

Northeast
BANK

2021 Annual Report





We are immensely appreciative of our team who worked unselfishly, professionally, and tirelessly throughout the year. We are excited to build on our success in the current year and thereafter.

Richard Wayne, President & Chief Executive Officer

TO OUR SHAREHOLDERS,

Northeast Bank, like every business, was significantly impacted by the COVID-19 pandemic in fiscal 2021. First and foremost, we focused on keeping our employees safe, most of whom worked from home in uncharted circumstances. About 20% of our employees work in our banking centers and all went to work daily in a safe environment in order to meet the banking needs of our customers. During the year, we (i) actively participated in the Small Business Administration's Paycheck Protection Program ("PPP") both as an originator of PPP loans to small businesses throughout the country and as a correspondent to The Loan Source, Inc. ("Loan Source"), facilitating their purchase of PPP loans, (ii) grew our loan portfolio with high quality, higher-yielding loans, (iii) generated low-cost, stable deposits in our Community Banking Division, (iv) continued our investment in our people and technology, and (v) supported our Maine community. In addition to the foregoing, we opened our New York City office and relocated our Lewiston operations center.

PPP

Given the prolonged impact of the COVID-19 pandemic and in anticipation of a second round of PPP funding, we made significant investments in technology, marketing, and other initiatives to be able to source, underwrite, fund and onboard a large volume of PPP loans in the event the PPP program was reinstated. Our investment and planning paid off. During fiscal 2021, we originated \$2.84 billion in PPP loans to over 30,000 small businesses, positively impacting nearly 300,000 related jobs. During fiscal 2021, we sold \$2.87 billion of PPP loans to Loan Source, generating a pre-tax net gain of \$46.7 million.

CORRESPONDENT ARRANGEMENT

The Bank's significant participation in the second round of PPP provided an opportunity to grow our correspondent relationship with Loan Source, which we entered into at the end of the prior fiscal year. Under this arrangement, we receive correspondent fees on all loans purchased by Loan Source and split servicing income over the lives of the loans. From the beginning

of the correspondent arrangement through June 30, 2021, Loan Source had purchased \$11.23 billion of PPP loans including \$3.33 billion originated by Northeast Bank. During fiscal 2021, we recognized \$23.5 million of correspondent fee income.

NATIONAL LENDING AND ASSET QUALITY

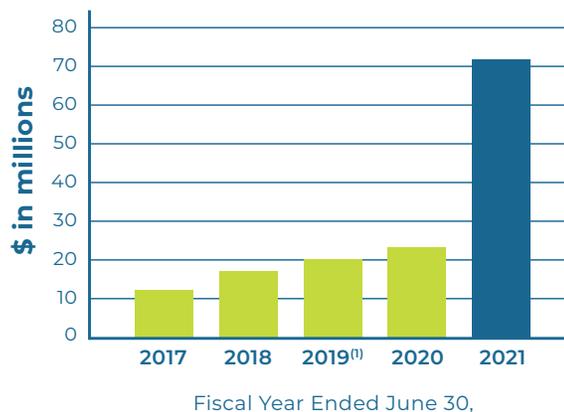
Throughout fiscal 2021, our National Lending Division continued to build our national commercial loan portfolio, generating \$478.4 million in purchases and originations, for net growth of \$98.4 million, or 11.5%, over June 30, 2020 balances. For fiscal 2021, the purchased and originated portfolios generated returns of 8.91% and 6.93%, respectively. A growing part of our origination business includes our portfolio finance product, through which we leverage the lending of non-bank lenders. In fiscal 2021, portfolio finance originations were \$175.4 million, or 57% of total originations. These loans, like virtually all of our originated loans, are tied to the Prime Rate with interest rate floors. To minimize the potential of credit losses, these loans are made with low advance rates primarily to bankruptcy-remote entities providing for both interest reserves and higher rates in the unlikely event of a default. The portfolio finance product has performed exceedingly well and is one we expect to grow in the future.

The Bank's loan portfolio is serviced with a "high-touch" approach by our in-house asset managers with the goal of providing a high level of service to our borrowers with sharp attention being paid to each credit. This "high-touch" approach has served us well as we have proactively worked with our borrowers to provide them with relief during the pandemic. Through June 30, 2021, we provided 315 short-term deferments on loan balances of \$173.3 million, of which only \$6.9 million remained under deferment at June 30, 2021. Of the \$166.4 million loans no longer under deferment, only \$1.0 million, or less than 1%, were greater than 30 days past due, evidencing the success of providing short-term relief in unprecedented times and permitting borrowers to resume payments as economic conditions have begun to improve.

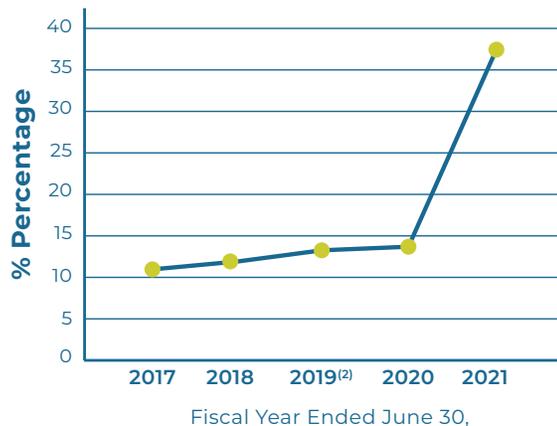
FINANCIAL HIGHLIGHTS

We had a record year in earnings, largely attributable to our PPP origination and related loan sale activity, primarily during the third and fourth fiscal quarters. We recorded net income of \$71.5 million, representing an increase of 214.5% over the prior year net income of \$22.7 million, and achieved earnings per diluted common share of \$8.55, a return on average equity of 37.44%, and a return on average assets of 4.53%. This is the seventh consecutive year of increased net operating earnings⁽¹⁾ and operating return on average equity⁽²⁾.

Net Income

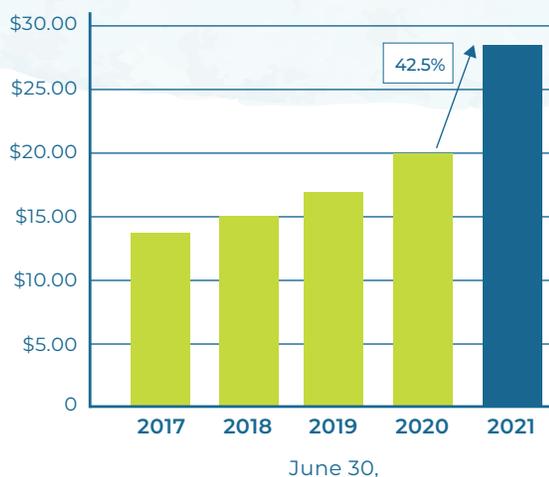


Return on Average Equity



Given our record earnings in fiscal 2021, tangible book value per share increased by \$8.42, or 42.5% over June 30, 2020, to \$28.26.

Tangible Book Value per Share



MAINE BANKING

During fiscal 2021, we reorganized the Community Banking Division, with a goal of growing and building lower-cost, stable deposits. Through this shift and investments in branding, technology, and marketing, we have strengthened our presence in the Maine deposit market, growing our Community Bank deposits by \$195.2 million, or 40.3%, during the year. This strengthened our overall deposit mix and increased non-maturity accounts⁽³⁾ to 72% of total deposits as of June 30, 2021, as compared to 53% as of June 30, 2020.

We have adopted a Community Reinvestment Act ("CRA") Strategic Plan ("CRA Strategic Plan") in order to tailor our CRA goals and objectives to address the needs of our community consistent with our business strategy. The CRA Strategic Plan places a strong emphasis on community development lending, services, donations, and investments. Our employees contribute hundreds of service hours annually supporting low- or moderate-income individuals through financial literacy programs.

¹ Fiscal 2019 net operating earnings removes the non-recurring expenses (after tax) of \$6.4 million related to our corporate reorganization in 2019.

² Fiscal 2019 net operating return on average equity removes the non-recurring expenses (after tax) of \$6.4 million related to our corporate reorganization in 2019.

³ Excludes the collection account related to PPP activity, whose balance was significantly elevated at June 30, 2021, at \$859.5 million.

This year has been challenging like no other and we are immensely appreciative of our team who worked unselfishly, professionally, and tirelessly throughout the year. Their efforts, along with the support of our engaged Board of Directors, gave life to the phrase "doing well by doing good". We are excited to build on our success in the current year and thereafter. I look forward to reporting to you next year on our accomplishments for fiscal 2022 and as always appreciate your continued support.

Sincerely,

Richard Wayne
President and Chief Executive Officer



FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from 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:

Voting Common Stock, \$1.00 par value
(Title of each class)

NBN
(Trading Symbol)

The NASDAQ Stock Market LLC
(Name of each exchange on which registered)

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(a) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates, computed by reference to the last reported sales price of the registrant's voting common stock on the NASDAQ Global Market on December 31, 2020 was approximately \$163,986,714.

As of September 3, 2021, the registrant had outstanding 8,183,442 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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2021 Annual Meeting of Shareholders to be held on November 22, 2021 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file such proxy statement with the Federal Deposit Insurance Corporation no later than 120 days after the end of its fiscal year ended June 30, 2021.

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A Note About Forward-Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the factors referenced in this report under Item 1A. "Risk Factors"; the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions 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 loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; reputational risk relating to the Bank's participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; operational risks including, but not limited to, cybersecurity, fraud, natural disasters and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and changes in assumptions used in making such forward-looking statements. 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.

Non-GAAP Financial Measures and Reconciliation To GAAP

In addition to evaluating the Bank's results of operations in accordance with GAAP, management supplements this evaluation with an analysis of certain non-GAAP financial measures, such as net operating earnings, net operating earnings per share, operating return on average assets, operating return on average equity, operating efficiency ratio, and operating common dividend payout ratio. These non-GAAP financial measures are utilized for purposes of measuring performance against the Bank's peer group and other financial institutions, as well as for analyzing its internal performance. The Bank also believes these non-GAAP financial measures help investors better understand the Bank's operating performance and trends and allows for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of unusual items that may obscure trends in the Bank's underlying performance. These disclosures should not be viewed as a substitute for GAAP operating results, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other financial institutions.

PART I

Item 1. Business

Overview

Northeast Bank (the "Bank"), a Maine state-chartered bank organized in 1872, is a Maine-based full-service financial institution.

On May 15, 2019, Northeast Bancorp, the Bank's former bank holding company merged with and into the Bank, with the Bank continuing as the surviving entity (the "Reorganization").

In connection with the Reorganization, the Bank incorporated the following standards into its policies and procedures, which have been updated consistent with Maine Bureau of Financial Institution (the "Bureau") approval:

- Maintain a Tier 1 leverage ratio of at least 8.5% (current policy reflects 9%);
- Maintain a Total capital ratio of at least 11%;
- Limit purchased loans to 60% of total loans;
- Maintain a ratio of the Bank's loans to core deposits of not more than 125%; and
- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital.

These standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, while permitting further growth in the Bank's loan portfolio as compared to operating under the existing commitments.

As of June 30, 2021, the Bank had total assets of \$2.17 billion, total deposits of \$1.86 billion, and shareholders' equity of \$232.4 million. We gather retail deposits through our nine full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division.

Strategy

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

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

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

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

Market Area and Competition

National Lending Division activities are nationwide. The National Lending Division competes primarily with community banks, regional banks and private equity funds operating nationwide in its bid to acquire primarily commercial real estate loans. We believe that we often have a competitive advantage in bidding against private equity funds on performing loans because those funds generally have higher funding costs and, therefore, higher expectations for return on investment than we do. Furthermore, private equity funds typically do not compete for small balance commercial loans and typically pursue larger, bulk transactions. Due to improving credit quality over the past several years and the low interest rate environment, the supply of loans available for purchase has declined,

competition has increased, and spreads have tightened. Despite these trends, we believe that the National Lending Division continues to have a competitive advantage in bidding against other banks because we have a specialized group with experience in purchasing commercial real estate loans. Additionally, most banks we compete against are community banks looking to acquire loans in their market; these banks usually have specific criteria for their acquisition activities and do not pursue pools with collateral or geographic diversity.

The Community Banking Division's market area is centered in the western and south-central regions of the State of Maine. We encounter significant competition in the Community Banking Division market area in originating loans, attracting deposits, and selling other customer products and services. Our competitors include savings banks, commercial banks, credit unions, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, financial technology companies and other financial intermediaries. Many of our primary competitors there have substantially greater resources, larger established customer bases, higher lending limits, extensive branch networks, numerous ATMs and greater advertising and marketing budgets. They may also offer services that we do not currently provide. ableBanking has a nationwide scope in its deposit gathering activities and competes with banks and credit unions, as well as other, larger, online direct banks having a national reach.

Lending Activities

General

We conduct our loan-related activities through two primary channels: the National Lending Division and the Community Banking Division. The National Lending Division purchases primarily performing commercial real estate loans, on a nationwide basis, typically at a discount from their unpaid principal balances, producing yields higher than those normally achieved on our originated loan portfolio. The National Lending Division also originates commercial real estate and commercial and industrial loans on a nationwide basis. The Community Banking Division originates loans directly to consumers and businesses located in its market area. At June 30, 2021, our total loan portfolio (excluding loans held for sale) was \$1.04 billion, of which \$952.6 million, or 91.5%, was purchased or originated by the National Lending Division and \$48.5 million, or 4.7%, was originated by the Community Banking Division. \$39.5 million, or 3.8%, were originated traditional Small Business Administration ("SBA") loans. The following table sets forth certain information concerning our portfolio loan purchases and originations for the periods indicated (including loans held for sale):

	Years Ended June 30,	
	2021	2020
	(Dollars in thousands)	
Loans, including loans held for sale, beginning of year	\$ 1,001,055	\$ 978,970
Additions:		
National Lending Division purchases and originations:		
Originations	308,862	221,484
Purchases	169,489	171,262
Subtotal	478,351	392,746
SBA PPP funded originations	2,836,589	487,518
SBA Traditional funded originations	2,294	558
Community Bank originations:		
Residential mortgages held for sale	5,930	27,487
Residential mortgages held for investment	177	25
Commercial real estate	-	1,490
Commercial and industrial	332	883
Consumer	62	42
Subtotal	6,501	29,927
Total originations and purchases	3,323,735	910,749
Reductions:		
Sales of SBA PPP loans	(2,867,054)	(457,604)
Sales of residential loans held for sale	(6,703)	(30,033)
Sales of traditional SBA and other loans	-	(10,503)
Charge-offs	(939)	(1,053)
Pay-downs and amortization, net	(409,470)	(389,471)
Total reductions	(3,284,166)	(888,664)
Loans, including loans held for sale, end of year	\$ 1,040,624	\$ 1,001,055
Annual percentage increase in loans	3.95%	2.26%

We individually underwrite all loans that we originate and purchase. Our loan underwriting policies are reviewed and approved annually by our Board of Directors (the "Board"). Each loan, regardless of whether it is originated or purchased, must meet underwriting criteria set forth in our lending policies and the requirements of applicable federal and state regulations. All loans are subject to approval procedures and amount limitations, and the Board approves loan relationships exceeding certain prescribed dollar

limits. We supplement our own supervision of the loan underwriting and approval process with periodic loan audits by internal personnel and outside professionals experienced in loan review. As of June 30, 2021, the Bank's legal lending limit was \$51.2 million.

We typically retain servicing rights for all loans that we originate or purchase, except for residential loans that we originate and sell servicing released in the secondary market.

National Lending Division Purchases and Originations

General. Loans originated or purchased by the National Lending Division were \$952.6 million as of June 30, 2021, which consisted of \$673.4 million of commercial real estate loans, \$252.3 million of commercial and industrial loans, and \$26.9 million of one- to four-family residential loans. The following table summarizes the National Lending Division loan portfolio as of June 30, 2021:

	Purchased	Originated (In thousands)	Total
Non-owner occupied commercial real estate	\$ 275,809	\$ 187,593	\$ 463,402
Owner-occupied commercial real estate	144,024	65,950	209,974
Commercial and industrial	334	251,954	252,288
1-4 family residential	8,887	18,038	26,925
Total	<u>\$ 429,054</u>	<u>\$ 523,535</u>	<u>\$ 952,589</u>

Since the inception of the National Lending Division through June 30, 2021, we have purchased loans with an aggregate investment of \$1.2 billion, of which \$169.5 million was purchased during fiscal 2021. We have also originated National Lending Division loans totaling \$1.6 billion, of which \$308.9 million was originated in fiscal 2021. As of June 30, 2021, the unpaid principal balance of loans purchased or originated by the National Lending Division ranged from \$1 thousand to \$26 million and have an average balance of \$771 thousand. The real estate loans were secured principally by retail, industrial, hospitality, multi-family and office properties in 44 states.

The following table shows the National Lending Division loan portfolio stratified by book value as of June 30, 2021, excluding deferred fees and costs:

Range	Amount (Dollars in thousands)	Percent of Total
\$0 - \$1,000	\$ 243,790	25.61%
\$1,00 - \$3,000	278,490	29.26%
\$3,000 - \$6,000	182,534	19.18%
\$6,000 - \$9,000	149,087	15.67%
Greater than \$9,000	97,856	10.28%
Total	<u>\$ 951,757</u>	<u>100.00%</u>

The following tables show the National Lending Division loan portfolio by location and type of collateral as of June 30, 2021, excluding deferred fees and costs:

Collateral Type	Amount (Dollars in thousands)	Percent of Total	State	Amount (Dollars in thousands)	Percent of Total
Portfolio Finance	\$ 248,936	26.16%	NY	\$ 343,702	36.11%
Multifamily	161,904	17.01%	CA	171,574	18.03%
Retail	139,968	14.71%	FL	42,921	4.51%
Industrial	99,821	10.49%	TX	41,109	4.32%
Office	89,853	9.44%	NJ	29,118	3.06%
Hospitality	71,847	7.55%	IL	28,018	2.95%
Mixed Use	49,470	5.20%	AZ	23,054	2.42%
Other CRE	34,952	3.67%	Non-real estate	99,568	10.46%
All Other	55,006	5.77%	All other states	172,693	18.14%
Total	<u>\$ 951,757</u>	<u>100.00%</u>	Total	<u>\$ 951,757</u>	<u>100.00%</u>

Loan Purchase Strategies. The National Lending Division's loan purchasing strategy involves the acquisition of commercial loans, typically secured by real estate or other business assets located throughout the United States.

We acquire commercial loans typically at a discount to their unpaid principal balances. While we acquire loans on a nationwide basis, we seek to avoid significant concentration in any geographic region or in any one collateral type. We do not seek acquisition opportunities for which the primary collateral is land, construction, or one- to four-family residential property, although in a very limited number of cases, loans secured by such collateral may be included in a pool of otherwise desirable loans. Purchased loans are sourced on a nationwide basis from banks, insurance companies, investment funds and government agencies, either directly or indirectly through advisors.

We focus on servicing released, whole loan or lead participation transactions so that we can control the management of the portfolio through our experienced asset management professionals. Purchased loans can be acquired as a single relationship or combined with other borrowers in a larger pool. Loans are bid to a minimal acceptable yield to maturity based on the overall risk of the loan, including expected repayment terms and the underlying collateral value. Updated loan-to-value ratios and loan terms both influence the amount of discount the Bank requires in determining whether a loan meets the Bank's guidelines. We often achieve actual results in excess of our minimal acceptable yield to maturity when a loan is prepaid.

At June 30, 2021, purchased loans had an unpaid principal balance of \$466.1 million and a book value of \$429.1 million, representing a total discount of 7.9%.

The following table shows the purchased loan portfolio as of June 30, 2021 by original purchase price percentage:

Initial Investment as a % of Unpaid Principal Balance	Amount	Percent of Total
	(Dollars in thousands)	
0% - 60%	\$ 13,107	3.05%
60% - 70%	4,090	0.95%
70% - 80%	16,233	3.78%
80% - 90%	78,206	18.23%
> 90%	317,418	73.98%
Total	\$ 429,054	100.00%

Secondary Market for Commercial Loans. Commercial whole loans are typically sold either directly by sellers or through loan sale advisors. Because a central database for commercial whole loan transactions does not exist, we attempt to compile our own statistics by both polling major loan sale advisors to obtain their aggregate trading volume and tracking the deal flow that we see directly via a proprietary database. This data reflects only a portion of the total market, as commercial whole loans that are sold in private direct sales or through other loan sale advisors are not included in our surveys. In recent years, the ratio of performing loans to total loans in the market has increased, in part, because sellers have worked through their most troubled, non-performing loans or are looking to minimize the discount they would receive in a secondary market transaction. While the 2008-2010 economic crisis led to a high level of trading volume, we also experienced an active market during times of economic prosperity, as sellers tend to have additional reserve capacity to sell their unwanted assets. In light of the COVID-19 pandemic, trading volume did slow down, however we expect trading volume to pick up and continue at high levels. Furthermore, we believe that the continued consolidation of the banking industry will create secondary market activity as acquirers often sell non-strategic borrowing relationships or assets that create excess loan concentrations.

Underwriting of Purchased Loans. We review many loan purchase opportunities and commence underwriting on a relatively small percentage of loans. Purchased loans are underwritten by a team of in-house, seasoned analysts before being considered for approval. Prior to commencing underwriting, loans are analyzed for performance characteristics, loan terms, collateral quality, and price expectations. We also consider whether the loans would make our total purchased loan portfolio more or less diverse with respect to geography, loan type and collateral type. The opportunity is underwritten once it has been identified as fitting our investment parameters. While the extent of underwriting may vary based on investment size, procedures generally include the following:

- A loan analyst reviews and analyzes the seller credit file and our own internal and third-party research in order to assess credit risk;
- With the assistance of local counsel, where appropriate, an in-house attorney makes a determination regarding the quality of loan documentation and enforceability of loan terms;
- An in-house real estate specialist performs real estate collateral evaluations, which includes conducting original market research for trends and sale and lease comparables, and develops a valuation based on current data reflecting what we believe are recent trends;
- An environmental assessment is performed on real estate collateral where appropriate;
- A property inspection is generally performed on all real estate collateral securing a loan, focusing on several characteristics, including, among other things, the physical quality of the property, current occupancy, general quality and occupancy within the neighborhood, market position and nearby property listings; and

- An underwriting package containing the analysis and results is reviewed and submitted for approval by the National Lending Division Credit Committee.

Collateral Valuation. The estimated value of the real property collateralizing the loan is determined by the National Lending Division's in-house real estate group, which considers, among other factors, the type of property, its condition, location and its highest and best use in its marketplace. An inspection is conducted for the real property securing all loans bid upon. For loans that exceed a certain dollar threshold as prescribed in our credit policy, members of the National Lending Division typically conduct an in-person site inspection.

We generally view cash flow from operations as the primary source of repayment on purchased loans. The National Lending Division analyzes the current and likely future cash flows generated by the collateral to repay the loan. Also considered are minimum debt service coverage ratios, consisting of the ratio of net operating income to total scheduled principal and interest payments. Consideration of the debt service coverage ratio is critical to the pricing and rating of purchased and originated loans and is analyzed carefully. For purchased loans, care is taken to ensure that, unless significantly offset by other factors in the credit, the purchase price results in an adjusted debt service coverage ratio that is within the Bank's lending limits. Moreover, if the debt service coverage ratio based on the contractual payments, regardless of the Bank's exposure, is significantly below 1.0x, then steps are taken to document alternative sources of repayment or develop a realistic plan to ensure continued performance of the loan.

Loan Pricing. In determining the amount that we are willing to bid to acquire individual loans or loan pools, the National Lending Division considers the following:

- Collateral securing the loan;
- Geographic location;
- Financial resources of the borrower or guarantors, if any;
- Recourse nature of the loan;
- Age and performance of the loan;
- Length of time during which the loan has performed in accordance with its repayment term;
- Yield expected to be earned; and
- Servicing restrictions, if any.

In addition to the factors listed above and despite the fact that purchased loans are typically performing loans, the National Lending Division also estimates the amount that we may realize through collection efforts or foreclosure and sale of the collateral, net of expenses, and the length of time and costs required to complete the collection or foreclosure process in the event a loan becomes non-performing or is non-performing at the time of purchase.

Loan Originations. In addition to purchasing loans, the National Lending Division also originates commercial loans on a nationwide basis. Capitalizing on our purchased loan infrastructure, the National Lending Division is in a position to review and act quickly on a variety of lending opportunities. Risk management, approvals, underwriting and other due diligence for these loans is similar to that for purchased loans, other than the appraisal and documentation process, which mirrors the Community Banking Division's practice of employing local attorneys and real estate appraisers to assist in the process. We believe that the National Lending Division has an advantage in originating commercial loans because of its ability to utilize in-house staff to quickly and accurately screen loan opportunities and accelerate the underwriting process.

Loan Servicing. We conduct all loan servicing for purchased and originated loans with an in-house team of experienced asset managers who actively manage the loan portfolio. Asset managers initiate and maintain regular borrower contact and ensure that the loan credit analysis is accurate. Collateral valuations, property inspections, and other collateral characteristics are updated periodically. All asset management activity and analysis is contained within a central database.

Community Banking Division Originations

Loan Portfolio

- *Residential Mortgage Loans.* We originate residential mortgage loans secured by one- to four-family properties primarily in Maine. Such loans may be originated for sale in the secondary market or to be held on the Bank's balance sheet. We also offer home equity loans and home equity lines of credit, which are secured by first or second mortgages on one- to four-family owner-occupied properties and are held on our balance sheet. At June 30, 2021, the Community Banking Division's portfolio residential and home equity loans totaled \$29.7 million, or 2.9% of total loans. Of the residential loans we held for investment at June 30, 2021, approximately 56.7% were adjustable rate. Included in residential loans are home equity lines of credit and other second mortgage loans aggregating approximately \$3.5 million. During the fiscal year ended June 30, 2021, the Bank shuttered its residential mortgage lending division. In order to continue to offer residential mortgage loans to its customers, the Bank entered into an agreement with Fairway Independent Mortgage Corporation, whereby the Bank refers its customers and earns a fee for successful mortgage originations.
- *Commercial Real Estate Loans.* We originate multi-family and other commercial real estate loans secured by property primarily in Maine. At June 30, 2021, the Community Banking Division's commercial real estate loans outstanding were \$15.1 million, or 1.5% of total loans. Although the largest commercial real estate loan originated by the Community Banking Division had a principal balance of \$1.5 million at June 30, 2021, the majority of the commercial real estate loans originated by the Community Banking Division had principal balances less than \$500 thousand.
- *Commercial and industrial Loans.* We originate commercial and industrial loans, including term loans, lines of credit and equipment and receivables financing to businesses located primarily in Maine. At June 30, 2021, commercial and industrial loans outstanding were \$2.6 million, or 0.2% of total loans. At June 30, 2021, there were 39 commercial and industrial loans outstanding with an average principal balance of \$66 thousand. The largest of these commercial and industrial loans had a principal balance of \$394 thousand at June 30, 2021.
- *Consumer Loans.* We hold mobile home and overdraft and deposit-secured loans. At June 30, 2021, consumer loans outstanding were \$1.1 million, or 0.1% of total loans.

Underwriting of Loans. Most residential loans, including those held for investment, are originated in accordance with the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Authority, or other third-party correspondent lenders. Our underwriting process for all other loans originated by the Community Banking Division is as follows:

- Most of our Community Banking Division originated loans are sourced through relationships between loan officers and third-party referral sources or current or previous customers.
- After a loan officer has taken basic information from the borrower, the request is submitted to the Community Banking Division's loan production department. The loan production department obtains comprehensive information from the borrower and third parties, and conducts verification and analysis of the borrower information, which is assembled into a single underwriting package that is submitted for final approval.
- *Paycheck Protection Program ("PPP").* As of June 30, 2021, life-to-date, the Bank had originated more than 34,600 PPP loans totaling approximately \$3.32 billion. PPP loans are fully guaranteed by the U.S. government if properly originated, have an initial term of up to five years and earn interest at rate of 1%. As of June 30, 2021, there was \$13.3 million in deferred correspondent fee and purchased accrued interest income that will be recognized over the life of the loans. The Bank estimates that over 300,000 jobs were positively impacted by the Bank's participation in the PPP. As previously announced, in June 2020, the Bank entered into an agreement with The Loan Source, Inc. ("Loan Source") under which the Bank sold PPP loans originated by the Bank to Loan Source. The Bank also contracted to act as the correspondent for Loan Source in connection with Loan Source's pledge of PPP loans to the Board of Governors of the Federal Reserve System's (the "Federal Reserve's") Paycheck Protection Program Liquidity Facility ("PPPLF"). See Part I. Item 1. "Business—Supervision and Regulation—COVID-19" and Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Paycheck Protection Program."
- *Loan Deferrals.* As of June 30, 2021, the Bank granted 315 short-term deferrals on loan balances of \$173.3 million, which represented 16.7% of total loan balances as of June 30, 2021, of which \$6.9 million, or 0.7% of total loan balances as of June 30,

2021, remained under deferral as of June 30, 2021. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

Investment Activities

Our securities portfolio and short-term investments provide and maintain liquidity, assist in managing the interest rate sensitivity of our balance sheet, and serve as collateral for certain of our obligations. Individual investment decisions are made based on the credit quality of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our asset/liability management objectives.

Sources of Funds

Deposits have traditionally been the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank obtains funds from the amortization and prepayment of loans and mortgage-backed securities, the sale or maturity of securities, advances from the Federal Home Loan Bank of Boston (the "FHLBB"), other term borrowings and cash flows generated by operations.

Deposits

We offer a full line of deposit products to customers in western and south-central Maine through our nine-branch network. Our deposit products consist of demand deposit, NOW, money market, savings and certificate of deposit accounts. Our customers access their funds through ATMs, MasterCard® Debit Cards, Automated Clearing House funds (electronic transfers) and checks. We also offer telephone banking, online banking and bill payment, mobile banking and remote deposit capture services. Interest rates on our deposits are based upon factors that include prevailing loan demand, deposit maturities, alternative costs of funds, interest rates offered by competing financial institutions and other financial service firms, and general economic conditions. At June 30, 2021, core deposits totaled \$1.85 billion, representing 99.6% of total deposits. We define core deposits as non-maturity deposits, non-brokered insured time deposits and time deposits with balances of \leq \$250 thousand.

Our online deposit program, ableBanking, provides an additional channel through which to obtain core deposits to support our growth. ableBanking, a division of Northeast Bank, had \$191.8 million in money market and time deposits as of June 30, 2021. We also use deposit listing services to gather deposits in support of our liquidity and asset/liability management objectives. At June 30, 2021, listing service deposits totaled \$113.9 million, bearing a weighted-average remaining term of 0.57 years.

Borrowings

While we currently consider core deposits (defined as non-maturity deposits and non-brokered insured time deposits) as our primary source of funding to support asset growth, advances from the FHLBB and other sources of wholesale funding remain an important part of our liquidity contingency planning. Northeast Bank may borrow up to 50% of its total assets from the FHLBB, and borrowings are typically collateralized by mortgage loans and securities pledged to the FHLBB. At June 30, 2021, we had \$203.4 million of available borrowing capacity based on pledged collateral.

The availability of FHLBB advances and other sources of wholesale funding remain an important part of our liquidity contingency planning.

Employees

As of June 30, 2021, the Bank employed 160 full-time and 18 part-time employees. The Bank's employees are not represented by any collective bargaining unit. The Bank believes that its relations with its employees are good.

Other Subsidiaries

As of June 30, 2021, the Bank had seven wholly-owned non-bank subsidiaries, all of which were established to hold commercial real estate acquired as a result of loan workouts:

- 200 Elm Realty, LLC
- 500 Pine Realty, LLC
- 17 Dogwood Realty, LLC

- 1795 Little Diamond Realty, LLC
- 1872 Peaks Realty, LLC
- 1630 Spectacle Realty, LLC
- 1786 Cliff Realty, LLC

Supervision and Regulation

General

The following discussion addresses elements of the regulatory framework applicable to a bank. This regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance fund, and depositors, rather than the shareholders of a bank such as the Bank. This summary is not a comprehensive analysis of all applicable laws and is qualified by reference to the applicable statutes and regulations.

COVID-19

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), was enacted to address the economic effects of the COVID-19 pandemic. On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (the “CRRSA Act”) was signed into law, authorizing more than \$900 billion in economic aid to small businesses and consumers

Paycheck Protection Program. The CARES Act appropriated \$349 billion for “paycheck protection loans” through the PPP. The amount appropriated was subsequently increased to \$659 billion. The CRRSA Act appropriated an additional \$285 billion to PPP for loans to small businesses (“PPP-2”), including borrowers that have previously received PPP loans under the CARES Act. PPP loans have either a two-year or five-year term and earn interest at a rate of 1%. Loans under the PPP that meet SBA requirements may be forgiven in certain circumstances and are 100% guaranteed by the SBA. In conjunction with the PPP, the Federal Reserve created a lending facility for qualified financial institutions. The PPPLF will extend credit to depository institutions with a term equal to the term of the pledged collateral at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the PPPLF.

Troubled Debt Restructuring Relief. The CARES Act also provided troubled debt restructured (“TDR”) accounting relief, which was subsequently extended by the CRRSA Act. From March 1, 2020 through the earlier of January 1, 2022 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID–19 outbreak, a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a TDR. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. These short-term deferrals are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

Forbearance. The CARES Act codifies in part guidance from state and federal regulators and government-sponsored enterprises, including the 60-day suspension of foreclosures on federally-backed mortgages and requirements that servicers grant forbearance to borrowers affected by COVID-19. The suspension of foreclosures on federally-backed mortgages and forbearance requirements ended on July 31, 2021.

Moratorium on Negative Credit Reporting. Any furnisher of credit information that agrees to defer payments, forbear on any delinquent credit or account, or provide any other relief to consumers affected by the COVID-19 pandemic must report the credit obligation or account as current if the credit obligation or account was current before the accommodation.

Regulation of the Bank

As a Maine state-chartered bank, the Bank is subject to supervision, regulation and examination by the Bureau and the Federal Deposit Insurance Corporation (the “FDIC”). The enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders, to terminate insurance of deposits, to assess civil money penalties, to issue directives to increase capital, to place banks into receivership, and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Limitations on Acquisitions of Bank Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring “control” of an insured depository institution unless the FDIC has been notified and has not objected to the transaction. In addition, Maine law requires that any person obtain the approval of the Maine Superintendent of Financial Institutions before acquiring control of a Maine financial institution. Similarly, under the Bank Holding Company Act of 1956, as amended, a company may not acquire control of a bank without first having obtained the approval of the Federal Reserve.

Deposit Insurance. Deposit obligations of the Bank are insured by the FDIC’s Deposit Insurance Fund (“DIF”) up to \$250,000 per separately insured depositor for deposits held in the same right and capacity.

Deposit insurance premiums are based on assets. For established small banks, which are generally those banks with less than \$10 billion of assets that have been insured for at least five years, each of seven financial ratios and a weighted average of CAMELS composite ratings are multiplied by a corresponding pricing multiplier. The sum of these products is added to a uniform amount, with the resulting sum being an institution’s initial base assessment rate (subject to minimum or maximum assessment rates based on a bank’s CAMELS composite rating). For the years ended June 30, 2021 and 2020, the FDIC insurance assessment expense (credit) for the Bank was \$283 thousand and \$(15) thousand, respectively.

The FDIC has the authority to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may terminate deposit insurance, among other circumstances, upon a finding that the institution has engaged in unsafe and unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Acquisitions and Branching. Prior approval from the Bureau and the FDIC is required for the Bank to acquire another bank or establish a new branch office. Well-capitalized and well-managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks. The FDIA generally limits the types of equity investment an FDIC-insured state-chartered bank, such as the Bank, may make and the kinds of activities in which such a bank may engage, as a principal, to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 (“GLBA”) permits national and state banks, to the extent permitted under state law, to engage—via financial subsidiaries—in certain activities that are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Lending Restrictions. Federal law limits a bank’s authority to extend credit to its directors, executive officers and persons or companies that own, control or have power to vote more than 10% of any class of securities of a bank or an affiliate of a bank, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. The terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank’s capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset purchase or sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the bank, approved by a majority of the disinterested directors of the bank.

Brokered Deposits. The FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution’s capital category is “well capitalized” or, with the FDIC’s approval, “adequately capitalized.” Depository institutions that have brokered deposits in excess of 10% of total assets may be subject to increased FDIC deposit insurance assessments. However, for institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”), which was enacted in 2018, amends the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions.

Community Reinvestment Act. The Community Reinvestment Act (“CRA”) requires the FDIC to evaluate the Bank’s performance in helping to meet the credit needs of the entire communities it serves, including low- and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC’s CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment

tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. The Bank's most recent performance evaluation from the FDIC was a "satisfactory" rating.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The FDIC has issued risk-based and leverage capital rules applicable to an insured depository institution, such as the Bank. These rules are intended to reflect the relationship between the institution's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet, as well as off-balance sheet. The FDIC may from time to time require that an institution maintain capital above the minimum levels discussed below, due to its financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that depository institutions are required to maintain. Common equity Tier 1 capital for banks consists of common shareholders' equity and related surplus. Tier 1 capital for banks generally consists of the sum of common shareholders' equity, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital, less certain required deductions, represents qualifying total capital. Accumulated other comprehensive income ("AOCI") (positive or negative) must be reflected in Tier 1 capital; however, the Bank made a one-time permanent election to continue to exclude AOCI from capital.

Under the FDIC's capital rules, the Bank is required to maintain a minimum common equity Tier 1 capital to risk-weighted assets ratio of 4.5%, a minimum total Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum leverage ratio of 4.0%. Additionally, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital above the minimum risk-based capital requirements for "adequately capitalized" institutions that is greater than 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

An FDIC supervised institution, such as the Bank, is considered "well capitalized" if it (i) has a total capital ratio of 10.0% or greater; (ii) a Tier 1 capital ratio of 8.0% or greater; (iii) a common equity Tier 1 capital ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

Generally, a bank, upon being notified that it is not adequately capitalized (i.e., that it is "undercapitalized"), becomes subject to the prompt corrective action provisions of Section 38 of the FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that its federal bank regulatory agency, which is the FDIC in the case of the Bank, monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution's assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is "critically undercapitalized" (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

Section 201 of the Economic Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio ("CBLR") of tangible capital to average total consolidated assets of not less than 8% or more than 10%. Under the final rule issued by federal banking agencies, effective January 1, 2020, depository institutions and depository institution holding companies that have less than \$10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9%, will be eligible to opt into the community bank leverage ratio framework. A community banking organization that elects to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies' generally applicable capital rules and, will be considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the FDIA. The final rule includes a two-quarter grace period during which a qualifying banking organization that temporarily fails to meet any of the qualifying criteria, including the greater than 9% leverage ratio requirement, generally would still be deemed well-capitalized so long as the banking organization maintains a leverage ratio greater than 8%. At the end of the grace period, the banking organization must meet all qualifying criteria to remain in the community bank leverage ratio framework or otherwise must comply with and report under the generally applicable rule. As required by Section 4012

the CARES Act, the federal banking agencies temporarily lowered the community bank leverage ratio, issuing two interim final rules to set the community bank leverage ratio at 8.0% and then gradually re-establish it at 9.0%. Under the interim final rules, the community bank leverage ratio was set at 8.0% beginning in the second quarter of 2020 through the end of the year. Community banks that have a leverage ratio of 8.0% or greater and meet certain other criteria may elect to use the community bank leverage ratio framework. Beginning in 2021, the community bank leverage ratio will increase to 8.5% for the calendar year. Community banks will have until January 1, 2022, before the leverage ratio requirement to use the CBLR framework will return to 9.0%. At this time, the Bank does not anticipate opting in to the CBLR. The Bank has not elected to use the community bank leverage framework.

The Bank is currently considered “well capitalized” under all regulatory definitions.

Safety and Soundness Standard. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of FDIA. See “—Regulatory Capital Requirements” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the Bureau for any dividend that would reduce a bank’s capital below prescribed limits. In addition, the ability of shareholders to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors).

Consumer Protection Regulation

The Bank is subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, Home Ownership Protection Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (“FACT Act”), GLBA, the Truth in Lending Act (“TILA”), CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Electronic Funds Transfer Act, the Truth-in-Savings Act, the Secure and Fair Enforcement Act, the Expedited Funds Availability Act, and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Consumer Financial Protection Bureau (“CFPB”) also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower’s ability to repay such mortgage loan. The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the TILA as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, and in each billing statement and for negative amortization loans and hybrid adjustable-rate mortgages. Additionally, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Economic Growth Act included provisions that ease certain requirements related to mortgage transactions for small institutions with less than \$10 billion in consolidated assets.

Privacy and Customer Information Security. GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an initial and annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information, except as provided in such policies and procedures. However, as a result of amendments made by the Fixing America's Surface Transportation Act, a financial institution is not required to send an annual privacy notice if the institution only discloses nonpublic personal information in accordance with certain exceptions from GLBA that do not require an opt-out to be provided and if the institution has not changed its policies and procedures since the most recent privacy disclosure provided to consumers. GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose "sensitive information" has been compromised if unauthorized use of this information has occurred or is "reasonably possible." All fifty states, as well as the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than \$10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve at least \$5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target.

OFAC. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons); and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Available Information

The Bank's Investor Relations information can be obtained through our Internet address, investor.northeastbank.com. The Bank makes available on or through its Investor Relations page, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed with, or furnished to, the FDIC as soon as reasonably practicable after such reports have been filed or furnished to the FDIC. The Bank's reports filed with, or furnished to, the FDIC are also available at the FDIC's website at www.FDIC.gov. In addition, the Bank makes available, free of charge, its press releases and Code of Ethics through the Bank's Investor Relations page. Information on our website is not incorporated by reference into this document and should not be considered part of this report.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with all other information in this report, including our financial statements and related notes, before investing in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business, particularly in light of the fast-changing nature of the COVID-19 pandemic, containment measures and the related impact to economic and operating conditions. If any of these known or unknown risks or uncertainties actually occur, our business, financial condition and results of operations could be impaired. In that event, the market price for our common stock could decline and you may lose your investment. Certain statements below are forward-looking statements. See "A Note About Forward-Looking Statements."

Risks Associated With Our Business

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

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

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

As of June 30, 2021, life-to-date, we have originated more than 34,600 loans aggregating \$3.32 billion through the PPP. Lenders participating in the PPP have faced increased public scrutiny about their loan application process and procedures, and the nature and type of the borrowers receiving PPP loans. We depend on our reputation as a trusted and responsible financial services company to compete effectively in the communities that we serve, and any negative public or customer response to, or any litigation or claims that might arise out of, our participation in the PPP and any other legislative or regulatory initiatives and programs that may be enacted in response to the COVID-19 pandemic, could adversely impact our business. Other larger banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. In addition, if the SBA determines that there is a deficiency in the manner in which a PPP loan was originated, funded, or serviced by us, the SBA may deny its liability

under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Potential losses incurred in connection with possible repurchases and indemnification payments related to PPP loans that we have sold to Loan Source may require us to increase our financial statement reserves in the future.

In June 2020, we entered into a loan purchase and sale agreement with Loan Source under which we sold \$457.6 million in PPP loans originated by us to Loan Source. In fiscal 2021, we amended the loan purchase and sale agreement under which we sold an additional \$2.87 billion in PPP loans. In connection with those sales, we made certain representations and warranties, which, if breached, may require us to repurchase such loans or indemnify Loan Source for actual losses incurred in respect of such loans. These representations and warranties include representations covering compliance with PPP rules and applicable laws in connection with the origination of the PPP loans. To date, we have not had to repurchase any of these loans, nor have we received any indemnification claims under the loan purchase and sale agreement. However, if we were required to repurchase these loans or if we receive such indemnity claims, we could incur losses in connection with loan repurchases and indemnification claims, and any such losses might exceed our financial statement reserves, requiring us to increase such reserves. In that event, any losses we might have to recognize and any increases we might have to make to our reserves could have a material adverse effect on our business, financial position, liquidity, results of operations or cash flows.

Our loan servicing rights could become impaired, which may require us to take non-cash charges.

Because we retain the servicing rights on many loans we sell in the secondary market, we are required to record a loan servicing right asset. The value of loan servicing rights is heavily dependent on market interest rates and tends to increase with rising interest rates and decrease with falling interest rates. If we are required to record an impairment charge, it would adversely affect our financial condition and results of operations.

A significant portion of loans held in our loan portfolio were originated by third parties, and such loans may not have been subject to the same level of due diligence that the Bank would have conducted had it originated the loans.

At June 30, 2021, 41.2% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that the Bank would have conducted had it originated the loans. Although the National Lending Division conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the National Lending Division may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our allowance for loan losses.

Our experience with loans held in our loan portfolio that were originated by third parties is limited.

At June 30, 2021, the loans held in our loan portfolio that were originated by third parties had been held by us for approximately 2.3 years, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our allowance for loan losses.

Our loan portfolio includes commercial real estate and commercial and industrial loans, which are generally riskier than other types of loans.

At June 30, 2021, our commercial real estate mortgage and commercial and industrial loan portfolios comprised 94.5% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by numerous factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Continued deterioration in economic conditions, both in our market area and more generally, could adversely affect our financial condition and results of operations.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine. As a result, a significant portion of the Community Banking Division's earnings are closely tied to the economy of Maine. In addition, our loan portfolio includes commercial loans acquired or originated by the National Lending Division that are secured by assets located nationwide. Continued deterioration in the economic conditions, including high unemployment levels, in the Community Banking Division's market area in western and south-central Maine, and deterioration of the economy nationally could result in the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- Collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

If our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance, our financial condition and results of operations could be adversely affected.

We maintain an allowance for loan losses based on available information, including, but not limited to, our historical loss experience, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral, expected cash flows from purchased loans, and the level of non-accruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans we have originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense or we may be held liable to a government entity or to third parties for property damage, personal injury, investigation and cleanup costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could substantially exceed the value of the affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. If we become subject to significant environmental liabilities, our business, financial condition and results of operations could be adversely affected.

The performance of our securities portfolio in difficult market conditions could have adverse effects on our results of operations.

We maintain a diversified securities portfolio, which includes obligations of U.S. government agencies and government-sponsored enterprises, including mortgage-backed securities. Under applicable accounting standards, we are required to review our securities portfolio periodically for the presence of other-than-temporary impairment, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold securities until a recovery of fair value, as well as other factors. Adverse developments with respect to one or

more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the fair value recognized as a charge to the results of operations in the period in which the impairment occurs. Market volatility may make it difficult to value certain securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

Loss of deposits or a change in deposit mix could increase our cost of funding.

Deposits are a low-cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase if we lose deposits and are forced to replace them with more expensive sources of funding, if clients shift their deposits into higher-cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin, net interest income and net income.

We are subject to liquidity risk.

Liquidity is the ability to meet cash-flow needs on a timely basis by converting assets into cash or cash equivalents and by increasing liabilities at a reasonable cost. Liquidity sources include the amount of unencumbered or “free” investment portfolio securities that we own, borrowings, cash flow from loan and investment principal payments and pre-payments and residential mortgage loan sales. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. We also require funds for dividends to shareholders, repurchases of shares, and for general corporate purposes. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources, which include Federal Home Loan Bank advances, less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We may not be able to attract and retain qualified key employees, which could adversely affect our business prospects, including our competitive position and results of operations.

Our success is dependent upon our ability to attract and retain highly-skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. Frequently, we compete in the market for talent with entities that are not subject to comprehensive regulation, including with respect to incentive compensation. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance, and legal reporting systems; internal controls; management review processes; and other mechanisms. In some cases, management of our risks depends upon the use of analytical and/or forecasting models, which, in turn, rely on assumptions and estimates. If the models used to mitigate these risks are inadequate, or the assumption or estimates are inaccurate or otherwise flawed, we may fail to adequately protect against risks and may incur losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated, which could lead to unexpected losses and our results of operations or financial condition could be materially adversely affected.

We face continuing and growing security risks to our information base, including the information we maintain relating to our customers.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including financial information regarding customers. Our electronic communications and information systems infrastructure could be susceptible to cyberattacks, hacking, identity theft or terrorist activity. We have implemented and regularly review and update extensive systems of internal controls and procedures as well as corporate governance policies and procedures intended to protect our business operations, including the security and privacy of all confidential customer information. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. No matter how well designed or implemented our controls are, we cannot provide an absolute guarantee to protect our business operations from every type of problem

in every situation. A failure or circumvention of these controls could have a material adverse effect on our business operations and financial condition.

We regularly assess and test our security systems and disaster preparedness, including back-up systems, but the risks are substantially escalating. As a result, cybersecurity and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remain a priority. Accordingly, we may be required to expend additional resources to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures. Any breach of our system security could result in disruption of our operations, unauthorized access to confidential customer information, significant regulatory costs, litigation exposure and other possible damages, loss or liability. Such costs or losses could exceed the amount of available insurance coverage, if any, and would adversely affect our earnings. Also, any failure to prevent a security breach or to quickly and effectively deal with such a breach could negatively impact customer confidence, damaging our reputation and undermining our ability to attract and keep customers.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability.

We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We rely on other companies to provide key components of our business infrastructure.

Third-party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third-party vendors could also entail significant delay and expense.

Natural disasters, acts of terrorism and other external events could harm our business.

Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, blizzard, flood, fire or earthquake, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. The U.S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, each of which may require us to expend significant capital and incur compliance, operating, maintenance, and remediation costs. Consumers and businesses may also change their behavior on their own as a result of these concerns. The impact on our customers will likely vary

depending on their specific attributes, including reliance on, or role in, carbon intensive activities. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues, including our ability to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal, reputational, credit, liquidity and market risks inherent in our products, could give rise to reputational risk that could cause harm to us and our business prospects. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Furthermore, any damage to our reputation could affect our ability to retain and develop the business relationships necessary to conduct business, which in turn could negatively impact our financial condition, results of operations, and the market price of our common stock.

Internal controls may fail or be circumvented.

Effective controls over financial reporting are necessary to help ensure reliable financial reporting and prevent fraud. Management is responsible for maintaining an effective system of internal control and assessing system effectiveness. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the system of internal control could have an adverse effect on our business, profitability, financial condition and operations, and could further result in regulatory actions and loss of investor confidence.

Our future growth, if any, may require us to raise additional capital, but that capital may not be available when we need it.

We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to support our operations or our growth. Our ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of our control, and our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on acceptable terms, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, investors' interests could be diluted. Our failure to meet any applicable regulatory guideline related to our lending activities or any capital requirement otherwise imposed upon us or to satisfy any other regulatory requirement could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Weakness or deterioration in economic conditions, both in our market area and more generally, could adversely affect our financial condition and results of operations.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine. As a result, a significant portion of the Community Banking Division's earnings are closely tied to the economy of Maine. In addition, our loan portfolio includes commercial loans acquired or originated by the National Lending Division that are secured by assets located nationwide. Deterioration in the economic conditions of the Community Banking Division's market area in western and south-central Maine, and deterioration of the economy nationally could result in the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- Collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, estimable, and consistent with applicable accounting guidance. At any given time, we have a variety of legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act. There have also been numerous highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

Risks Associated With the Industry

Competition in the financial services industry is intense and could result in us losing business or experiencing reduced margins.

We compete with community, regional, national and global banks, non-bank licensed lenders and private equity funds in purchasing or originating loans, attracting deposits, and selling other customer products and services. Many of our primary competitors there have substantially greater resources, larger established customer bases, higher lending limits, extensive branch networks, numerous ATMs and greater advertising and marketing budgets. They may also offer services that we do not currently provide. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services than we can. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automated transfer and automatic payment systems. Our long-term success depends on the ability of the Bank to compete successfully with other financial institutions in the Bank's service areas.

Our business may be adversely affected if we fail to adapt our products and services to evolving industry standards and consumer preferences.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The widespread adoption of new technologies, including internet services, cryptocurrencies and payment systems, could require substantial expenditures to modify or adapt our existing products and services as we grow and develop our

internet banking and mobile banking channel strategies in addition to remote connectivity solutions. We might not be successful in developing or introducing new products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal customers.

Changes in interest rates could adversely affect our net interest income and profitability.

The majority of our assets and liabilities are monetary in nature. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The nature and timing of any changes in such policies or general economic conditions and their effect on us cannot be controlled and are extremely difficult to predict. Changes in interest rates can affect our net interest income as well as the value of our assets and liabilities. Net interest income is the difference between (i) interest income on interest-earning assets, such as loans and securities, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in market interest rates, changes in the relationships between short-term and long-term market interest rates, or the yield curve, or changes in the relationships between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, and therefore reduce our net interest income. Further, declines in market interest rates may trigger loan prepayments, which in many cases are within our customers' discretion, and which in turn may serve to reduce our net interest income if we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates.

The FDIC's assessment rates could adversely affect our financial condition and results of operations.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. As a result of recent economic conditions, the FDIC has decreased deposit insurance assessment rates. If these decreases are insufficient for the deposit insurance fund of the FDIC to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there is an increase in bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes to and replacement of LIBOR may adversely affect our business, financial condition, and results of operations.

LIBOR is used extensively in the United States as a benchmark for various commercial and financial contracts, including loans, securities, funding sources, interest rate swaps and other derivatives. ICE Benchmark Administration ("IBA"), the authorized and regulated administrator of LIBOR, recently announced it would consult on its plans for the discontinuation of LIBOR. IBA intends to end publication of some LIBOR tenors on December 31, 2021 and the remaining LIBOR tenors in June 2023. Financial services regulators issued guidance on the ongoing use of LIBOR, encouraging banks to transition away from LIBOR as soon as practicable and to not enter into new transactions referencing LIBOR after December 31, 2021. Financial services regulators and industry groups have collaborated to develop alternate reference rate indices or reference rates. The transition to a new reference rate requires changes to contracts, risk and pricing models, valuation tools, systems, product design and hedging strategies. We have established a cross-functional project team to address the LIBOR transition. Given the complexity of the transition, as well as the different risk characteristics between LIBOR and the replacement reference rate, we continue to evaluate the impact the transition, which may, ultimately, adversely affect our business, financial condition, or results of operations.

Changes in accounting standards can materially impact our financial statements.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") or regulatory authorities change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

Changes in tax laws and regulations and differences in interpretation of tax laws and regulations may adversely impact our financial statements.

Local, state or federal tax authorities may interpret tax laws and regulations differently than we do and challenge tax positions that we have taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have a material adverse effect on our results.

Risks Associated With Our Regulatory Environment

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have an adverse impact in our operations.

We are subject to extensive federal and state regulation. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, the level of reserves against deposits and restrictions on dividend payments. The FDIC and the Bureau have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation. These and other restrictions limit the manner in which we and the Bank may conduct business and obtain financing.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. Such changes may, among other things, subject us to additional costs, including costs of compliance; limit the types of financial services and products we may offer; and/or increase the ability of non-banks to offer competing financial services and products. Failure to comply with laws, regulations, or policies could result in enforcement and other legal actions by federal and state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Supervision and Regulation" in Item 1, "Business."

Regulatory capital requirements force banks to maintain capital as a percentage of their assets, with an emphasis on common equity as opposed to other components of capital. The need to maintain capital and liquidity, and regulatory scrutiny with respect to capital levels, may limit our business activities, including lending, and our ability to expand. It could also result in our being required to take steps to increase our regulatory capital and may dilute shareholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries and certain other persons or entities whose interest in property is blocked by OFAC-administered sanctions. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative

consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

Risks Associated With Our Common Stock

Market volatility has affected and may continue to affect the value of our common stock.

The price of our common stock can fluctuate widely in response to a variety of factors. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly. Some of the factors that could cause fluctuations or declines in the price of our common stock include, but are not limited to, actual or anticipated variations in reported operating results, recommendations by securities analysts, the level of trading activity in our common stock, new services or delivery systems offered by competitors, business combinations involving our competitors, operating and stock price performance of companies that investors deem to be comparable to the Bank, news reports relating to trends or developments in the credit, mortgage and housing markets as well as the financial services industry, and changes in government regulations.

Our common stock trading volume may not provide adequate liquidity for investors.

Our voting common stock is listed on the NASDAQ Global Market. The average daily trading volume for Northeast voting common stock is less than the corresponding trading volume for larger financial institutions. Due to this relatively low trading volume, significant sales of Northeast voting common stock, or the expectation of these sales, may place significant downward pressure on the market price of Northeast common stock. No assurance can be given that a more active trading market in our common stock will develop in the foreseeable future or can be maintained. There can also be no assurance that the offering will result in a material increase in the "float" for our common stock, which we define as the aggregate market value of our voting common stock held by shareholders who are not affiliates of Northeast, because our affiliates may purchase shares of voting common stock in the offering.

There is a limited market for and restrictions on the transferability of our non-voting common stock.

Our non-voting common stock is not and will not be listed on any exchange. Additionally, the non-voting common stock can only be transferred in certain limited circumstances set forth in our Articles of Incorporation. Accordingly, holders of our non-voting common stock may be required to bear the economic consequences of holding such non-voting common stock for an indefinite period of time.

If we defer payments of interest on our outstanding subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of June 30, 2021, we had outstanding \$15.1 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due in 2026. If we were to be in default with respect to payment of any obligation under the notes, we would be prohibited from declaring or paying any dividends. We would also be prohibited from paying any distributions on, redeeming, purchasing, acquiring, or making a liquidation payment with respect to any of our capital stock, which would likely have a material adverse effect on the market value of our common stock. The outstanding subordinated notes were redeemed on July 1, 2021 at par.

We may not be able to pay dividends and, if we pay dividends, we cannot guarantee the amount and frequency of such dividends.

The continued payment of dividends on shares of our common stock will depend upon our debt and equity structure, earnings and financial condition, need for capital in connection with possible future acquisitions, growth and other factors, including economic conditions, regulatory restrictions, and tax considerations. We cannot guarantee that we will pay dividends or, if we pay dividends, the amount and frequency of these dividends.

We may issue additional shares of common or preferred stock in the future, which could dilute a shareholder's ownership of common stock.

Our articles of incorporation authorize our Board, generally without shareholder approval, to, among other things, issue additional shares of common or preferred stock. The issuance of any additional shares of common or preferred stock could be dilutive to a shareholder's ownership of our common stock. To the extent that we issue options or warrants to purchase common stock in the future and the options or warrants are exercised, our shareholders may experience further dilution. Holders of shares of our common stock

have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. Future offerings could reduce the value of shares of our common stock and dilute a shareholder's interest in the Bank.

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

Anti-takeover provisions could negatively impact our shareholders.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over Northeast. Provisions of Maine law and provisions of our articles of incorporation and by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We have a classified Board, meaning that approximately one-third of our directors are elected annually. Additionally, our articles of organization authorize our Board to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. Other provisions that could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our shareholders include supermajority voting requirements to remove a director from office without cause; restrictions on shareholders calling a special meeting; a requirement that only directors may fill a Board vacancy; and provisions regarding the timing and content of shareholder proposals and nominations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2021, the Bank conducted its business from its headquarters in Portland, Maine, an office in Boston, Massachusetts, and an office in Lewiston, Maine. The Bank also conducts business from its nine full-service bank branches in Maine, including its headquarters. The Bank believes that all of its facilities are well maintained and suitable for the purpose for which they are used.

In addition to its Portland, Maine; Boston, Massachusetts; and Lewiston, Maine offices, the Bank leases two of its other locations. For information regarding the Bank's lease commitments, please refer to "Premises, Equipment and Leases" under Note 5 of the Notes to the Financial Statements in Item 8 of this Annual Report.

Item 3. Legal Proceedings

From time to time, the Bank is subject to certain legal proceedings and claims in the ordinary course of business. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not be material to the Bank or its financial position. The Bank establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur that could cause the Bank to establish litigation reserves or could have, individually or in the aggregate, a material adverse effect on its business, financial condition, or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Bank's voting common stock currently trades on the NASDAQ under the symbol "NBN." There is no established public trading market for the Bank's non-voting common stock. As of the close of business on September 3, 2021, there were approximately 271 registered shareholders of record of voting common stock and no registered shareholders of record of non-voting common stock.

Holders of the Bank's voting and non-voting common stock are entitled to receive dividends when and if declared by the Board out of funds legally available. The Bank currently pays a quarterly cash dividend in the amount of \$0.01 per share of the Bank's voting and non-voting common stock. While the Bank expects comparable cash dividends will be paid in the future, the amount and timing of future dividends will depend on, among other things, the financial condition of the Bank, regulatory considerations, and other factors. See "Item 1. Business—Supervision and Regulation."

The information required with respect to our equity compensation plans shall be included in the Proxy Statement and is incorporated herein by reference.

The following table summarizes repurchases of the Bank's outstanding common shares in the fiscal year 2021:

Issuer Purchases of Equity Securities				
Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans	(d) Maximum number of shares that may yet be purchased under the plans
April 1 – June 30, 2021	194,317	\$ 29.56	194,317	852,585
Total	194,317	\$ 29.56	194,317	852,585

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remained available to repurchase. The Bank completed this repurchase plan during the quarter ended June 30, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to \$10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. On April 21, 2021, the FDIC and the Bureau approved the number of shares available under this plan to increase up to 1,000,000 shares, or up to \$25.0 million of common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire April 21, 2021. The Bank purchased shares under this plan during the quarter ended June 30, 2021 and 852,585 remained available for purchase as of June 30, 2021.

Item 6. Selected Financial Data

The following table sets forth our selected financial and operating data on a historical basis. The data set forth below does not purport to be complete. It should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Bank's Financial Statements and related notes, appearing elsewhere herein.

	As of and for the Years Ended June 30,				
	2021	2020	2019	2018	2017
	(Dollars in thousands, except per share data)				
Selected operating data:					
Interest and dividend income	\$ 78,125	\$ 83,684	\$ 81,830	65,893	\$ 57,921
Interest expense	11,039	18,697	19,509	12,584	10,096
Net interest income	67,086	64,987	62,321	53,309	47,825
Provision (credit) for loan losses	(1,396)	4,500	1,309	1,410	1,594
Noninterest income	72,033	13,184	6,116	7,028	9,696
Reorganization expense	-	-	8,695	-	-
Other noninterest expense	39,426	40,393	38,818	35,730	35,789
Income before income taxes	101,089	33,278	19,615	23,197	20,138
Income tax expense	29,586	10,541	5,731	7,031	7,779
Net income	\$ 71,503	\$ 22,737	\$ 13,884	\$ 16,166	\$ 12,359
Reconciliation of Net Income (GAAP) to Net Operating Earnings (non-GAAP):					
Reorganization expense, net of tax	-	-	6,373	-	-
Net operating earnings (non-GAAP)	\$ 71,503	\$ 22,737	\$ 20,257	\$ 16,166	\$ 12,359
Per share data:					
Earnings per common share:					
Basic	\$ 8.64	\$ 2.57	\$ 1.54	\$ 1.81	\$ 1.39
Diluted	8.55	2.53	1.52	1.77	1.38
Operating earnings per common share(1):					
Basic	\$ 8.64	\$ 2.57	\$ 2.24	\$ 1.81	\$ 1.39
Diluted	8.55	2.53	2.20	1.77	1.38
Cash dividends	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04	\$ 0.04
Book value	28.51	20.09	16.98	15.49	13.90
Selected balance sheet data:					
Total assets	\$ 2,174,402	\$ 1,257,635	\$ 1,153,858	\$ 1,157,736	\$ 1,076,874
Total Loans	1,040,624	971,602	975,060	871,802	779,195
Deposits	1,862,430	1,012,352	942,371	954,940	889,850
Borrowings and lease liability	36,111	46,876	30,152	39,563	44,504
Total shareholders' equity	232,391	164,739	153,580	138,430	122,797
Other ratios:					
Return on average assets	4.53%	1.82%	1.16%	1.49%	1.22%
Return on average equity	37.44%	14.21%	9.42%	12.47%	10.62%
Efficiency ratio (2)	28.34%	51.67%	69.43%	59.22%	62.22%
Average equity to average total assets	12.10%	12.83%	12.31%	11.94%	11.52%
Operating return on average assets(1)	4.53%	1.82%	1.69%	1.49%	1.22%
Operating return on average equity(1)	37.44%	14.21%	13.74%	12.47%	10.62%
Operating efficiency ratio(1)(2)	28.34%	51.67%	56.72%	59.22%	62.22%
Common dividend payout ratio	0.47%	1.58%	2.63%	2.26%	2.90%
Operating common dividend payout ratio(1)	0.47%	1.58%	1.82%	2.26%	2.90%
Tier 1 leverage capital ratio	13.63%	13.36%	12.86%	13.12%	12.81%
Total capital ratio	24.29%	19.61%	18.01%	19.28%	19.48%

(1) Operating earnings per common share, operating return on average assets, operating return on average equity, operating efficiency ratio, and operating common dividend payout ratio utilize net operating earnings (non-GAAP).

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The Management’s Discussion and Analysis of Financial Condition and Results of Operations, which follows, presents a review of the operating results of the Bank for the fiscal years ended June 30, 2021 (“fiscal 2021”) and 2020 (“fiscal 2020”). This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Bank’s Financial Statements and related notes and other statistical information included in this report.

Overview

The Bank’s financial and strategic highlights for fiscal 2021 include the following:

- Net income for the year ended June 30, 2021 was \$71.5 million, or \$8.55 per diluted common share, compared to \$22.7 million, or \$2.53 per diluted common share, for the year ended June 30, 2020.
- Generated loans of \$3.32 billion, which included the origination of \$2.84 billion of loans under the PPP. The Bank also sold \$2.87 billion in PPP loans in the year ended June 30, 2021, which resulted in a pre-tax net gain of \$46.7 million (\$32.8 million net of tax).
- Amended correspondent agreement with Loan Source, pursuant to which the Bank continues earning a correspondent fee when Loan Source purchases PPP loans and the Bank shares in net servicing income on such purchased PPP loans. The Bank recorded correspondent fee income of \$23.5 million for the year ended June 30, 2021, compared to \$20 thousand for the year ended June 30, 2020.
- National Lending Division purchased loans totaling \$169.5 million and originated loans totaling \$308.9 million, earning average portfolio yields of 8.9% and 6.9%, respectively. The purchased loan yield of 8.9% includes regularly scheduled interest and accretion, and accelerated accretion and fees recognized on loan payoffs. The Bank also monitors the “total return” on its purchased loan portfolio, a measure that includes gains on asset sales, gains on real estate owned, as well as interest, scheduled accretion and accelerated accretion and fees. On this basis, the purchased loan portfolio earned a total return of 8.9% for fiscal 2021.

	Years Ended June 30,					
	2021			2020		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	\$ 181,591	\$ 308,862	\$ 490,453	\$ 182,588	\$ 221,484	\$ 404,072
Net investment basis	169,489	308,862	478,351	171,262	221,484	392,746
Loan returns during the period:						
Yield	8.91%	6.93%	7.84%	9.86%	7.43%	8.47%
Total Return on Purchased Loans (1)	8.91%	6.93%	7.84%	9.97%	7.43%	8.51%
Total loans as of period end:						
Unpaid principal balance	\$ 466,059	\$ 523,535	\$ 989,594	\$ 421,659	\$ 467,612	\$ 889,271
Net investment basis	429,054	523,535	952,589	386,624	467,612	854,236

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

Paycheck Protection Program. As of June 30, 2021, the Bank had originated over 34,600 PPP loans totaling \$2.84 billion and \$563.0 million of loans in connection with the PPP, during the years ended June 30, 2021 and 2020, respectively. The Bank subsequently sold PPP loans with a total principal balance of \$2.87 billion and \$671.4 million, recording a net gain of \$46.7 million and \$9.7 million on the sales primarily resulting from the recognition of net deferred fees, offset by purchase price discounts, during the years ended June 30, 2021 and 2020, respectively. The remaining \$29.9 million of PPP loans were classified as held for sale at June 30, 2020, offset by a valuation adjustment to reflect the fair value of the loans and unamortized net deferred fees. The Bank had no PPP loans held for sale at June 30, 2021.

On June 12, 2020, the Bank entered into a correspondent agreement (the “Correspondent Agreement”) with Loan Source and ACAP SME, LLC (“ACAP”) to act as the correspondent for Loan Source in connection with Loan Source’s pledge of PPP loans to the PPPLF. The PPP loans to be pledged by Loan Source are required to be PPP loans originated by depository institutions and purchased by Loan Source. ACAP has agreed to act as a loan service provider for Loan Source in connection with the purchased PPP loans. Under the Correspondent Agreement, and with certain exceptions, the Bank will be compensated by Loan Source for acting as

correspondent on a per loan basis that varies based on, among other things, the amount of the fee Loan Source receives on the PPP loans it purchases and the terms of such PPP Loans. The Bank does not assume any liability for any PPP loans pledged by Loan Source to the PPPLF pursuant to the Correspondent Agreement. Through June 30, 2021, Loan Source purchased \$11.2 billion of PPP loans, including \$3.32 billion of PPP loans from the Bank, and approximately \$7.91 billion of PPP loans from lenders other than the Bank, which generated a correspondent fee for the Bank of \$8.9 million, which continues to be recognized over the expected life of the loans. The Bank also receives one half of the net servicing income on the \$8.39 billion PPP portfolio owned by Loan Source as of June 30, 2021. To the extent Loan Source purchases additional PPP loans, the Bank will generate additional correspondent banking fees and receive its share of additional net servicing income.

Troubled Debt Restructuring Relief. From March 1, 2020 through the earlier of December 31, 2020 or 60 days after the termination date of the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak, a financial institution may elect to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. As of June 30, 2021, the Bank had granted 315 short-term deferments on loan balances of approximately \$173.3 million, which represented 16.7% of total loan balances as of June 30, 2021. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

Results of Operations

General

Net income for the year ended June 30, 2021 was \$71.5 million, or \$8.55 per diluted common share, compared to \$22.7 million, or \$2.53 per diluted common share, for the year ended June 30, 2020. Earnings were positively impacted in the year ended June 30, 2021 by the sale of \$2.87 billion in PPP loans to Loan Source, which resulted in a pre-tax net gain of \$46.7 million (\$32.8 million net of tax).

Items of significance affecting the Bank's earnings included:

- An increase in net interest and dividend income before provision for loan losses, which grew to \$67.1 million for the year ended June 30, 2021, as compared to \$65.0 million for the year ended June 30, 2020. The increase was primarily due to lower deposit interest expense, partially offset by lower loan interest income, primarily in the National Lending Division originated portfolio, lower interest income on available-for-sale securities, and lower interest and dividend income on short-term investments.

The following table summarizes interest income and related yields recognized on the Bank's loans:

	Years Ended June 30,					
	2021			2020		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	\$ 56,711	\$ 2,746	4.84%	\$ 82,472	\$ 4,470	5.42%
SBA National	45,764	2,442	5.33%	55,511	4,066	7.32%
National Lending:						
Originated	469,632	32,560	6.93%	479,054	35,572	7.43%
Purchased	400,141	35,649	8.91%	356,958	35,201	9.86%
Total National Lending	869,773	68,209	7.84%	836,012	70,773	8.47%
Total excluding SBA PPP	\$ 972,248	\$ 73,396	7.55%	\$ 973,995	\$ 79,309	8.20%
SBA PPP	\$ 166,230	\$ 3,522	2.12%	\$ 55,649	\$ 1,561	2.81%
Total including SBA PPP	\$ 1,138,478	\$ 76,918	6.76%	\$ 1,029,644	\$ 80,870	7.85%

(1) Includes loans held for sale.

The yield on purchased loans is affected by unscheduled loan payoffs, which result in the immediate recognition of the prepaid loans' discount in interest income. The following table details the "total return" on purchased loans, which includes total transactional income of \$8.1 million for the year ended June 30, 2021, a decrease of \$1.3 million from the year ended June 30, 2020. The following table summarizes the total return recognized on the purchased loan portfolio:

	Years Ended June 30,			
	2021		2020	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	\$ 27,536	6.88%	\$ 26,202	7.34%
Transactional income:				
Gain on real estate owned	-	0.00%	395	0.11%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	8,113	2.03%	8,999	2.52%
Total transactional income	8,113	2.03%	9,394	2.63%
Total	\$ 35,649	8.91%	\$ 35,596	9.97%

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

- A decrease of \$5.9 million in the provision (credit) for loan losses, primarily due to decreases in certain qualitative factors during the quarter ended June 30, 2021, as a result of continued improvements from the COVID-19 pandemic, primarily in the SBA portfolio, as compared to significant increases in the third quarter of fiscal 2020, at the onset of the COVID-19 pandemic, primarily allocated to the SBA loan portfolio due to higher risk of losses in that portfolio. This decrease was partially offset by loan growth during the year ended June 30, 2021, primarily in the originated commercial real estate and commercial and industrial portfolios.
- An increase of \$58.8 million in noninterest income, principally due to the following:
 - An increase in gain on sale of PPP loans of \$37.0 million, due to the sale of PPP loans with a total principal balance of \$2.87 billion in fiscal 2021, as compared to \$457.6 million in fiscal 2020, which resulted in a net gain based on the recognition of net deferred fees; and
 - An increase in correspondent fee income of \$23.4 million due to the Bank entering into the correspondent arrangement at the end of fiscal 2020; partially offset by,
 - A decrease in gain on sale of SBA loans of \$793 thousand, due to no loans sold in fiscal 2021;
 - A decrease in gain on sale of residential loans held for sale of \$493 thousand, due to lower volume sold in fiscal 2021 as the Bank shuttered its residential lending division in fiscal 2021; and
 - An increase in loss on real estate owned of \$458 thousand, due to write-downs and losses on the sale of properties in fiscal 2021.
- A decrease of \$967 thousand in noninterest expense, primarily due to the following:
 - A decrease in salaries and employee benefits of \$2.5 million, primarily due to increases in deferred salaries contra-expense related to the origination of PPP loans, partially offset by increases in regular and incentive compensation; and
 - A decrease in other noninterest expense of \$596 thousand, primarily due to the quarterly valuation of SBA servicing rights, which resulted in a net recovery of \$263 thousand in fiscal 2021, as compared to net impairment of \$153 thousand in fiscal 2020; and
 - A decrease in intangible asset amortization of \$434 thousand, as the core deposit intangible was fully amortized as of June 30, 2020; partially offset by,
 - An increase in loan expense of \$1.2 million, primarily due to correspondent expenses associated with Loan Source of \$1.7 million, partially offset by decreased collection expense due to reimbursements during fiscal 2021; and
 - An increase in data processing fees of \$514 thousand, primarily due to increased IT hardware expense, computer service fees, and implementation fees.

Net Interest Income

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated:

	Years Ended June 30,					
	2021			2020		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	\$ 69,762	\$ 754	1.08%	\$ 78,656	\$ 1,695	2.15%
Loans (1) (2) (3)	1,138,478	76,918	6.76%	1,029,644	80,870	7.85%
Federal Home Loan Bank stock	1,750	61	3.49%	2,204	94	4.26%
Short-term investments (4)	314,405	392	0.12%	94,586	1,025	1.08%
Total interest-earning assets	<u>1,524,395</u>	<u>78,125</u>	5.12%	<u>1,205,090</u>	<u>83,684</u>	6.94%
Cash and due from banks	2,728			2,971		
Other non-interest earning assets	50,909			38,363		
Total assets	<u>\$ 1,578,032</u>			<u>\$ 1,246,424</u>		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	\$ 167,505	\$ 495	0.30%	\$ 75,984	\$ 364	0.48%
Money market accounts	312,537	1,517	0.49%	276,264	4,096	1.48%
Savings accounts	39,844	57	0.14%	34,517	57	0.17%
Time deposits	424,894	6,798	1.60%	496,531	12,066	2.43%
Total interest-bearing deposits	<u>944,780</u>	<u>8,867</u>	0.94%	<u>883,296</u>	<u>16,583</u>	1.88%
Federal Home Loan Bank advances	24,072	535	2.22%	34,918	689	1.97%
PPPLF advances	114,341	400	0.35%	50,295	174	0.35%
Subordinated debt	14,995	1,126	7.51%	14,883	1,126	7.57%
Capital lease obligations	5,895	111	1.88%	5,169	125	2.42%
Total interest-bearing liabilities	<u>1,104,083</u>	<u>11,039</u>	1.00%	<u>988,561</u>	<u>18,697</u>	1.89%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	261,322			88,805		
Other liabilities	21,643			9,097		
Total liabilities	<u>1,387,048</u>			<u>1,085,463</u>		
Shareholders' equity	190,984			159,961		
Total liabilities and shareholders' equity	<u>\$ 1,578,032</u>			<u>\$ 1,246,424</u>		
Net interest income		<u>\$ 67,086</u>			<u>\$ 64,987</u>	
Interest rate spread			4.12%			5.05%
Net interest margin (5)			4.40%			5.39%
Cost of funds (6)			0.81%			1.74%

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

(2) Includes loans held for sale.

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

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

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

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

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

	Year Ended June 30, 2021 Compared to the Year Ended June 30, 2020		
	Change Due to Volume	Change Due to Rate (In thousands)	Total Change
Interest earning assets:			
Investment securities	\$ (174)	\$ (767)	\$ (941)
Loans	8,033	(11,985)	(3,952)
FHLBB stock	(17)	(16)	(33)
Short-term investments	855	(1,488)	(633)
Total decrease in interest income	8,697	(14,256)	(5,559)
Interest-bearing liabilities:			
Interest-bearing deposits	(750)	(6,966)	(7,716)
Federal Home Loan Bank advances	(233)	79	(154)
Paycheck Protection Program Liquidity Facility advances	225	1	226
Subordinated debt	8	(8)	-
Capital lease obligations	16	(30)	(14)
Total decrease in interest expense	(734)	(6,924)	(7,658)
Total increase in net interest and dividend income	\$ 9,431	\$ (7,332)	\$ 2,099

For the year ended June 30, 2021, the \$9.4 million volume-related change in net interest income was mainly the result of the significant increase in loan and short-term investment average balances, which grew by \$108.8 million and \$219.8 million, respectively, on average compared to fiscal 2020, partially offset by higher volume of interest-bearing deposits. The rate-related decrease in fiscal 2021 compared to fiscal 2020 was principally due to a decrease in rates on loans and short-term investments, partially offset by lower rates offered on deposits. For fiscal 2021, the net interest margin earned of 4.40% was ninety-nine basis points lower than that earned for fiscal 2020, primarily due to lower rates earned on loans and short-term investments, due to higher average balances of PPP loans relative to total loans, which earn interest at 1.00%, lower transactional income on purchased loans, and higher average balances of short-term investments due to cash held by the Bank related to a PPP collection deposit account.

The Bank's total cost of funds decreased to 0.81% in fiscal 2021, from 1.74% in fiscal 2020, due to lower rates offered on the deposit portfolio, lower rates on FHLB advances, and higher average balances of non-interest bearing deposits related to a PPP collection deposit account.

Provision for Loan Losses

Quarterly, the Bank determines the amount of its allowance for loan losses adequate to provide for losses inherent in the Bank's loan portfolios, with the provision for loan losses determined by the net periodic change in the allowance for loan losses. For acquired loans accounted for under ASC 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"), a provision for loan loss is recorded when estimates of future cash flows decrease due to credit deterioration.

The provision for loan losses has been recorded based on estimates of inherent losses in originated loans and for incremental reserves required for purchased loans based on estimates of deteriorated credit quality post-purchase.

The provision for loan losses for the fiscal year ended June 30, 2021 was a credit of \$1.4 million, a decrease of \$5.9 million from the provision for loan losses of \$4.5 million for the year ended June 30, 2020. The decrease in the provision for loan losses reflects decreases in certain qualitative factors during the current quarter as a result of continued improvements from the COVID-19 pandemic. This decrease was partially offset by loan growth during the year ended June 30, 2021, primarily in the originated commercial real estate and commercial and industrial portfolios. At June 30, 2021 and 2020, the allowance for loan losses was \$7.3 million and \$9.2 million, respectively, and the ratio of allowance for loan losses to total loans was 0.70% and 0.94%, respectively.

Net charge-offs for fiscal 2021 totaled \$462 thousand, representing approximately 0.04% of the Bank's average portfolio loan balance during the fiscal year. This compares to \$1.0 million, or 0.10%, in fiscal 2020, representing a decrease of \$562 thousand in fiscal 2021.

For additional information on the allowance for loan losses, see "Asset Quality."

Noninterest Income

Noninterest income for fiscal 2021 totaled \$72.0 million, an increase of \$58.8 million, or 446.4%, from fiscal 2020. When compared to fiscal 2020, the increase was principally due to the following:

- An increase in gain on sale of PPP loans of \$37.0 million, due to the sale of PPP loans with a total principal balance of \$2.87 billion in fiscal 2021, as compared to \$457.6 million in fiscal 2020, which resulted in a net gain based on the recognition of net deferred fees; and
- An increase in correspondent fee income of \$23.4 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. Under the correspondent arrangement, the Bank earns a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the year ended June 30, 2021 is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	\$ 4,061
Amortization of Purchased Accrued Interest	2,785
Earned Net Servicing Interest	16,606
Total	<u>\$ 23,452</u>

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

Quarter	PPP Loans Purchased by Loan Source ⁽³⁾	Correspondent Fee	Purchased Accrued Interest ⁽¹⁾	Total ⁽²⁾
		(In thousands)		
Q4 FY 2020	\$ 1,272,900	\$ 2,891	\$ 688	\$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Q2 FY 2021	1,333,500	495	3,766	4,261
Q3 FY 2021	2,141,900	-	598	598
Q4 FY 2021	4,371,000	171	3,452	3,623
Total	<u>\$ 11,231,400</u>	<u>\$ 8,905</u>	<u>\$ 11,308</u>	<u>\$ 20,213</u>
Less amounts recognized in Q4 FY 21		(1,080)	(972)	(2,052)
Less amounts recognized in previous quarters		(3,001)	(1,813)	(4,814)
Amount remaining to be recognized		<u>\$ 4,824</u>	<u>\$ 8,523</u>	<u>\$ 13,347</u>

(1) - Northeast Bank's share

(2) - Expected to be recognized into income over life of loans

(3) - Loan Source's ending PPP loan balance was \$8.39 billion as of June 30, 2021

These increases were partially offset by the following:

- A decrease in gain on sale of SBA loans of \$793 thousand, due to no loans sold in fiscal 2021;
- A decrease in gain on sale of residential loans held for sale of \$493 thousand, due to lower volume sold in fiscal 2021 as the Bank shuttered its residential lending division in fiscal 2021; and
- An increase in loss on real estate owned of \$458 thousand, due to write-downs and losses on the sale of properties in fiscal 2021.

Noninterest Expense

Noninterest expense for fiscal 2021 totaled \$39.4 million, a decrease of \$967 thousand, or 2.4%, from fiscal 2020. When compared to fiscal 2020, the decrease was principally due to the following:

- A decrease in salaries and employee benefits of \$2.5 million, primarily due to the increase in deferred salaries contra-expense related to the origination of PPP loans, partially offset by increases in regular and incentive compensation; and
- A decrease in other noninterest expense of \$596 thousand, primarily due to the quarterly valuation of SBA servicing rights, which resulted in a net recovery of \$263 thousand in fiscal 2021, as compared to net impairment of \$153 thousand in fiscal 2020; and
- A decrease in intangible asset amortization of \$434 thousand, as the core deposit intangible was fully amortized as of June 30, 2020; partially offset by,

- An increase in loan expense of \$1.2 million, primarily due to correspondent expenses associated with Loan Source of \$1.7 million, partially offset by decreased collection expense due to reimbursements during fiscal 2021; and
- An increase in data processing fees of \$514 thousand, primarily due to increased IT hardware expense, computer service fees, and implementation fees.

Income Taxes

Income tax expense for fiscal 2021 totaled \$29.6 million, representing 29.3% of pretax income, as compared to \$10.5 million, or 31.7% of pretax income, in fiscal 2020. The decrease in the Bank's effective tax rate was principally due to a one-time recapture of the tax reserve for loan losses as a result of the repurchase of common stock during fiscal 2020, in the amount of \$554 thousand, that was not incurred again in fiscal 2021. Additionally, there was a decrease in the state tax rate due to changes in apportionment, primarily from the sale of PPP loans.

Financial Condition

Overview

The Bank's total assets were \$2.17 billion at June 30, 2021, representing an increase of \$916.8 million, or 72.9%, compared to \$1.26 billion at June 30, 2020. Significant changes in the Bank's balance sheet components include:

- Cash and cash equivalents increased by \$866.8 million compared to June 30, 2020. The increase was primarily the result of a large deposit account related to PPP payoff collections and purchases that is subject to significant fluctuation given the PPP activity during the quarter ended June 30, 2021.
- The loan portfolio, excluding loans held for sale, increased by \$69.0 million, or 7.1%, compared to June 30, 2020. The increase was principally due to growth in the National Lending Division originated and purchased portfolios, partially offset by decreases in SBA National and Community Banking Divisions.
- Deposits increased by \$850.1 million, or 84.0%, from June 30, 2020, attributable to increases in demand deposits of \$877.7 million, or 926.4%, and savings and interest checking accounts of \$187.2 million, or 135.9%, partially offset by a decrease in time deposits of \$199.6 million, or 41.8%, due to intentional runoff. The increase in demand deposits was primarily due to the timing of a large deposit account related to PPP collections and payoffs that is subject to significant fluctuation given the PPP forgiveness activity during the quarter ended June 30, 2021.
- Shareholders' equity increased by \$67.7 million, or 41.1%, from June 30, 2020, primarily due to net income of \$71.5 million. Shareholders' equity also increased by \$965 thousand as a result of stock options exercised, which resulted in 153 thousand shares of common stock issued and increased by \$978 thousand due to stock-based compensation. Partially offsetting these increases was the repurchase of 194,317 shares of common stock at a weighted average price per share of \$29.56, which resulted in a \$5.7 million decrease in shareholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents increased by \$866.8 million to \$1.01 billion at June 30, 2021, as compared to \$143.7 million at June 30, 2020. The increase was primarily the result of a large deposit account related to PPP payoff collections and purchases that is subject to significant fluctuation given the PPP activity during the quarter ended June 30, 2021. Cash and short-term investments may fluctuate significantly and remain at an elevated level while PPP collections, including forgiveness amounts, continue, depending on the timing of receipts and remittances of cash amounts.

Securities

The securities portfolio totaled \$67.0 million and \$72.2 million at June 30, 2021 and 2020, respectively. The decrease of \$5.2 million was primarily the result of the runoff of the agency mortgage-backed securities held by the Bank.

The Bank's securities portfolio was comprised primarily of U.S. Government-sponsored enterprise bonds and mortgage-backed securities guaranteed by government agencies. The composition of the Bank's securities portfolio at the dates indicated follows.

	June 30, 2021		June 30, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Government agency securities	\$ 51,561	\$ 51,591	\$ 51,020	\$ 51,503
Agency mortgage-backed securities	7,938	8,146	13,070	13,415
Equity investments measured at net asset value	7,282	7,230	7,187	7,239
Total investment securities	<u>\$ 66,781</u>	<u>\$ 66,967</u>	<u>\$ 71,277</u>	<u>\$ 72,157</u>

The table below sets forth certain information regarding the contractual maturities and weighted average yields of the Bank's debt securities portfolio at June 30, 2021. Actual maturities of mortgage-backed securities will differ from contractual maturities due both to scheduled amortization and prepayments.

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years	
	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield
	(Dollars in thousands)					
U.S. Government agency securities	\$ 17,214	0.88%	\$ 34,377	0.15%	\$ -	0.00%
Agency mortgage-backed securities	308	1.06%	689	0.87%	7,149	1.28%
Total available-for-sale debt securities	<u>\$ 17,522</u>	<u>0.88%</u>	<u>\$ 35,066</u>	<u>0.16%</u>	<u>\$ 7,149</u>	<u>1.28%</u>

	After Ten Years		Total	
	Fair Value	Yield	Fair Value	Yield
	(Dollars in thousands)			
U.S. Government agency securities	\$ -	0.00%	\$ 51,591	0.39%
Agency mortgage-backed securities	-	0.00%	8,146	1.24%
Total available-for-sale debt securities	<u>\$ -</u>	<u>0.00%</u>	<u>\$ 59,737</u>	<u>0.51%</u>

The other securities measured at net asset value have no scheduled maturity date. However, the Bank's securities can be redeemed quarterly and daily at the closing net asset value.

Management reviews the portfolio of securities on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment was recognized during fiscal 2021 or 2020.

Loans

Total loans, including loans held for sale, totaled \$1.04 billion at June 30, 2021, compared to \$1.00 billion at June 30, 2020. The increase of \$39.6 million, or 4.0%, for fiscal 2021 was principally due to increases in the National Lending Division originated and purchased loan portfolios, partially offset by decreases in SBA National and Community Banking Divisions.

The composition of the Bank's loan portfolio (excluding loans held for sale) at the dates indicated is as follows:

	June 30, 2021		June 30, 2020	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Commercial real estate	\$ 725,287	69.70%	\$ 679,537	69.94%
Commercial and industrial	257,604	24.75%	212,769	21.90%
Residential real estate	56,591	5.44%	77,722	8.00%
Consumer	1,142	0.11%	1,574	0.16%
Total loans	<u>1,040,624</u>	<u>100.00%</u>	<u>971,602</u>	<u>100.00%</u>
Less: Allowance for loan losses	<u>7,313</u>		<u>9,178</u>	
Loans, net	<u>\$ 1,033,311</u>		<u>\$ 962,424</u>	

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

	Community Banking	National Lending Division	SBA	Total	Percent of Total
<u>June 30, 2021</u>					
(Dollars in thousands)					
Originated loans:					
Commercial real estate: non-owner occupied	\$ 9,368	\$ 187,593	\$ 19,508	\$ 216,469	20.80%
Commercial real estate: owner-occupied	5,738	65,950	17,297	88,985	8.55%
Commercial and industrial	2,572	251,954	2,744	257,270	24.72%
Residential real estate	29,666	18,038	-	47,704	4.58%
Consumer	1,142	-	-	1,142	0.11%
Subtotal	48,486	523,535	39,549	611,570	58.76%
Purchased loans:					
Commercial real estate: non-owner occupied	-	275,809	-	275,809	26.50%
Commercial real estate: owner-occupied	-	144,024	-	144,024	13.84%
Commercial and industrial	-	334	-	334	0.02%
Residential real estate	-	8,887	-	8,887	0.85%
Subtotal	-	429,054	-	429,054	41.22%
Total	\$ 48,486	\$ 952,589	\$ 39,549	\$ 1,040,624	100.00%
<u>June 30, 2020</u>					
Originated loans:					
Commercial real estate: non-owner occupied	\$ 11,735	\$ 180,261	\$ 24,873	\$ 216,869	22.32%
Commercial real estate: owner-occupied	7,777	62,369	17,977	88,123	9.07%
Commercial and industrial	7,860	200,309	4,245	212,414	21.86%
Residential real estate	41,325	24,673	-	65,998	6.80%
Consumer	1,574	-	-	1,574	0.16%
Subtotal	70,271	467,612	47,095	584,978	60.21%
Purchased loans:					
Commercial real estate: non-owner occupied	-	238,429	-	238,429	24.54%
Commercial real estate: owner-occupied	-	136,116	-	136,116	14.00%
Commercial and industrial	-	355	-	355	0.04%
Residential real estate	-	11,724	-	11,724	1.21%
Subtotal	-	386,624	-	386,624	39.79%
Total	\$ 70,271	\$ 854,236	\$ 47,095	\$ 971,602	100.00%

The following table summarizes the scheduled maturity of the Bank's loan portfolio at June 30, 2021. Demand loans, loans having no stated repayment schedule, and overdraft loans are reported as being due in less than one year.

	Scheduled Loan Maturities				
	Within One Year	After One Year Through Five Years	After Five Years Through Ten Years (In thousands)	After Ten Years	Total
Mortgages:					
Residential:					
Originated	\$ 5,608	\$ 15,822	\$ 5,281	\$ 20,993	\$ 47,704
Purchased	1,208	2,228	622	4,829	8,887
Commercial:					
Originated	72,936	160,484	28,998	43,036	305,454
Purchased	55,812	148,511	84,198	131,312	419,833
Non-mortgage loans:					
Commercial:					
Originated	147,327	106,323	537	3,083	257,270
Purchased	66	225	43	-	334
Consumer	122	648	342	30	1,142
Total loans	<u>\$ 283,079</u>	<u>\$ 434,241</u>	<u>\$ 120,021</u>	<u>\$ 203,283</u>	<u>\$ 1,040,624</u>

	Loans Due After One Year, by Interest Rate Type		
	Fixed rate	Floating or Adjustable (In thousands)	Total
Mortgages:			
Residential:			
Originated	\$ 18,226	\$ 23,885	\$ 42,111
Purchased	4,415	3,263	7,678
Commercial:			
Originated	25,047	207,446	232,493
Purchased	147,992	216,029	364,021
Non-mortgage loans:			
Commercial:			
Originated	771	109,173	109,944
Purchased	36	232	268
Consumer	1,030	-	1,030
Total	<u>\$ 197,517</u>	<u>\$ 501,438</u>	<u>\$ 757,545</u>

Approximately 75.5% of total loans were variable rate products at June 30, 2021, compared to 76.6% at June 30, 2020.

Certain purchased loans have been identified as having evidence of credit deterioration since their origination, and it is probable that the Bank will not collect all contractually required principal and interest payments. Purchased loans are accounted for using the measurement provisions set forth in ASC 310-30. The nonaccretable difference represents a loan's contractually required payments receivable in excess of the amount of cash flows expected to be collected. Improvements in expected cash flows result in prospective yield adjustments. The effect of a decrease in expected cash flows due to further credit deterioration is recorded through the allowance for loan losses.

Other Assets

Premises and equipment, net, increased by \$1.6 million, or 16.6%, compared to June 30, 2020. The increase was primarily due to additions and the capitalization of two new leases as right-of-use assets, partially offset by depreciation.

Real estate owned and other repossessed collateral, net, decreased by \$1.6 million, or 49.9%, to \$1.6 million at June 30, 2021, compared to \$3.3 million at June 30, 2020. The decrease was primarily due to the sale of five assets, partially offset by the transfer in of two assets to real estate owned, and write-downs. The real estate and personal property collateral for commercial and consumer loans are recorded at fair value less estimated costs to sell upon transfer to acquired assets.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased \$424 thousand, or 2.5%, and amounted to \$17.5 million and \$17.1 million at June 30, 2021 and 2020, respectively. BOLI assets are invested in the general account of three insurance companies and in separate accounts of a fourth insurance company. A general account policy's cash surrender value is supported by the general assets of the insurance company. A separate account policy's cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor's rated these companies A+ or better at June 30, 2021. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates that reset each year and are subject to minimum guaranteed rates. These increases in cash surrender value are recognized in noninterest

income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 6.8% of the Bank's total capital at June 30, 2021.

Loan servicing rights, net totaled \$2.1 million at June 30, 2021 and 2020. The \$52 thousand decrease was primarily due to payoffs and amortization booked, partially offset by recoveries on previously recorded impairment charges and servicing assets acquired during fiscal 2021.

FHLBB stock totaled \$1.2 million and \$1.4 million at June 30, 2021 and 2020, respectively. The \$181 thousand decrease was the result of the Bank redeeming FHLB stock during fiscal 2021.

Deposits

The Bank's principal source of funding is its core deposit accounts. At June 30, 2021, core deposits, which the Bank defines as non-maturity deposits, non-brokered insured time deposits and time deposits \geq \$250 thousand, represented 99.6% of total deposits.

Total deposits increased \$850.1 million to \$1.86 billion as of June 30, 2021 from \$1.01 billion as of June 30, 2020. The increase was primarily due to increases in demand deposits and savings and interest checking accounts, partially offset by a decrease in time deposits and money market accounts.

The following tables set forth certain information relative to the composition of the Bank's average deposit accounts and the weighted average interest rate on each category of deposits for the periods indicated:

	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
<u>Year Ended June 30, 2021</u>			
Non-interest bearing demand deposits and escrow accounts	\$ 261,322	0.00%	21.67%
Regular savings	39,844	0.14%	3.30%
NOW accounts	167,505	0.30%	13.89%
Money market accounts	312,537	0.49%	25.91%
Time deposits	424,894	1.60%	35.23%
Total average deposits	<u>\$ 1,206,102</u>	0.74%	<u>100.00%</u>
<u>Year Ended June 30, 2020</u>			
Non-interest bearing demand deposits and escrow accounts	\$ 88,805	0.00%	9.14%
Regular savings	34,517	0.17%	3.55%
NOW accounts	75,984	0.48%	7.81%
Money market accounts	276,264	1.48%	28.42%
Time deposits	496,531	2.43%	51.08%
Total average deposits	<u>\$ 972,101</u>	1.71%	<u>100.00%</u>

There were \$7.7 million and \$13.2 million of time deposits greater than \$250 thousand as of June 30, 2021 and 2020, respectively.

The scheduled maturity of deposits greater than or equal to \$100 thousand is set forth below:

	June 30, 2021 (In thousands)
3 months or less	\$ 39,301
Over 3 through 6 months	69,089
Over 6 through 12 months	74,968
Over 12 months	35,978
Total time certificates greater than or equal to \$100 thousand	<u>\$ 219,336</u>

Borrowings

FHLBB advances, PPPLF advances and subordinated debt are the Bank's sources of funding other than deposits. In fiscal 2021, total borrowings decreased by \$12.3 million, or 29.1%, to \$30.1 million, primarily due to the payoff of the PPPLF advances used during fiscal 2020 to fund PPP originations.

Advances from the FHLBB were \$15.0 million at June 30, 2021 and 2020. Pledges of residential real estate loans, certain commercial real estate loans, securities, and certain FHLBB deposits free of liens or pledges are required to secure outstanding advances and available additional borrowing capacity from the FHLBB. At June 30, 2021, \$59.7 million in securities were pledged as collateral to secure potential FHLBB advances as needed, compared to \$64.9 million at June 30, 2020.

On June 29, 2016, Northeast Bancorp entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which Northeast Bancorp sold and issued \$15.05 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due 2026. As a result of the Reorganization, the subordinated debt was assumed by the Bank. On July 1, 2021, the Bank redeemed the subordinated notes in full at par plus accrued interest.

Asset Quality

Allowance for Loan Losses

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

At June 30, 2021, the allowance for loan losses totaled \$7.3 million, or 0.70% of total loans, as compared to \$9.2 million, or 0.94% of total loans, at June 30, 2020. The year over year decrease in the Bank's allowance for losses was principally the result of loan volume and the decrease of qualitative factors, primarily as a result of positive developments with the COVID-19 pandemic. Management analyzed the loan portfolio in detail by segment, reviewing for the weighted-average loan-to-value and overall performance, identifying the need to provide additional allowance amount to the SBA portfolio, given the higher loan-to-value ratios and higher likelihood of default from borrowers in this segment. The following table sets forth activity in the Bank's allowance for loan losses for the periods indicated.

	Years Ended June 30,			
	2021	2020	2019	2018
Allowance at beginning of period				
Loans charged-off during the period:				
Residential real estate	\$ 9,178	\$ 5,702	\$ 4,807	\$ 3,665
Commercial real estate	-	82	249	183
Commercial and industrial	315	756	-	111
Consumer	603	171	223	-
Total loans charged-off	21	44	38	53
Recoveries on loans previously charged-off:	939	1,053	510	347
Residential real estate	3	5	27	14
Commercial real estate	31	1	8	-
Commercial and industrial	432	20	34	25
Consumer	4	3	27	40
Total recoveries	470	29	96	79
Net loans charged off during the period	470	1,024	414	268
Provision for loan losses	(1,396)	4,500	1,309	1,410
Allowance at end of period	\$ 7,313	\$ 9,178	\$ 5,702	\$ 4,807
Total loans at end of period ⁽¹⁾	\$ 1,040,624	\$ 971,602	\$ 975,060	\$ 871,802
Average loans outstanding during the period ⁽¹⁾	1,132,533	1,028,163	922,529	780,854
Allowance as a percentage of total loans	0.70%	0.94%	0.58%	0.55%
Ratio of net charge-offs to average loans outstanding	0.04%	0.10%	0.04%	0.04%
Allowance as a percentage of non-performing loans	38.99%	43.49%	38.61%	40.20%

(1) Amounts and resulting ratios exclude loans held for sale

The following table allocates the allowance for loan losses by loan category and the percent of loans in each category to total loans at the dates indicated below.

	As of June 30,			
	2021	2020	2019	2018
	Amount	Amount	Amount	Amount
Residential real estate	\$ 234	\$ 449	\$ 381	\$ 610
Commercial real estate	5,548	6,584	4,120	3,136
Commercial and industrial	1,499	2,116	1,151	1,022
Consumer	32	29	50	39
Unallocated	-	-	-	-
Total	\$ 7,313	\$ 9,178	\$ 5,702	\$ 4,807
	Percent of Loans to Total Loans			
Residential real estate	3.20%	4.89%	6.68%	12.69%
Commercial real estate	75.86%	71.74%	72.25%	65.24%
Commercial and industrial	20.50%	23.06%	20.19%	21.26%
Consumer	0.44%	0.31%	0.88%	0.81%
Unallocated	0.00%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%
	Amount	Amount	Amount	Amount
Residential real estate	\$ 478	\$ 478	\$ 478	\$ 478
Commercial real estate	2,549	2,549	2,549	2,549
Commercial and industrial	585	585	585	585
Consumer	53	53	53	53
Unallocated	-	-	-	-
Total	\$ 3,665	\$ 3,665	\$ 3,665	\$ 3,665
	Percent of Loans to Total Loans			
Residential real estate	12.98%	12.69%	12.69%	12.98%
Commercial real estate	63.91%	65.24%	65.24%	63.91%
Commercial and industrial	22.54%	21.26%	21.26%	22.54%
Consumer	0.57%	0.81%	0.81%	0.57%
Unallocated	0.00%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%

As of June 30, 2021, past due loans totaled \$11.3 million, or 1.08% of total loans, as compared to past due loans totaling \$16.4 million, or 1.69% of total loans as of June 30, 2020. The decrease was primarily due to one National Lending Division originated loan totaling \$2.7 million, eight National Lending Division purchased loans totaling \$4.0 million, and that paid off or became current during the year ended June 30, 2021, partially offset by one National Lending Division originated loan totaling \$1.2 million that became past due during the year ended June 30, 2021.

The following table reflects the annual trend of total loans 30 days or more past due, as a percentage of total loans:

	As of June 30,				
	2021	2020	2019	2018	2017
Past due loans to total loans	1.08%	1.69%	1.50%	0.89%	1.72%

Non-performing Assets

The table below sets forth the amounts and categories of the Bank's non-performing assets at the dates indicated:

	As of June 30,				
	2021	2020	2019	2018	2017
	(Dollars in thousands)				
Nonperforming loans:					
Originated portfolio:					
Residential real estate	\$ 696	\$ 832	\$ 2,772	\$ 3,212	\$ 3,395
Commercial real estate	5,756	6,861	3,892	1,499	413
Commercial and industrial	286	2,058	1,284	1,368	2,600
Consumer	43	29	148	134	103
Total originated portfolio	6,781	9,780	8,096	6,213	6,511
Purchased portfolio:					
Residential real estate	1,114	1,169	631	202	1,056
Commercial and industrial	148	210	497	363	32
Commercial real estate	10,715	9,946	5,543	5,180	6,364
Total purchased portfolio	11,977	11,325	6,671	5,745	7,452
Total nonperforming loans	18,758	21,105	14,767	11,958	13,963
Real estate owned and other repossessed collateral	1,639	3,274	1,957	2,233	826
Total nonperforming assets	\$ 20,397	\$ 24,379	\$ 16,724	\$ 14,191	\$ 14,789
Nonperforming loans that are current	\$ 9,990	\$ 5,703	\$ 3,544	\$ 4,897	\$ 4,321
Non-performing loans to total loans	1.80%	2.17%	1.51%	1.37%	1.79%
Non-performing assets to total assets	0.94%	1.94%	1.45%	1.23%	1.37%

As of June 30, 2021, nonperforming assets totaled \$20.4 million, or 0.94% of total assets, as compared to \$24.4 million, or 1.94% of total assets, as of June 30, 2020. The decrease was primarily due to one National Lending Division originated loan totaling \$2.7 million and six National Lending Division purchased loans totaling \$3.4 million that paid off or were returned to accrual, paydowns on nonaccrual loans, and net sales and write-downs on existing REO properties of \$1.6 million, partially offset by one National Lending Division originated loan totaling \$2.3 million and two National Lending Division purchased loans totaling \$3.3 million that were placed on nonaccrual during the year ended June 30, 2021.

TDRs represent loans for which concessions (such as extension of repayment terms or reductions of interest rates to below market rates) are granted due to a borrower's financial condition. Such concessions may include reductions of interest rates to below-market terms and/or extension of repayment terms. The balances and payment status of TDRs are as follows:

	June 30, 2021	June 30, 2020
	(In thousands)	
Nonaccrual	\$ 5,451	\$ 4,670
Accrual	22,319	11,787
Total TDRs	\$ 27,770	\$ 16,457

At June 30, 2021, the Bank had real estate owned and other repossessed collateral of \$1.6 million, compared to \$3.3 million at June 30, 2020. The decrease was primarily due to the sale of five assets, partially offset by the transfer in of two assets to real estate owned, and write-downs. The real estate and personal property collateral for commercial and consumer loans are recorded at fair value less estimated costs to sell upon transfer to acquired assets. Revenues and expenses are recognized in the period when received or incurred on other real estate and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

The Bank continues to focus on asset quality and allocate significant resources to credit policy, loan review, asset management, collection, and workout functions. Despite this ongoing effort, there can be no assurance that adverse changes in the real estate markets and economic conditions will not result in higher non-performing assets levels in the future and negatively impact our results

of operations through higher provision for loan losses, net loan charge-offs, decreased accrual of income and increased noninterest expenses.

Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under a ten-point rating system. These ratings are guidelines in assessing the risk of a particular loan. The Bank had \$11.9 million and \$20.2 million of loans rated substandard or worse at June 30, 2021 and 2020, respectively, an increase primarily attributable to payoffs and upgrades in the commercial real estate, SBA, and purchased portfolios during the year. The following tables present the Bank's loans by risk rating:

	Commercial Real Estate	Commercial and Industrial	SBA	Residential ⁽¹⁾	Purchased Portfolio	Total
<u>June 30, 2021</u>						
	(In thousands)					
Loans rated 1- 6	\$ 258,616	\$ 247,483	\$ 35,974	\$ 20,543	\$ 410,743	\$ 973,359
Loans rated 7	8,570	6,910	2,596	30	8,984	27,090
Loans rated 8	1,463	133	979	35	9,327	11,937
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	<u>\$ 268,649</u>	<u>\$ 254,526</u>	<u>\$ 39,549</u>	<u>\$ 20,608</u>	<u>\$ 429,054</u>	<u>\$ 1,012,386</u>
<u>June 30, 2020</u>						
Loans rated 1- 6	\$ 257,157	\$ 201,051	\$ 38,054	\$ 28,740	\$ 371,354	\$ 896,356
Loans rated 7	401	6,900	5,055	32	3,893	16,281
Loans rated 8	4,584	218	3,986	35	11,377	20,200
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	<u>\$ 262,142</u>	<u>\$ 208,169</u>	<u>\$ 47,095</u>	<u>\$ 28,807</u>	<u>\$ 386,624</u>	<u>\$ 932,837</u>

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

Through June 30, 2021, the Bank granted 315 short-term deferments on loan balances of \$173.3 million, which represented 16.7% of total loan balances as of June 30, 2021, of which \$6.9 million, or 0.7% of total loan balances as of June 30, 2021, remained under deferral as of June 30, 2021. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

Risk Management

Management and the Board of the Bank recognize that taking and managing risk is fundamental to the business of banking. Through the development, implementation and monitoring of its policies with respect to risk management, the Bank strives to measure, evaluate and control the risks it faces. The Board and management understand that an effective risk management system is critical to the Bank's safety and soundness. Chief among the risks faced by us are credit risk, market risk (including interest rate risk), liquidity risk, and operational (transaction) risk.

Credit Risk

The Bank considers credit risk to be the most significant risk that it faces, in that it has the greatest potential to affect the financial condition and operating results of the Bank. Credit risk is managed through a combination of policies and limits established by the Board, the monitoring of compliance with these policies and limits, and the periodic evaluation of loans in the portfolio, including those with problem characteristics. The Bank also utilizes the services of independent third parties to provide loan review services, which consist of a variety of monitoring techniques after a loan is purchased or originated.

In general, the Bank's policies establish limits on the maximum amount of credit that may be granted to a single borrower (including affiliates), the aggregate amount of loans outstanding by type in relation to total assets and capital, and concentrations of loans by size, property type, and geography. Underwriting criteria, such as collateral and debt service coverage ratios and approval limits are also specified in loan policies. The Bank's policies also address the performance of periodic credit reviews, the risk rating of loans, when loans should be placed on non-performing status and factors that should be considered in establishing the Bank's allowance for loan losses. For additional information, refer to "Asset Quality" above and Item 1, "Business—Lending Activities."

Market Risk

Market risk is the risk of loss due to adverse changes in market prices and rates, and typically encompasses exposures such as sensitivity to changes in market interest rates, foreign currency exchange rates, and commodity prices. The Bank has no exposure to

foreign currency exchange or commodity price movements. Because net interest income is our primary source of revenue, interest rate risk is a significant market risk to which the Bank is exposed.

Interest rate risk can be defined as the exposure of future net interest income to adverse movements in interest rates. Net interest income is affected by changes in interest rates as well as by fluctuations in the level, mix and duration of the Bank's assets and liabilities. Over and above the influence that interest rates have on net interest income, changes in rates also affect the volume of lending activity, the ability of borrowers to repay loans, the volume of loan prepayments, the flow and mix of deposits, and the market value of the Bank's assets and liabilities.

The Bank's management has established an Asset Liability Management Committee ("ALCO"), which is responsible for managing the Bank's interest rate risk in accordance with policies and limits approved by the Board. With regard to management of market risk, the ALCO is charged with managing the Bank's mix of assets and funding sources to produce results that are consistent with the Bank's liquidity, capital adequacy, growth, and profitability goals.

Exposure to interest rate risk is managed by the Bank through periodic evaluations of the current interest rate risk inherent in its rate-sensitive assets and liabilities, coupled with determinations of the level of risk considered appropriate given the Bank's capital and liquidity requirements, business strategy, and performance objectives. Through such management, the Bank seeks to mitigate the potential volatility in its net interest income due to changes in interest rates in a manner consistent with the risk appetite established by the Board.

The ALCO's primary tool for measuring, evaluating, and managing interest rate risk is income simulation analysis. Income simulation analysis measures the interest rate risk inherent in the Bank's balance sheet at a given point in time by showing the effect of interest rate shifts on net interest income over defined time horizons. These simulations take into account the specific repricing, maturity, prepayment and call options of financial instruments that vary under different interest rate scenarios. The ALCO reviews simulation results to determine whether the exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. The Bank considers a variety of specified rate scenarios, including instantaneous rate shocks, against static (or flat) rates when measuring interest rate risk, and evaluates results over two consecutive twelve-month periods. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" scenario, where interest rates remain stable over the measured time horizon(s). As of June 30, 2021, the income simulation analysis (as noted in the table below) for the first twelve-month period indicated that exposure to changing interest rates fell within the Bank's policy levels of tolerance.

While the ALCO reviews simulation assumptions to ensure they are reasonable, and back-tests simulation results on a periodic basis as a monitoring tool, income simulation analysis may not always prove to be an accurate indicator of the Bank's interest rate risk or future earnings. There are inherent shortcomings in income simulation, given the number and variety of assumptions that must be made to perform it. For example, the projected level of future market interest rates and the shape of future interest rate yield curves have a major impact on income simulation results. Many assumptions concerning the repricing of financial instruments, the degree to which non-maturity deposits react to changes in market rates, and the expected prepayment rates on loans, mortgage-backed securities, and callable debt securities are also inherently uncertain. In addition, as income simulation analysis assumes that the Bank's balance sheet will remain static over the simulation horizon, the results do not reflect the Bank's expectations for future balance sheet growth, nor changes in business strategy that the Bank could implement in response to rate shifts to mitigate its loss exposures. As such, although the analysis described above provides an indication of the Bank's sensitivity to interest rate changes at a point in time, these estimates are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Bank's net interest income and will differ from actual results.

Assuming a 200 basis point increase and 100 basis point decrease in interest rates starting on June 30, 2021, we estimate that our net interest income in the following 12 months would increase by 12.5% if rates increased by 200 basis points and increase by 0.1% if rates declined by 100 basis points. These results indicate a modest level of asset sensitivity in our balance sheet. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

	Up 200 Basis Points	Down 100 Basis Points
June 30, 2021	12.5%	0.1%
June 30, 2020	3.0%	0.5%

Liquidity Risk

Liquidity risk is defined as the risk associated with an organization's ability to meet current and future financial obligations of a short-term nature. The Bank uses its liquidity on a regular basis to fund existing and future loan commitments, to pay interest on deposits and on borrowings, to fund maturing certificates of deposit and borrowings, to fund other deposit withdrawals, to invest in other interest-earning assets, to make dividend payments to shareholders, and to meet operating expenses. The Bank's primary sources of liquidity consist of deposit inflows, FHLBB advances, and the amortization, prepayment and maturities of loans and securities. While scheduled payments from the amortization and maturities of loans and securities are relatively predictable sources of funds, deposit flows and loan and investment prepayments can be greatly influenced by general interest rates, economic conditions and competition. In addition to these regular sources of funds, the Bank may choose to sell portfolio loans and securities to meet liquidity demands.

We monitor and forecast our liquidity position. There are several interdependent methods used by us for this purpose, including daily review of Federal Funds positions, monthly review of balance sheet changes, monthly review of liquidity ratios, quarterly review of liquidity forecasts and periodic review of contingent funding plans. Using these methods, the Bank actively manages its liquidity position under the direction of the ALCO.

The following is a summary of the unused borrowing capacity of the Bank at June 30, 2021 available to meet our short-term funding needs:

	As of June 30, 2021	
	(In thousands)	
Brokered time deposits	\$	543,601 Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston		203,427 Unused advance capacity subject to eligible and qualified collateral
Other available lines		17,500
Total unused borrowing capacity	<u>\$</u>	<u>764,528</u>

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

At June 30, 2021, the Bank had \$764.5 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 35.2% of total assets. The Bank also had \$1.01 billion of cash and cash equivalents at June 30, 2021.

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

For the years ended June 30, 2021 and 2020, total annual interest expense and amortization of issuance costs on subordinated notes issued in June 2016 was \$1.0 million and \$110 thousand, respectively, for both periods.

Operational Risk

Operational risk, which we define as the risk of loss from failed internal processes, people and systems, and external events, is inherent in all of our business activities. The principal ways in which we manage operational risk include the establishment of departmental and business-specific policies and procedures, internal controls and monitoring requirements. Some specific examples include our information security program, business continuity planning and testing, our vendor management program, reconciliation processes, our enterprise risk assessment process, and new product and/or system introduction processes. Periodic internal audits provide an important independent check on adherence to policies, procedures and controls designed to mitigate risk exposure.

To address these risks, management has a Senior Management Risk and Compliance Committee ("SMRCC"), whose responsibility is to proactively identify, accurately measure, and adequately monitor and control the risks assumed by the Bank in its various products and lines of business to ensure safe and sound operations and that the risks assumed by the Bank are consistent with the risk appetite established by the Board.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized on the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement 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, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. 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 committed amounts do not necessarily represent future cash requirements. To control the credit risk associated with entering into commitments and issuing letters of credit, the Bank uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Unused lines of credit and commitments to extend credit typically result in loans with a market interest rate.

A summary of the amounts of the Bank's contractual obligations and other commitments with off-balance sheet risk as of June 30, 2021 follows:

	Payments Due - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Contractual obligations:					
Federal Home Loan Bank advances	\$ 15,000	\$ 15,000	\$ -	\$ -	\$ -
Subordinated debt	15,050	15,050	-	-	-
Lease liability	7,351	1,665	3,039	1,038	1,609
Total contractual obligations	<u>\$ 37,401</u>	<u>\$ 31,715</u>	<u>\$ 3,039</u>	<u>\$ 1,038</u>	<u>\$ 1,609</u>
	Amount of Commitment Expiring - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(In thousands)				
Commitments with off-balance sheet risk:					
Commitments to extend credit	\$ 15,585	\$ 15,585	\$ -	\$ -	\$ -
Unused lines of credit	27,455	8,090	16,056	-	3,309
Standby letters of credit	-	-	-	-	-
Total commitments	<u>\$ 43,040</u>	<u>\$ 23,675</u>	<u>\$ 16,056</u>	<u>\$ -</u>	<u>\$ 3,309</u>

Capital

Shareholders' equity was \$232.4 million at June 30, 2021, an increase of \$67.7 million from June 30, 2020. The increase was primarily due to net income of \$71.5 million. Shareholders' equity also increased by \$965 thousand as a result of stock options exercised, which resulted in 153 thousand shares of common stock issued and increased by \$978 thousand due to stock-based compensation. Partially offsetting these increases was the repurchase of 194,317 shares of common stock at a weighted average price per share of \$29.56, which resulted in a \$5.7 million decrease in shareholders' equity.

See Note 9 of the Notes to the Financial Statements for information on the Bank's capital ratios. Regulatory capital ratios for the Bank currently exceed all applicable requirements.

Impact of Inflation

The financial statements and related notes have been presented in terms of historic dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, nearly all of the assets and virtually all of the liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on the Bank's performance than

the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

Impact of New Accounting Standards

Note 1 of the Notes to the Financial Statement includes the FASB issued statements and interpretations affecting the Bank.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and that could potentially result in materially different results under different assumptions and conditions. The Bank considers the following to be its critical accounting policies:

Allowance for Loan Losses

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

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

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

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

Commercial and industrial: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. Weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

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

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.

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

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

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

There were no significant changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2021 or 2020.

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

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

Purchased Loans

Loans that the Bank purchases are initially recorded at fair value with no carryover of the related allowance for loan and lease losses. Determining the fair value of the purchased loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. The Bank continues to evaluate the reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases

in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in a loan being considered impaired.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management” for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Northeast Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Northeast Bank (the Bank) as of June 30, 2021 and 2020, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As described in Note 3 of the financial statements, the Bank's allowance for loan losses totaled \$7.3 million as of June 30, 2021. The allowance for loan losses for originated loans consists of two components: the specific reserve for loans individually evaluated and deemed impaired of \$270 thousand and the general reserve for larger groups of homogeneous loans collectively evaluated for impairment of \$6.6 million. The allowance for loan losses for purchased loans consists of \$412 thousand. The collectively evaluated component of the allowance for loan losses for originated loans, or qualitative reserve, is based on historical loss experience adjusted for qualitative factors by loan segment. As described in Note 1 of the financial statements, the qualitative factors used by the Bank include considerations such as the levels and trends in delinquencies and non-performing loans; trends in the volume and nature of loans; trends in credit terms and policies; 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 evaluation and measurement of these qualitative factors requires management to apply a significant amount of judgment and involves assumptions that are sensitive to change.

We identified the qualitative reserve for originated loans collectively evaluated in the allowance for loan losses as a critical audit matter because auditing the underlying qualitative factors involved a high degree of auditor judgment given the high degree of subjectivity exercised by management in developing the qualitative factors.

Our audit procedures related to management's evaluation and establishment of the qualitative reserve for originated loans collectively evaluated in the allowance for loan losses include the following, among others:

- We tested management's process and significant judgments in the evaluation and establishment of the qualitative factors used in the qualitative reserve for originated loans collectively evaluated in the allowance for loan losses, which included:
 - Validating the source of information used by management by comparing to the relevant internal or external information from which it was derived, as well as testing the completeness and accuracy of the source data used by management.
 - Evaluating the reasonableness of management's judgments related to the qualitative factors and the correlation to potential losses by evaluating the adjustments in terms of magnitude and directional consistency based on the data utilized in the determination of the qualitative factors.

/s/ RSM US LLP

We have served as the Bank's auditor since 2015.

Boston, Massachusetts
September 10, 2021

NORTHEAST BANK
BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2021	June 30, 2020
Assets		
Cash and due from banks	\$ 2,850	\$ 2,795
Short-term investments	1,007,641	140,862
Total cash and cash equivalents	<u>1,010,491</u>	<u>143,657</u>
Available-for-sale debt securities, at fair value	59,737	64,918
Equity securities, at fair value	7,230	7,239
Total securities	<u>66,967</u>	<u>72,157</u>
Residential real estate loans held for sale	-	601
SBA loans held for sale	-	28,852
Total loans held for sale	<u>-</u>	<u>29,453</u>
Loans:		
Commercial real estate	725,287	679,537
Commercial and industrial	257,604	212,769
Residential real estate	56,591	77,722
Consumer	1,142	1,574
Total loans	<u>1,040,624</u>	<u>971,602</u>
Less: Allowance for loan losses	7,313	9,178
Loans, net	<u>1,033,311</u>	<u>962,424</u>
Premises and equipment, net	11,271	9,670
Real estate owned and other repossessed collateral, net	1,639	3,274
Federal Home Loan Bank stock, at cost	1,209	1,390
Loan servicing rights, net	2,061	2,113
Bank-owned life insurance	17,498	17,074
Other assets	29,955	16,423
Total assets	<u>\$ 2,174,402</u>	<u>\$ 1,257,635</u>
Liabilities and Shareholders' Equity		
Deposits:		
Demand	\$ 972,495	\$ 94,749
Savings and interest checking	325,062	137,824
Money market	287,033	302,343
Time	277,840	477,436
Total deposits	<u>1,862,430</u>	<u>1,012,352</u>
Federal Home Loan Bank advances	15,000	15,000
Paycheck Protection Program Liquidity Facility advances	-	12,440
Subordinated debt	15,050	14,940
Lease liability	6,061	4,496
Other liabilities	43,470	33,668
Total liabilities	<u>1,942,011</u>	<u>1,092,896</u>
Commitments and contingencies (Note 14)		
Shareholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2021 and 2020	-	-
Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 8,150,480 and 8,153,841 shares issued and outstanding at June 30, 2021 and 2020, respectively	8,151	8,154
Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; Zero and 44,783 shares issued and outstanding at June 30, 2021 and 2020, respectively	-	45
Additional paid-in capital	64,420	68,302
Retained earnings	161,132	89,960
Accumulated other comprehensive loss	(1,312)	(1,722)
Total shareholders' equity	<u>232,391</u>	<u>164,739</u>
Total liabilities and shareholders' equity	<u>\$ 2,174,402</u>	<u>\$ 1,257,635</u>

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

NORTHEAST BANK
STATEMENTS OF INCOME

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

	Years Ended June 30,	
	2021	2020
Interest and dividend income:		
Interest and fees on loans	\$ 76,918	\$ 80,870
Interest on available-for-sale securities	754	1,695
Other interest and dividend income	453	1,119
Total interest and dividend income	<u>78,125</u>	<u>83,684</u>
Interest expense:		
Deposits	8,867	16,583
Federal Home Loan Bank advances	535	689
Paycheck Protection Program Liquidity Facility	400	174
Subordinated debt	1,126	1,126
Obligation under lease agreements	111	125
Total interest expense	<u>11,039</u>	<u>18,697</u>
Net interest and dividend income before provision (credit) for loan losses	67,086	64,987
Provision (credit) for loan losses	(1,396)	4,500
Net interest and dividend income after provision (credit) for loan losses	<u>68,482</u>	<u>60,487</u>
Noninterest income:		
Fees for other services to customers	1,869	1,619
Gain on sales of PPP loans	46,701	9,702
Gain on sales of SBA loans	-	793
Gain on sales of residential loans held for sale	107	600
Net unrealized gain (loss) on equity securities	(104)	148
Loss on real estate owned, other repossessed collateral and premises and equipment, net	(473)	(15)
Correspondent fee income	23,452	20
Bank-owned life insurance income	424	566
Loss on assets held for sale	-	(337)
Other noninterest income	57	88
Total noninterest income	<u>72,033</u>	<u>13,184</u>
Noninterest expense:		
Salaries and employee benefits	22,430	24,976
Occupancy and equipment expense	3,825	3,588
Professional fees	1,930	1,783
Data processing fees	4,468	3,954
Marketing expense	542	337
Loan acquisition and collection expense	3,267	2,059
FDIC insurance premiums (credits)	283	(15)
Intangible asset amortization	-	434
Other noninterest expense	2,681	3,277
Total noninterest expense	<u>39,426</u>	<u>40,393</u>
Income before income tax expense	101,089	33,278
Income tax expense	29,586	10,541
Net income	<u>\$ 71,503</u>	<u>\$ 22,737</u>
Weighted-average shares outstanding:		
Basic	8,275,577	8,859,037
Diluted	8,360,355	8,991,428
Earnings per common share:		
Basic	\$ 8.64	\$ 2.57
Diluted	8.55	2.53
Cash dividends declared per common share	\$ 0.04	\$ 0.04

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

NORTHEAST BANK
STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years Ended June 30,	
	2021	2020
Net income	\$ 71,503	\$ 22,737
Other comprehensive (loss) income, before tax:		
Available-for-sale securities:		
Change in net unrealized gain on available-for-sale securities	(589)	755
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	1,153	(1,557)
Total other comprehensive income (loss), before tax	564	(802)
Income tax expense (benefit) related to other comprehensive income	154	(218)
Other comprehensive income (loss), net of tax	410	(584)
Comprehensive income	<u>\$ 71,913</u>	<u>\$ 22,153</u>

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at June 30, 2019	-	\$ -	8,997,326	\$ 8,997	44,783	\$ 45	78,095	\$ 67,581	\$ (1,138)	\$ 153,580	
Net income	-	-	-	-	-	-	-	22,737	-	22,737	
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	(584)	(584)	
Common stock repurchased	-	-	(853,098)	(853)	-	-	(10,621)	-	-	(11,474)	
Dividends on common stock at \$0.04 per share	-	-	-	-	-	-	-	(358)	-	(358)	
Stock-based compensation	-	-	-	-	-	-	1,102	-	-	1,102	
Issuance of restricted common stock	-	-	40,000	40	-	-	(40)	-	-	-	
Cancellations and forfeiture of restricted common stock	-	-	(35,091)	(35)	-	-	(199)	-	-	(234)	
Stock options exercised, net	-	-	4,704	5	-	-	(35)	-	-	(30)	
Balance at June 30, 2020	-	-	8,153,841	8,154	44,783	45	68,302	89,960	(1,722)	164,739	
Net income	-	-	-	-	-	-	-	71,503	-	71,503	
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	410	410	
Conversion of non-voting common stock to voting common stock	-	-	-	-	-	-	-	-	-	-	
Common stock repurchased	-	-	44,783	45	(44,783)	(45)	-	-	-	-	
Dividends on common stock at \$0.04 per share	-	-	(194,317)	(194)	-	-	(5,549)	-	-	(5,743)	
Stock-based compensation	-	-	-	-	-	-	-	(331)	-	(331)	
Cancellations and forfeiture of restricted common stock	-	-	(6,838)	(7)	-	-	978	-	-	978	
Stock options exercised, net	-	-	153,011	153	-	-	(123)	-	-	(130)	
Balance at June 30, 2021	-	\$ -	8,150,480	\$ 8,151	-	\$ -	64,420	\$ 161,132	\$ (1,312)	\$ 232,391	

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

NORTHEAST BANK
STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended June 30,	
	2021	2020
Operating activities:		
Net income	\$ 71,503	\$ 22,737
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	(1,396)	4,500
Loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	473	15
Net unrealized loss (gain) on equity securities	104	(148)
Accretion of fair value adjustments on loans, net	(10,717)	(8,642)
Amortization of subordinated debt issuance costs	110	111
Originations of loans held for sale	(2,872,780)	(492,548)
Net proceeds from sales of loans held for sale	2,866,973	496,616
Gain on sales of residential loans held for sale, net	(107)	(600)
Gain on sales of SBA and other loans held for sale, net	-	(793)
Gain on sales of PPP loans, net	(46,701)	(9,702)
Unrealized loss on SBA PPP loans held for sale	-	337
Net decrease in loan servicing rights	52	738
Amortization of intangible assets	-	434
Bank-owned life insurance income, net	(424)	(566)
Depreciation of premises and equipment	2,600	2,518
Deferred income tax benefit	(712)	(4,388)
Stock-based compensation	978	1,102
Amortization of investment securities, net	401	216
Changes in other assets and liabilities:		
Other assets	(12,973)	14
Other liabilities	10,955	4,356
Net cash provided by operating activities	<u>8,339</u>	<u>16,307</u>
Investing activities:		
Purchases of investment securities	(42,817)	(15,045)
Proceeds from maturities and principal payments on investment securities	46,912	26,288
Loan purchases	(169,489)	(171,262)
Loan originations, principal collections, and purchased loan paydowns, net	191,778	161,846
Purchases and disposals of premises and equipment, net	(1,264)	(1,155)
Proceeds from bank-owned life insurance death benefits	-	549
Proceeds from sales of real estate owned and other repossessed collateral	2,160	410
Net redemptions of Federal Home Loan Bank stock	(181)	(132)
Net cash provided by investing activities	<u>27,461</u>	<u>1,499</u>
Financing activities:		
Net change in deposits	850,078	69,981
Dividends paid on common stock	(331)	(358)
Repurchases of common stock	(5,743)	(11,474)
Advances (repayments) under Paycheck Protection Program Liquidity Facility, net	(12,440)	12,440
Repayment of lease liability	(1,365)	(1,381)
Cancellations for tax withholdings on restricted common stock	(130)	(234)
Stock options exercised, net	965	(30)
Net cash provided by financing activities	<u>831,034</u>	<u>68,944</u>
Net increase in cash and cash equivalents	866,834	86,750
Cash and cash equivalents, beginning of year	143,657	56,907
Cash and cash equivalents, end of year	<u>\$ 1,010,491</u>	<u>\$ 143,657</u>
Supplemental schedule of cash flow information:		
Interest paid	\$ 9,533	\$ 18,818
Income taxes paid, net	24,258	13,294
Supplemental schedule of noncash investing and financing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	\$ 1,005	\$ 1,639
Transfers from fixed assets to real estate owned and other repossessed collateral, net	-	71
Capitalization of lease liability	2,930	5,554

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bank (the “Bank”) conform to accounting principles generally accepted in the United States of America (“US GAAP”) and conform to practices within the financial services industry.

Business

The Bank is a Maine state-chartered bank. The Bank is subject to supervision and regulation by applicable state and federal banking agencies, including the Bureau and the FDIC. The Bank faces competition from banks and other financial institutions. The Bank provides a full range of banking services to individual and corporate customers throughout south-central and western Maine and conducts loan purchasing and origination activities nationwide.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current year's presentation. These reclassifications did not impact previously reported net income or shareholders' equity.

Use of Estimates

The financial statements have been prepared in conformity with US GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the determination of fair values in conjunction with the application of loan acquisition accounting, and the ongoing evaluation of assets for potential impairment.

Concentrations of Credit Risk

Most of the Community Banking Division's business activity is with customers located within the State of Maine. However, the business activities of the Bank's National Lending Division are diversified across the country. In all regions, the Bank's focus is to originate and purchase commercial real estate and commercial and industrial loans. Repayment of loans is expected from cash flows of the borrower. Losses on secured loans are limited by the value of the collateral upon default of the borrowers. The Bank does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents consist of cash and due from banks and short-term investments. The Bank is required to maintain a certain reserve balance in the form of cash or deposits with other financial institutions. At June 30, 2021 and 2020, such reserve balances totaled \$2.6 million and \$3.4 million, respectively.

Securities

Securities for which the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Those securities held for indefinite periods of time, but not necessarily to maturity are classified as available-for-sale. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability, liquidity, or capital management strategies and may be sold in response to changes in interest rates, maturities, asset/liability mix, liquidity needs, regulatory capital needs or other business factors. Debt securities available-for-sale are carried at estimated fair value with unrealized gains and losses reported on an after-tax basis in shareholders' equity as accumulated other comprehensive income or loss. Equity investments measured at net asset value are carried at estimated fair value with changes in unrealized gains and losses recorded in noninterest income in the statements of income.

Interest and dividends on securities are recorded on the accrual method. Premiums and discounts on securities are amortized or accreted into interest income by the level-yield method over the remaining period to contractual maturity, adjusted for the effect of actual prepayments in the case of mortgage-backed securities. These estimates of prepayment assumptions are made based upon the actual performance of the underlying security, current interest rates, the general market consensus regarding changes in mortgage interest rates, the contractual repayment terms of the underlying loans, the priority rights of the investors to the cash flows from the mortgage securities and other economic conditions. When differences arise between anticipated prepayments and actual prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Unamortized premium or discount is adjusted to the amount that would have existed had the new effective yield been applied since purchase, with a corresponding charge or credit to interest income.

Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and are recorded in noninterest income.

Management evaluates securities for other-than-temporary impairment on a periodic basis. Factors considered in determining whether an impairment is other than temporary include: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Bank to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. If the Bank intends to sell an impaired security, the Bank records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Bank does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Federal Home Loan Bank Stock

During the periods presented, the Bank has owned an investment in the stock of the Federal Home Loan Bank of Boston ("FHLBB"). No readily-available market exists for this stock, and it has no quoted market value. The Bank, as a member of the FHLBB, is required to maintain investments in the capital stock of the FHLBB equal to their membership base investments plus an activity-based investment determined according to the Bank's level of outstanding FHLBB advances. The Bank reviews its investments in FHLBB stock periodically to determine if other-than-temporary impairment exists. The Bank reviews recent public filings, rating agency analysis and other factors, when making the determination. As of June 30, 2021, no impairment has been recognized.

Loans Held for Sale and Loan Servicing

Residential real estate mortgage loans are designated as held for sale or held to maturity based on intent, which is determined when loans are underwritten. The Bank's PPP Loans are designated as held for sale. Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value with any losses recognized in non-interest income. SBA loans are designated as held for sale based on intent to sell, which is determined on a quarterly basis. The guaranteed portions of the loans are transferred to held for sale and are carried at the lower of cost or fair value. Realized gains and losses on sales of residential loans are determined using the specific identification method and realized gains and losses on sales of SBA loans are determined using the allocation of participating interests sold and retained. Direct loan origination costs and fees related to loans held for sale are deferred upon origination and are recognized as an adjustment to the gain or loss on the date of sale.

In connection with the mortgage loans to be held for sale, the Bank often offers interest rate lock commitments to prospective borrowers. The Bank manages this interest rate risk by entering into offsetting forward sale agreements with third party investors for certain funded loans and loan commitments. The Bank uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. The gross effect of the derivative loan commitments and forward sale agreements is nominal at each date presented.

The Bank recognizes the SBA servicing rights as separate assets, which is classified as servicing rights, net, on the balance sheet. The Bank capitalizes SBA servicing rights at the net present value of the fee income and servicing cost spread upon the sale of the related loans. The Bank uses the amortization method to subsequently measure servicing assets. The SBA servicing rights are amortized over the estimated weighted average life of the loans. The Bank's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted quarterly and as necessary to reflect current circumstances. The Bank evaluates the estimated life and fair value of its servicing portfolio based on data that is disaggregated to reflect note rate, type, and term on the underlying loans. The Bank performs an assessment of capitalized SBA servicing rights for impairment based on the current fair value of those rights. Fair value of the servicing rights is based on a valuation model that calculates the present value of estimated future net

servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

Loans

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

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

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

In cases where a borrower experiences financial difficulties and the Bank makes certain concessionary modifications to contractual terms, the loan is classified as a TDR, and therefore, by definition, is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Bank evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Bank's expectations at acquisition, the modified loan would generally not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

Allowance for Loan Losses

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

The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and

methodology to evaluate the appropriateness of the allowance for loan losses on a quarterly basis. The calculation of the allowance for loan losses is segregated by portfolio segments, which include: residential real estate, commercial real estate, commercial and industrial, consumer, purchased and SBA loans. Risk characteristics relevant to each portfolio segment are as follows:

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

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

Commercial and industrial: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. Weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

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.

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

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

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

- Levels and trends in delinquencies 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.

There were no significant changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2021 or 2020.

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

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets or the respective lease terms. Right of use assets are included in premises and equipment and amortized over the lease term or estimated useful life, whichever is shorter. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized.

Real Estate Owned and Other Repossessed Collateral

Assets in control of the Bank or acquired through foreclosure or repossession are held for sale and are initially recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated cost to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance or through a direct write-off. Subsequent increases in the fair value may only be recorded to the extent of any previously recognized valuation allowance. Rental revenue received and gains and losses recognized on foreclosed assets is included in other noninterest income, whereas operating expenses and changes in the valuation allowance relating to foreclosed assets are included in other noninterest expense.

Impairment of Long-Lived Assets

The Bank reviews long-lived assets, including premises and equipment, for impairment whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Bank performs undiscounted cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Bank-Owned Life Insurance

Increases in the cash surrender value of bank-owned life insurance policies, as well as death benefits received net of any cash surrender value, are recorded in noninterest income, and are not subject to income taxes. The cash surrender values of the policies not previously endorsed to participants are recorded as assets of the Bank. Any amounts owed to participants relating to these policies are recorded as liabilities of the Bank. The Bank reviews the financial strength of the insurance carriers prior to the purchase of life insurance policies and no less than annually thereafter.

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into in June 2020. As a result of this agreement, when the third party purchases PPP loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Federal Reserve. During the year ended June 30, 2021, the Bank received \$6.0 million in correspondent fees. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the expected lives of the related loans. For the year ended June 30, 2021, the Bank recognized \$4.1 million in correspondent fee income.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. As of June 30, 2021, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable of \$13.3 million, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (approximately two years). During the year ended June 30, 2021, the Bank recognized \$19.4 million in net servicing income. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Bank's policy is to recognize interest and penalties assessed on uncertain tax positions in income tax expense (See Note 11). The Bank exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. Additionally, see Note 11 for detail regarding reserves for uncertain tax positions as of June 30, 2021 and 2020.

Excess tax benefits or deficiencies in relation to stock-based compensation are recorded in the income statement as part of the income tax expense on a prospective basis. For interim reporting purposes, the excess tax benefits or deficiencies are recorded as discrete items in the period in which they arise. Excess tax benefits are presented as an operating activity in the statement of cash flows. In addition, when calculating incremental shares for earnings per share, entities exclude from assumed proceeds excess tax benefits that previously would have been recorded in additional paid-in capital. The total income tax benefit recorded in income tax expense relating to excess tax benefits on stock-based compensation for the year ended June 30, 2021 and 2020 was \$558 thousand and \$199 thousand, respectively.

Stock-Based Compensation

The Bank's stock-based compensation plans provide for awards of stock options, restricted stock and other stock-based compensation to directors, officers and employees. The cost of employee services received in exchange for awards of equity instruments is based on the grant-date fair value of those awards. Compensation cost is recognized over the requisite service period as a component of compensation expense. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite

service period for the entire award. The Bank uses the Black-Scholes model to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, unrealized losses related to factors other than credit on debt securities, unrealized gains and losses on cash flow hedges and deferred gains on hedge accounting transactions.

Earnings Per Share

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance-based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding (inclusive of participating securities). Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share, except that the weighted-average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options or the attainment of performance measures) were issued during the period, computed using the treasury stock method.

Derivatives

Derivative instruments are carried at fair value in the Bank's financial statements. The accounting for changes in the fair value of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Bank designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income, net of related tax, and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. At the inception of a hedge, the Bank documents certain items, including but not limited to the following: the relationship between hedging instruments and hedged items, Bank risk management objectives, hedging strategies, and the evaluation of hedge transaction effectiveness. Documentation includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings during the period of change.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets. There are no agreements to repurchase before their maturity.

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Bank sells financial assets in the normal course of business, the majority of which are related to the SBA-guaranteed portion of loans, as well as residential mortgage loan sales through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Bank considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Bank's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Bank sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Bank are carried at the lower of cost or fair value.

Advertising Costs

Advertising costs are expensed as incurred.

Segment Reporting

All of the Bank's operations are considered by management to be one operating segment.

Recent Accounting Pronouncements

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

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

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

In March 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments (“ASU 2020-03”). This guidance provides updates on a wide variety of Topics in the Codification, including updates to the interaction of Topic 842 and Topic 326, and the interaction of Topic 326 and Subtopic 860-20. This ASU will be effective under the same effective dates as ASU 2016-13.

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

Subsequent Events

The Bank has evaluated the impact of events that have occurred subsequent to June 30, 2021 through the date the financial statements were available to be filed with the FDIC. Based on this evaluation, the Bank has determined none of these events were required to be recognized in the financial statements and related notes except as follows:

Subsequent to June 30, 2021, on July 1, 2021, the Bank redeemed \$15.1 million of 6.75% fixed-to-floating subordinated notes due 2026 (the “Notes”), which became redeemable on July 1, 2021. The Bank redeemed the Notes at a redemption price equal to 100% of the outstanding principal amount of the Notes being redeemed, plus any accrued and unpaid interest.

2. 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
<u>June 30, 2021</u>		(In thousands)		
U.S. Government agency securities	\$ 51,561	\$ 64	\$ (33)	\$ 51,591
Agency mortgage-backed securities	7,938	208	-	8,146
Equity investments measured at net asset value	7,282	-	(52)	7,230
Total securities	<u>\$ 66,781</u>	<u>\$ 272</u>	<u>\$ (85)</u>	<u>\$ 66,967</u>
<u>June 30, 2020</u>				
U.S. Government agency securities	\$ 51,020	\$ 483	\$ -	\$ 51,503
Agency mortgage-backed securities	13,070	345	-	13,415
Equity investments measured at net asset value	7,187	52	-	7,239
Total securities	<u>\$ 71,277</u>	<u>\$ 880</u>	<u>\$ -</u>	<u>\$ 72,157</u>

At June 30, 2021, the Bank held no securities of any single issuer (excluding the U.S. Government and federal agencies) with a book value that exceeded 10% of shareholders’ equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the years ending June 30, 2021 or 2020. At June 30, 2021, securities with a fair value of \$59.7 million were pledged as collateral to secure potential FHLBB advances, compared to \$64.9 million at June 30, 2020.

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
<u>June 30, 2021</u>			(In thousands)			
U.S. Government agency securities	\$ 23,307	\$ (33)	\$ -	\$ -	\$ 23,307	\$ (33)
Agency mortgage-backed securities	-	-	-	-	-	-
Equity investments measured at net asset value	5,591	(52)	-	-	5,591	(52)
Total investment securities	<u>\$ 28,898</u>	<u>\$ (85)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,898</u>	<u>\$ (85)</u>
<u>June 30, 2020</u>						
U.S. Government agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agency mortgage-backed securities	-	-	-	-	-	-
Equity investments measured at net asset value	-	-	-	-	-	-
Total investment securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There were no other-than-temporary impairment losses on securities during the years ended June 30, 2021 and 2020.

At June 30, 2021, the Bank had nine securities in a loss position, all less than twelve months. At June 30, 2021, all of the Bank's securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The change in fair value of the Bank's securities at June 30, 2021 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's securities portfolio, management of the Bank considers the Bank's ability and intent to hold such securities to maturity or recovery of cost. At June 30, 2021, the Bank did not intend to sell and it is not more likely than not that the Bank will be required to sell the securities before recovery of its amortized cost. As such, management does not believe any of the Bank's securities are other-than-temporarily impaired at June 30, 2021.

The securities measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade securities, or the guaranteed portion of SBA 7(a) loans, as applicable. As of June 30, 2021, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 3.78 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of June 30, 2021. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	\$ 17,154	\$ 17,214
Due after one year through five years	34,407	34,377
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,561	51,591
Agency mortgage-backed securities	7,938	8,146
Total available-for-sale debt securities	<u>\$ 59,499</u>	<u>\$ 59,737</u>

3. Loans, Allowance for Loan Losses and Credit Quality

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

	June 30, 2021			June 30, 2020		
	Originated	Purchased	Total	Originated	Purchased	Total
	(In thousands)					
Commercial real estate	\$ 268,649	\$ 419,833	\$ 688,482	\$ 262,142	\$ 374,545	\$ 636,687
Commercial and industrial	254,526	334	254,860	208,169	355	208,524
SBA	39,549	-	39,549	47,095	-	47,095
Residential real estate	47,704	8,887	56,591	65,998	11,724	77,722
Consumer	1,142	-	1,142	1,574	-	1,574
Total loans	<u>\$ 611,570</u>	<u>\$ 429,054</u>	<u>\$ 1,040,624</u>	<u>\$ 584,978</u>	<u>\$ 386,624</u>	<u>\$ 971,602</u>

Total loans include deferred loan origination fees, net, of \$329 thousand as of June 30, 2021 and deferred loan origination fees, net, of \$336 thousand as of June 30, 2020.

Loans pledged as collateral with the FHLBB for outstanding borrowings totaled \$289.3 million and \$308.8 million, and provided additional borrowing capacity which totaled \$203.4 million and \$229.7 million, at June 30, 2021 and 2020, respectively.

The Bank sold no National Lending Division purchased loans during the years ended June 30, 2021 and 2020.

Paycheck Protection Program ("PPP") loans

During the years ended June 30, 2021 and 2020, the Bank participated in the PPP. The Bank originated \$2.84 billion and \$487.5 million of loans in connection with the PPP, during the years ended June 30, 2021 and 2020, respectively. The Bank subsequently sold PPP loans with a total principal balance of \$2.87 billion and \$457.6 million, recording a net gain of \$46.7 million and \$9.7 million on the sales primarily resulting from the recognition of net deferred fees, offset by purchase price discounts, during the years ended June 30, 2021 and 2020, respectively. The remaining \$29.9 million of PPP loans were classified as held for sale at June 30, 2020, offset by a valuation adjustment to reflect the fair value of the loans and unamortized net deferred fees. The Bank had no PPP loans held for sale at June 30, 2021.

Related Party Loans

Certain of the Bank's related parties are credit customers of the Bank in the ordinary course of business. All loans and commitments included in such transactions are on such terms, including interest rates, repayment terms and collateral, as those prevailing at the time for comparable transactions with persons who are not affiliated with the Bank and do not involve more than a normal risk of collectability or present other features unfavorable to the Bank.

As of June 30, 2021 and 2020, the outstanding loan balances to directors, officers, principal shareholders and their associates were \$75 thousand and \$86 thousand, respectively. All loans to these related parties were current and accruing at those dates.

Past Due and Nonaccrual Loans

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

	30-59 Days	60-89 Days	Past Due 90 Days or More- Nonaccrual	Total Past Due	Total Current	Total Loans	Non- Accrual Loans
	(In thousands)						
<u>June 30, 2021</u>							
Originated portfolio:							
Commercial real estate	\$ 1,200	\$ 23	\$ 1,005	\$ 2,228	\$ 266,421	\$ 268,649	\$ 549
Commercial and industrial	-	-	-	-	254,526	254,526	4,389
SBA	232	-	788	1,020	38,529	39,549	1,105
Residential real estate	59	208	320	587	47,117	47,704	696
Consumer	-	3	36	39	1,103	1,142	42
Total originated portfolio	<u>1,491</u>	<u>234</u>	<u>2,149</u>	<u>3,874</u>	<u>607,696</u>	<u>611,570</u>	<u>6,781</u>
Purchased portfolio:							
Commercial real estate	-	1,012	5,222	6,234	413,599	419,833	10,715
Commercial and industrial	-	-	57	57	277	334	148
Residential real estate	-	-	1,114	1,114	7,773	8,887	1,114
Total purchased portfolio	<u>-</u>	<u>1,012</u>	<u>6,393</u>	<u>7,405</u>	<u>421,649</u>	<u>429,054</u>	<u>11,977</u>
Total loans	<u>\$ 1,491</u>	<u>\$ 1,246</u>	<u>\$ 8,542</u>	<u>\$ 11,279</u>	<u>\$ 1,029,345</u>	<u>\$ 1,040,624</u>	<u>\$ 18,758</u>
<u>June 30, 2020</u>							
Originated portfolio:							
Commercial real estate	\$ -	\$ 26	\$ 3,864	\$ 3,890	\$ 258,252	\$ 262,142	\$ 4,585
Commercial and industrial	18	-	216	234	207,935	208,169	216
SBA	-	34	2,982	3,016	44,079	47,095	4,118
Residential real estate	-	-	180	180	65,818	65,998	832
Consumer	6	12	9	27	1,547	1,574	29
Total originated portfolio	<u>24</u>	<u>72</u>	<u>7,251</u>	<u>7,347</u>	<u>577,631</u>	<u>584,978</u>	<u>9,780</u>
Purchased portfolio:							
Commercial real estate	731	1,066	6,071	7,868	366,677	374,545	9,946
Commercial and industrial	-	-	57	57	298	355	210
Residential real estate	-	-	1,169	1,169	10,555	11,724	1,169
Total purchased portfolio	<u>731</u>	<u>1,066</u>	<u>7,297</u>	<u>9,094</u>	<u>377,530</u>	<u>386,624</u>	<u>11,325</u>
Total loans	<u>\$ 755</u>	<u>\$ 1,138</u>	<u>\$ 14,548</u>	<u>\$ 16,441</u>	<u>\$ 955,161</u>	<u>\$ 971,602</u>	<u>\$ 21,105</u>

There were no loans 90 days or more past due and still accruing at June 30, 2021 and 2020.

Allowance for Loan Losses and Impaired Loans

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
<u>Year Ended June 30, 2021</u>				(In thousands)			
Beginning balance	\$ 2,077	\$ 957	\$ 4,977	\$ 449	\$ 29	\$ 689	\$ 9,178
Provision	254	239	(1,584)	(218)	19	(106)	(1,396)
Recoveries	1	-	446	3	3	17	470
Charge-offs	(10)	(1)	(721)	-	(19)	(188)	(939)
Ending balance	<u>\$ 2,322</u>	<u>\$ 1,195</u>	<u>\$ 3,118</u>	<u>\$ 234</u>	<u>\$ 32</u>	<u>\$ 412</u>	<u>\$ 7,313</u>
<u>Year Ended June 30, 2020</u>							
Beginning balance	\$ 2,065	\$ 717	\$ 1,974	\$ 376	\$ 50	\$ 520	\$ 5,702
Provision	221	224	3,542	150	20	343	4,500
Recoveries	1	20	-	5	3	-	29
Charge-offs	(210)	(4)	(539)	(82)	(44)	(174)	(1,053)
Ending balance	<u>\$ 2,077</u>	<u>\$ 957</u>	<u>\$ 4,977</u>	<u>\$ 449</u>	<u>\$ 29</u>	<u>\$ 689</u>	<u>\$ 9,178</u>

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
<u>June 30, 2021</u>				(In thousands)			
Allowance for loan losses:							
Individually evaluated	\$ 47	\$ 82	\$ 77	\$ 57	\$ 7	\$ -	\$ 270
Collectively evaluated	2,275	1,113	3,041	177	25	-	6,631
ASC 310-30	-	-	-	-	-	412	412
Total	<u>\$ 2,322</u>	<u>\$ 1,195</u>	<u>\$ 3,118</u>	<u>\$ 234</u>	<u>\$ 32</u>	<u>\$ 412</u>	<u>\$ 7,313</u>
Loans:							
Individually evaluated	\$ 12,282	\$ 7,041	\$ 1,744	\$ 2,174	\$ 77	\$ 18,281	\$ 41,599
Collectively evaluated	256,367	247,485	37,805	45,530	1,065	-	588,252
ASC 310-30	-	-	-	-	-	410,773	410,773
Total	<u>\$ 268,649</u>	<u>\$ 254,526</u>	<u>\$ 39,549</u>	<u>\$ 47,704</u>	<u>\$ 1,142</u>	<u>\$ 429,054</u>	<u>\$ 1,040,624</u>
<u>June 30, 2020</u>							
Allowance for loan losses:							
Individually evaluated	\$ 14	\$ 103	\$ 759	\$ 90	\$ 3	\$ -	\$ 969
Collectively evaluated	2,063	854	4,218	359	26	-	7,520
ASC 310-30	-	-	-	-	-	689	689
Total	<u>\$ 2,077</u>	<u>\$ 957</u>	<u>\$ 4,977</u>	<u>\$ 449</u>	<u>\$ 29</u>	<u>\$ 689</u>	<u>\$ 9,178</u>
Loans:							
Individually evaluated	\$ 4,813	\$ 7,117	\$ 4,243	\$ 2,574	\$ 76	\$ 14,111	\$ 32,933
Collectively evaluated	257,329	201,053	42,852	63,424	1,498	-	566,156
ASC 310-30	-	-	-	-	-	372,513	372,513
Total	<u>\$ 262,142</u>	<u>\$ 208,169</u>	<u>\$ 47,095</u>	<u>\$ 65,998</u>	<u>\$ 1,574</u>	<u>\$ 386,624</u>	<u>\$ 971,602</u>

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

	June 30, 2021			June 30, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	\$ 5,056	\$ 5,056	\$ -	\$ 4,660	\$ 4,660	\$ -
Commercial and industrial	10	10	-	6,900	6,900	-
SBA	869	869	-	2,185	2,185	-
Residential real estate	1,362	1,363	-	1,624	1,624	-
Consumer	56	56	-	49	49	-
Purchased:						
Commercial real estate	14,324	17,715	-	9,168	11,299	-
Commercial and industrial	64	109	-	69	114	-
Residential real estate	1,927	1,973	-	1,169	1,190	-
Total	<u>23,668</u>	<u>27,151</u>	<u>-</u>	<u>25,824</u>	<u>28,021</u>	<u>-</u>
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	7,226	7,225	47	153	153	14
Commercial and industrial	7,031	7,031	82	216	216	103
SBA	875	875	77	2,058	2,058	759
Residential real estate	812	812	57	950	950	90
Consumer	21	21	7	27	27	3
Purchased:						
Commercial real estate	1,881	2,293	328	3,564	4,353	548
Commercial and industrial	85	129	84	141	186	141
Residential real estate	-	-	-	-	-	-
Total	<u>17,931</u>	<u>18,386</u>	<u>682</u>	<u>7,109</u>	<u>7,943</u>	<u>1,658</u>
Total impaired loans	<u>\$ 41,599</u>	<u>\$ 45,537</u>	<u>\$ 682</u>	<u>\$ 32,933</u>	<u>\$ 35,964</u>	<u>\$ 1,658</u>

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

	Years Ended June 30,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	\$ 4,344	\$ 616	\$ 4,815	\$ 47
Commercial and industrial	1,731	60	6,983	283
SBA	1,641	-	2,749	68
Residential real estate	2,949	122	1,989	31
Consumer	47	10	80	3
Purchased:				
Commercial real estate	14,960	204	10,239	199
Commercial and industrial	66	-	145	-
Residential real estate	2,075	34	1,226	20
Total	<u>27,813</u>	<u>1,046</u>	<u>28,226</u>	<u>651</u>
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	3,815	160	628	11
Commercial and industrial	5,338	143	114	3
SBA	2,544	-	1,429	-
Residential real estate	1,383	76	1,262	78
Consumer	23	4	28	2
Purchased:				
Commercial real estate	3,934	119	4,050	213
Commercial and industrial	106	-	160	-
Residential real estate	-	22	-	-
Total	<u>17,143</u>	<u>524</u>	<u>7,671</u>	<u>307</u>
Total impaired loans	<u>\$ 44,956</u>	<u>\$ 1,570</u>	<u>\$ 35,897</u>	<u>\$ 958</u>

Credit Quality

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential ⁽¹⁾	Purchased Portfolio	Total
<u>June 30, 2021</u>				(In thousands)		
Loans rated 1- 6	\$ 258,616	\$ 247,483	\$ 35,974	\$ 20,543	\$ 410,743	\$ 973,359
Loans rated 7	8,570	6,910	2,596	30	8,984	27,090
Loans rated 8	1,463	133	979	35	9,327	11,937
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	<u>\$ 268,649</u>	<u>\$ 254,526</u>	<u>\$ 39,549</u>	<u>\$ 20,608</u>	<u>\$ 429,054</u>	<u>\$ 1,012,386</u>
<u>June 30, 2020</u>						
Loans rated 1- 6	\$ 257,157	\$ 201,051	\$ 38,054	\$ 28,740	\$ 371,354	\$ 896,356
Loans rated 7	401	6,900	5,055	32	3,893	16,281
Loans rated 8	4,584	218	3,986	35	11,377	20,200
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	<u>\$ 262,142</u>	<u>\$ 208,169</u>	<u>\$ 47,095</u>	<u>\$ 28,807</u>	<u>\$ 386,624</u>	<u>\$ 932,837</u>

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

Troubled Debt Restructurings

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

	Years Ended June 30,			
	2021		2020	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	6	\$ 9,612	7	\$ 1,155
Adjusted interest rate	-	-	1	63
Rate and maturity	4	4,251	1	53
Principal deferment	6	9,151	5	382
Court ordered concession	3	393	1	139
Total	19	\$ 23,407	15	\$ 1,792

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

	Years Ended June 30,					
	2021			2020		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	3	\$ 7,150	\$ 7,150	8	\$ 483	\$ 487
Home equity	-	-	-	-	-	-
Commercial real estate	4	7,008	7,333	1	114	139
Commercial and industrial	2	336	336	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	9	14,494	14,819	9	597	626
Purchased portfolio:						
Commercial real estate	9	7,732	7,798	6	1,166	1,166
Commercial and industrial	1	790	790	-	-	-
Total purchased portfolio	10	8,522	8,588	6	1,166	1,166
Total	19	\$ 23,016	\$ 23,407	15	\$ 1,763	\$ 1,792

As of June 30, 2021, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the year ended June 30, 2021. One loan modified in a TDR in the last twelve months totaling \$306 thousand defaulted during the year ended June 30, 2020.

ASC 310-30 Loans

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

	Years Ended June 30,	
	2021	2020
	(In thousands)	
Contractually required payments receivable	\$ 213,636	\$ 240,104
Nonaccretable difference	(3,531)	(2,332)
Cash flows expected to be collected	210,105	237,772
Accretable yield	(40,616)	(66,510)
Fair value of loans acquired	\$ 169,489	\$ 171,262

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

	As of and for the Years Ended June 30,	
	2021	2020
	(In thousands)	
Loans acquired during the period	\$ 1,035	\$ 1,172
Loans at end of period	8,457	10,524

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

	Years Ended June 30,	
	2021	2020
	(In thousands)	
Beginning balance	\$ 154,936	\$ 146,995
Acquisitions	40,616	66,510
Accretion	(26,683)	(25,434)
Reclassifications from nonaccretable difference to accretable yield	4,815	4,273
Disposals and other changes	(35,697)	(37,408)
Ending balance	<u>\$ 137,987</u>	<u>\$ 154,936</u>

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

	June 30, 2021		June 30, 2020	
	(In thousands)			
Unpaid principal balance	\$ 455,108	\$ 417,190		
Carrying amount	419,815	383,142		

4. Transfers and Servicing of Financial Assets

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

Capitalized servicing rights as of June 30, 2021 and 2020 totaled \$2.1 million, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold in the years ended June 30, 2021 and 2020 totaled \$6.7 million and \$30.0 million, respectively. Mortgage loans serviced for others totaled \$4.5 million and \$6.3 million at June 30, 2021 and 2020, respectively. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to \$45.5 million and \$18.4 million at June 30, 2021 and 2020, respectively.

The Bank sold no SBA loans during the year ended June 30, 2021 and \$10.5 million in the year ended June 30, 2020. SBA loans serviced for others totaled \$143.1 million and \$152.8 million at June 30, 2021 and 2020, respectively.

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

Contractually specified servicing fees were \$970 thousand and \$743 thousand for the years ended June 30, 2021 and 2020, respectively, and were included as a component of fees for other services to customers within noninterest income.

The significant assumptions used in the valuation for loan servicing rights as of June 30, 2021 included a discount rate, ranging from 0.4% to 33.1% and a weighted average prepayment speed assumption of 18.4%.

SBA servicing rights activity was as follows:

	<u>(In thousands)</u>	
Balance, June 30, 2019	\$	2,851
Additions		186
Amortization/Disposals		(770)
Impairment		(154)
Balance, June 30, 2020	\$	2,113
Purchased Additions		167
Amortization/Disposals		(483)
Recovery		263
Balance, June 30, 2021	\$	<u>2,061</u>

5. Premises, Equipment and Leases

Premises, equipment and leases consist of the following:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>Estimated Useful Life</u>
	<u>(In thousands)</u>		<u>(In years)</u>
Land	\$ 747	\$ 747	n/a
Buildings	2,053	2,075	39
Right-of-use assets	8,483	8,447	Term of lease
Leasehold and building improvements	3,953	3,989	5-39 (or term of lease, if shorter)
Furniture, fixtures and equipment	12,265	12,117	3-7
Total	<u>27,502</u>	<u>27,375</u>	
Less accumulated depreciation	16,231	17,705	
Net premises and equipment	<u>\$ 11,271</u>	<u>\$ 9,670</u>	

Depreciation and amortization of premises and equipment included in occupancy and equipment expense was \$2.6 million and \$2.5 million for the years ended June 30, 2021 and 2020, respectively.

The Bank leases six properties used in operations under terms of various non-cancelable operating leases, most of which include renewal options. The leases contain renewal options and escalation clauses which provide for increased rental expense as these leases expire. Rental expense under leases totaled \$1.6 million and \$1.3 million for the years ended June 30, 2021 and 2020.

The weighted average remaining lease term for operating leases at June 30, 2021 was 5.9 years and the weighted average discount rate was 1.70%.

Approximate future minimum lease payments over the remaining terms of the Bank's leases at June 30, 2021 are as follows:

<u>Fiscal year</u>	<u>Minimum lease payments</u>
	<u>(In thousands)</u>
2022	\$ 1,668
2023	1,796
2024	1,243
2025	523
2026	514
Thereafter	1,609
Total	<u>\$ 7,353</u>

6. Deposits

The composition of deposits is as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>(In thousands)</u>	
Demand	\$ 972,495	\$ 94,749
NOW	269,056	100,673
Money market	287,033	302,343
Regular savings	56,006	37,151
Time certificates	277,840	477,436
Total deposits	<u>\$ 1,862,430</u>	<u>\$ 1,012,352</u>

There were \$7.7 million and \$13.2 million of time certificates greater than \$250 thousand as of June 30, 2021 and 2020, respectively.

The scheduled maturities of time certificates by fiscal year at June 30, 2021 are as follows:

Fiscal Year	(In thousands)
2022	\$ 223,116
2023	37,990
2024	8,287
2025	4,503
2026	3,944
Thereafter	-
Total	<u>\$ 277,840</u>

7. Borrowings

Federal Home Loan Bank Advances

The Bank has one advance from the Federal Home Loan Bank of Boston for \$15.0 million, which renews on a quarterly basis. The weighted average interest rate was 0.46% and 0.41% as of June 30, 2021 and 2020, respectively.

At June 30, 2021, no FHLBB advances were subject to call provisions and as such, may not be called prior to the stated maturity. Certain mortgage loans and available-for-sale securities, free of liens, pledges and encumbrances have been pledged under a blanket agreement to secure these advances. The Bank is required to own stock in the FHLBB in order to borrow from the FHLBB.

At June 30, 2021, the Bank had approximately \$203.4 million of additional capacity to borrow from the FHLBB, compared to \$229.7 million as of June 30, 2020.

Paycheck Protection Program Liquidity Facility

In connection with the PPP, the Bank had a liquidity facility with the Federal Reserve as of June 30, 2020 which amounted to \$12.4 million at an interest rate of 0.35%. The liquidity facility was repaid by the Bank and had a zero balance as of June 30, 2021.

8. Subordinated Debt

On June 29, 2016, Northeast Bancorp, the former holding company of the Bank, entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors (the "Purchasers") whereby Northeast Bancorp sold and issued \$15.05 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due 2026 (the "Notes"). In May 2019, in connection with the Reorganization, the Notes were assumed by the Bank. The Notes were issued by the Northeast Bancorp to the Purchasers at a price equal to 100% of their face amount. Issuance costs were \$552 thousand and have been netted against Subordinated Debt on the balance sheet. These costs were amortized over five years, which represents the period from issuance to the first redemption date of July 1, 2021. Total amortization expense for both years ended June 30, 2021 and 2020 was \$110 thousand.

The Notes mature on July 1, 2026, with a fixed interest rate of 6.75% payable semiannually in arrears for five years until July 1, 2021. Subsequently, the Bank will be obligated to pay 3-month LIBOR plus 557 basis points quarterly in arrears until either the early redemption date or the maturity date. The Notes are not convertible into or exchangeable for any other securities or assets of the Bank or any of its subsidiaries. The Notes are redeemable by the Bank, in whole or in part, on or after July 1, 2021 and at any time upon the occurrence of certain events. Any redemption by the Bank would be at a redemption price equal to 100% of the outstanding principal amount of the Notes being redeemed, including any accrued and unpaid interest. See Footnote 1 - Subsequent Events.

9. Capital and Regulatory Matters

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.

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

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

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
(Dollars in thousands)							
<u>June 30, 2021</u>							
Common equity tier 1 capital to risk-weighted assets	\$ 233,668	22.16%	\$ 47,457	≥4.5%	\$ 68,548	≥6.5%	7.0%
Total capital to risk-weighted assets	256,115	24.29%	84,367	≥8.0%	105,459	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	233,668	22.16%	63,275	≥6.0%	84,367	≥8.0%	8.5%
Tier 1 capital to average assets	233,668	13.63%	68,594	≥4.0%	85,742	≥5.0%	4.0%
<u>June 30, 2020</u>							
Common equity tier 1 capital to risk-weighted assets	\$ 166,423	17.13%	\$ 43,730	≥4.5%	\$ 63,166	≥6.5%	7.0%
Total capital to risk-weighted assets	190,593	19.61%	77,742	≥8.0%	97,178	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	166,423	17.13%	58,307	≥6.0%	77,742	≥8.0%	8.5%
Tier 1 capital to average assets	166,423	13.36%	49,839	≥4.0%	62,299	≥5.0%	4.0%

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

10. Earnings Per Common 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:

	Years ended June 30,	
	2021	2020
	(In thousands, except share and per share data)	
Net income	\$ 71,503	\$ 22,737
Weighted average shares used in calculation of basic earnings per share	8,275,577	8,859,037
Incremental shares from assumed exercise of dilutive securities	84,778	132,391
Weighted average shares used in calculation of diluted earnings per share	<u>8,360,355</u>	<u>8,991,428</u>
Earnings per common share:	\$ 8.64	\$ 2.57
Diluted earnings per common share:	8.55	2.53

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the years ended June 30, 2021 and 2020.

11. Income Taxes

The components of current and deferred income tax expense are as follows:

	Years Ended June 30,	
	2021	2020
	(In thousands)	
Current provision		
Federal	\$ 19,742	\$ 8,832
State	10,557	6,098
Total current provision	<u>30,299</u>	<u>14,929</u>
Deferred benefit		
Federal	(540)	(2,471)
State	(173)	(1,917)
Total deferred benefit	<u>(712)</u>	<u>(4,388)</u>
Total tax provision	<u>\$ 29,586</u>	<u>\$ 10,541</u>

The reconciliation between the statutory federal income tax rate of 21% and the effective tax rate on income follows:

	Years Ended June 30,	
	2021	2020
	(In thousands)	
Expected income tax expense at federal tax rate	\$ 21,229	\$ 6,988
State tax, net of federal tax benefit	8,204	3,302
Non-taxable BOLI income	(89)	(119)
Stock compensation excess tax federal benefits (ASU 2016-09)	(364)	(145)
Bad debt recapture	-	413
162(m) disallowance	269	79
Other	337	23
Total income tax expense	<u>\$ 29,586</u>	<u>\$ 10,541</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30 follows:

	June 30,	
	2021	2020
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 2,135	\$ 2,709
Loan basis differential	1,288	1,354
Capital lease	1,769	1,328
Compensation and benefits	2,367	1,817
Stock-based compensation	935	1,299
Unrealized loss on derivatives	548	860
Interest on nonperforming loans	2,049	1,370
Correspondent and net deferred loan fees on PPP loans	1,385	1,057
Other	249	421
Gross deferred tax asset	<u>12,725</u>	<u>12,215</u>
Less: valuation allowance	-	-
Total deferred tax assets	<u>12,725</u>	<u>12,215</u>
Deferred tax liabilities		
Prepaid expenses	218	484
Premises and equipment	2,259	1,863
Unrealized gain on investment securities	65	223
Other	602	624
Total deferred tax liability	<u>3,144</u>	<u>3,194</u>
Net deferred tax asset	<u>\$ 9,581</u>	<u>\$ 9,021</u>

The net deferred tax asset was included in other assets on the accompanying balance sheets as of June 30, 2021 and 2020.

In accordance with ASC 740, Income Taxes, deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of the tax benefit depends upon the existence of sufficient taxable income within the carry-back and future periods. The Bank believes that it is more likely than not that the net deferred tax asset as of June 30, 2021 will be realized, based upon the ability to generate future taxable income as well as the availability of current and historical taxable income.

For federal and state tax purposes, the Bank recaptured a \$2.0 million reserve for loan losses during fiscal 2020 due to the Bank repurchasing stock in excess of this tax bad debt tax reserve. The tax effect of the recapture was reflected in the financial statements for the year ended June 30, 2020.

From time to time, the Internal Revenue Service (the "IRS") and state tax authorities may review or challenge specific tax positions taken by the Bank in its ordinary course of business. The Bank accounts for uncertainties in income taxes by reserving for tax positions that may not be upheld under examination. Increases to the Bank's unrealized tax positions occur as a result of accruing for the unrecognized tax benefit as well the accrual of interest and penalties related to prior year positions. Decreases in the Bank's unrealized tax positions occur as a result of the statute of limitation lapsing on prior year positions or settlements relating to outstanding positions. The Bank reserves for uncertain tax positions, as well as related interest and penalties, as a component of income tax expense therefore affecting the effective tax rate. The Bank had no uncertain tax positions for the years ended June 30, 2021, 2020 or 2019.

The Bank is currently open to audit under the statute of limitations by the IRS and state taxing authorities for the fiscal 2018 tax return and forward.

12. Employee Benefit Plans

401(k) Plan

The Bank offers a contributory 401(k) plan that is available to all full-time salaried and hourly-paid employees upon the first pay cycle of the month following start of employment. Employees may contribute up to 100% of their base compensation, subject to IRS limitations. The Bank will match 50% of each employee's contribution up to the first 6% contributed. For the years ended June 30, 2021 and 2020, the Bank contributed \$365 thousand and \$185 thousand, respectively.

Deferred Compensation

The Bank has individual deferred compensation agreements with five former senior officers. The Bank recognized deferred compensation expense of \$28 thousand and \$29 thousand for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020 the Bank's deferred compensation liability was \$477 thousand and \$494 thousand, respectively.

13. Stock-Based Compensation

A summary of stock option activity for the year ended June 30, 2021 follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	409,961	\$ 12.65
Granted	-	-
Exercised	(291,619)	13.93
Forfeited	-	-
Outstanding at end of year	<u>118,342</u>	\$ 9.49

	Shares	Weighted Average Grant Date Fair Value
Exercisable, beginning of year	409,961	\$ 2.95
Vested	-	-
Exercised	(291,619)	3.27
Forfeited or expired	-	-
Exercisable, end of year	<u>118,342</u>	\$ 2.17

All stock options were fully vested in the year ended June 30, 2021. There were no options granted in the years ended June 30, 2021 or 2020.

The following table summarizes information about stock options outstanding at June 30, 2021:

Options Outstanding and Exercisable			
(Dollars in thousands, except per share data)			
Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value
\$ 9.38	114,342	1.59 years	\$ 2,343
12.63	4,000	0.58	69
9.49	<u>118,342</u>	1.55	<u>\$ 2,412</u>

A summary of restricted stock activity for the year ended June 30, 2021 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	226,091	\$ 18.49
Granted	-	-
Vested	(52,160)	12.95
Forfeited and cancelled	(6,838)	11.04
Unvested at end of period	<u>167,093</u>	20.52

Stock-based compensation expense totaled \$978 thousand and \$1.1 million for the years ended June 30, 2021 and 2020, respectively. The tax benefit related to stock-based compensation expensed totaled \$286 thousand and \$349 thousand for the years ended June 30, 2021 and 2020, respectively. The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Years Ending June 30,					
	2022	2023	2024	2025	2026	Total
	(In thousands)					
Restricted stock	\$ 628	\$ 533	\$ 200	\$ 41	\$ -	\$ 1,401

14. Commitments, Contingent Liabilities and Other Off-Balance Sheet Risks

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 and standby letters of credit. 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 contract amounts, which represent credit risk, are as follows:

	June 30,	
	2021	2020
	(In thousands)	
Commitments to originate loans	\$ 15,585	\$ 28,709
Unused lines of credit	27,455	33,146
Standby letters of credit	-	2,323

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling \$84 thousand and \$52 thousand for June 30, 2021 and 2020, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2021 and 2020, the maximum potential amount of the Bank's obligation was \$0 and \$2.3 million, respectively, for financial and standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

Legal Proceedings

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

15. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) follow:

	Years Ended June 30,					
	2021			2020		
	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 on available-for-sale securities	\$ (589)	\$ (158)	\$ (431)	\$ 755	\$ 203	\$ 552
Change in accumulated loss on effective cash flow hedges	1,153	312	841	(1,557)	(421)	(1,136)
Total other comprehensive income (loss)	<u>\$ 564</u>	<u>\$ 154</u>	<u>\$ 410</u>	<u>\$ (802)</u>	<u>\$ (218)</u>	<u>\$ (584)</u>

Accumulated other comprehensive loss is comprised of the following components:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	(In thousands)	
Unrealized gain on available-for-sale securities	\$ 239	\$ 828
Tax effect	<u>(65)</u>	<u>(223)</u>
Net-of-tax amount	<u>174</u>	<u>605</u>
Unrealized loss on cash flow hedges	(2,034)	(3,187)
Tax effect	<u>548</u>	<u>860</u>
Net-of-tax amount	<u>(1,486)</u>	<u>(2,327)</u>
Accumulated other comprehensive loss	<u>\$ (1,312)</u>	<u>\$ (1,722)</u>

16. Derivatives

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

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

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

Risk Management Policies—Derivative Instruments

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

Interest Rate Risk Management—Cash Flow Hedging Instruments

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

Information pertaining to outstanding swap agreements is as follows:

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
(Dollars in thousands)									
<u>June 30, 2021</u>									
<i>Interest rate swaps on FHLB advances:</i>									
\$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.15%	3.38%	n/a	\$ (1,079)	\$ (1,079)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.15%	3.23%	n/a	(707)	(707)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.15%	2.77%	n/a	(248)	(248)	Other Liabilities
<u>\$ 15,000</u>							<u>\$ (2,034)</u>	<u>\$ (2,034)</u>	
<u>June 30, 2020</u>									
<i>Interest rate swaps on FHLB advances:</i>									
\$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.30%	3.38%	n/a	\$ (1,708)	\$ (1,708)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.30%	3.23%	n/a	(1,094)	(1,094)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.30%	2.77%	n/a	(385)	(385)	Other Liabilities
<u>\$ 15,000</u>							<u>\$ (3,187)</u>	<u>\$ (3,187)</u>	

Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the years ended June 30, 2021 and 2020 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

Amounts recognized in income related to amounts excluded from effectiveness testing resulted from amortization of the acquisition price of interest rate caps. For the years ended June 30, 2021 and 2020, no amounts were recognized in income.

The Bank does not expect to record interest income or interest expense related to interest rate swap or interest rate cap ineffectiveness in the next twelve months.

17. 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:

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

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

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

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

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

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

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

Fair Value of other Financial Instruments:

Cash and cash equivalents - The fair value of cash, due from banks, interest-bearing deposits and FHLBB overnight deposits approximates their relative book values, as these financial instruments have short maturities.

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

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

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

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

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

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

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

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

<u>June 30, 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Assets</u>	(In thousands)			
<u>Securities:</u>				
U.S. Government agency securities	\$ 51,591	\$ -	\$ 51,591	\$ -
Agency mortgage-backed securities	8,146	-	8,146	-
Equity investments measured at net asset value ⁽¹⁾	7,230	-	-	-
<u>Liabilities</u>				
Other liabilities – interest rate swaps	\$ 2,034	\$ -	\$ 2,034	\$ -
<u>June 30, 2020</u>				
<u>Assets</u>				
<u>Securities:</u>				
U.S. Government agency securities	\$ 51,503	\$ -	\$ 51,503	\$ -
Agency mortgage-backed securities	13,415	-	13,415	-
Equity investments measured at net asset value ⁽¹⁾	7,239	-	-	-
<u>Liabilities</u>				
Other liabilities – interest rate swaps	\$ 3,187	\$ -	\$ 3,187	\$ -

(1) In accordance with ASU 820-10, certain securities 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.

<u>June 30, 2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(In thousands)			
Collateral dependent impaired loans	\$ 1,101	\$ -	\$ -	\$ 1,101
Real estate owned and other repossessed collateral	1,639	-	-	1,639
Loan servicing rights	2,061	-	-	2,061
<u>June 30, 2020</u>				
Collateral dependent impaired loans	\$ 3,095	\$ -	\$ -	\$ 3,095
Real estate owned and other repossessed collateral	3,274	-	-	3,274
Loan servicing rights	2,113	-	-	2,113

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

	<u>Fair Value</u>		<u>Valuation Technique</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	
	(In thousands)		
Collateral dependent impaired loans	\$ 1,101	\$ 3,095	Appraisal of collateral ⁽¹⁾
Real estate owned and other repossessed collateral	1,639	3,274	Appraisal of collateral ⁽¹⁾
Loan servicing rights	2,061	2,113	Discounted cash flow ⁽²⁾

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 7% to 40%.

(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 0.4% to 33.1% and the weighted average prepayment assumption used was 18.4%. For discount rates, the range was 0.4% to 19.3% and the weighted average discount rate used was 6.7%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the years ended June 30, 2021 and 2020.

	<u>Years Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>
	(In thousands)	
Collateral dependent impaired loans	\$ 49	\$ (895)
Real estate owned and other repossessed collateral	(180)	395
Loan servicing rights	263	(153)
Total	<u>\$ 132</u>	<u>\$ (653)</u>

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

	Carrying Amount				
		Total	Level 1	Level 2	Level 3
June 30, 2021					
<u>Financial assets:</u>					
Cash and cash equivalents	\$ 1,007,641	\$ 1,007,641	\$ 1,007,641	\$ -	\$ -
Securities	59,737	59,737	-	59,737	-
Equity securities measured at net asset value ⁽¹⁾	7,230	7,230	-	-	-
Federal Home Loan Bank stock	1,209	1,209	-	1,209	-
Loans held for sale	-	-	-	-	-
Loans, net	1,040,624	1,037,230	-	-	1,037,230
Accrued interest receivable	3,083	3,083	-	3,083	-
<u>Financial liabilities:</u>					
Deposits	1,862,430	1,864,216	-	1,864,216	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	-	-	-	-	-
Capital lease obligation	6,061	6,138	-	6,138	-
Subordinated debt	15,050	15,484	-	-	15,484
Interest rate swaps	2,034	2,034	-	2,034	-
June 30, 2020					
<u>Financial assets:</u>					
Cash and cash equivalents	\$ 143,657	\$ 143,657	\$ 143,657	\$ -	\$ -
Securities	64,918	64,918	-	64,918	-
Equity securities measured at net asset value ⁽¹⁾	7,239	7,239	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	29,453	29,453	-	29,453	-
Loans, net	962,424	971,371	-	-	971,371
Accrued interest receivable	4,063	4,063	-	4,063	-
<u>Financial liabilities:</u>					
Deposits	1,012,352	1,019,120	-	1,019,120	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	12,440	12,440	-	12,440	-
Capital lease obligation	4,496	4,669	-	4,669	-
Subordinated debt	14,940	15,544	-	-	15,544
Interest rate swaps	3,187	3,187	-	3,187	-

- (1) In accordance with ASU 820-10, certain securities 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.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Bank carried out an evaluation, under the supervision and with the participation of the Bank's management, including the Bank's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2021, the Bank's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in the Bank's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fourth quarter of our fiscal year ended June 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

An evaluation was performed under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal controls and procedures over financial reporting (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report.

Management Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The standard measures adopted by management in making its evaluation are the measures in *Interest Control—Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors, and instances of fraud, if any, within the Bank have been or will be detected. The inherent limitations include, among other things, the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls and procedures also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or employee override of the controls and procedures. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls and procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Based on their evaluation of disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded, subject to the limitations described above, that our internal controls and procedures over financial reporting as of the end of the period covered by this report were effective and that there were no material weaknesses.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls, or in other factors that could significantly affect our internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 12 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 shall be included in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

Balance Sheets as of June 30, 2021 and 2020

Statements of Income for the years ended June 30, 2021 and 2020

Statements of Comprehensive Income for the years ended June 30, 2021 and 2020

Statements of Changes in Shareholders' Equity for the years ended June 30, 2021 and 2020

Statements of Cash Flows for the years ended June 30, 2021 and 2020

Notes to Financial Statements

(b) Exhibits

- 2.1 Agreement and Plan of Merger, dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, filed with the FDIC on May 15, 2019).
- 3.1 Amended and Restated Articles of Incorporation of Northeast Bank (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed with the FDIC on May 15, 2019).
- 3.2 Amended and Restated Bylaws of Northeast Bank (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed with the FDIC on May 15, 2019).
- 4.1 Description of Registrant's Securities*.
- 10.1+ Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (2).
- 10.2a+ Form of Restricted Stock Award Agreement under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (issued on or after May 25, 2017) (2).
- 10.2b+ Form of Restricted Stock Award Agreement under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (issued before May 25, 2017) (2).
- 10.3+ Form of Non-Qualified Stock Option Agreement for Company Employees under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (2).
- 10.4+ Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Richard Wayne (3).
- 10.5+ Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Richard Wayne (4).
- 10.6+ Non-Qualified Stock Option Agreement, dated December 30, 2010, by and between Northeast Bancorp and Robert Glauber (3).
- 10.7+ Form of Indemnification Agreement, dated as of December 29, 2010, by and between Northeast Bancorp and each of the members of the Board (3).
- 10.8+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Richard Wayne (3).
- 10.9 Subordinated Note Purchase Agreement, dated June 29, 2016, by and among Northeast Bancorp and the Purchasers identified therein (6).
- 10.10 Paycheck Protection Program Liquidity Facility Correspondent Agreement, dated June 12, 2020, by and among Northeast Bank, The Loan Source, Inc. and ACAP SME, LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on June 17, 2020).
- 10.11 Loan Purchase and Sale Agreement, dated June 18, 2020, by and between Northeast Bank and The Loan Source, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the FDIC on June 25, 2020).
- 10.12 First Amendment to Paycheck Protection Program Liquidity Facility Correspondent Agreement, dated March 2, 2021, by and among Northeast Bank, The Loan Source, Inc. and ACAP SME, LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 3, 2021).
- 10.13 Loan Purchase and Sale Agreement, dated March 2, 2021, by and between Northeast Bank and The Loan Source, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 4, 2021).

- 10.14 Marketing Services Agreement, dated August 6, 2021, by and between Northeast Bank, United Operations, LLC and American Loan Funding Company LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).
- 10.15 Master Loan Participation Agreement, dated August 6, 2021, by and between Northeast Bank and American Loan Funding Company LLC (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).
- 10.16 Lender Service Provider Agreement, dated August 6, 2021, by and between Northeast Bank and United Operations, LLC (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).
- 10.17+ Northeast Bank 2021 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the FDIC on May 7, 2021).
 - 21 Subsidiaries of Northeast Bank*
 - 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
 - 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
 - 32.1 Rule 13a-14(b) Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

* Filed herewith

** Furnished herewith

+ Management contract or compensatory plan or agreement

- (1) Previously filed by Northeast Bancorp, the Bank's former holding company, with the Securities and Exchange Commission on Northeast Bancorp's Annual Report on Form 10-K filed on June 29, 2016, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
- (2) Previously filed by Northeast Bancorp, the Bank's former holding company, with the Securities and Exchange Commission on Northeast Bancorp's Annual Report on Form 10-K filed on September 13, 2017, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
- (3) Previously filed by Northeast Bancorp, the Bank's former holding company, with the Securities and Exchange Commission on Northeast Bancorp's Current Report on Form 8-K filed on January 5, 2011, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
- (4) Previously filed by Northeast Bancorp, the Bank's former holding company, with the Securities and Exchange Commission on Northeast Bancorp's Current Report on Form 8-K filed on March 26, 2013, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
- (5) Previously filed by Northeast Bancorp, the Bank's former holding company, with the Securities and Exchange Commission on Northeast Bancorp's Current Report on Form 8-K filed on June 29, 2016, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.

Item 16. Form 10-K Summary

None.

Exhibit 4.1. Description of Securities

The following is a description of the material terms and provisions of the capital stock Northeast Bank (the “Bank”). It may not contain all the information that is important to you. Therefore, you should read the Bank’s Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, each as amended to date, copies of which are attached as exhibits to the Annual Report on Form 10-K to which this description is an exhibit. The rights of shareholders of the Bank are governed by Maine law, certain federal laws governing banks, and the Bank’s Amended and Restated Articles of Incorporation and Amended and Restated Bylaws.

Authorized Capital Stock

The authorized capital stock of the Bank consists of 29,000,000 shares, of which 25,000,000 shares, \$1.00 per value per share, are designated as voting common stock, referred to as Bank Voting Common Stock; 3,000,000 shares, \$1.00 per value per share, are designated as non-voting common stock, referred to as Bank Non-Voting Common Stock; and 1,000,000 shares, \$1.00 par value, are designated as preferred stock. Shares of Bank Non-Voting Common Stock have all of the same rights and preferences as shares of Bank Voting Common Stock, provided, however, that the shares of Bank Non-Voting Common Stock do not have voting rights, subject to certain limited exceptions. The Bank Voting Common Stock, together with the Bank Non-Voting Common Stock, shall be referred to herein as the “Bank Common Stock”.

The authorized but unissued shares of capital stock of the Bank are available for future issuances without shareholder approval, subject to certain exceptions, and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital and employee benefit plans. Future issuances of shares of capital stock of the Bank are subject to the approval of the Maine Bureau of Financial Institutions (“MBFI”). Any such future issuances could be dilutive to shareholders at the time of the issuance. Offers and sales of capital stock of the Bank are exempt from the registration requirements of the Securities Act of 1933, as amended. The existence of authorized but unissued and unreserved shares of capital stock could also render more difficult or discourage an attempt to obtain control of the Bank by means of a proxy contest, tender offer, merger or otherwise.

Bank Voting Common Stock

General. Each share of Bank Voting Common Stock has the same relative rights as, and is identical in all respects to, each other share of Bank Voting Common Stock. Shares of Bank Voting Common Stock are traded on NASDAQ under the ticker symbol “NBN.” The transfer agent for Bank Voting Common Stock is Computershare, which has its principal office at 250 Royall Street, Canton, Massachusetts 02021.

Voting Rights. Shares of Bank Voting Common Stock possess all voting power for the election of the Bank’s directors and other matters requiring shareholder action. Holders of shares of Bank Voting Common Stock are entitled to one vote per share on matters to be voted on by shareholders and, in general, at a meeting at which a quorum is present, a majority of votes cast with respect to a matter is sufficient to authorize action upon routine matters. Directors are elected by a plurality of the votes cast, and shareholders do not have the right to accumulate their votes in the election of directors.

Bank Non-Voting Common Stock

General. Each share of Bank Non-Voting Common Stock has the same relative rights as, and is identical in all respects to, each other share of Bank Non-Voting Common Stock. The Bank Non-Voting Common Stock currently is not traded or quoted on any securities exchange.

Voting; Rights and Privileges. The shares of Bank Non-Voting Common Stock are non-voting, except that they are entitled to vote as a class on matters that could adversely affect the shares of Bank Non-Voting Common Stock, as specified in the Amended and Restated Articles of Incorporation. In addition, shares of Bank Non-Voting Common Stock are entitled to vote on certain limited matters provided by law, including, without limitation, 12 C.F.R. § 225.2(q)(2) and Section 1004(1) of the Maine Business Corporation Act (the “MBCA”) (or any successor provision). Bank Non-Voting Common Stock in all other respects carries the same rights and privileges as Bank Voting Common Stock (as discussed above) and is treated the same as Bank Voting Common Stock (including in any merger, consolidation, share exchange or other similar transaction).

Conversion; Limitations on Transfer. Shares of Bank Non-Voting Common Stock shall automatically convert into shares of Bank Voting Common Stock solely upon a transfer of such shares of Bank Non-Voting Common Stock to a transferee that is not an affiliate of the transferor for purposes of the Bank Holding Company Act or the Change in Bank Control Act (the “Control Regulations”).

Shares of Bank Non-Voting Common Stock may be transferred solely where such transfer is made (i) to an affiliate of the transferor of such Bank Non-Voting Common Stock for purposes of the Control Regulations, (ii) in a widespread public distribution, (iii) to a transferee that holds or controls more than 50% of any class of voting securities of the Bank (excluding any shares being transferred to such transferee), or (iv) in one or more transactions in which no transferee (or group of transferees whose ownership of the Bank’s securities must be aggregated for purposes of the Control Regulations) receives ownership or control of such securities for purposes of the Control Regulations representing 2% or more of any class of the Bank’s voting securities.

If, at any time a shareholder that is subject to the Bank Holding Company Act or is directly or indirectly “controlled” by a company that is subject to the Bank Holding Company Act holds any Bank Voting Common Stock that, together with the Bank Voting Common Stock of any parties whose Bank Voting Common Stock must be aggregated with those of such entity for purposes of the Bank Holding Company Act, would otherwise represent 10% or more of the total outstanding shares of Voting Common Stock, then the shares of Bank Voting Common Stock in excess of 9.99% of the total number of outstanding shares of Bank Voting Common Stock shall be automatically converted into Bank Non-Voting Common Stock.

Rights Applicable to Bank Voting Common Stock and Bank Non-Voting Common Stock

Dividends. Subject to federal and state banking law and regulation, the Bank’s board of directors may, from time to time, declare, and the Bank may pay, dividends on its outstanding shares of Bank Common Stock. The holders of Bank Common Stock are entitled to share ratably in dividends when and as declared by the board of directors out of funds legally available therefor and subject to right or preferences of any outstanding preferred stock.

The payment of dividends or distributions by the Bank is subject to the restrictions set forth in the MBCA applicable to the declaration of dividends or distributions by a Maine corporation. The payment of dividends or distribution by the Bank is also subject to the restrictions set forth in Maine’s financial institutions laws and the regulations promulgated by the Federal Deposit Insurance Corporation and the MBFI.

No Preemptive Rights; Redemption and Assessment. Holders of shares of Bank Common Stock are not entitled to preemptive rights with respect to any shares of Bank Common Stock that may be issued in the future. Shares of Bank Common Stock are not subject to redemption or any sinking fund. All outstanding shares of Bank Common Stock are duly authorized, validly issued, fully paid and nonassessable.

Preferred Stock

The board of directors of the Bank is empowered to authorize the issuance, in one or more series, of shares of preferred stock at such times, for such purposes and for such consideration as it may deem advisable without shareholder approval and to fix the designations, voting, conversion, preference and other relative rights, qualifications and limitations of any such series of preferred stock.

The Bank board of directors, without shareholder approval, may authorize the issuance of one or more series of preferred stock with voting and conversion rights which could adversely affect the voting power of shares of Bank Voting Common Stock and, under certain circumstances, discourage an attempt by others to gain control of the Bank.

The creation and issuance of any series of preferred stock, and the relative rights, designations and preferences of such series, if and when established, will depend upon, among other things, the future capital needs of the Bank, then existing market conditions and other factors that, in the judgment of the Bank’s board of directors, might warrant the issuance of preferred stock.

Exhibit 21. Subsidiaries of Registrant

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Year Acquired or Formed</u>	<u>Percentage of Voting Securities Owned</u>
Northeast Bank REO LLCs: 200 Elm Realty, LLC; 500 Pine Realty, LLC; 17 Dogwood Realty, LLC	Maine	1987	100%
Northeast Bank REO LLCs: 1795 Little Diamond Realty, LLC; 1872 Peaks Realty, LLC; 1630 Spectacle Realty, LLC; 1786 Cliff Realty, LLC	Maine	2019	100%

Exhibit 31.1.

CERTIFICATION

I, Richard Wayne, certify that:

1. I have reviewed this annual report on Form 10-K 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; and
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(s) 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(s) 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.

September 10, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

CERTIFICATION

I, Jean-Pierre Lapointe, certify that:

1. I have reviewed this annual report on Form 10-K 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; and
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(s) 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(s) 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.

September 10, 2021

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

Exhibit 32.1

**Certification Pursuant to
Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350**

In connection with the report of Northeast Bank (the “Bank”) on Form 10-K for the annual period ended June 30, 2021 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), each of the undersigned officers of the Company hereby certify, pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350, that to the best of such officer’s knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and the periods covered by the Report.

September 10, 2021

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

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

Board of Directors

Matthew B. Botein
Chairman

*Co-Founder and
Managing Partner
Gallatin Point Capital LLC*

Cheryl Lynn Dorsey

*President
Echoing Green*

William P. Mayer

*Retired Partner
Goodwin Procter LLP*

John C. Orestis

*President and Chief
Executive Officer
North Country Associates*

David A. Tanner

*Managing Director
Three Mile Capital LLC*

Judith E. Wallingford

*Retired President
The Maine Water Company*

Richard Wayne

*President and Chief
Executive Officer
Northeast Bank*

Senior Management

Richard Wayne

*President and Chief
Executive Officer*

Patrick Dignan

Executive Vice President

Robert Banaski

*SVP, Director of
Community Banking*

Bethany Belanger

*SVP, Director of
Retail Banking*

Meegan Casey

SVP, Legal Counsel

Chris Delamater

*SVP, Director of
Customer Experience*

Brian Doherty

*Managing Director,
Relationship Management*

Brian Fenwick

*Managing Director,
Loan Underwriting*

Lindsay Guttell

SVP, Asset Management

Lucie Hannigan

*SVP, Director of
Business Banking*

Christopher Hickey

*Managing Director,
Asset Management*

Heidi Jacques

*SVP, Director of
Human Resources*

Julie Jenkins

*SVP, Chief Information
Officer*

Kerry Kearn-Kawai

SVP, Legal Counsel

Jean-Pierre Lapointe

Chief Financial Officer

Jonathan Levirne

*Managing Director,
National Lending*

Theresa Morrison

*Managing Director,
Real Estate*

Jerry Murphy

SVP, Loan Underwriting

Kelly Palmer

*SVP, Director of Credit
Administration*

Brian Pinheiro

Chief Risk Officer

Jonathan Popovich

SVP, National Lending

Robert Rynarzewski

SVP, National Lending

Sarah Shomphe

*SVP, Director of Owned
Real Estate*

Jack Sullivan

SVP, Asset Management

Tim Tower

*SVP, Relationship
Management*

Steve Tsoflias

SVP, National Lending



SHAREHOLDER INFORMATION

Annual Meeting

12:00 pm EST, Monday, November 22, 2021
virtually via the Internet at
<https://meetnow.global/M97LKZD>.

Transfer Agent

Computershare, Inc.
250 Royall Street
Canton, MA 02021
800.942.5909

Annual Report on Form 10-K and Other Financial Information

A copy of Northeast Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation may be obtained from the Bank by sending a written request to:

Shareholder Relations
Northeast Bank
27 Pearl Street
Portland, ME 04101

The common stock of Northeast Bank trades on NASDAQ under the symbol NBN.

Forward-Looking Statements

Certain statements in this report that are not historical facts may be considered forward-looking statements. For more information regarding factors that could cause actual results to differ materially from those projected in the forward-looking statements, see "A Note About Forward-Looking Statements" in the Bank's 2021 Annual Report on Form 10-K.

Northeast Bank is an Equal Opportunity Employer.

CORPORATE OFFICES

Northeast Bank
200 Berkeley Street
17th Floor
Boston, MA 02116
617.585.3200

Northeast Bank
27 Pearl Street
Portland, ME 04101
207.774.1426

Northeast Bank
35 Canal Street
Lewiston, ME 04240
207.786.3245

Connecting All Locations

800.284.5989
www.northeastbank.com

Commercial Real Estate Lending Offices

MIAMI
2222 Ponce De Leon Blvd
3rd Floor
Coral Gables, FL 33134
305.442.9553

NEW YORK
250 West 55th Street
Suite 1502
New York, NY 10019
617.775.3600

BRANCH OFFICES

AUBURN
232 Center Street
Auburn, ME 04210
207.783.5632

AUGUSTA
235 Western Avenue
Augusta, ME 04330
207.623.0603

BETHEL
11 Main Street
Bethel, ME 04217
207.824.2117

BRUNSWICK
186 Maine Street
Brunswick, ME 04011
207.729.8711

BUCKFIELD
2 Depot Street
Buckfield, ME 04220
207.336.2371

POLAND
1399 Maine Street
Poland, ME 04274
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PORTLAND
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Portland, ME 04101
207.774.1426

SOUTH PARIS
235 Main Street
South Paris, ME 04281
207.743.8168

