	5	349,909	349,914	26
SBA	148	39	-	589	776	32,270	33,046	634
Residential real estate	36	106	-	221	363	61,335	61,698	550
Consumer	1	-	-	8	9	732	741	11
Total originated portfolio	185	145	-	2,044	2,374	824,810	827,184	5,794
Purchased portfolio:								
Commercial real estate	650	33	-	3,846	4,529	465,562	470,091	7,053
Commercial and industrial	-	-	-	-	-	80	80	28
Residential real estate	-	-	-	71	71	7,440	7,511	71
Total purchased portfolio	650	33	-	3,917	4,600	473,082	477,682	7,152
Total loans	$ 835	$ 178	$ -	$ 5,961	$ 6,974	$ 1,297,892	$ 1,304,866	$ 12,946

Allowance for Loan Losses and Impaired Loans

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

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

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

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

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

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

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

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

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

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

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral less estimated costs to sell if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan.

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate (In thousands)	Consumer	Purchased	Total
Three Months Ended December 31, 2022							
Beginning balance	$ 2,972	$ 1,707	$ 373	$ 259	$ 11	$ 576	$ 5,898
Provision (credit)	292	28	106	42	(3)	(140)	325
Recoveries	66	-	-	1	-	121	188
Charge-offs	-	-	-	-	-	-	0
Ending balance	$ 3,330	$ 1,735	$ 479	$ 302	$ 8	$ 557	$ 6,411
Three Months Ended December 31, 2021							
Beginning balance	$ 2,364	$ 1,494	$ 2,651	$ 213	$ 29	$ 415	$ 7,166
Provision (credit)	18	96	(1,156)	9	(9)	(27)	(1,069)
Recoveries	-	-	-	1	-	-	1
Charge-offs	(53)	(1)	-	-	(4)	-	(58)
Ending balance	$ 2,329	$ 1,589	$ 1,495	$ 223	$ 16	$ 388	$ 6,040
Six Months Ended December 31, 2022							
Beginning balance	$ 2,495	$ 1,473	$ 449	$ 253	$ 10	$ 348	$ 5,028
Provision (credit)	769	262	30	47	5	62	1,175
Recoveries	66	-	-	2	-	147	215
Charge-offs	-	-	-	-	(7)	-	(7)
Ending balance	$ 3,330	$ 1,735	$ 479	$ 302	$ 8	$ 557	$ 6,411
Six Months Ended December 31, 2021							
Beginning balance	$ 2,322	$ 1,195	$ 3,118	$ 234	$ 32	$ 412	$ 7,313
Provision (credit)	52	394	(1,839)	(13)	(14)	125	(1,295)
Recoveries	8	1	240	2	4	-	255
Charge-offs	(53)	(1)	(24)	-	(6)	(149)	(233)
Ending balance	$ 2,329	$ 1,589	$ 1,495	$ 223	$ 16	$ 388	$ 6,040

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate (In thousands)	Consumer	Purchased	Total
December 31, 2022							
Allowance for loan losses:							
Individually evaluated	$ 156	$ 77	$ 140	$ 36	$ -	$ -	$ 409
Collectively evaluated	3,174	1,658	339	266	8	-	5,445
ASC 310-30	-	-	-	-	-	557	557
Total	$ 3,330	$ 1,735	$ 479	$ 302	$ 8	$ 557	$ 6,411
Loans:							
Individually evaluated	$ 10,125	$ 6,903	$ 1,159	$ 1,613	$ 26	$ 17,442	$ 37,268
Collectively evaluated	454,806	444,033	26,080	75,862	583	-	1,001,364
ASC 310-30	-	-	-	-	-	1,466,125	1,466,125
Total	$ 464,931	$ 450,936	$ 27,239	$ 77,475	$ 609	$ 1,483,567	$ 2,504,757
June 30, 2022							
Allowance for loan losses:							
Individually evaluated	$ -	$ 187	$ 4	$ 42	$ 1	$ -	$ 234
Collectively evaluated	2,495	1,286	445	211	9	-	4,446
ASC 310-30	-	-	-	-	-	348	348
Total	$ 2,495	$ 1,473	$ 449	$ 253	$ 10	$ 348	$ 5,028
Loans:							
Individually evaluated	$ 11,853	$ 6,926	$ 1,040	$ 1,718	$ 35	$ 14,539	$ 36,111
Collectively evaluated	369,932	342,988	32,006	59,980	706	-	805,612
ASC 310-30	-	-	-	-	-	463,143	463,143
Total	$ 381,785	$ 349,914	$ 33,046	$ 61,698	$ 741	$ 477,682	$ 1,304,866

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.

	December 31, 2022			June 30, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 6,253	$ 6,253	$ -	$ 11,853	$ 11,853	$ -
Commercial and industrial	3	3	-	26	26	-
SBA	571	571	-	916	916	-
Residential real estate	1,173	1,173	-	1,101	1,101	-
Consumer	26	26	-	34	34	-
Purchased:						
Commercial real estate	12,936	16,142	-	9,938	14,454	-
Commercial and industrial	271	319	-	-	-	-
Residential real estate	897	944	-	897	944	-
Total	22,130	24,431	-	24,765	29,328	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	3,872	3,872	156	-	-	-
Commercial and industrial	6,900	6,900	77	6,900	6,900	187
SBA	588	588	140	124	124	4
Residential real estate	440	440	36	617	617	42
Consumer	-	-	-	1	1	1
Purchased:						
Commercial real estate	3,233	3,816	452	3,676	4,479	320
Commercial and industrial	105	160	105	28	73	28
Residential real estate	-	-	-	-	-	-
Total	15,138	15,776	966	11,346	12,194	582
Total impaired loans	$ 37,268	$ 41,207	$ 966	$ 36,111	$ 41,522	$ 582

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

	Three Months Ended December 31,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 6,624	$ 128	$ 8,451	$ 56
Commercial and industrial	3	-	7	-
SBA	802	2	1,163	12
Residential real estate	1,129	9	1,264	4
Consumer	28	1	41	-
Purchased:				
Commercial real estate	12,536	56	14,163	41
Commercial and industrial	136	-	-	-
Residential real estate	897	-	1,808	-
Total	22,155	196	26,897	113
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	3,612	60	5,600	50
Commercial and industrial	6,900	66	7,664	42
SBA	294	-	213	2
Residential real estate	508	11	765	12
Consumer	-	-	19	-
Purchased:				
Commercial real estate	3,586	50	2,357	13
Commercial and industrial	57	-	64	-
Residential real estate	-	-	-	-
Total	14,957	187	16,682	119
Total impaired loans	$ 37,112	$ 383	$ 43,579	$ 232

	Six Months Ended December 31,			
	2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 8,367	$ 195	$ 7,319	$ 40
Commercial and industrial	11	-	8	-
SBA	840	5	1,065	7
Residential real estate	1,120	14	1,297	7
Consumer	30	2	46	-
Purchased:				
Commercial real estate	11,670	131	14,216	93
Commercial and industrial	90	-	21	-
Residential real estate	897	-	1,848	-
Total	23,025	347	25,820	147
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	2,408	120	6,142	157
Commercial and industrial	6,900	132	7,453	73
SBA	237	-	433	4
Residential real estate	544	22	780	26
Consumer	-	-	19	-
Purchased:				
Commercial real estate	3,616	100	2,198	26
Commercial and industrial	47	-	71	-
Residential real estate	-	-	-	-
Total	13,752	374	17,096	286
Total impaired loans	$ 36,777	$ 721	$ 42,916	$ 433

Credit Quality

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
			(In thousands)			
December 31, 2022						
Loans rated 1- 6	$ 457,615	$ 444,033	$ 26,113	$ 58,731	$ 1,472,916	$ 2,459,408
Loans rated 7	4,437	6,900	375	-	2,099	13,811
Loans rated 8	2,879	3	751	-	8,552	12,185
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 464,931	$ 450,936	$ 27,239	$ 58,731	$ 1,483,567	$ 2,485,404
June 30, 2022						
Loans rated 1- 6	$ 373,348	$ 342,986	$ $ 32,076	$ 41,166	$ 468,264	$ 1,257,840
Loans rated 7	4,131	6,900	456	-	2,266	13,753
Loans rated 8	4,306	28	514	-	7,152	12,000
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 381,785	$ 349,914	$ $ 33,046	$ 41,166	$ 477,682	$ 1,283,593

(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 December 31,				Six Months Ended December 31,			
	2022		2021		2022		2021	
	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	-	$ -	2	$ 1,065	-	$ -	3	$ 1,472
Rate and maturity	1	88	1	1,486	4	244	1	1,486
Adjusted interest rate	-	-	-	-	-	-	-	-
Principal/interest deferment	2	69	4	1,259	3	88	5	1,330
	3	$ 157	7	$ 3,810	7	$ 332	9	$ 4,288

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

	Three Months Ended December 31,					
	2022			2021		
	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:						
Residential real estate	-	$ -	$ -	1	$ 45	$ 48
Commercial real estate	-	-	-	1	1,349	1,486
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	-	-	-	2	1,394	1,534
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	3	121	157	5	2,220	2,276
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	3	121	157	5	2,220	2,276
Total	3	$ 121	$ 157	7	$ 3,614	$ 3,810

	Six Months Ended December 31,					
	2022			2021		
	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:						
Residential real estate	2	$ 72	$ 72	1	$ 45	$ 48
Commercial real estate	-	-	-	1	1,349	1,486
Commercial and industrial	-	-	-	1	407	407
Consumer	-	-	-	-	-	-
Total originated portfolio	2	72	72	3	1,801	1,941
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	5	224	260	6	2,291	2,347
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	7	224	260	6	2,291	2,347
Total	7	$ 296	$ 332	9	$ 4,092	$ 4,288

As of December 31, 2022, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three and six months ended December 31, 2022. One loan modified in a TDR in the last twelve months totaling $28 thousand defaulted during the three and six months ended December 31, 2021.

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 December 31,		For the Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands)			
Contractually required payments receivable	$ 1,751,354	$ 111,430	$ 1,863,272	$ 160,861
Nonaccretable difference	(18,965)	(352)	(20,915)	(643)
Cash flows expected to be collected	1,732,389	111,078	1,842,357	160,218
Accretable yield	(733,862)	(18,943)	(766,293)	(32,726)
Fair value of loans acquired	$ 998,527	$ 92,135	$ 1,076,064	$ 127,492

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 December 31,		As of and for the Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands)		(In thousands)	
Loans acquired during the period	$ 431	$ -	$ 1,218	$ -
Loans at end of period	7,940	9,091	7,940	-

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands)		(In thousands)	
Beginning balance	$ 157,914	$ 138,488	$ 132,700	$ 137,987
Acquisitions	733,862	18,943	766,293	32,726
Accretion	(12,726)	(7,061)	(20,097)	(13,856)
Reclassifications from non-accretable difference to accretable yield	4,730	1,085	8,366	2,443
Disposals and other changes	(7,350)	(8,335)	(10,832)	(16,180)
Ending balance	$ 876,430	$ 143,120	$ 876,430	$ 143,120

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

	December 31, 2022	June 30, 2022
	(In thousands)	
Unpaid principal balance	$ 1,664,067	$ 501,989
Carrying amount	1,476,077	469,578

5. Borrowings

Federal Home Loan Bank Advances

At December 31, 2022, the Bank had two advances from the FHLBB totaling $260.0 million, as compared to one advance totaling $15.0 million at June 30, 2022. The advances consist of one fixed advance for $15.0 million, which matures on June 21, 2027, and one amortizing advance for $245.0 million, which matures on January 3, 2028. The weighted average interest rate on FHLBB advances was 4.12% and 0.87% as of December 31 and June 30, 2022, respectively.

At December 31, 2022, no FHLBB advances were subject to call provisions and as such, may not be called prior to the stated maturity. Certain mortgage loans and available-for-sale securities, free of liens, pledges and encumbrances have been pledged under a blanket agreement to secure these advances. The Bank is required to own stock in the FHLBB in order to borrow from the FHLBB.

At December 31, 2022, the Bank had approximately $274.1 million of additional capacity to borrow from the FHLBB, compared to $150.4 million as of June 30, 2022.

Capital Leases

During the quarter ended December 31, 2022, the Bank capitalized a lease for its corporate space located in Boston, Massachusetts. As a result of this new lease, the Bank capitalized $17.5 million during the quarter. The new lease has a 12-year term and includes a rent-free period. The Bank utilized a discount rate of 5.10%, which approximates the borrowing rate for an FHLBB advance for a similar term.

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 December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
	(In thousands, except share and per share data)			
Net income	$ 11,298	$ 11,403	$ 19,585	$ 21,279
Average number of common shares outstanding	7,468,357	8,070,438	7,487,556	8,100,897
Less: average unvested non-participating restricted stock awards	(212,076)	(117,500)	(182,225)	(88,791)
Weighted average shares used in calculation of basic EPS	7,256,281	7,952,938	7,305,331	8,012,106
Effect of dilutive stock options	23,825	79,014	37,182	79,860
Effect of dilutive unvested restricted stock awards	43,296	9,524	37,277	4,762
Weighted average shares used in calculation of diluted EPS	7,323,402	8,041,476	7,379,790	8,096,728
Basic earnings per common share	$ 1.56	$ 1.43	$ 2.68	$ 2.66
Diluted earnings per common share	$ 1.54	$ 1.42	$ 2.65	$ 2.63

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the three and six months ended December 31, 2022 and 2021.

7. Derivatives and Hedging Activities

The Bank had 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 previously held 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 June 30, 2022, the Bank had posted cash collateral totaling $2.5 million with dealer banks related to derivative instruments in a net liability position. The Bank had no cash posted for collateral at December 31, 2022.

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 as of June 30, 2022.

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	2.29%	3.38%	n/a	$ (173)	$ (173)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.29%	3.23%	n/a	(69)	(69)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.29%	2.77%	n/a	21	21	Other Liabilities
$ 15,000							$ (221)	$ (221)	

During the quarter ended September 30, 2022, the Bank terminated interest rate swap agreements totaling $15.0 million prior to maturity and recorded a gain on the termination of interest rate swaps of $96 thousand. During the quarter ended December 31, 2021, no interest rate swap agreements were terminated prior to maturity. Changes in the fair value of interest rate 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 months ended December 31, 2021 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 are as follows:

	Three Months Ended December 31,					
	2022			2021		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
			(In thousands)			
Change in net unrealized loss on available-for-sale debt securities	$ 150	$ 40	$ 110	$ (210)	$ (57)	$ (153)
Change in accumulated loss on effective cash flow hedges	-	-	-	156	42	114
Total other comprehensive income (loss)	$ 150	$ 40	$ 110	$ (54)	$ (15)	$ (39)

	Six Months Ended December 31,					
	2022			2021		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
			(In thousands)			
Change in net unrealized loss on available-for-sale debt securities	$ (322)	$ (87)	$ (235)	$ (272)	$ (74)	$ (198)
Change in accumulated loss on effective cash flow hedges	221	60	161	331	88	243
Total other comprehensive income	$ (101)	$ (27)	$ (74)	$ 59	$ 14	$ 45

Accumulated other comprehensive loss is comprised of the following:

	December 31, 2022	June 30, 2022
	(In thousands)	
Unrealized loss on available-for-sale debt securities	$ (1,266)	$ (944)
Tax effect	342	255
After tax amount	(924)	(689)
Unrealized loss on cash flow hedges	-	(221)
Tax effect	-	60
After tax amount	-	(161)
Accumulated other comprehensive loss	$ (924)	$ (850)

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:

	December 31, 2022	June 30, 2022
	(In thousands)	
Commitments to originate loans	$ 44,422	$ 9,398
Unused lines of credit	31,560	30,495
Standby letters of credit	-	-

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 $121 thousand and $71 thousand recorded in other liabilities at December 31, 2022 and June 30, 2022, 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 and caps 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.

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

	Total		Level 1		Level 2		Level 3	
			(In thousands)					
December 31, 2022								
Assets								
Investment securities:								
U.S. Government agency securities	$	49,952	$	-	$	49,952	$	-
Agency mortgage-backed securities		3,746		-		3,746		-
Equity investments measured at net asset value[1]		6,665		-		-		-
Liabilities								
Other liabilities – interest rate swaps	$	-	$	-	$	-	$	-
June 30, 2022								
Assets								
Investment securities:								
U.S. Government agency securities	$	50,285	$	-	$	50,285	$	-
Agency mortgage-backed securities		4,626		-		4,626		-
Equity investments measured at net asset value[1]		6,798		-		-		-
Liabilities								
Other liabilities – interest rate swaps	$	221	$		$	221	$	-

(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.

	Total		Level 1		Level 2		Level 3	
December 31, 2022			(In thousands)					
Collateral dependent impaired loans	$	462	$	-	$	-	$	462
Real estate owned and other repossessed collateral		-		-		-		-
Loan servicing rights		1,860		-		-		1,860
June 30, 2022								
Collateral dependent impaired loans	$	632	$	-	$	-	$	632
Real estate owned and other repossessed collateral		-		-		-		-
Loan servicing rights		1,285		-		-		1,285

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				
	December 31, 2022		June 30, 2022		Valuation Technique
	(In thousands)				
Collateral dependent impaired loans	$	462	$	632	Appraisal of collateral[1]
Real estate owned and other repossessed collateral		-		-	Appraisal of collateral[1]
Loan servicing rights		1,860		1,285	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 0% to 83%.
(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 17.8% to 18.4%. For discount rates, the range was 11.6% to 27.0%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the three and six months ended December 31, 2022 and 2021.

	Three Months Ended December 31,				Six Months Ended December 31,			
	2022		2021		2022		2021	
			(Dollars in thousands)					
Collateral dependent impaired loans	$	(230)	$	33	$	(230)	$	44
Real estate owned and other repossessed collateral		-		-		-		-
Loan servicing rights		(78)		(11)		94		(27)
Total	$	(308)	$	22	$	(136)	$	17

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

	Carrying Amount	Total	Level 1	Level 2	Level 3
December 31, 2022			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 161,776	$ 161,776	$ 161,776	$ -	$ -
Securities	53,698	53,698	-	53,698	-
Equity investments measured at net asset value[(1)]	6,665	6,665	-	-	-
Federal Home Loan Bank stock	11,481	11,481	-	11,481	-
Loans, net	2,498,346	2,490,976	-	-	2,490,976
Accrued interest receivable	5,679	5,679	-	5,679	-
Financial liabilities:					
Deposits	2,235,409	2,228,744	-	2,228,744	-
Federal Home Loan Bank advances	260,000	258,157	-	258,157	-
Lease liability	20,903	20,526	-	20,526	-
Interest rate swaps	-	-	-	-	-
June 30, 2022					
Financial assets:					
Cash and cash equivalents	$ 169,984	$ 169,984	$ 169,984	$ -	$ -
Securities	54,911	54,911	-	54,911	-
Equity investments measured at net asset value[(1)]	6,798	6,798	-	-	-
Federal Home Loan Bank stock	1,610	1,610	-	1,610	-
Loans, net	1,299,838	1,298,177	-	-	1,298,177
Accrued interest receivable	3,585	3,585	-	3,585	-
Financial liabilities:					
Deposits	1,287,693	1,285,403	-	1,285,403	-
Federal Home Loan Bank advances	15,000	14,998	-	14,998	-
Lease liability	4,451	4,218	-	4,218	-
Interest rate swaps	221	221	-	221	-

(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

We evaluate subsequent events through the date of issuance in the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended December 31, 2022.

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, 2022, filed with the 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, deterioration in employment levels, 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, including concerns about inflation; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; changes in information technology, cybersecurity incidents, fraud, natural disasters, war, terrorism, civil unrest, the ongoing COVID-19 pandemic, and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2022 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 financial institution.

As of December 31, 2022, the Bank had total assets of $2.81 billion, total deposits of $2.24 billion, and shareholders' equity of $263.4 million. We gather retail deposits through our seven 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 National Lending Division.

Strategy

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

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

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

Generating deposits to fund our business. We offer a full line of deposit products through our seven-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 Estimates

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, 2022, 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 six months ended December 31, 2022.

Overview

Net income decreased by $105 thousand to $11.3 million for the three months ended December 31, 2022, compared to net income of $11.4 million for the three months ended December 31, 2021. The decrease was primarily due to lower correspondent fee income and higher provision (credit) for loan losses, partially offset by higher net interest income before provision for loan losses.

Net income decreased by $1.7 million to $19.6 million for the six months ended December 31, 2022, compared to net income of $21.3 million for the six months ended December 31, 2021. The decrease was primarily due to lower correspondent fee income, higher provision (credit) for loan losses, and higher noninterest expense, partially offset by higher net interest income before provision for loan losses.

Financial Condition

<u>*Overview*</u>

As of December 31, 2022, total assets were $2.81 billion, an increase of $1.23 billion, or 77.6%, from total assets of $1.58 billion as of June 30, 2022, primarily due to an increase of $1.20 billion in loans. The principal components of the changes in the balance sheet follow:

<u>*Assets*</u>

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

Cash and cash equivalents were $164.3 million as of December 31, 2022, a decrease of $7.8 million, or 4.5%, from $172.1 million at June 30, 2022.

Investment securities totaled $60.4 million as of December 31, 2022, compared to $61.7 million as of June 30, 2022, representing a decrease of $1.3 million, or 2.2%, primarily due to principal payments on mortgage-backed securities and the change in unrealized loss. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.0 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 $1.7 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At December 31, 2022, securities with a fair value of $53.7 million were pledged for potential and outstanding borrowings.

Loans

The following table highlights the changes in the loan portfolio for the three and six months ended December 31, 2022:

	Loan Portfolio Changes			
	Three Months Ended December 31, 2022			
	December 31, 2022 Balance	September 30, 2022 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 1,483,567	$ 530,393	$ 953,174	179.71%
National Lending Originated	963,775	873,292	90,483	10.36%
SBA National	27,239	27,636	(397)	(1.44%)
Community Banking	30,176	32,899	(2,723)	(8.28%)
Total	$ 2,504,757	$ 1,464,220	$ 1,040,537	71.06%

	Six Months Ended December 31, 2022			
	December 31, 2022 Balance	June 30, 2022 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 1,483,567	$ 477,682	$ 1,005,885	210.58%
National Lending Originated	963,775	759,229	204,546	26.94%
SBA National	27,239	33,046	(5,807)	(17.57%)
Community Banking	30,176	34,909	(4,733)	(13.56%)
Total	$ 2,504,757	$ 1,304,866	$ 1,199,891	91.96%

Loans generated by the Bank's National Lending Division for the quarter ended December 31, 2022 totaled $1.17 billion, which consisted of $996.0 million of purchased loans, primarily commercial real estate loans, at an average price of 86.4% of unpaid principal balance, and $174.0 million of originated loans. The Bank reported $998.5 million of purchased loans, at an average price of 86.6% of unpaid principal balance in the fiscal 2023 second quarter earnings release. Subsequent to announcing earnings, the Bank determined that it was owed $2.6 million of accrued interest on loans purchased during the quarter, which reduced the Bank’s purchase price by the same amount.

An overview of the Bank’s National Lending portfolio follows:

	National Lending Portfolio					
	Three Months Ended December 31,					
	2022			2021		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 1,152,957	$ 173,992	$ 1,326,949	$ 93,379	$ 168,398	$ 261,777
Net investment basis	995,973	173,992	1,169,965	92,136	168,398	260,534
Returns on loan portfolio during the period:						
Yield	8.69%	8.50%	8.59%	8.92%	6.48%	7.53%

	Six Months Ended December 31,					
	2022			2021		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 1,236,815	$ 355,712	$ 1,592,527	$ 130,413	$ 262,884	$ 393,297
Net investment basis	1,073,510	355,712	1,429,222	127,492	262,884	390,376
Returns on loan portfolio during the period:						
Yield	8.07%	8.19%	8.14%	9.08%	6.43%	7.58%
Total loans as of period end:						
Unpaid principal balance	$ 1,673,158	$ 963,775	$ 2,636,933	$ 518,175	$ 619,223	$ 1,137,398
Net investment basis	1,483,567	963,775	2,447,342	484,513	619,223	1,103,736

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

	Community Banking	National Lending	SBA Division	Total	Percent of Total
		(Dollars in thousands)			
December 31, 2022					
Originated loans:					
Commercial real estate: non-owner occupied	$ 4,034	$ 372,646	$ 11,511	$ 388,191	15.50%
Commercial real estate: owner occupied	3,778	84,473	11,168	99,419	3.97%
Commercial and industrial	1,603	449,333	4,560	455,496	18.19%
Residential real estate	20,152	57,323	-	77,475	3.09%
Consumer	609	-	-	609	0.02%
Subtotal	30,176	963,775	27,239	1,021,190	40.77%
Purchased loans:					
Commercial real estate: non-owner occupied	-	1,257,771	-	1,257,771	50.22%
Commercial real estate: owner occupied	-	193,770	-	193,770	7.74%
Commercial and industrial	-	23,719	-	23,719	0.95%
Residential real estate	-	8,307	-	8,307	0.33%
Subtotal	-	1,483,567	-	1,483,567	59.23%
Total	$ 30,176	$ 2,447,342	$ 27,239	$ 2,504,757	100.00%
June 30, 2022					
Originated loans:					
Commercial real estate: non-owner occupied	$ 4,855	$ 307,200	$ 16,390	$ 328,445	25.17%
Commercial real estate: owner occupied	5,092	64,638	13,921	83,651	6.41%
Commercial and industrial	1,858	348,056	2,735	352,649	27.02%
Residential real estate	22,363	39,335	-	61,698	4.73%
Consumer	741	-	-	741	0.06%
Subtotal	34,909	759,229	33,046	827,184	63.39%
Purchased loans:					
Commercial real estate: non-owner occupied	-	300,220	-	300,220	23.01%
Commercial real estate: owner-occupied	-	169,871	-	169,871	13.02%
Commercial and industrial	-	80	-	80	0.02%
Residential real estate	-	7,511	-	7,511	0.58%
Subtotal	-	477,682	-	477,682	36.61%
Total	$ 34,909	$ 1,236,911	$ 33,046	$ 1,304,866	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 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 December 31, 2022 and June 30, 2022. 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 December 31, 2022		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 3,297	$ 8,112	$ 11,409
Commercial and industrial	631	332	963
Residential real estate	448	71	519
Consumer	8	-	8
Total nonperforming loans	4,384	8,515	12,899
Real estate owned and other repossessed collateral	-	-	-
Total nonperforming assets	$ 4,384	$ 8,515	$ 12,899
Ratio of nonperforming loans to total loans			0.51%
Ratio of nonperforming assets to total assets			0.46%
Ratio of loans past due to total loans			0.74%
Nonperforming loans that are current			$ 5,109
Commercial loans risk rated substandard or worse			$ 12,114
Troubled debt restructurings:			
On accrual status			$ 22,383
On nonaccrual status			$ 2,454

	Nonperforming Assets at June 30, 2022		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 5,031	$ 7,053	$ 12,084
Commercial and industrial	202	28	230
Residential real estate	550	71	621
Consumer	11	-	11
Total nonperforming loans	5,794	7,152	12,946
Real estate owned and other repossessed collateral	-	-	-
Total nonperforming assets	$ 5,794	$ 7,152	$ 12,946
Ratio of nonperforming loans to total loans			0.99%
Ratio of nonperforming assets to total assets			0.82%
Ratio of loans past due to total loans			0.53%
Nonperforming loans that are current			$ 6,561
Commercial loans risk rated substandard or worse			$ 11,930
Troubled debt restructurings:			
On accrual status			$ 23,165
Nonaccrual status			$ 4,357

As of December 31, 2022, nonperforming assets totaled $12.9 million, or 0.46% of total assets, as compared to $12.9 million, or 0.82% of total assets, as of June 30, 2022.

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 $6.4 million as of December 31, 2022, compared to $5.0 million as of June 30, 2022. The increase in the period is primarily the result of loan growth, an increase in general qualitative factors in the commercial real estate segment, and an increase in specific reserves during the period.

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

	December 31, 2022	June 30, 2022	December 31, 2021
Allowance for loan losses to nonperforming loans	49.70%	38.84%	28.49%
Allowance for loan losses to total loans	0.26%	0.39%	0.51%
Last twelve months of net-charge offs to average loans	(0.03%)	(0.02%)	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 $17.7 million, or 184.5%, to $27.3 million at December 31, 2022, compared to $9.6 million at June 30, 2022. The increase was primarily due to the capitalization of a right-of-use asset related to the new office space in Boston, Massachusetts for $17.5 million.

Loan servicing rights, net totaled $1.9 million and $1.3 million at December 31, 2022 and June 30, 2022, respectively. The $575 thousand increase was the result of the Bank acquiring servicing rights through a purchased SBA pool, partially offset by SBA loan payoffs, amortization, and the revaluation of the servicing rights performed on a quarterly basis, which resulted in a $78 thousand impairment charge recognized during the quarter.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased $219 thousand, or 1.2% to $18.1 million at December 31, 2022, compared to $17.9 million at June 30, 2022. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 6.7% of the Bank's regulatory total capital at December 31, 2022

Termination of Certain Internal Balance Sheet Policies

In 2019, in connection with the merger of the Bank's former holding company, Northeast Bancorp, with and into the Bank, the Bank incorporated certain standards into its policies and procedures: (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total capital ratio of at least 13.5%, (iii) to limit purchased loans to 60% of total loans, (iv) to maintain a ratio of loans to core deposits of not more than 125%, and (v) to hold commercial real estate loans (including owner-occupied commercial real estate) to within 500% of total capital. However, beginning with the quarter ended December 31, 2022, the Bank's Board of Directors eliminated those internal policy standards.

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

Deposits

The Bank's principal source of funding is its core deposit accounts. At December 31, 2022, non-maturity accounts and non-brokered insured time deposits represented 60.5% of total deposits.

Total deposits increased by $947.7 million, or 73.6%, from June 30, 2022, attributable to increases in time deposits of $951.1 million, or 747.1% and savings and interest checking deposits of $140.1 million, or 23.9%, primarily offset by a decrease in demand deposits of $145.5 million, or 44.2%. The significant increase in time deposits is primarily due to the increase in brokered time deposits, which increased to $843.3 million compared to none outstanding at June 30, 2022. The use of brokered time deposits was part of the Bank's strategy to fund the loan purchases for the short-term.

The composition of total deposits at December 31, 2022 and June 30, 2022 is as follows:

	December 31, 2022		June 30, 2022	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 183,485	8.21%	$ 329,007	25.55%
NOW accounts	610,479	27.31%	445,237	34.58%
Regular and other savings	114,877	5.14%	140,037	10.87%
Money market deposits	248,129	11.10%	246,095	19.11%
Total non-certificate accounts	1,156,970	51.76%	1,160,376	90.11%
Term certificates of $250 thousand or less	1,039,641	46.51%	107,769	8.37%
Term certificates greater than $250 thousand	38,798	1.74%	19,548	1.52%
Total certificate accounts	1,078,439	48.24%	127,317	9.89%
Total deposits	$ 2,235,409	100.00%	$ 1,287,693	100.00%

FHLBB Advances

Advances from the FHLBB were $260.0 million and $15.0 million at December 31, 2022 and June 30, 2022, respectively. The increase was to fund loan growth, particularly loan purchases during the quarter ended December 31, 2022. As of December 31, 2022, the Bank had pledged certain residential real estate loans and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of December 31, 2022, securities with a fair value of $53.7 million were pledged for potential and outstanding borrowings and letters of credit with the FHLBB.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at December 31, 2022, in addition to traditional retail deposit products:

	As of December 31, 2022 (Dollars in thousands)	
Brokered time deposits	$ 523,255	Subject to policy limitation of 50% of total assets
One-way sweep deposits	-	
Federal Home Loan Bank of Boston	274,121	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 814,876	

Retail deposits and other core deposit sources including deposit listing services are used by the Bank to manage its overall liquidity position. We have the ability to raise wholesale funding, such as FHLBB advances and brokered deposits, which remain an important part of our liquidity contingency planning. Our liquidity position 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 December 31, 2022, the Bank had $814.9 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings or brokered deposits. This position represented 29.0% of total assets. The Bank also had $164.3 million of cash and cash equivalents at December 31, 2022.

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 December 31, 2022, shareholders’ equity was $263.4 million, an increase of $15.1 million, or 6.1% from June 30, 2022. Book value per outstanding common share was $35.07 at December 31, 2022 and $33.37 at June 30, 2022.

As of December 31, 2022, the Bank’s Tier 1 leverage capital ratio was 12.5%, compared to 16.1% at June 30, 2022, and the Total capital ratio was 11.1% at December 31, 2022, compared to 19.5% at June 30, 2022. Capital ratios were primarily affected by increased assets, primarily loans.

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 December 31, 2022 and June 30, 2022, 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 December 31, 2022 and June 30, 2022, 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 December 31, 2022 and June 30, 2022. The Bank's regulatory capital ratios are set forth below as of December 31, 2022 and June 30, 2022.

	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)						
December 31, 2022							
Common equity tier 1 capital to risk weighted assets	$ 263,722	10.84%	$ 109,465	≥4.5%	$ 158,116	≥6.5%	7.0%
Total capital to risk weighted assets	270,253	11.11%	194,604	≥8.0%	243,255	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	263,722	10.84%	145,953	≥6.0%	194,604	≥8.0%	8.5%
Tier 1 capital to average assets	263,722	12.53%	84,212	≥4.0%	105,265	≥5.0%	4.0%
June 30, 2022							
Common equity tier 1 capital to risk weighted assets	$ 249,149	19.08%	$ 58,772	≥4.5%	$ 84,893	≥6.5%	7.0%
Total capital to risk weighted assets	254,248	19.47%	104,483	≥8.0%	130,604	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	249,149	19.08%	78,362	≥6.0%	104,483	≥8.0%	8.5%
Tier 1 capital to average assets	249,149	16.13%	61,772	≥4.0%	77,215	≥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 April 20, 2022, the Board of Directors adopted a share repurchase program to purchase up to $40.0 million of common stock, or up to 1,000,000 shares, representing 13.1% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire April 13, 2023. The Bank has repurchased 338,940 shares at a weighted average price per share of $36.85 through December 31, 2022.

At-the-Market Offering

On December 12, 2022, the Board of Directors approved and initiated an at-the-market offering of up to $50.0 million of common stock. The Bank has issued 33,505 shares at a weighted average price per share of $42.67 through December 31, 2022.

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 $105 thousand to $11.3 million for the three months ended December 31, 2022, compared to net income of $11.4 million for the three months ended December 31, 2021. Net income decreased by $1.7 million to $19.6 million for the six months ended December 31, 2022, compared to net income of $21.3 million for the six months ended December 31, 2021. The decrease in net income in both periods was primarily due to decreases in correspondent fee income and increases in provision (credit) for loan losses, partially offset by increases in net interest income before provision for loan losses.

Net Interest Income

Three Months Ended December 31, 2022 and 2021

Net interest and dividend income before provision for loan losses increased by $8.7 million to $28.8 million for the quarter ended December 31, 2022, compared to $20.1 million for the quarter ended December 31, 2021. The increase was primarily due to the following:

- An increase in interest income earned on loans of $16.0 million, primarily due to an increase in interest income earned on the National Lending Division's originated and purchased portfolios, due to higher average balances in both portfolios and higher rates earned on the originated portfolio, partially offset by lower rates earned on the purchased portfolio; and
- An increase in interest income earned on short-term investments of $1.6 million, due to higher rates earned, partially offset by lower average balances; partially offset by,
- An increase in deposit interest expense of $8.7 million, primarily due to higher interest rates and higher average balances in interest-bearing deposits; and
- An increase in FHLB borrowings interest expense of $411 thousand, due to higher average balances.

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

	Interest Income and Yield on Loans					
	Three Months Ended December 31,					
	2022			2021		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 30,920	$ 586	7.52%	$ 42,728	$ 556	5.16%
SBA National	27,757	610	8.72%	36,027	635	6.99%
SBA PPP	-	-	0.00%	628	2	1.26%
National Lending:						
Originated	899,562	19,274	8.50%	601,394	9,827	6.48%
Purchased	765,085	16,758	8.69%	452,644	10,175	8.92%
Total National Lending	1,664,647	36,032	8.59%	1,054,038	20,002	7.53%
Total	$ 1,723,324	$ 37,228	8.57%	$ 1,133,421	$ 21,195	7.42%

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 December 31, 2021, regularly scheduled interest and accretion for the quarter ended December 31, 2022 increased by $5.4 million due to the increase in average balances and transactional income increased by $1.1 million. The total return on purchased loans for the quarter ended December 31, 2022 was 8.7%, a decrease from 9.0% for the quarter ended December 31, 2021. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended December 31,			
	2022		2021	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 13,014	6.75%	$ 7,576	6.64%
Transactional income:				
Gain on real estate owned	-	0.00%	49	0.04%
Accelerated accretion and loan fees	3,744	1.94%	2,599	2.28%
Total transactional income	3,744	1.94%	2,648	2.32%
Total	$ 16,758	8.69%	$ 10,224	8.96%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion and loan fees, 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 provides information on total income recognized during the period on purchased loans, including amounts that are not included in interest income and yield. 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 December 31, 2022 and 2021.

	Three Months Ended December 31,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 60,402	$ 270	1.77%	$ 65,444	$ 76	0.46%
Loans (1) (2) (3)	1,723,324	37,228	8.57%	1,133,421	21,195	7.42%
Federal Home Loan Bank stock	4,549	47	4.10%	1,222	6	1.95%
Short-term investments (4)	170,756	1,656	3.85%	319,639	112	0.14%
Total interest-earning assets	1,959,031	39,201	7.94%	1,519,726	21,389	5.58%
Cash and due from banks	2,495			2,734		
Other non-interest earning assets	143,481			61,013		
Total assets	$ 2,105,007			$ 1,583,473		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 551,998	$ 3,575	2.57%	$ 288,599	$ 192	0.26%
Money market accounts	243,953	805	1.31%	264,731	197	0.30%
Savings accounts	124,990	356	1.13%	101,204	124	0.49%
Time deposits	621,248	5,160	3.30%	225,801	671	1.18%
Total interest-bearing deposits	1,542,189	9,896	2.55%	880,335	1,184	0.53%
Federal Home Loan Bank advances	83,560	538	2.55%	15,000	127	3.36%
Lease liability	16,679	15	0.36%	5,446	23	1.68%
Total interest-bearing liabilities	1,642,428	10,449	2.52%	900,781	1,334	0.59%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	195,907			427,550		
Other liabilities	10,226			14,072		
Total liabilities	1,848,561			1,342,403		
Shareholders' equity	256,446			241,070		
Total liabilities and shareholders' equity	$ 2,105,007			$ 1,583,473		
Net interest income		$ 28,752			$ 20,055	
Interest rate spread			5.42%			4.99%
Net interest margin (5)			5.82%			5.24%
Cost of funds (6)			2.26%			0.40%

(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.
(6) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

The following table presents the extent to which changes in volume and 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 December 31, 2022 Compared to 2021		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (6)	$ 200	$ 194
Loans	12,350	3,683	16,033
Federal Home Loan Bank stock	29	12	41
Short-term investments	(76)	1,620	1,544
Total interest-earning assets	12,297	5,515	17,812
Interest-bearing liabilities:			
Interest-bearing deposits	2,336	6,376	8,712
Federal Home Loan Bank advances	448	(37)	411
Subordinated debt	-	-	-
Lease liability	20	(28)	(8)
Total interest-bearing liabilities	2,804	6,311	9,115
Total change in net interest income	$ 9,493	$ (796)	$ 8,697

Six Months Ended December 31, 2022 and 2021

Net interest and dividend income before provision for loan losses increased by $13.5 million to $52.4 million for the six months ended December 31, 2022, compared to $38.9 million for the six months ended December 31, 2021. The increase was primarily due to the following:

- An increase in interest income earned on loans of $22.1 million, primarily due to an increase in interest income earned on the National Lending Division's originated and purchased portfolios, due to higher average balances in both portfolios and higher rates earned on the originated portfolio, partially offset by lower rates earned on the purchased portfolio; and
- An increase in interest income earned on short-term investments of $2.0 million, due to higher rates earned, partially offset by lower average balances; partially offset by,
- An increase in deposit interest expense of $10.2 million, primarily due to higher interest rates and higher average balances in interest-bearing deposits; and
- An increase in FHLB borrowings interest expense of $678 thousand, due to higher average balances.

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

	Interest Income and Yield on Loans					
	Six Months Ended December 31,					
	2022			2021		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 31,904	$ 1,052	6.54%	$ 43,383	$ 1,131	5.17%
SBA National	29,267	1,340	9.08%	38,168	1,271	6.61%
SBA PPP	-	-	0.00%	1,006	13	2.56%
National Lending:						
Originated	857,775	35,425	8.19%	574,343	18,612	6.43%
Purchased	626,552	25,490	8.07%	440,224	20,161	9.08%
Total National Lending	1,484,327	60,915	8.14%	1,014,567	38,773	7.58%
Total	$ 1,545,498	$ 63,307	8.13%	$ 1,097,124	$ 41,188	7.45%

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 six months ended December 31, 2021, transactional income for the six months ended December 31, 2022 decreased by $777 thousand, while regularly scheduled interest and accretion increased by $6.1 million due to the increase in average balances. The total return on purchased loans for the six months ended December 31, 2022 was 8.1%, a decrease from 9.1% for the six months ended December 31, 2021. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Six Months Ended December 31,			
	2022		2021	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 20,688	6.55%	$ 14,557	6.56%
Transactional income:				
Loss on real estate owned	-	0.00%	(25)	(0.01%)
Accelerated accretion and loan fees	4,802	1.52%	5,604	2.52%
Total transactional income	4,802	1.52%	5,579	2.51%
Total	$ 25,490	8.07%	$ 20,136	9.07%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion and loan fees, 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 six months ended December 31, 2022 and 2021.

	Six Months Ended December 31,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 61,064	$ 419	1.36%	$ 65,994	$ 170	0.51%
Loans (1) (2) (3)	1,545,498	63,307	8.13%	1,097,124	41,188	7.45%
Federal Home Loan Bank stock	4,069	61	2.97%	1,216	13	2.12%
Short-term investments (4)	156,123	2,278	2.89%	381,543	279	0.15%
Total interest-earning assets	1,766,754	66,065	7.42%	1,545,877	41,650	5.34%
Cash and due from banks	2,514			2,774		
Other non-interest earning assets	94,831			55,409		
Total assets	$ 1,864,099			$ 1,604,060		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 522,845	$ 5,169	1.96%	$ 279,316	$ 367	0.26%
Money market accounts	247,304	1,211	0.97%	270,318	399	0.29%
Savings accounts	131,191	567	0.86%	86,432	193	0.44%
Time deposits	387,480	5,751	2.94%	242,887	1,533	1.25%
Total interest-bearing deposits	1,288,820	12,698	1.95%	878,953	2,492	0.56%
Federal Home Loan Bank advances	72,949	933	2.54%	15,000	255	3.37%
Capital lease obligations	10,429	33	0.63%	5,632	49	1.73%
Total interest-bearing liabilities	1,372,198	13,664	1.98%	899,585	2,796	0.62%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	228,800			449,500		
Other liabilities	9,118			17,119		
Total liabilities	1,610,116			1,366,204		
Shareholders' equity	253,983			237,856		
Total liabilities and shareholders' equity	$ 1,864,099			$ 1,604,060		
Net interest income		$ 52,401			$ 38,854	
Interest rate spread			5.44%			4.72%
Net interest margin (5)			5.88%			4.99%
Cost of funds (6)			1.69%			0.41%

(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.
(6) Cost of funds is calculated as total interest expense divided by total interest-bearing liabilities plus demand deposits and escrow accounts.

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

	Six Months Ended December 31, 2022 Compared to 2021		
	Change Due to Volume	Change Due to Rate	Total Change
		(In thousands)	
Interest earning assets:			
Investment securities	$ (14)	$ 263	$ 249
Loans	18,087	4,032	22,119
Federal Home Loan Bank stock	41	7	48
Short-term investments	(260)	2,259	1,999
Total interest-earning assets	17,854	6,561	24,415
Interest-bearing liabilities:			
Interest-bearing deposits	1,929	8,277	10,206
Federal Home Loan Bank advances	756	(78)	678
Capital lease obligations	26	(42)	(16)
Total interest-bearing liabilities	2,711	8,157	10,868
Total change in net interest income	$ 15,143	$ (1,596)	$ 13,547

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 December 31, 2022 and 2021

Provision (credit) for loan losses increased by $1.4 million to a provision of $325 thousand for the quarter ended December 31, 2022, from a credit of $1.1 million for the quarter ended December 31, 2021. The increase in the provision (credit) for loan losses reflects increases in the loan portfolio and increases in specific reserves during the quarter ended December 31, 2022, as compared to decreases in certain qualitative factors as a result of continued improvements relative to the COVID-19 pandemic and decreases in specific reserves during the quarter ended December 31, 2021.

Six Months Ended December 31, 2022 and 2021

Provision (credit) for loan losses increased by $2.5 million to a provision of $1.2 million for the six months ended December 31, 2022, from a credit of $1.3 million for the six months ended December 31, 2021. The increase in the provision (credit) for loan losses reflects increases in the loan portfolio and increases in specific reserves during the six months ended December 31, 2022, as compared to decreases in certain qualitative factors as a result of continued improvements relative to the COVID-19 pandemic, partially offset by increases in specific reserves during the six months ended December 31, 2021.

Noninterest Income

Three Months Ended December 31, 2022 and 2021

Noninterest income decreased by $5.2 million for the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021, primarily due to the following:

- A decrease in correspondent fee income of $5.4 million from the recognition of correspondent fees and net servicing income. Correspondent income for the quarters ended December 31, 2022 and 2021 is comprised of the following components:

	Three Months Ended December 31,	
	2022	2021
	(In thousands)	
Correspondent Fee	$ 29	$ 1,087
Amortization of Purchased Accrued Interest	275	1,614
Earned Net Servicing Interest	314	3,340
Total	$ 618	$ 6,041

The Bank has $491 thousand of unamortized correspondent fee and purchased accrued interest remaining. This decrease was offset by:

- An increase in fees for other customers of $199 thousand, primarily due to increased commercial loan servicing fees during the quarter ended December 31, 2022.

Six Months Ended December 31, 2022 and 2021

Noninterest income decreased by $11.9 million for the six months ended December 31, 2022, compared to the six months ended December 31, 2021, primarily due to the following:

- A decrease in correspondent fee income of $11.9 million from the recognition of correspondent fees and net servicing income. Correspondent income for the six months ended December 31, 2022 and 2021 is comprised of the following components:

	Six Months Ended December 31,	
	2022	2021
	(In thousands)	
Correspondent Fee	$ 295	$ 2,174
Amortization of Purchased Accrued Interest	935	3,408
Earned Net Servicing Interest	770	8,290
Total	$ 2,000	$ 13,872

Noninterest Expense

Three Months Ended December 31, 2022 and 2021

Noninterest expense increased by $2.5 million for the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.0 million, primarily due to increases in regular employee compensation, stock compensation, and bonus expense;
- An increase in loan expense of $538 thousand, due to an increase in correspondent expense;
- An increase in occupancy and equipment expense of $336 thousand, primarily due to expenses associated with the new lease of office space in Boston, Massachusetts; and
- An increase in other noninterest expense of $325 thousand, primarily due to an increase in deposit expense of $179 thousand, primarily from increased excess deposit insurance costs and debit card expense, and an increase in meals and entertainment expense of $142 thousand.

Six Months Ended December 31, 2022 and 2021

Noninterest expense increased by $1.8 million for the six months ended December 31, 2022 compared to the six months ended December 31, 2021, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.7 million, primarily due to increases in regular employee compensation, stock compensation, and bonus expense;
- An increase in other noninterest expense of $535 thousand, primarily due to an increase in deposit expense of $236 thousand, primarily from increased excess deposit insurance costs and debit card expense, and an increase in meals and entertainment expense of $250 thousand; and
- An increase in occupancy and equipment expense of $300 thousand, primarily due to expenses associated with the new lease of office space in Boston, Massachusetts; partially offset by,
- A decrease in loan expense of $1.1 million, primarily due to a $1.1 million decrease in correspondent expense, due to $1.6 million of one-time correspondent expenses associated with the wrap-up of PPP origination activity during the six months ended December 31, 2021, partially offset by a decrease in collection expense reimbursements during the six months ended December 31, 2022.

Income Taxes

Three Months Ended December 31, 2022 and 2021

Income tax expense decreased by $301 thousand to $4.7 million, or an effective tax rate of 29.5%, for the quarter ended December 31, 2022, compared to $5.0 million, or an effective tax rate of 30.6%, for the quarter ended December 31, 2021. The decrease was primarily due to lower pre-tax income, which decreased by $406 thousand during the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021. The decrease in effective tax rate was primarily due to $673 thousand of tax benefits arising from the exercise of stock options and restricted stock vests during the quarter ended December 31, 2022, as compared to only $44 thousand of tax benefits in the quarter ended December 31, 2021, which reduced the effective tax rate from 33.7% to 29.5%.

Six Months Ended December 31, 2022 and 2021

Income tax expense decreased by $972 thousand to $8.3 million, or an effective tax rate of 29.7%, for the six months ended December 31, 2022, compared to $9.2 million, or an effective tax rate of 30.3%, for the six months ended December 31, 2021. The decrease in effective tax rate is primarily due to an increase of $943 thousand in tax benefits arising from the exercise of stock options and vesting of restricted shares during the six months ended December 31, 2022 as compared to the six months ended December 31, 2021.

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 (the "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 December 31, 2022.

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 December 31, 2022 that have materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

The following table summarizes repurchases of the Bank's outstanding common shares in the second quarter of fiscal year 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May be Purchased Under the Plans or Programs
October 1, 2022 - October 31, 2022	28,161	$ 38.41	28,161	661,060
November 1, 2022 - November 30, 2022	-	0.00	-	661,060
December 1, 2022 - December 31, 2022	-	0.00	-	661,060
	28,161	$ 38.41	28,161	661,060

On April 20, 2022, the Board of Directors adopted a share repurchase program to purchase up to $40.0 million of common stock, or up to 1,000,000 shares, representing 13.1% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire April 13, 2023. The Bank has repurchased 338,940 shares at a weighted average price per share of $36.85 through December 31, 2022.

The following table summarizes issuances of the Bank's outstanding common shares in the second quarter of fiscal year 2023:

Period	Total Number of Shares Issued	Average Price Received Per Share	Total Number of Shares Issued as Part of Publicly Announced Plans or Programs	Maximum Amount that May be Issued Under the Plans or Programs
October 1, 2022 - October 31, 2022	-	$ 0.00	-	$ -
November 1, 2022 - November 30, 2022	-	0.00	-	-
December 1, 2022 - December 31, 2022	33,505	42.67	33,505	48,570,437
	33,505	$ 42.67	33,505	$ 48,570,437

On December 12, 2022, the Board of Directors approved and initiated an at-the-market offering of up to $50.0 million of common stock. The Bank has issued 33,505 shares at a weighted average price per share of $42.67 through December 31, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits No.	Description
10.1	Equity Distribution Agreement, dated December 12, 2022, by and between Northeast Bank and Piper Sandler & Co., incorporated by reference to Exhibit 1.1 of Northeast Bank's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on December 12, 2022.
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: February 3, 2023

NORTHEAST BANK

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

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

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.

February 3, 2023

/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.

February 3, 2023

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

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 December 31, 2022 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.

February 3, 2023

/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 December 31, 2022 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.

February 3, 2023

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