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 September 30, 2024

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

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
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 November 1, 2024, the registrant had outstanding 8,206,294 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.

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2024	June 30, 2024
Assets		
Cash and due from banks	$ 768	$ 2,711
Short-term investments	316,519	239,447
Total cash and cash equivalents	317,287	242,158
Available-for-sale debt securities, at fair value	36,836	48,978
Equity securities, at fair value	7,269	7,013
Total investment securities	44,105	55,991
SBA loans held for sale	17,639	14,506
Loans:		
Commercial real estate	2,715,536	2,028,280
Commercial and industrial	681,118	618,846
Residential real estate	106,075	99,234
Consumer	234	291
Total loans	3,502,963	2,746,651
Less: Allowance for credit losses	43,640	26,709
Loans, net	3,459,323	2,719,942
Premises and equipment, net	26,452	27,144
Federal Home Loan Bank stock, at cost	15,499	15,751
Loan servicing rights, net	926	984
Bank-owned life insurance	18,954	18,830
Accrued interest receivable	17,294	15,163
Other assets	22,419	21,734
Total assets	$ 3,939,898	$ 3,132,203
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 149,669	$ 146,727
Savings and interest checking	752,806	732,029
Money market	130,878	154,504
Time	2,091,561	1,306,203
Total deposits	3,124,914	2,339,463
Long-term Federal Home Loan Bank advances	339,073	345,190
Lease liability	19,870	20,252
Other liabilities	63,484	50,664
Total liabilities	3,547,341	2,755,569
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30 and June 30, 2024	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,212,026 and 8,127,690 shares issued and outstanding at September 30 and June 30, 2024, respectively	8,212	8,128
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; no shares issued and outstanding at September 30 and June 30, 2024	-	-
Additional paid-in capital	63,318	64,762
Retained earnings	320,955	303,927
Accumulated other comprehensive income (loss)	72	(183)
Total shareholders' equity	392,557	376,634
Total liabilities and shareholders' equity	$ 3,939,898	$ 3,132,203

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 September 30, 2024	2023
Interest and dividend income:		
Interest and fees on loans	$ 65,338	$ 59,114
Interest on available-for-sale securities	595	483
Other interest and dividend income	3,921	3,100
Total interest and dividend income	69,854	62,697
Interest expense:		
Deposits	26,590	19,257
Federal Home Loan Bank advances	4,030	6,145
Obligation under lease agreements	234	171
Total interest expense	30,854	25,573
Net interest and dividend income before provision for credit losses	39,000	37,124
Provision for credit losses	422	190
Net interest and dividend income after provision for credit losses	38,578	36,934
Noninterest income:		
Fees for other services to customers	443	407
Gain on sales of SBA loans	3,331	251
Net unrealized gain (loss) on equity securities	189	(157)
Loss on real estate owned, other repossessed collateral and premises and equipment, net	-	-
Correspondent fee income	30	92
Bank-owned life insurance income	124	115
Other noninterest income	2	71
Total noninterest income	4,119	779
Noninterest expense:		
Salaries and employee benefits	11,183	9,721
Occupancy and equipment expense	1,078	1,105
Professional fees	753	781
Data processing fees	1,487	1,100
Marketing expense	136	261
Loan acquisition and collection expense	1,293	650
FDIC insurance premiums	331	357
Other noninterest expense	1,424	1,414
Total noninterest expense	17,685	15,389
Income before income tax expense	25,012	22,324
Income tax expense	7,906	7,152
Net income	$ 17,106	$ 15,172
Weighted-average common shares outstanding:		
Basic	7,886,148	7,479,837
Diluted	8,108,688	7,554,314
Earnings per common share:		
Basic	$ 2.17	$ 2.03
Diluted	2.11	2.01
Cash dividends declared per common share	$ 0.01	$ 0.01

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

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

	Three Months Ended September 30,	
	2024	2023
Net income	$ 17,106	$ 15,172
Other comprehensive income, before tax:		
Change in net unrealized gain/loss on available-for-sale debt securities	350	205
Total other comprehensive income, before tax	350	205
Income tax expense related to other comprehensive income	95	55
Other comprehensive income, net of tax	255	150
Comprehensive income	$ 17,361	$ 15,322

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Income (Loss)	Equity
Balance at June 30, 2023	-	$ -	7,668,650	$ 7,669	-	$ -	$ 42,840	$ 246,872	$ (718)	$ 296,663
Cumulative effect adjustment due to adoption of CECL accounting standard under ASC 326, net of income taxes	-	-	-	-	-	-	-	(870)	-	(870)
Net income	-	-	-	-	-	-	-	15,172	-	15,172
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	150	150
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(75)	-	(75)
Stock-based compensation	-	-	-	-	-	-	1,440	-	-	1,440
Issuance of restricted common stock	-	-	147,991	148	-	-	(148)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(19,950)	(20)	-	-	(891)	-	-	(911)
Balance at September 30, 2023	-	$ -	7,796,691	$ 7,797	-	$ -	$ 43,241	$ 261,099	$ (568)	$ 311,569
Balance at June 30, 2024	-	$ -	8,127,690	$ 8,128	-	$ -	$ 64,762	$ 303,927	$ (183)	$ 376,634
Net income	-	-	-	-	-	-	-	17,106	-	17,106
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	255	255
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(78)	-	(78)
Stock-based compensation	-	-	-	-	-	-	1,819	-	-	1,819
Issuance of restricted common stock	-	-	131,456	131	-	-	(131)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(47,120)	(47)	-	-	(3,132)	-	-	(3,179)
Balance at September 30, 2024	-	$ -	8,212,026	$ 8,212	-	$ -	$ 63,318	$ 320,955	$ 72	$ 392,557

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

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

	Three Months Ended September 30, 2024	2023
Operating activities:		
Net income	$ 17,106	$ 15,172
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for credit losses	422	190
Net unrealized (gain) loss on equity securities	(189)	157
Accretion of loans, net	(11,078)	(10,415)
Originations of loans held for sale	(82,425)	(5,162)
Net proceeds from sales of loans held for sale	69,835	5,681
Gain on sales of SBA loans held for sale	(3,331)	(251)
Net decrease in servicing rights	58	245
Bank-owned life insurance income, net	(124)	(115)
Depreciation and amortization of premises and equipment	788	796
Deferred income expense (benefit)	1,106	(58)
Stock-based compensation	1,819	1,440
Amortization of available-for-sale debt securities, net	(117)	(40)
Changes in other assets and liabilities:		
Other assets	(4,017)	(11,731)
Other liabilities	12,820	37
Net cash provided by (used in) operating activities	2,673	(4,054)
Investing activities:		
Purchases of available-for-sale debt securities	(7,638)	(10,697)
Proceeds from maturities and principal payments on investment securities, net	20,180	11,235
Loan purchases	(732,893)	(52,346)
Loan originations, principal collections, and purchased loan paydowns, net	16,956	71,222
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(96)	(1,656)
Purchases of Federal Home Loan Bank stock	(20,436)	(3,626)
Redemptions of Federal Home Loan Bank stock	20,688	6,065
Net cash (used in) provided by investing activities	(703,239)	20,197
Financing activities:		
Net change in deposits	785,451	29,920
Paydowns on short-term Federal Home Loan Bank advances, net	-	(83,000)
Proceeds from long-term Federal Home Loan Bank advances	545,000	58,385
Paydowns on long-term Federal Home Loan Bank advances	(551,117)	(13,414)
Repayment of lease liability	(382)	(311)
Dividends paid on common stock	(78)	(75)
Cancellations for tax withholdings on restricted common stock	(3,179)	(911)
Net cash provided by (used in) financing activities	775,695	(9,406)
Net increase in cash and cash equivalents	75,129	6,737
Cash and cash equivalents, beginning of period	242,158	197,909
Cash and cash equivalents, end of period	$ 317,287	$ 204,646
Supplemental schedule of cash flow information:		
Interest paid	$ 25,789	23,275
Income taxes paid, net	7,278	4,033
Supplemental schedule of noncash investing activities:		
Transfers from loans to allowance for credit losses	$ -	$ 18,144
Transfers from retained earnings and deferred tax asset to allowance for credit losses	-	1,230

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

1. Summary of Significant Accounting Policies

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, 2024 included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

2. Recent Accounting Pronouncements

The Bank has reviewed all recently issued accounting pronouncements and determined that none have a material impact on the financial statements presented and therefore no additional disclosures are required.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
September 30, 2024				
U.S. Government agency securities	$ 34,725	$ 171	$ (8)	$ 34,888
Agency mortgage-backed securities	2,012	-	(64)	1,948
Total available-for-sale debt securities	36,737	171	(72)	36,836
Equity investments	7,855	-	(586)	7,269
Total securities	$ 44,592	$ 171	$ (658)	$ 44,105
June 30, 2024				
U.S. Government agency securities	$ 46,965	$ 7	$ (150)	$ 46,822
Agency mortgage-backed securities	2,264	-	(108)	2,156
Total available-for-sale securities	49,229	7	(258)	48,978
Equity investments	7,788	-	(775)	7,013
Total securities	$ 57,017	$ 7	$ (1,033)	$ 55,991

At September 30, 2024, 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.

There were no securities sold during the quarters ended September 30, 2024 or 2023. At September 30, 2024, securities with a fair value of $36.8 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
September 30, 2024			(In thousands)			
U.S. Government agency securities	$ -	$ -	$ 9,002	$ (8)	$ 9,002	$ (8)
Agency mortgage-backed securities	-	-	1,948	(64)	1,948	(64)
Total investment securities	$ -	$ -	$ 10,950	$ (72)	$ 10,950	$ (72)
June 30, 2024						
U.S. Government agency securities	$ 13,917	$ (54)	$ 22,918	$ (96)	$ 36,835	$ (150)
Agency mortgage-backed securities	-	-	2,156	(108)	2,156	(108)
Total investment securities	$ 13,917	$ (54)	$ 25,074	$ (204)	$ 38,991	$ (258)

At September 30, 2024 and June 30, 2024, all of the Bank's debt securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The unrealized losses on the Bank's securities at September 30, 2024 and June 30, 2024 are attributable to changes in interest rates. As a result, the Bank has determined these securities to have a zero-loss expectation and did not recognize an allowance for credit losses on these securities at September 30, 2024 and June 30, 2024.

The Bank does not intend to sell these securities and has determined, based upon available evidence, that it is more likely than not that the Bank will not be required to sell these securities before the recovery of its amortized cost basis.

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 Small Business Administration ("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 September 30, 2024, 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 4.49 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of September 30, 2024. 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	$ 27,720	$ 27,801
Due after one year through five years	7,005	7,087
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	34,725	34,888
Agency mortgage-backed securities	2,014	1,948
Total available-for-sale debt securities	$ 36,739	$ 36,836

4. Loans and ACL

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 and purchase discounts or premiums. Loan fees, certain direct origination costs, and purchase discounts 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 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. 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.

PCD Loans

The Bank has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. The initial ACL is determined on an individual basis and allocated to the individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through provision for credit loss expense.

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

	September 30, 2024	June 30, 2024
	(In thousands)	
Commercial real estate: NOO Pass	$ 2,642,614	$ 1,916,619
Commercial real estate: NOO Criticized	23,587	20,907
Commercial real estate: O/O Pass	248,183	252,434
Commercial real estate: O/O Criticized	16,657	9,725
Commercial and industrial Pass	673,922	610,946
Commercial and industrial Criticized	9,027	8,794
Residential real estate	113,312	105,768
Consumer	237	297
	3,727,539	2,925,490
Net deferred loan fees and costs	(1,069)	(1,007)
Net discount on purchased loans	(223,507)	(177,832)
Allowance for credit losses	(43,640)	(26,709)
Loans, net	$ 3,459,323	$ 2,719,942

Allowance for Credit Losses

The ACL is comprised of the allowance for credit losses and the allowance for unfunded commitments which is accounted for as a separate liability in other liabilities on the balance sheet. The level of the ACL represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date.

Upon adoption of the Current Expected Credit Losses ("CECL") methodology on July 1, 2023, the Bank replaced the incurred loss impairment model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net present value of the amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis.

The Bank manages its loan portfolio proactively to effectively identify problem credits and assess trends early, implement effective work-out strategies, and take charge-offs as promptly as deemed necessary and practical. In addition, the Bank continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. The Bank monitors and manages the ACL through the following governance structure:

- The adequacy of the ACL is overseen by the Allowance for Credit Losses Committee, which is an internal management committee comprised of various executives and managers across business lines, including Accounting and Finance and Credit Risk Management. The ACL Committee supports the oversight efforts of the Loan and Investment Committee (the "L&I Committee") and the Audit Committee of the Board of Directors.
- The L&I Committee of the Board of Directors is responsible for reviewing and approving the ACL calculation on a quarterly basis. The L&I Committee will ensure that all ACL methodology is appropriate for the Bank and will periodically validate and, if appropriate, recommend revising the methodology used.
- The Audit Committee of the Board of Directors is responsible for oversight and monitoring of internal controls in place over the ACL process.

Segmentation

For the purpose of determining the ACL on loans, the Bank disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. Adverse developments in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on credit quality for all segments. As of September 30, 2024 and June 30, 2024, the Bank's loan portfolio segments, as determined based on the unique risk characteristics of each, include the following:

- *Commercial Real Estate – Non-Owner-Occupied:* Non-owner-occupied commercial real estate loans are, in substance, all commercial real estate loans that are not categorized by the Bank as owner-occupied commercial real estate loans. Non-owner-occupied commercial estate loans are investment properties for which the primary source for repayment of the loan by the borrower is derived from rental income associated with the property or the proceeds of the sale, refinancing, or permanent refinancing of the property. Non-owner-occupied commercial real estate loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, multi-family residential, commercial/retail office space, industrial/warehouse space, hotels, assisted living facilities and other specific use properties. For purposes of the ACL, this segment also includes construction loans. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. This segment is further broken out as follows:
    - Pass: This sub-segment includes all pass-rated loans.
    - Criticized: This sub-segment includes all criticized loans (special mention, substandard and lower).

- *Commercial Real Estate – Owner-Occupied:* Generally, owner-occupied commercial real estate loans are properties that are owned and operated by the borrower, and the primary source for repayment is the cash flow from the ongoing operations and activities conducted by the borrower's business. Owner-occupied commercial real estate loans consist of mortgage loans to finance investments in real property that may include, but are not limited to, commercial/retail office space, restaurants, and other specific use properties. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. This segment is further broken out as follows:
    - Pass: This sub-segment includes all pass-rated loans.
    - Criticized: This sub-segment includes all criticized loans (special mention, substandard and lower).

- *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. This segment includes all pass-rated loans. This segment is further broken out as follows:
    - Pass: This sub-segment includes all pass-rated loans.
    - Criticized: This sub-segment includes all criticized loans (special mention, substandard and lower).

- *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 ACL 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.

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 collective component of the allowance for credit losses is based on historical loss experience adjusted for qualitative factors stratified by loan segment. This historical loss factor is adjusted for qualitative factors including:

- Levels and trends in delinquencies and non-performing loans;

- 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 following table presents the Bank's activity in the ACL by portfolio segment for the periods ended:

	Beginning Balance	CECL Impact	Initial Allowance on Loans Purchased with Credit Deterioration	Provision for Credit Losses	Charge-Offs	Recoveries	Total
				(In thousands)			
Three Months Ended September 30, 2024							
CRE NOO Pass	$ 17,258	$ -	$ 17,999	$ (846)	$ -	$ -	$ 34,411
CRE NOO Criticized	1,421	-	-	639	(1,298)	-	762
CRE O/O Pass	657	-	40	70	-	-	767
CRE O/O Criticized	785	-	-	61	-	-	846
C&I Pass	4,657	-	-	(19)	(38)	-	4,600
C&I Criticized	1,165	-	-	532	(282)	12	1,427
Residential Real Estate	766	-	77	(18)	-	2	827
Consumer	-	-	-	3	(3)	-	-
Total	$ 26,709	$ -	$ 18,116	$ 422	$ (1,621)	$ 14	$ 43,640
Three Months Ended September 30, 2023							
CRE	$ 4,200	$ 13,599	$ -	$ 26	$ (683)	$ 5	$ 17,147
C&I	2,814	5,546	-	138	(861)	3	7,640
Residential Real Estate	281	238	-	(3)	-	-	516
Consumer	9	(9)	-	29	(29)	-	-
Total	$ 7,304	$ 19,374	$ -	$ 190	$ (1,573)	$ 8	$ 25,303

Methodology

The ACL consists of two components: a loan-specific component for estimating credit losses for individual loans that do not share similar risk characteristics with other loans; and a pooled component for estimating credit losses for pools of loans that share similar risk characteristics.

Loans Individually Evaluated

Loans that do not share risk characteristics with existing pools are evaluated on an individual basis. For all loans on nonaccrual status and/or risk-rated substandard or worse, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset. For all individually significant purchase credit deteriorated ("PCD") loans, the specific credit loss reserve is calculated under the discounted cash flow approach.

Loans Collectively Evaluated

Management segments loans of similar risk characteristics using the open pool method by first calculating each segment's loss rate as net charge-offs over the expected average life of each segment, divided by the average loan balance over that same period. The historic loss factor is an average of the loss rate over a 3-year look-back period. These historic loss factors are then adjusted up or down based on management's assessment of quantitative and qualitative factors.

Assumptions and Inputs in Quantitative and Qualitative ACL

Assumptions and model inputs are reviewed in accordance with model monitoring practices and as information becomes available. As of September 30, 2024, the significant model inputs and assumptions used within the model for purposes of estimating the ACL on loans were:

Macroeconomic (loss) drivers: The following macroeconomic variables were used to calculate the expected probability of default over the forecast and reversion period:

- Real GDP growth
- Unemployment rate
- House price index

Reasonable and supportable forecast period: The ACL on loans estimate used a reasonable and supportable forecast period of various macro-economic variables noted above over the remaining life of loans. The development of the reasonable and supportable forecast assumes each macro-economic variable will revert to long-term expectations, with reversion characteristics unique to specific economic indicators and forecasts. The reasonable and supportable forecast period is two years for all segments. Management will continue to assess the appropriate period on an ongoing basis.

Reversion period: The ACL on loans estimate used a reversion period of one year, on a straight-line basis. Management will continue to assess the appropriate period on an ongoing basis.

Prepayment speeds: The estimate of prepayment speed for each loan segment was derived using internally sourced prepayment data, which is updated on a periodic basis.

Selling and liquidation costs: Management calculates estimated selling and liquidation costs based on review of recent internal data, which is updated on a periodic basis.

Qualitative factors: The ACL on loans estimate incorporates various qualitative factors into the calculation. The qualitative adjustment for the pooled component is derived from an estimate of expected credit losses primarily using an expected loss methodology that incorporates risk parameters such as the probability of default ("PD") and loss given default ("LGD") rate, which are derived from internally developed model estimation approaches, and which vary by loan portfolio. The PD represents the best estimate as of the reporting date of the loans in the portfolio to enter a state of default. This is inherently forward-looking, and therefore incorporates both recent data as well as supportable estimates of the future delinquency of the portfolio. This, in turn, may be a function of forecasts, including economic forecasts. LGD is derived from the Bank's internally developed stress percentage scenarios on the underlying real estate collateral securing loans, which vary by collateral type and loan risk characteristics, ranging from low to high risk, for portfolios that have limited internal loss history; from actual internal loss data on loan portfolios that have experienced losses; and from external loss data from the SBA for SBA loan portfolios that have limited internal loss history.

As of September 30, 2024, management believes that the methodology for calculating the allowance is sound and that the allowance provides a reasonable basis for determining and reporting on expected losses over the lifetime of the Bank's loan portfolios.

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 1-3: Loans in these categories are considered premium performing "pass" rated loans. Loans in categories 1-3 are considered to have low risk.

Loans rated 4-6: Loans in these categories are considered all other performing "pass" rated loans. Loans in categories 4-5 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. The Bank typically does not assign risk ratings to Community Banking Division's residential real estate loans; however, management reviews certain credit indicators such as delinquency and non-accrual status to review for potential impairment on these loans. 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.

Based on the most recent analysis performed, the risk category of loans by portfolio segment by vintage was as follows as of and for the dates indicated. Balances include net deferred loan fees of $1.1 million and net discount on purchased loans of $223.5 million:

As of and for the quarter ended September 30, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Total
			(In thousands)					
Commercial real estate – NOO								
Pass	$ 72,211	$ 83,515	$ 465,598	$ 389,957	$ 162,913	$ 1,248,755	$ 17,329	$ 2,440,278
Special Mention	-	-	606	-	-	7,120	-	7,726
Substandard	-	-	2,400	-	5,090	6,408	-	13,898
Total commercial real estate – non owner-occupied	$ 72,211	$ 83,515	$ 468,604	$ 389,957	$ 168,003	$ 1,262,283	$ 17,329	$ 2,461,902
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ 330	$ 968	$ -	$ 1,298
Commercial real estate – O/O								
Pass	$ 1,522	$ 12,295	$ 43,433	$ 10,594	$ 9,600	$ 162,506	$ -	$ 239,950
Special Mention	-	-	-	-	-	4,644	-	4,644
Substandard	-	-	37	-	-	9,003	-	9,040
Total commercial real estate – owner-occupied	$ 1,522	$ 12,295	$ 43,470	$ 10,594	$ 9,600	$ 176,153	$ -	$ 253,634
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial								
Pass	$ 278,778	$ 130,082	$ 145,557	$ 19,875	$ 45,512	$ 51,999	$ 330	$ 672,133
Special Mention	-	-	-	-	-	587	-	587
Substandard	10	-	-	-	-	8,388	-	8,398
Total commercial and Industrial	$ 278,788	$ 130,082	$ 145,557	$ 19,875	$ 45,512	$ 60,974	$ 330	$ 681,118
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 320	$ -	$ 320
Residential real estate								
Pass	$ 368	$ 10,779	$ 30,770	$ 10,505	$ 8,050	$ 39,825	$ 154	$ 100,451
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	3,730	-	1,018	876		5,624
Total Residential real estate	$ 368	$ 10,779	$ 34,500	$10,505	$ 9,068	$40,701	154	106,075
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer	$ 16	$ -	$ 8	$ 2	$ -	$ 208	$ -	$ 234
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ 3

Past Due and Nonaccrual Loans

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of the following dates:

	September 30, 2024			June 30, 2024		
	Nonaccrual with No ACL	Total Nonaccrual	Past due Over 89 Days Still Accruing	Nonaccrual with No ACL	Total Nonaccrual	Past due Over 89 Days Still Accruing
			(Dollars in thousands)			
CRE NOO Pass	$ -	$ -	$ -	$ -	$ -	$ -
CRE NOO Criticized	13,179	13,707		6,532	10,491	-
CRE O/O Pass	-	-		-	-	-
CRE O/O Criticized	6,680	9,223		2,382	5,020	-
C&I Pass	-	10		-	-	-
C&I Criticized	6,551	8,390	-	6,601	8,382	-
Residential real estate	3,976	5,842	-	3,350	4,368	-
Consumer	-	-	-	-	-	-
Total	$ 30,386	$ 37,172	$ -	$ 18,865	$ 28,261	$ -

The following is a loan aging analysis by portfolio segment (including loans past due over 90 days and nonaccrual loans) and loans past due over 90 days and accruing as of the following dates:

	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
				(In thousands)				
September 30, 2024								
CRE NOO Pass	$ -	$ 8	$ -	$ -	$ 8	$ 2,440,269	$ 2,440,277	$ -
CRE NOO Criticized	111	192	-	9,845	10,148	11,476	21,624	13,707
CRE O/O Pass	173	-	-	-	173	239,779	239,952	-
CRE O/O Criticized	-	2,937	-	5,591	8,528	5,155	13,683	9,223
C&I Pass	8	259	-	10	277	671,857	672,134	10
C&I Criticized	154	381	-	7,133	7,668	1,316	8,984	8,390
Residential real estate	25	80	-	4,337	4,442	101,633	106,075	5,842
Consumer	6	-	-	-	6	228	234	-
Total loans	$ 477	$ 3,857	$ -	$ 26,916	$ 31,250	$ 3,471,713	$ 3,502,963	$ 37,172
June 30, 2024								
CRE NOO Pass	$ 194	$ 7	$ -	$ -	$ 201	$ 1,757,386	$ 1,757,587	$ -
CRE NOO Criticized	2,400	581	-	9,403	12,384	6,852	19,236	10,491
CRE O/O Pass	-	-	-	-	-	244,468	244,468	-
CRE O/O Criticized	351	-	-	1,429	1,780	5,208	6,988	5,020
C&I Pass	12	315	-	-	327	609,768	610,095	-
C&I Criticized	13	188	-	7,062	7,263	1,488	8,751	8,382
Residential real estate	40	946	-	3,403	4,389	94,844	99,233	4,368
Consumer	-	-	-	-	-	293	293	-
Total loans	$ 3,010	$ 2,037	$ -	$ 21,297	$ 26,344	$ 2,720,307	$ 2,746,651	$ 28,261

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms is estimated to have been $1.0 million for the quarter ended September 30, 2024.

The Bank's policy is to reverse previously recorded interest income when a loan is placed on non-accrual. As a result, the Bank did not record any interest income on its non-accrual loans for the three months ended September 30, 2024 and 2023. At September 30, 2024 and June 30, 2024, total accrued interest receivable on loans, which has been excluded from reported amortized cost basis on loans, was $16.5 million and $15.2 million, respectively, and reported within Other Assets on the balance sheet. An allowance was not carried on the accrued interest receivable at either date.

Collateral-Dependent Loans

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of the following dates:

	September 30, 2024	June 30, 2024
	(In thousands)	
Commercial real estate: NOO Pass	$ -	$ -
Commercial real estate: NOO Criticized	14,005	16,271
Commercial real estate: O/O Pass	-	-
Commercial real estate: O/O Criticized	9,376	7,258
Commercial and industrial Pass	98	-
Commercial and industrial Criticized	8,407	8,293
Residential real estate	5,893	4,479
Consumer	-	-
Total	37,779	36,301

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and there are no other available and reliable sources of repayment. Substantially all collateral supporting collateral-dependent financial assets consists of various types of real estate, including commercial properties such as retail centers, multifamily properties, industrial buildings, mixed use properties, office buildings, and lodging, and residential properties.

Loan Modifications for Borrowers Experiencing Financial Difficulty

Effective July 1, 2023, the Bank adopted prospectively ASU No. 2022-02, Financial Instruments - Credit Losses *(Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"). ASU 2022-02 provided guidance that eliminated the recognition and measurement of TDRs. Following the adoption of this guidance, the Bank evaluates all loan modifications made to borrowers experiencing financial difficulty according to the accounting guidance for loan refinancing and restructuring to determine whether such loan modification should be accounted for as a new loan or a continuation of the existing loan. Our loan modifications for borrowers experiencing financial difficulty are generally accounted for as a continuation of the existing loan.

The Bank offers several types of loans and receivables modification programs to borrowers experiencing financial difficulty, primarily interest rate reductions, term extensions, principal forgiveness, and other-than-insignificant payment deferrals. In such instances, the Bank may modify loans and receivables with the intention to minimize future losses and improve collectability, while providing customers with temporary or permanent financial relief.

In some cases, the Bank provides multiple types of concessions on one loan. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, an other-than-insignificant payment delay, and/or an interest rate reduction.

The following table presents the amortized cost basis of loans at September 30, 2024 that were both experiencing financial difficulty and modified during the quarter ended September 30, 2024, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each financing receivable is also presented below:

	Payment Deferral	Total Class of Financing Receivable	Financial Effect
	(In thousands)		
CRE NOO Pass	$ -	0.00%	
CRE NOO Criticized	2,957	13.67%	One loan was granted a 5-month forbearance. The financial effect was deemed "de minimis."
CRE O/O Pass	-	0.00%	
CRE O/O Criticized	146	1.07%	All 4 loans were given 6-month payment deferrals to assist borrowers. The financial effect was deemed "de minimis."
C&I Criticized	-	0.00%	
C&I Pass	72	0.80%	One loan was given a 3-month payment deferral to assist borrower. The financial effect was deemed "de minimis."
Residential real estate	-	0.00%	
Consumer	-	0.00%	
Total	$ 3,175	0.09%	

The following table presents the amortized cost basis of loans at September 30, 2023 that were both experiencing financial difficulty and modified during the quarter ended September 30, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each financing receivable is also presented below:

	Payment Deferral	Total Class of Financing Receivable	Financial Effect
	(In thousands)		
Commercial real estate	$ -	0.00%	
Commercial and industrial	43	0.01%	All 4 loans were given 6-month payment deferrals to assist borrowers. The financial effect was deemed "de minimis."
Residential real estate	-	0.00%	
Consumer	-	0.00%	
Total	$ 43	0.00%	

The Bank has not committed to lend any additional amounts to the borrowers included in the previous table.

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last 12 months as of September 30, 2024:

September 30, 2024	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due
		(In thousands)		
CRE NOO Pass	$ -	$ -	$ -	$ -
CRE NOO Criticized	-	-	-	-
CRE O/O Pass	-	-	-	-
CRE O/O Criticized	-	-	-	-
C&I Pass	-	-	-	-
C&I Criticized	-	233	36	269
Residential real estate	-	-	-	-
Consumer	-	-	-	-
Total loans	$ -	$ 233	$ 36	$ 269

The following table presents the performance of such loans that have been modified in the last 12 months as of June 30, 2024:

June 30, 2024	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due
			(In thousands)	
CRE NOO Pass	$ -	$ -	$ -	$ -
CRE NOO Criticized	-	-	-	-
CRE O/O Pass	-	-	-	-
CRE O/O Criticized	-	-	-	-
C&I Pass	-	-	-	-
C&I Criticized	33	13	-	46
Residential real estate	-	-	-	-
Consumer	-	-	-	-
Total loans	$ 33	$ 13	$ -	$ 46

The following table presents the amortized cost basis of loans that had a payment default during the quarter ended September 30, 2024 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Payment Deferral
	(In thousands)
Commercial real estate	$ -
Commercial and industrial	36
Residential real estate	-
Consumer	-
Total	$ 36

The following table presents the amortized cost basis of loans that had a payment default during the quarter ended September 30, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty.

	Payment Deferral
	(In thousands)
Commercial real estate	$ -
Commercial and industrial	49
Residential real estate	-
Consumer	-
Total	$ 49

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Purchased Credit Deteriorated Loans

The Bank has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. The initial ACL is determined on an individual basis and allocated to the individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ACL are recorded through the provision for credit loss expense. The carrying amount of such loans purchased during the three months ended September 30, 2024 is as follows:

	(Dollars in thousands)
Purchase price of loans at acquisition	$ 732,893
Allowance for credit losses at acquisition	18,116
Noncredit discount (premium) at acquisition	56,724
Par value of acquired loans at acquisition	$ 807,733

During the quarter ended September 30, 2023, the Bank did not purchase any loans with more than insignificant deterioration of credit quality.

5. **Borrowings**

Short-term Federal Home Loan Bank Advances

At September 30 and June 30, 2024, the Bank had no short-term FHLBB advances.

Long-term Federal Home Loan Bank Advances

At September 30, 2024, the Bank had six long-term FHLBB advances totaling $339.1 million. The advances consist of one amortizing advance with a balance of $8.5 million, which matures on November 3, 2025, one amortizing advance with a balance of $9.8 million, which matures on November 2, 2026, one fixed-rate advance for $15.0 million, which matures on June 21, 2027, one amortizing advance with a balance of $210.9 million, which matures on January 3, 2028, one amortizing advance with a balance of $44.9 million, which matures on November 1, 2028, and one FHLBB option advance with a balance of $50.0 million, which matures on May 7, 2027, with a call option beginning on November 7, 2024. The weighted average interest rate on long-term FHLBB advances was 4.28% as of September 30, 2024.

At June 30, 2024, the Bank had six long-term FHLBB advances totaling $345.2 million. The advances consist of one amortizing advance with a balance of $9.0 million, which matures on November 3, 2025, one amortizing advance with a balance of $9.8 million, which matures on November 2, 2026, one fixed-rate advance for $15.0 million, which matures on June 21, 2027, one amortizing advance with a balance of $216.2 million, which matures on January 3, 2028, one amortizing advance with a balance of $45.2 million, which matures on November 1, 2028, and one FHLBB option advance with a balance of $50.0 million, which matures on May 7, 2027, with a call option beginning on August 7, 2024. The weighted average interest rate on long-term FHLBB advances was 4.28% as of June 30, 2024.

At September and June 30, 2024, one FHLBB advance totaling $50.0 million was subject to call provisions, and as such, may 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 September 30, 2024 and June 30, 2024, the Bank had approximately $433.1 million and $448.0 million, respectively, of additional capacity to borrow from the FHLBB.

Federal Reserve Bank of Boston Borrower-in-Custody

The Bank has a borrower-in-custody collateral arrangement with the Federal Reserve Bank of Boston for usage of the discount window. The terms of the agreement call for the pledging of certain assets of the Bank under the agreement. At September 30 and June 30, 2024, there were no borrowings outstanding under this agreement. At September 30, 2024 and June 30, 2024, the Bank had $258.2 million and $201.9 million of capacity to borrow from the Federal Reserve Borrower-in-Custody, respectively.

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 September,	
	2024	2023
	(Dollars in thousands, except per share amounts)	
Net income	$ 17,106	$ 15,172
Average number of common shares outstanding	8,175,811	7,739,119
Less: average unvested non-participating restricted stock awards	(289,663)	(259,282)
Weighted average shares used in calculation of basic EPS	7,886,148	7,479,837
Effect of dilutive unvested restricted stock awards	222,540	74,477
Weighted average shares used in calculation of diluted EPS	8,108,688	7,554,314
Basic earnings per common share	$ 2.17	$ 2.03
Diluted earnings per common share	$ 2.11	$ 2.01

7. **Other Comprehensive Income**

The components of other comprehensive income are as follows:

	Three Months Ended September 30,					
	2024			2023		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
			(In thousands)			
Change in net unrealized gain/loss on available-for-sale debt securities	$ 350	$ 95	$ 255	$ 205	$ 55	$ 150
Total other comprehensive income	$ 350	$ 95	$ 255	$ 205	$ 55	$ 150

Accumulated other comprehensive income (loss) is comprised of the following:

	September 30, 2024	June 30, 2024
	(In thousands)	
Unrealized gain (loss) on available-for-sale debt securities	$ 99	$ (251)
Tax effect	(27)	68
After tax amount	72	(183)
Accumulated other comprehensive income (loss)	$ 72	$ (183)

8. **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:

	September 30, 2024	June 30, 2024
	(In thousands)	
Commitments to originate loans	$ 25,875	$ 24,399
Unused lines of credit	26,188	19,069
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. At September 30 and June 30, 2024, the Bank recorded an allowance for possible losses on commitments and unfunded loans totaling $136 thousand and $86 thousand, recorded in other liabilities, respectively.

Contingencies

The Bank may be 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.

9. Stock-Based Compensation

A summary of restricted share activity for the quarter ended September 30, 2024 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	293,818	$ 42.61
Granted	131,456	64.52
Vested	(74,128)	41.81
Forfeited and canceled	(47,120)	39.45
Unvested at end of period	304,026	52.77

A summary of the vesting schedule for the shares granted in the quarter ended September 30, 2024 follows:

- 100,666 restricted shares vest in three equal installments, commencing on August 14, 2025;
- 4,415 restricted shares vested immediately upon grant on August 14, 2024; and
- 26,375 restricted shares are subject to performance-based vesting over a three-year period (the "performance shares"). The performance shares include an absolute metric and a sliding metric within the performance period. The absolute metric requires that the Bank not be subject to any Board resolution, memorandum of understanding or consent with any regulatory agency. The sliding metric is based on reaching a certain threshold based on the Bank's return on assets ("ROA"). The performance shares shall vest in certain defined increments for the period if the ROA is at least 70% of such targeted returns. This performance will be measured over the cumulative three-year performance period and all shares are currently included in expense as the target is expected to be met.

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 60 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, interest rate derivatives would 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 criticized loans **-** Valuations of criticized 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)		
September 30, 2024				
Assets				
Investment securities:				
U.S. Government agency securities	$ 34,888	$ -	$ 34,888	$ -
Agency mortgage-backed securities	1,948	-	1,948	-
Equity investments measured at net asset value[(1)]	7,269	-	-	-
June 30, 2024				
Assets				
Investment securities:				
U.S. Government agency securities	$ 46,822	$ -	$ 46,822	$ -
Agency mortgage-backed securities	2,156	-	2,156	-
Equity investments measured at net asset value[(1)]	7,013	-	-	-

(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	
	(In thousands)							
September 30, 2024								
Collateral dependent criticized loans	$	4,414	$	-	$	-	$	4,414
Loan servicing rights		926		-		-		926
June 30, 2024								
Collateral dependent criticized loans	$	9,929	$	-	$	-	$	9,929
Loan servicing rights		984		-		-		984

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				
	September 30, 2024		June 30, 2024		Valuation Technique
	(In thousands)				
Collateral dependent criticized loans	$	4,414	$	9,929	Appraisal of collateral(1)
Loan servicing rights		926		984	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which consist primarily of commercial and residential real estate. 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. This adjustment was 20%.
(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 0.0% to 32.3%. For discount rates, the range was 0.0% to 27.0%. The weighted average prepayment rate was 21.1% and the weighted average discount rate was 19.0%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the three months ended September 30, 2024 and 2023.

	Three Months Ended September 30,			
	2024		2023	
	(In thousands)			
Collateral dependent criticized loans	$	50	$	(721)
Real estate owned and other repossessed collateral		-		-
Servicing rights, net		25		10
Total	$	75	$	(711)

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

	Carrying Amount	Total	Level 1	Level 2	Level 3
			(Dollars in thousands)		
September 30, 2024					
Financial assets:					
Cash and cash equivalents	$ 317,287	$ 317,287	$ 317,287	$ -	$ -
Available-for-sale debt securities	36,836	36,836	-	36,836	-
Equity investments measured at net asset value(1)	7,269	7,269	-	-	-
Federal Home Loan Bank stock	15,499	15,499	-	15,499	-
Loans held for sale	17,639	17,639		17,639	
Loans, net	3,502,963	3,425,067	-	-	3,425,067
Accrued interest receivable	17,294	17,294	-	17,294	-
Financial liabilities:					
Deposits	3,124,914	3,122,544	-	3,122,544	-
Federal Home Loan Bank advances	339,073	344,221	-	344,221	-
Lease liability	19,870	20,392	-	20,392	-
June 30, 2024					
Financial assets:					
Cash and cash equivalents	$ 242,158	$ 242,158	$ 242,158	$ -	$ -
Securities	48,978	48,978	-	48,978	-
Equity investments measured at net asset value(1)	7,013	7,013	-	-	-
Federal Home Loan Bank stock	15,751	15,751	-	15,751	-
Loans held for sale	14,506	14,506		14,506	
Loans, net	2,719,942	2,699,091	-	-	2,699,091
Accrued interest receivable	15,163	15,163	-	15,163	-
Financial liabilities:					
Deposits	2,339,463	2,386,038	-	2,386,038	-
Federal Home Loan Bank advances	345,190	389,129	-	389,129	-
Lease liability	20,252	21,294	-	21,294	-
Accrued interest payable	13,005	13,005	-	13,005	-

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

11. Subsequent Events

The Bank evaluates 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 September 30, 2024.

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, 2024, filed with the Federal Deposit Insurance Corporation ("FDIC").

A Note about Forward Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, changes 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 inflation and concerns about liquidity) or legislative or regulatory initiatives; 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 credit loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; operational risks including, but not limited to, cybersecurity, fraud, natural disasters, climate change 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, 2024 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 organized in 1872, is a Maine-based financial institution.

As of September 30, 2024, the Bank had total assets of $3.94 billion, total deposits of $3.12 billion, and shareholders' equity of $392.6 million. The Bank gathers retail deposits through its seven full-service branches in Maine and through our online deposit program, ableBanking; purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division; and originate loans through our Community Banking 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. The Bank purchases primarily commercial real estate loans nationally. The Bank also originates loans nationally, taking advantage of its core expertise in underwriting and servicing national credits.

Growing the national SBA origination business. The Bank originates loans on a national basis to small businesses, primarily through the SBA 7(a) program, which provides the partial guarantee of the SBA.

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.

Generating deposits to fund our business. The Bank offers 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 (defined as non-maturity deposits and non-brokered insured time deposits) to fund our asset strategy.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates 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, 2024, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported.

Refer to Note 1 of the financial statements for additional details of the Bank's accounting policies, including new accounting standards recently adopted and those yet to be adopted.

There has been no material change in critical accounting policies during the three months ended September 30, 2024.

Overview

Net income increased by $1.9 million to $17.1 million for the quarter ended September 30, 2024, compared to net income of $15.2 million for the quarter ended September 30, 2023. The increase was primarily due to an increase in gain on sales of SBA loans and net interest income, partially offset by an increase in noninterest expense.

Financial Condition

Overview
As of September 30, 2024, total assets were $3.94 billion, an increase of $807.7 million, or 25.8%, from total assets of $3.13 billion as of June 30, 2024.

The following table highlights the changes in the loan portfolio, including loans held for sale, for the quarter ended September 30, 2024:

	September 30, 2024 Balance	June 30, 2024 Balance	Change ($)	Change (%)
		(Dollars in thousands)		
National Lending Purchased	$ 2,420,883	$ 1,708,551	$ 712,332	41.69%
National Lending Originated	1,011,374	981,497	29,877	3.04%
SBA	66,919	48,405	18,514	38.25%
Community Banking	21,426	22,704	(1,278)	(5.63%)
Total	$ 3,520,602	$ 2,761,157	$ 759,445	27.50%

Loans generated by the Bank's National Lending Division for the quarter ended September 30, 2024 totaled $859.8 million, which consisted of $732.9 million of purchased loans at an average price of 90.7% of unpaid principal balance, and $126.9 million of originated loans.

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

	National Lending Portfolio					
	Three Months Ended September 30,					
	2024			2023		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 807,733	$ 126,893	$ 934,626	$ 63,695	$ 68,042	$ 131,737
Initial net investment basis (1)	732,893	126,893	859,786	52,346	68,042	120,388
Loan returns during the period:						
Yield	8.83%	9.31%	9.00%	8.99%	10.03%	9.40%
Total Return on Purchased Loans (2)	8.84%	N/A	8.84%	9.04%	N/A	9.04%
Total loans as of period end:						
Unpaid principal balance	$ 2,644,390	$ 1,011,374	$ 3,655,764	$ 1,693,627	$ 958,232	$ 2,651,859
Net investment basis	2,420,883	1,011,374	3,432,257	1,516,379	958,232	2,474,611

(1) Initial net investment basis on purchased loans is the initial amortized cost basis net of initial allowance for credit losses (credit mark).
(2) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains (losses) on real estate owned, release of allowance for credit losses on purchased loans, and other noninterest income recorded during the period divided by the average invested balance on an annualized basis. The total return on purchased loans does not include the effect of purchased loan charge-offs or recoveries during the period. Total return on purchased loans is considered a non-GAAP financial measure. See reconciliation in below table entitled "Total Return on Purchased Loans."

Assets

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

Cash and cash equivalents were $317.3 million as of September 30, 2024, an increase of $75.1 million, or 31.0%, from $242.2 million at June 30, 2024.

Securities totaled $44.1 million as of September 30, 2024, compared to $56.0 million as of June 30, 2024, representing a decrease of $11.9 million, or 21.2%, primarily due to maturities of government agency securities and principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.4 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 $1.9 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At September 30, 2024, securities with a fair value of $36.8 million were pledged for potential and outstanding borrowings with the Federal Home Loan Bank of Boston ("FHLBB").

Loans

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

	Community Banking	National Lending	SBA Division	Total	Percent of Total
September 30, 2024		(Dollars in thousands)			
Originated loans:					
Commercial real estate: NOO Pass	$ 2,287	$ 302,897	$ 3,559	$ 308,743	8.81%
Commercial real estate: NOO Criticized	295	4,536	920	5,751	0.16%
Commercial real estate: O/O Pass	2,218	68,492	9,481	80,191	2.29%
Commercial real estate: O/O Criticized	18	-	115	133	0.00%
Commercial and industrial Pass	1,030	614,609	34,377	650,016	18.56%
Commercial and industrial Criticized	-	6,372	827	7,199	0.21%
Residential real estate	15,345	14,468	-	29,813	0.85%
Consumer	234	-	-	234	0.01%
Subtotal	21,427	1,011,374	49,279	1,082,080	30.89%
Purchased loans:					
Commercial real estate: NOO Pass	-	2,131,536	-	2,131,536	60.85%
Commercial real estate: NOO Criticized	-	15,872	-	15,872	0.45%
Commercial real estate: O/O Pass	-	159,760	-	159,760	4.56%
Commercial real estate: O/O Criticized	-	13,550	-	13,550	0.39%
Commercial and industrial Pass	-	22,117	-	22,117	0.63%
Commercial and industrial Criticized	-	1,786	-	1,786	0.05%
Residential real estate	-	76,262	-	76,262	2.18%
Consumer	-	-	-	-	0.00%
Subtotal	-	2,420,883	-	2,420,883	69.11%
Total	$ 21,427	$ 3,432,257	$ 49,279	$ 3,502,963	100.00%
June 30, 2024					
Originated loans:					
Commercial real estate: NOO Pass	$ 2,375	$ 304,871	$ 3,573	$ 310,819	11.32%
Commercial real estate: NOO Criticized	299	7,528	923	8,750	0.32%
Commercial real estate: O/O Pass	2,587	73,867	9,651	86,105	3.13%
Commercial real estate: O/O Criticized	24	-	116	140	0.01%
Commercial and industrial Pass	1,127	574,329	19,144	594,600	21.65%
Commercial and industrial Criticized	-	6,371	492	6,863	0.25%
Residential real estate	16,001	14,531	-	30,532	1.11%
Consumer	291	-	-	291	0.01%
Subtotal	22,704	981,497	33,899	1,038,100	37.80%
Purchased loans:					
Commercial real estate: NOO Pass	-	1,446,771	-	1,446,771	52.67%
Commercial real estate: NOO Criticized	-	10,485	-	10,485	0.38%
Commercial real estate: O/O Pass	-	158,362	-	158,362	5.77%
Commercial real estate: O/O Criticized	-	6,848	-	6,848	0.25%
Commercial and industrial Pass	-	15,496	-	15,496	0.56%
Commercial and industrial Criticized	-	1,887	-	1,887	0.07%
Residential real estate	-	68,702	-	68,702	2.50%
Subtotal	-	1,708,551	-	1,708,551	62.20%
Total	$ 22,704	$ 2,690,048	$ 33,899	$ 2,746,651	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.

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 September 30, 2024 and June 30, 2024. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	September 30, 2024			June 30, 2024		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Non-performing loans:						
Commercial real estate	$ 4,682	$ 18,248	$ 22,930	$ 1,407	$ 14,159	$ 15,566
Commercial and industrial	6,684	1,715	8,399	6,520	1,806	8,326
Residential real estate	3,976	1,867	5,843	2,502	1,867	4,369
Consumer	-	-	-	-	-	-
Total non-performing loans	15,342	21,830	37,172	10,429	17,832	28,261
Other real estate owned	-	-	-	-	-	-
Total non-performing assets	$ 15,342	$ 21,830	$ 37,172	$ 10,429	$ 17,832	$ 28,261
Total loans			$ 3,502,963			$ 2,746,651
Total assets			3,939,898			3,132,203
ACL on loans			43,640			26,709
ACL on loans to non-accrual loans			117.40%			94.51%
Non-performing loans to total loans			1.06%			1.03%
Non-performing assets to total assets			0.94%			0.90%

Allowance for Credit Losses

The Bank adopted the CECL methodology during the three months ended September 30, 2023. The significant key assumptions used with the ACL on loans calculation at September 30, 2024 included: (I) Bank-specific factors (i.e., loss history), (ii) macroeconomic factors over our forecast period and reversion speed, (iii) prepayment speeds, and (iv) various qualitative factors.

The overall global and national markets continue to be volatile and carry a high degree of uncertainty, and any changes to our forecast or qualitative factors subject our ACL estimate to a higher risk of fluctuation between periods.

The Bank may adjust its assumptions to account for differences between expected and actual losses from period to period. A future change in our assumptions likely will alter the level of ACL required and may have a material impact on future results of operations and financial condition. The ACL on loans is reviewed periodically within a calendar quarter to assess trends in CECL key assumptions and asset quality, and their effects on the Bank's financial condition.

The following table summarizes the changes in the Bank’s allowance for credit losses for the periods indicated:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023
	(Dollars in thousands)	
Period-end loans outstanding (net of unearned discount and deferred loan fees)	$ 3,502,963	$ 2,528,210
Average loans outstanding (net of unearned discount and deferred loan fees)	$ 2,838,352	$ 2,503,429
Balance of allowance for credit losses at the beginning of year – loans	$ 26,709	$ 7,304
Loans charged-off:		
Commercial and industrial	(320)	(861)
Commercial real estate	(1,298)	(683)
Residential	-	-
Consumer	(3)	(29)
Total loans charged-off	(1,621)	(1,573)
Recovery of loans previously charged-off:		
Commercial and industrial	12	3
Commercial real estate	-	5
Residential	2	-
SBA	-	-
Total recovery of loans previously charged-off	14	8
Net loan charge-offs	(1,607)	(1,565)
Adoption of CECL accounting standards – loans	-	19,374
Initial allowance on PCD loans	18,116	-
Provision (release) for credit losses – loans	422	190
Balance at end of period	$ 43,640	$ 25,303
Ratio of net charge-offs (annualized) to average loans outstanding	0.23%	0.25%
Ratio of allowance for credit losses to loan outstanding	1.54%	1.00%

The level of charge-offs depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Although the allowance is allocated between categories, the entire allowance is available to absorb potential lifetime losses attributable to all loan categories over the life of the loans. Management believes that the allowance for credit losses is adequate.

Other Assets

Premises and equipment, net, decreased by $692 thousand, or 2.6%, to $26.5 million at September 30, 2024, compared to $27.1 million at June 30, 2024. The decrease was primarily due to depreciation and amortization.

Accrued interest receivable, increased by $2.1 million, or 14.1%, to $17.3 million at September 30, 2024, compared to $15.2 million at June 30, 2024. The increase was primarily due to the increase in purchased loans during the quarter.

Other assets, increased by $685 thousand, or 3.2%, to $22.4 million at September 30, 2024, compared to $21.7 million at June 30, 2024.

Deposits, FHLBB Advances, Liquidity, and Capital

Deposits

The Bank's principal source of funding is its brokered deposits and core deposit accounts (defined as non-maturity deposits and non-brokered insured time deposits). At September 30, 2024, non-maturity accounts and non-brokered insured time deposits represented 40.2% of total deposits.

As of September 30, 2024, $123.9 million, or 4.0% of the Bank's total deposits, were uninsured. This balance included $40.8 million of interest reserves and restricted deposit accounts.

Total deposits increased by $785.5 million, or 33.6%, from June 30, 2024, attributable to increases in time deposits of $785.4 million, or 60.1%, and savings and interest checking of $20.8 million, or 2.8%, partially offset by a decrease in money market of $23.6 million, or 15.3%.

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 September 30, 2024, the Bank increased brokered time deposits from $840.9 million at June 30, 2024 to $1.55 billion at September 30, 2024. Brokered time deposits outstanding as of September 30, 2024 were for terms ranging from three months to four years.

The composition of total deposits at September 30 and June 30, 2024 is as follows:

	September 30, 2024		June 30, 2024	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 149,669	4.79%	$ 146,727	6.27%
NOW accounts	569,378	18.22%	560,796	23.97%
Regular and other savings	183,428	5.87%	171,233	7.32%
Money market deposits	130,878	4.19%	154,504	6.60%
Total non-certificate accounts	1,033,353	33.07%	1,033,260	44.16%
Term certificates of $250 thousand or less	408,067	13.06%	358,131	15.31%
Term certificates greater than $250 thousand	130,014	4.16%	107,142	4.58%
Brokered term certificates	1,553,480	49.71%	840,930	35.95%
Total certificate accounts	2,091,561	50.22%	1,306,203	55.84%
Total deposits	$ 3,124,914	100.00%	$ 2,339,463	100.00%

FHLBB Advances

Advances from the FHLBB were $339.1 million and $345.2 million at September 30 and June 30, 2024, respectively. The decrease was primarily a result of net paydowns on amortizing advances.

As of September 30, 2024, 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 September 30, 2024, loans with an amortized cost of $1.1 billion and securities with a fair value of $36.8 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 September 30, 2024, in addition to traditional retail deposit products:

	As of September 30, 2024 (In thousands)		
Brokered time deposits	$	388,470	Subject to policy limitation of 50% of total assets and capital level requirements
One-way sweep deposits		-	
Federal Home Loan Bank of Boston		433,110	Unused advance capacity subject to eligible and qualified collateral
Federal Reserve Borrower-in-Custody		258,182	Unused advance capacity subject to eligible and qualified collateral
Other available lines		7,500	
Total unused borrowing capacity	$	1,087,262	

Retail deposits and other core deposit sources, including deposit listing services, are used by the Bank to manage its overall liquidity position. Additionally, the Bank uses wholesale funding, such as FHLBB advances and brokered deposits, as a source of liquidity, and also has the ability to raise additional amounts, which remains an important part of our liquidity contingency planning. While the Bank closely monitors and forecasts its liquidity position, it is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of its forecast assumptions may increase or decrease its overall available liquidity. To utilize the FHLBB advance capacity, the purchase of additional capital stock of the FHLBB may be required.

At September 30, 2024, the Bank had $1.09 billion of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 27.6% of total assets. The Bank also had $317.3 million of cash and cash equivalents at September 30, 2024.

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 September 30, 2024, shareholders’ equity was $392.6 million, an increase of $15.9 million, or 4.2%, from June 30, 2024. Book value per common share was $47.80 at September 30, 2024 and $38.69 at June 30, 2024.

As of September 30, 2024, the Bank’s Tier 1 leverage capital ratio was 12.1%, compared to 12.3% at June 30, 2024, and the Total risk-based capital ratio was 12.7% at September 30, 2024, compared to 14.8% at June 30, 2024. The Total risk-based capital ratio decreased primarily due to the increase in risk-weighted assets from significant loan growth during the quarter ended September 30, 2024.

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 September 30, 2024 and June 30, 2024, the Bank was categorized 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 risk-based 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 September 30, 2024 and June 30, 2024, 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 September 30, 2024 and June 30, 2024. The Bank's regulatory capital ratios are set forth below as of September 30, 2024 and June 30, 2024.

	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)				
September 30, 2024							
Common equity tier 1 capital to risk weighted assets	$ 392,137	11.45%	$ 154,135	≥4.5%	$ 222,640	≥6.5%	7.0%
Total capital to risk weighted assets	434,963	12.70%	274,018	≥8.0%	342,523	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	392,137	11.45%	205,514	≥6.0%	274,018	≥8.0%	8.5%
Tier 1 capital to average assets	392,137	12.06%	130,061	≥4.0%	162,577	≥5.0%	4.0%
June 30, 2024							
Common equity tier 1 capital to risk weighted assets	$ 376,462	13.84%	$ 122,422	≥4.5%	$ 176,832	≥6.5%	7.0%
Total capital to risk weighted assets	403,256	14.82%	217,640	≥8.0%	272,049	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	376,462	13.84%	163,230	≥6.0%	217,640	≥8.0%	8.5%
Tier 1 capital to average assets	376,462	12.30%	122,397	≥4.0%	152,996	≥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.

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. On November 6, 2023, the Bank received approval to extend the at-the-market offering through November 30, 2024. The Bank has issued 536,507 shares at a weighted average net proceeds per share of $48.76 through June 30, 2024. The Bank did not issue any shares during the quarter ended September 30, 2024.

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 1. “Notes to Unaudited Financial Statements – Note 8: Commitments and Contingencies” for further discussion.

Risk Management

The Bank’s Board of Directors and management have identified significant risk categories which affect the Bank. The risk categories include: credit; compliance; interest rate; liquidity; operational and cybersecurity; and strategic. The Board of Directors has approved an Enterprise Risk Management Policy that addresses each category of risk. The direct oversight and responsibility for the Bank's risk management program has been delegated to the Senior Management Risk and Compliance Committee, which includes executive management, and reports to the Risk Management Committee of the Bank’s Board of Directors.

There have been no material changes to the Bank's risk categories and risk management policies as described in Item 7 of the Bank's Annual Report on Form 10-K for the year ended June 30, 2024. Please refer to Item 7 of the Bank's Annual Report on Form 10-K for the year ended June 30, 2024 for further details regarding the Bank's risk management.

Interest rate risk

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with our financial instruments also change, thereby impacting net interest income, the primary component of our earnings. The Bank’s Asset Liability Management Committee (“ALCO”) utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon, they also utilize additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on our balance sheet, as well as for derivative financial instruments. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one-year horizon, assuming a static balance sheet, given a 100 basis point and a 200 basis point upward and downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed. Using this approach, the Bank is able to produce simulation results that illustrate the effect that both a gradual change of rates and a "rate shock" have on earnings expectations.

The sensitivity analysis below does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Bank cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

As of September 30, 2024 and 2023, the net interest income sensitivity analysis reflected the following changes to net interest income, as compared to the modeled Year 1 Base net interest income, assuming no balance sheet growth and a parallel shift in interest rates. All rate changes were "ramped" over the first 12-month period.

	Estimated Changes In Net Interest Income	
Rate Change from Year 1 — Base	**September 30, 2024**	**September 30, 2023**
Year 1		
+200 basis points	(0.57%)	(1.05%)
+100 basis points	(0.45%)	(0.41%)
-200 basis points	2.07%	2.49%
-100 basis points	0.81%	1.77%

If rates increase 100 and 200 basis points, net interest income is projected to decrease slightly in the first year of the simulation as the asset yields increase to a lesser degree than the funding base adjusts into the higher rate environment.

If rates decrease 100 and 200 basis points, net interest income is projected to increase in the first year of the simulation as reductions in funding costs more than offset near-term asset yield deterioration.

Results of Operations

General

Net income increased by $1.9 million to $17.1 million for the quarter ended September 30, 2024, compared to net income of $15.2 million for the quarter ended September 30, 2023.

Net Interest Income

Net interest and dividend income before provision for loan losses increased by $1.9 million to $39.0 million for the quarter ended September 30, 2024, compared to $37.1 million for the quarter ended September 30, 2023. The increase was primarily due to the following:

- An increase in interest income earned on loans of $6.2 million, primarily due to higher average balances in the National Lending Division purchased and Small Business Administration ("SBA") portfolios and higher rates earned on the SBA portfolio;
- An increase in interest income earned on short-term investments of $904 thousand, due to higher average balances and higher rates earned; and
- A decrease in FHLB borrowings interest expense of $2.1 million, primarily due to lower average balances; partially offset by,
- An increase in deposit interest expense of $7.3 million, due to higher interest rates and higher average balances in interest-bearing deposits.

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

	Interest Income and Yield on Loans					
	Three Months Ended September 30,					
	2024			2023		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 22,409	$ 370	6.55%	$ 27,149	$ 438	6.42%
SBA National	59,745	2,419	16.06%	26,257	786	11.91%
National Lending:						
Originated	997,397	23,408	9.31%	960,629	24,219	10.03%
Purchased	1,758,801	39,141	8.83%	1,489,394	33,671	8.99%
Total National Lending	2,756,198	62,549	9.00%	2,450,023	57,890	9.40%
Total	$ 2,838,352	$ 65,338	9.13%	$ 2,503,429	$ 59,114	9.39%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended September 30, 2023, transactional income decreased by $776 thousand for the quarter ended September 30, 2024, and regularly scheduled interest and accretion increased by $6.1 million primarily due to the increase in average balances. The total return on purchased loans for the quarter ended September 30, 2024 was 8.8%, a decrease from 9.0% for the quarter ended September 30, 2023. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended September 30,			
	2024		2023	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 37,160	8.38%	$ 31,030	8.29%
Transactional income:				
Release of allowance for credit losses on purchased loans	64	0.01%	180	0.05%
Accelerated accretion and loan fees	1,981	0.45%	2,641	0.70%
Total transactional income	2,045	0.46%	2,821	0.75%
Total	$ 39,205	8.84%	$ 33,851	9.04%

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

The Bank's interest rate spread decreased by 43 basis points to 4.18% and net interest margin decreased by 40 basis points to 4.9% for the quarter ended September 30, 2024 compared to the quarter ended September 30, 2023. The decrease was principally due to higher deposit rates and lower yields on loans, partially offset by lower rates on borrowings as compared to the quarter ended September 30, 2023.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended September 30, 2024 and 2023.

	Three Months Ended September 30,					
	2024			2023		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities	$ 55,413	$ 595	4.26%	$ 60,173	$ 483	3.19%
Loans (1) (2)	2,838,352	65,338	9.13%	2,503,429	59,114	9.39%
Federal Home Loan Bank stock	16,465	330	7.95%	22,357	413	7.35%
Short-term investments (3)	245,542	3,591	5.80%	201,803	2,687	5.30%
Total interest-earning assets	3,155,772	69,854	8.78%	2,787,762	62,697	8.95%
Cash and due from banks	2,112			2,492		
Other non-interest earning assets	94,071			56,263		
Total assets	$ 3,251,955			$ 2,846,517		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 563,730	$ 6,380	4.49%	$ 487,445	$ 5,145	4.20%
Money market accounts	148,687	1,267	3.38%	258,296	2,133	3.29%
Savings accounts	178,581	1,557	3.46%	90,997	560	2.45%
Time deposits	1,389,832	17,386	4.96%	977,220	11,419	4.65%
Total interest-bearing deposits	2,280,830	26,590	4.63%	1,813,958	19,257	4.22%
Federal Home Loan Bank advances	362,594	4,030	4.41%	510,514	6,145	4.79%
Capital lease obligations	20,018	234	4.64%	21,776	171	3.12%
Total interest-bearing liabilities	2,663,442	30,854	4.60%	2,346,248	25,573	4.34%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	175,161			169,338		
Other liabilities	26,175			25,065		
Total liabilities	2,864,778			2,540,651		
Shareholders' equity	387,177			305,866		
Total liabilities and shareholders' equity	$ 3,251,955			$ 2,846,517		
Net interest income		$ 39,000			$ 37,124	
Interest rate spread			4.18%			4.61%
Net interest margin (4)			4.90%			5.30%
Cost of funds (5)			4.31%			4.04%

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

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

	Three Months Ended September 30, 2024 Compared to 2023		
	Change Due to Volume	Change Due to Rate	Total Change
	(In thousands)		
Interest-earning assets:			
Investment securities	$ (40)	$ 152	$ 112
Loans	7,882	(1,658)	6,224
Federal Home Loan Bank stock	(115)	32	(83)
Short-term investments	628	276	904
Total interest-earning assets	8,355	(1,198)	7157
Interest-bearing liabilities:			
Interest-bearing deposits	5,772	1,561	7,333
Federal Home Loan Bank advances	(1,661)	(454)	(2,115)
Lease liability	(15)	78	63
Total interest-bearing liabilities	4,096	1,185	5,281
Total change in net interest income	$ 4,259	$ (2,383)	$ 1,876

Provision for Credit Losses

On a quarterly basis, the Bank determines the amount of the ACL that is appropriate to provide for losses inherent in the Bank's loan portfolios, with the provision for credit losses determined by the net change in the ACL. See Part I. Item 1. "Notes to Unaudited Financial Statements — Note 4: Loans, Allowance for Credit Losses and Credit Quality" for further discussion.

Provision for credit losses increased by $232 thousand to $422 thousand for the quarter ended September 30, 2024, compared to $190 thousand in the quarter ended September 30, 2023. The increase in the provision for credit losses was primarily related to the increase in originated loans during the quarter ended September 30, 2024.

Noninterest Income

Noninterest income increased by $3.3 million for the quarter ended September 30, 2024, compared to the quarter ended September 30, 2023, primarily due to the following:

- An increase in gain on sale of SBA loans of $3.1 million, due to the sale of $63.1 million in SBA loans during the quarter ended September 30, 2024 as compared to the sale of $5.3 million during the quarter ended September 30, 2023; and
- A decrease in net unrealized loss on equity securities of $346 thousand from an unrealized gain of $189 thousand for the quarter ended September 30, 2024 compared to an unrealized loss of $157 thousand for the quarter ended September 30, 2023.

Noninterest Expense

Noninterest expense increased by $2.3 million for the quarter ended September 30, 2024 compared to the quarter ended September 30, 2023, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.5 million, primarily due to increases in regular and stock compensation expense;
- An increase in loan expense of $643 thousand primarily related to increased expenses in connection with the origination of SBA 7(a) loans.

Income Taxes

Income tax expense increased by $754 thousand to $7.9 million, or an effective tax rate of 31.6%, for the quarter ended September 30, 2024, compared to $7.2 million, or an effective tax rate of 32.0%, for the quarter ended September 30, 2023. The increase in income tax expense is due to the increase in pre-tax income. The decrease in the effective tax rate is primarily due a $243 thousand increase in tax benefit on the vest of restricted stock and exercise of stock options during the quarter ended September 30, 2024 as compared to the quarter ended September 30, 2023.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Information required by this Item 3 is included in Item 2. *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management"* and such information is incorporated into this Item 3 by reference.

Item 4. Controls and Procedures

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

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

Based on this evaluation of the Bank's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of September 30, 2024.

There were no changes in the Bank's internal control over financial reporting that have materially affected, or are reasonable likely to materially affect, the Bank's internal control over financial reporting during the three months ended September 30, 2024.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes in the risk factors described in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended June 30, 2024 filed with the FDIC on September 18, 2024.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the quarter ended September 30, 2024, none of the Bank's directors or executive officers (as defined in Rule 16a-1(f) of the Exchange Act had in place, or adopted, modified, or terminated any contract, instruction, or written plan for the purchase or sale of Bank securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" (as such term is defined in the Item 408 of Regulation S-K).

Item 6. Exhibits

Exhibits No.	Description
10.1	Marketing Services Agreement, dated October 1, 2024, by and between Northeast Bank and Newity LLC (incorporated by reference to Exhibit 10.1 of the Bank's Current Report on Form 8-K/A filed with the FDIC on October 25, 2024).
10.2	Amended and Restated Lender Service Provider Agreement, dated October 17, 2024, by and between Northeast Bank and Newity LLC (incorporated by reference to Exhibit 10.2 of the Bank's Current Report on Form 8-K/A filed with the FDIC on October 25, 2024).
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: November 7, 2024

NORTHEAST BANK

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

By:/s/ Richard Cohen
Richard Cohen
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.

November 7, 2024

/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, Richard Cohen, 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.

November 7, 2024

/s/ Richard Cohen
Richard Cohen
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 September 30, 2024 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.

November 7, 2024

/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 September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Cohen, 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.

November 7, 2024

/s/ Richard Cohen
Richard Cohen
Chief Financial Officer